

WESTLAKE CHEMICAL CORP  
Form 10-Q  
May 02, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended March 31, 2012

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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**2801 Post Oak Boulevard, Suite 600**

**Houston, Texas 77056**

(Address of principal executive offices, including zip code)

**(713) 960-9111**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes**  **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 April 30, 2012 was 66,618,178.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****WESTLAKE CHEMICAL CORPORATION****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

|  | <b>March 31,<br/>2012</b>   | <b>December 31,<br/>2011</b> |
|--|---|------------------------------|
|  | <b>(in thousands of dollars, except<br/>par values and share amounts)</b> |                              |
| <b>ASSETS</b>  |   |                              |
| Current assets   |   |                              |
| Cash and cash equivalents  | \$ 895,142  | \$ 825,901                   |
| Accounts receivable, net   | 444,609   | 407,372                      |
| Inventories  | 422,405   | 490,777                      |
| Prepaid expenses and other current assets  | 14,106  | 12,495                       |
| Deferred income taxes  | 19,614  | 19,611                       |
| Total current assets   | 1,795,876   | 1,756,156                    |
| Property, plant and equipment, net   | 1,263,556   | 1,232,066                    |
| Equity investments   | 46,039  | 46,741                       |
| Restricted cash  | 65,607  | 96,283                       |
| Other assets, net  | 158,969   | 135,575                      |
| <b>Total assets</b>  | <b>\$ 3,330,047</b>   | <b>\$ 3,266,821</b>          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |   |                              |
| Current liabilities  |   |                              |
| Accounts payable   | \$ 197,449  | \$ 227,034                   |
| Accrued liabilities  | 114,514   | 137,561                      |
| Total current liabilities  | 311,963   | 364,595                      |
| Long-term debt   | 764,583   | 764,563                      |
| Deferred income taxes  | 340,953   | 330,791                      |
| Other liabilities  | 49,518  | 50,560                       |
| Total liabilities  | 1,467,017   | 1,510,509                    |
| Commitments and contingencies (Notes 6 and 13)   |   |                              |
| Stockholders' equity   |   |                              |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding  |   |                              |
| Common stock, \$0.01 par value, 150,000,000 shares authorized; 66,687,994 and 66,601,909 shares issued at March 31, 2012 and December 31, 2011, respectively | 667   | 666                          |
| Common stock, held in treasury, at cost; 69,816 shares at March 31, 2012 and December 31, 2011   | (2,518)   | (2,518)                      |
| Additional paid-in capital   | 474,408   | 467,796                      |
| Retained earnings  | 1,382,337   | 1,299,438                    |
| Accumulated other comprehensive income   |   |                              |
| Benefits liability, net of tax   | (14,787)  | (15,143)                     |

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|   |                     |                     |
|---|---------------------|---------------------|
| Cumulative translation adjustment                   | 5,400               | 4,888               |
| Unrealized holding gains on investments, net of tax | 17,523              | 1,185               |
| Total stockholders' equity                          | 1,863,030           | 1,756,312           |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 3,330,047</b> | <b>\$ 3,266,821</b> |

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

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**WESTLAKE CHEMICAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

|  | Three Months Ended<br>March 31,                                       |            |
|--|---|------------|
|  | 2012  | 2011       |
|  | (in thousands of dollars, except per<br>share data and share amounts) |            |
| Net sales                                    | \$ 1,034,867  | \$ 867,252 |
| Cost of sales                                | 862,230   | 699,668    |
| Gross profit                                 | 172,637   | 167,584    |
| Selling, general and administrative expenses | 27,012  | 26,947     |
| Income from operations                       | 145,625   | 140,637    |
| <b>Other income (expense)</b>                |   |            |
| Interest expense                             | (12,177)  | (12,920)   |
| Other income, net                            | 1,347   | 1,207      |
| Income before income taxes                   | 134,795   | 128,924    |
| Provision for income taxes                   | 46,982  | 45,380     |
| Net income                                   | \$ 87,813   | \$ 83,544  |
| Earnings per share:                          |   |            |
| Basic  | \$ 1.32   | \$ 1.26    |
| Diluted                                      | \$ 1.31   | \$ 1.25    |
| Weighted average shares outstanding:         |   |            |
| Basic  | 66,109,297  | 65,745,555 |
| Diluted                                      | 66,558,517  | 66,112,858 |
| Dividends per common share                   | \$ 0.0738   | \$ 0.0635  |

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

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**WESTLAKE CHEMICAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2012</b>                             | <b>2011</b> |
|   | <b>(in thousands of dollars)</b>        |             |
| Net income  | \$ 87,813                               | \$ 83,544   |
| Other comprehensive income  |   |             |
| Pension and other post-retirement benefits liability, net of \$222 and \$177 tax in 2012 and 2011, respectively |   |             |
| Amortization of benefits liability  | 356                                     | 275         |
| Foreign currency translation adjustments  | 512                                     | 533         |
| Unrealized holding gains on investments, net of \$9,135 tax in 2012   | 16,338                                  |             |
| Other comprehensive income  | 17,206                                  | 808         |
| Comprehensive income  | \$ 105,019                              | \$ 84,352   |

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

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**WESTLAKE CHEMICAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2012</b>                             | <b>2011</b> |
|   | <b>(in thousands of dollars)</b>        |             |
| <b>Cash flows from operating activities</b>                                       |   |             |
| Net income  | \$ 87,813                               | \$ 83,544   |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |             |
| Depreciation and amortization   | 35,394                                  | 32,578      |
| (Recovery of) provision for doubtful accounts                                     | (155)                                   | 783         |
| Amortization of debt issue costs  | 400                                     | 438         |
| Stock-based compensation expense  | 1,651                                   | 1,503       |
| Loss from disposition of fixed assets   | 481                                     | 44          |
| Deferred income taxes   | 791                                     | 7,416       |
| Equity in loss (income) of joint ventures   | 702                                     | (485)       |
| Changes in operating assets and liabilities                                       |   |             |
| Accounts receivable   | (37,720)                                | (47,340)    |
| Inventories   | 68,372                                  | 3,771       |
| Prepaid expenses and other current assets   | (1,611)                                 | 1,604       |
| Accounts payable  | (28,138)                                | (22,481)    |
| Accrued liabilities   | (21,647)                                | (25,351)    |
| Other, net  | 3,724                                   | 4,636       |
| Net cash provided by operating activities   | 110,057                                 | 40,660      |
| <b>Cash flows from investing activities</b>                                       |   |             |
| Additions to property, plant and equipment  | (64,902)                                | (28,808)    |
| Proceeds from disposition of assets   | 3                                       | 630         |
| Proceeds from repayment of loan to affiliate                                      | 167                                     | 167         |
| Purchase of investments   | (2,961)                                 |             |
| Settlements of derivative instruments   | 511                                     | (222)       |
| Net cash used for investing activities  | (67,182)                                | (28,233)    |
| <b>Cash flows from financing activities</b>                                       |   |             |
| Dividends paid  | (4,914)                                 | (4,218)     |
| Proceeds from exercise of stock options   | 480                                     | 4,820       |
| Utilization of restricted cash  | 30,800                                  | 11,175      |
| Net cash provided by financing activities   | 26,366                                  | 11,777      |
| Net increase in cash and cash equivalents   | 69,241                                  | 24,204      |
| Cash and cash equivalents at beginning of period                                  | 825,901                                 | 630,299     |
| Cash and cash equivalents at end of period  | \$ 895,142                              | \$ 654,503  |

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





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**WESTLAKE CHEMICAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

**1. Basis of Financial Statements**

The accompanying unaudited consolidated interim financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim periods. Accordingly, certain information and footnotes required for complete financial statements under generally accepted accounting principles in the United States have not been included. These interim consolidated financial statements should be read in conjunction with the December 31, 2011 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, 2011, filed with the SEC on February 23, 2012. 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, 2011.

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, 2012, its results of operations for the three months ended March 31, 2012 and 2011 and the changes in its cash position for the three months ended March 31, 2012 and 2011.

Results of operations and changes in cash position for the interim periods presented are not necessarily indicative of the results that will be realized for the year ending December 31, 2012 or any other interim period. The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

***Recent Accounting Pronouncements***

***Fair Value Measurement***

In May 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standards update changing some fair value measurement principles, such as by prohibiting the application of a blockage factor in fair value measurements and only requiring the application of the highest and best use concept when measuring nonfinancial assets. The accounting guidance requires, for recurring Level 3 fair value measurements, disclosure of quantitative information about unobservable inputs used, a description of the valuation processes used and a qualitative discussion about the sensitivity of the measurements. The accounting guidance further requires new disclosures about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the fair value hierarchy level of assets and liabilities not recorded at fair value but where fair value is disclosed. The Company adopted the new fair value measurement guidance as of January 1, 2012, and the adoption did not have a material impact on the Company's consolidated financial position or results of operations.

***Presentation of Other Comprehensive Income***

In June 2011, the FASB issued an accounting standards update on the presentation of other comprehensive income. The new accounting guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders equity. The new standard allows companies to present net income and other comprehensive income either in one continuous statement or in two separate, but consecutive, statements. The FASB issued another accounting standards update on the presentation of other comprehensive income in December 2011, deferring the effective date for amendments to the presentation of reclassification adjustments of items out of accumulated other comprehensive income. In the interim, reclassifications out of accumulated other comprehensive income should be presented consistent with the current presentation requirements. All other requirements of the June 2011 accounting standards update are not affected by the December 2011 update. With the exception of the presentation of reclassification adjustments of items out of accumulated other comprehensive income, the Company adopted the guidance pertaining to the presentation of other comprehensive income as of January 1, 2012, and the adoption did not have an impact on the Company's consolidated financial position or results of operations.

***Testing Goodwill for Impairment***

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In September 2011, the FASB issued an accounting standards update to simplify how entities test goodwill for impairment. The new accounting guidance provides an entity with an option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test under current accounting guidance. If an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test. Also under this new

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accounting guidance, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test, but may resume performing the qualitative assessment in any subsequent period. The Company adopted the new goodwill impairment test guidance as of January 1, 2012, and the adoption did not have a material impact on the Company's consolidated financial position or results of operations.

*Disclosures about Offsetting Assets and Liabilities*

In December 2011, the FASB issued an accounting standards update on disclosures for offsetting assets and liabilities. The new accounting guidance requires companies to disclose both gross and net information about (1) instruments and transactions eligible for offset in the statement of financial position, and (2) instruments and transactions subject to an agreement similar to a master netting arrangement. The accounting standards update will be effective for reporting periods beginning on or after January 1, 2013 and is not expected to have an impact on the Company's consolidated financial position or results of operations.

**2. Accounts Receivable**

Accounts receivable consist of the following:

|                                 | <b>March 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---------------------------------|---------------------------|------------------------------|
| Trade customers                 | \$ 432,927                | \$ 391,401                   |
| Affiliates                      | 134                       | 122                          |
| Allowance for doubtful accounts | (10,818)                  | (10,969)                     |
|                                 | 422,243                   | 380,554                      |
| Federal and state taxes         | 7,169                     | 16,113                       |
| Other                           | 15,197                    | 10,705                       |
| Accounts receivable, net        | \$ 444,609                | \$ 407,372                   |

**3. Inventories**

Inventories consist of the following:

|                                    | <b>March 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|------------------------------------|---------------------------|------------------------------|
| Finished products                  | \$ 199,942                | \$ 234,830                   |
| Feedstock, additives and chemicals | 171,756                   | 207,899                      |
| Materials and supplies             | 50,707                    | 48,048                       |
| Inventories                        | \$ 422,405                | \$ 490,777                   |

#### **4. Property, Plant and Equipment**

As of March 31, 2012, the Company had property, plant and equipment totaling \$1,263,556. The Company assesses these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, including when negative conditions such as significant current or projected operating losses exist. Other factors considered by the Company when determining if an impairment assessment is necessary include significant changes or projected changes in supply and demand fundamentals (which would have a negative impact on operating rates or margins), new technological developments, new competitors with significant raw material or other cost advantages, adverse changes associated with the U.S. and world economies and uncertainties associated with governmental actions. Long-lived assets assessed for impairment are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

Depreciation expense on property, plant and equipment of \$30,171 and \$27,307 is included in cost of sales in the consolidated statements of operations for the three months ended March 31, 2012 and 2011, 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)****5. Other Assets**

Investments reflected in other assets, net in the consolidated balance sheets at March 31, 2012 and December 31, 2011 were \$58,547 and \$30,113, respectively. These investments in equity securities have been classified as available-for-sale.

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

|                                      | <b>March 31, 2012</b> |                                       |  |                       |
|--------------------------------------|-----------------------|---------------------------------------|--|-----------------------|
|                                      | <b>Cost</b>           | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
| Available-for-sale equity securities | \$ 31,226             | \$ 27,321                             | \$                                     | \$ 58,547             |

|                                      | <b>December 31, 2011</b> |                                       |   |                       |
|--------------------------------------|--------------------------|---------------------------------------|---|-----------------------|
|                                      | <b>Cost</b>              | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses <sup>(1)</sup></b> | <b>Fair<br/>Value</b> |
| Available-for-sale equity securities | \$ 28,265                | \$ 1,981                              | \$ (133)  | \$ 30,113             |

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

As of March 31, 2012 and December 31, 2011, unrealized gains of \$17,523 and \$1,185, respectively, net of income tax expense of \$9,798 and \$663, respectively, were recorded in accumulated other comprehensive income. See Note 9 for the fair value hierarchy of the Company's available-for-sale equity securities.

Amortization expense on intangible assets, included in other assets, of \$5,623 and \$5,709 is included in the consolidated statements of operations for the three months ended March 31, 2012 and 2011, respectively.

**6. Long-Term Debt**

Long-term debt consists of the following:

|   | <b>March 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---|---------------------------|------------------------------|
| 6 <sup>5</sup> / <sub>8</sub> % senior notes due 2016   | \$ 249,694                | \$ 249,674                   |
| 6 <sup>1</sup> / <sub>2</sub> % senior notes due 2029   | 100,000                   | 100,000                      |
| 6 <sup>3</sup> / <sub>4</sub> % senior notes due 2032   | 250,000                   | 250,000                      |
| 6 <sup>1</sup> / <sub>2</sub> % senior notes due 2035 (the 2035 GO Zone 6 <sup>1</sup> / <sub>2</sub> % Notes ) | 89,000                    | 89,000                       |

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|  |                   |                   |
|--|-------------------|-------------------|
| 6 1/2% senior notes due 2035 (the 2035 IKE Zone 6 1/2% Notes )   | 65,000            | 65,000            |
| Loan related to tax-exempt waste disposal revenue bonds due 2027 | 10,889            | 10,889            |
| <b>Long-term debt</b>  | <b>\$ 764,583</b> | <b>\$ 764,563</b> |

The Company has a \$400,000 senior secured revolving credit facility. At March 31, 2012, the Company had no borrowings outstanding under the revolving credit facility. Any borrowings under the facility will bear interest at either LIBOR plus a spread ranging from 1.75% to 2.25% or a base rate plus a spread ranging from 0.25% to 0.75%. The revolving credit facility also requires an unused commitment fee of 0.375% per annum. All interest rates under the facility are subject to monthly grid pricing adjustments based on prior month average daily loan availability. The revolving credit facility matures on September 16, 2016. As of March 31, 2012, the Company had outstanding letters of credit totaling \$15,715 and borrowing availability of \$384,285 under the revolving credit facility.

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## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

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

**7. Stock-Based Compensation**

Under the Westlake Chemical Corporation 2004 Omnibus Incentive Plan (the 2004 Plan), all employees and nonemployee directors of the Company, as well as certain individuals who have agreed to become the Company's employees, are eligible for awards. Shares of common stock may be issued as authorized in the 2004 Plan. At the discretion of the administrator of the 2004 Plan, employees and nonemployee directors may be granted awards in the form of stock options, stock appreciation rights, stock awards or cash awards (any of which may be a performance award). Total stock-based compensation expense related to the 2004 Plan was \$1,651 and \$1,503 for the three months ended March 31, 2012 and 2011, respectively.

Option activity and changes during the three months ended March 31, 2012 were as follows:

|                                  | Options   | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Term<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|-----------|--|---|---------------------------------|
| Outstanding at December 31, 2011 | 1,133,147 | \$ 23.26                                 |   |                                 |
| Granted                          | 115,340   | 60.09                                    |   |                                 |
| Exercised                        | (19,430)  | 24.75                                    |   |                                 |
| Cancelled                        |           |  |   |                                 |
| Outstanding at March 31, 2012    | 1,229,057 | \$ 26.70                                 | 6.6   | \$ 46,820                       |
| Exercisable at March 31, 2012    | 850,834   | \$ 20.64                                 | 6.0   | \$ 37,570                       |

For options outstanding at March 31, 2012, the options had the following range of exercise prices:

| Range of Prices | Options<br>Outstanding | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) |
|-----------------|------------------------|--|
| \$14.24 \$19.29 | 498,745                | 5.9  |
| \$20.53 \$27.24 | 253,746                | 7.3  |
| \$30.07 \$36.10 | 264,200                | 4.8  |
| \$45.83 \$60.11 | 212,366                | 9.4  |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the quarter and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2012. This amount changes based on the fair market value of the Company's common stock. The total intrinsic value of options exercised was \$677 and \$7,204 for the three months ended March 31,



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2012 and 2011, respectively.

As of March 31, 2012, \$4,845 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.2 years. Income tax benefit realized from the exercise of stock options was \$147 and \$1,862 for the three months ended March 31, 2012 and 2011, respectively.

The Company uses the Black-Scholes option pricing model to value its options. The table below presents the weighted average value and assumptions used in determining the fair value for each option granted during the three months ended March 31, 2012 and 2011. Volatility was calculated using historical trends of the Company's common stock price.

|                             | <b>Stock Option Grants</b> |             |
|-----------------------------|----------------------------|-------------|
|                             | <b>Three Months Ended</b>  |             |
|                             | <b>March 31,</b>           |             |
|                             | <b>2012</b>                | <b>2011</b> |
| Weighted average fair value | \$ 23.39                   | \$ 19.22    |
| Risk-free interest rate     | 1.0%                       | 2.8%        |
| Expected life in years      | 5                          | 6           |
| Expected volatility         | 45.7%                      | 41.9%       |
| Expected dividend yield     | 0.5%                       | 0.5%        |

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

Non-vested restricted stock awards as of March 31, 2012 and changes during the three months ended March 31, 2012 were as follows:

|                                 | Number of<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|---------------------------------|---------------------|---|
| Non-vested at December 31, 2011 | 582,013             | \$ 23.43  |
| Granted                         | 68,715              | 60.11   |
| Vested                          | (298,151)           | 17.51   |
| Forfeited                       | (2,060)             | 27.64   |
| Non-vested at March 31, 2012    | 350,517             | \$ 35.64  |

As of March 31, 2012, there was \$7,564 of unrecognized stock-based compensation expense related to non-vested restricted stock awards. This cost is expected to be recognized over a weighted-average period of 2.1 years. The total fair value of shares of restricted stock that vested was \$17,692 and \$5,805 for the three months ended March 31, 2012 and 2011, respectively.

**8. Derivative Commodity Instruments**

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

For derivative instruments that are designated and qualify as fair value hedges, the gains or losses on the derivative instruments, as well as the offsetting losses or gains on the hedged items attributable to the hedged risk, were included in cost of sales in the consolidated statements of operations for the three months ended March 31, 2012. There were no derivative instruments designated by the Company as fair value hedges for the three months ended March 31, 2011. As of March 31, 2012, the Company had 37,800,000 gallons of feedstock forward contracts designated as fair value hedges.

Gains and losses from changes in the fair value of derivative instruments that are not designated as hedging instruments were included in cost of sales in the consolidated statements of operations for the three months ended March 31, 2012 and 2011.

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:

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|  | Asset Derivatives        |                                       |                      |
|--|--------------------------|---------------------------------------|----------------------|
|  | Balance Sheet Location   | Fair Value as of<br>March 31,<br>2012 | December 31,<br>2011 |
| <b>Designated as hedging instruments</b>     |                          |                                       |                      |
| Commodity forward contracts                  | Accounts receivable, net | \$ 5,729                              | \$                   |
| <b>Not designated as hedging instruments</b> |                          |                                       |                      |
| Commodity forward contracts                  | Accounts receivable, net | 1,442                                 | 2,437                |
| <b>Total asset derivatives</b>               |                          | <b>\$ 7,171</b>                       | <b>\$ 2,437</b>      |

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

|  | Balance Sheet<br>Location | Liability Derivatives<br>Fair Value as of |                      |
|--|---------------------------|---|----------------------|
|  |                           | March 31,<br>2012                         | December 31,<br>2011 |
| <b>Designated as hedging instruments</b>     |                           |   |                      |
| Commodity forward contracts                  | Accrued liabilities       | \$  | \$ 3,262             |
| <b>Not designated as hedging instruments</b> |                           |   |                      |
| Commodity forward contracts                  | Accrued liabilities       | 939                                       | 973                  |
| <b>Total liability derivatives</b>           |                           | <b>\$ 939</b>                             | <b>\$ 4,235</b>      |

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

|  | Location of Gain (Loss)<br>Recognized in Income on Derivative | Three Months Ended<br>March 31, |      |
|--|---|---------------------------------|------|
|  |   | 2012                            | 2011 |
| <b>Derivatives in Fair Value Hedging Relationships</b> |   |                                 |      |
| Commodity forward contracts                            | Cost of sales   | \$ 10,463                       | \$   |

|   | Location of Gain (Loss)<br>Recognized in Income on Hedged Items | Three Months Ended<br>March 31, |      |
|---|---|---------------------------------|------|
|   |   | 2012                            | 2011 |
| <b>Hedged Items in Fair Value Hedging Relationships</b> |   |                                 |      |
| Firm commitment designated as the hedged item           | Cost of sales   | \$ (11,664)                     | \$   |

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

|  | Location of Gain (Loss)<br>Recognized in Income on Derivative | Three Months Ended<br>March 31, |         |
|--|---|---------------------------------|---------|
|  |   | 2012                            | 2011    |
| <b>Derivatives Not Designated as Hedging Instruments</b> |   |                                 |         |
| Commodity forward contracts                              | Cost of sales   | \$ 560                          | \$ (16) |

See Note 9 for the fair value of the Company's derivative instruments.

**9. Fair Value Measurements**

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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:

|                                      | Level 1  | March 31, 2012<br>Level 2 | Total    |
|--------------------------------------|----------|---------------------------|----------|
| <b>Derivative instruments</b>        |          |                           |          |
| Risk management assets               | \$ 1,442 | \$ 5,729                  | \$ 7,171 |
| Risk management liabilities          |          | (939)                     | (939)    |
| <b>Firm commitments</b>              |          |                           |          |
| Hedged portion of firm commitment    |          | (5,729)                   | (5,729)  |
| <b>Marketable securities</b>         |          |                           |          |
| Available-for-sale equity securities | 58,547   |                           | 58,547   |

**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, 2011 |          | Total    |
|--------------------------------------|-------------------|----------|----------|
|                                      | Level 1           | Level 2  |          |
| <b>Derivative instruments</b>        |                   |          |          |
| Risk management assets               | \$ 1,090          | \$ 1,347 | \$ 2,437 |
| Risk management liabilities          |                   | (4,235)  | (4,235)  |
| <b>Firm commitments</b>              |                   |          |          |
| Hedged portion of firm commitment    |                   | 3,262    | 3,262    |
| <b>Marketable securities</b>         |                   |          |          |
| Available-for-sale equity securities | 30,113            |          | 30,113   |

The Level 2 measurements are derived using forward curves supplied by industry recognized and unrelated third-party services. There were no transfers in and out of Levels 1 and 2 of the fair value hierarchy for the three months ended March 31, 2012 and 2011.

In addition to the financial assets and liabilities above, the Company has other financial assets and liabilities subject to fair value measures. These financial assets and liabilities include cash and cash equivalents, accounts receivable, net, accounts payable and long-term debt, all of which are recorded at carrying value. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, net and accounts payable approximate their fair value due to the short maturities of these instruments. The carrying and fair values of the Company's long-term debt are summarized in the table below. The Company's long-term debt instruments are publicly-traded. A market approach, based upon quotes from financial reporting services, is used to measure the fair value of the Company's long-term debt. Because the Company's long-term debt instruments may not be actively traded, the inputs used to measure the fair value of the Company's long-term debt are classified as Level 2 inputs within the fair value hierarchy.

|  | March 31, 2012 |            | December 31, 2011 |            |
|--|----------------|------------|-------------------|------------|
|  | Carrying Value | Fair Value | Carrying Value    | Fair Value |
| 6 <sup>5</sup> / <sub>8</sub> % senior notes due 2016            | \$ 249,694     | \$ 255,000 | \$ 249,674        | \$ 254,890 |
| 6 <sup>1</sup> / <sub>2</sub> % senior notes due 2029            | 100,000        | 112,316    | 100,000           | 108,834    |
| 6 <sup>3</sup> / <sub>4</sub> % senior notes due 2032            | 250,000        | 274,348    | 250,000           | 263,988    |
| 2035 GO Zone 6 <sup>1</sup> / <sub>2</sub> % Notes               | 89,000         | 96,091     | 89,000            | 93,090     |
| 2035 IKE Zone 6 <sup>1</sup> / <sub>2</sub> % Notes              | 65,000         | 70,179     | 65,000            | 67,987     |
| Loan related to tax-exempt waste disposal revenue bonds due 2027 | 10,889         | 10,889     | 10,889            | 10,889     |

**10. Income Taxes**

The effective income tax rate was 34.9% for the three months ended March 31, 2012. The effective income tax rate for the 2012 period was below the U.S. federal statutory rate of 35.0% primarily due to state tax credits and the domestic manufacturing deduction, mostly offset by state income taxes. The effective income tax rate was 35.2% for the three months ended March 31, 2011. The effective income tax rate for the 2011 period was above the U.S. federal statutory rate of 35.0% primarily due to state income taxes, mostly offset by the domestic manufacturing deduction.

Management anticipates no material reductions to the total amount of unrecognized tax benefits within the next twelve months.

The Company recognizes penalties and interest accrued related to unrecognized tax benefits in income tax expense. As of March 31, 2012, the Company had no material accrued interest and penalties related to uncertain tax positions.

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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 2005. In January 2012, the Internal Revenue Service completed the audit of the Company for the 2009 tax year with no assessment.

### **11. Earnings per Share**

The Company has unvested shares of restricted stock 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.

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## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

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

|   | 00000000000        |        | 00000000000 |        |
|---|--------------------|--------|-------------|--------|
|   | Three Months Ended |        |             |        |
|   | March 31,          |        |             |        |
|   | 2012               |        | 2011        |        |
| Net income  | \$                 | 87,813 | \$          | 83,544 |
| Less:   |                    |        |             |        |
| Net income attributable to participating securities |                    | (610)  |             | (778)  |
| Net income attributable to common shareholders      | \$                 | 87,203 | \$          | 82,766 |

The following table reconciles the denominator for the basic and diluted earnings per share computations shown in the consolidated statements of operations:

|  | 00000000000        |            | 00000000000 |            |
|--|--------------------|------------|-------------|------------|
|  | Three Months Ended |            |             |            |
|  | March 31,          |            |             |            |
|  | 2012               |            | 2011        |            |
| Weighted average common shares basic   |                    | 66,109,297 |             | 65,745,555 |
| Plus incremental shares from:          |                    |            |             |            |
| Assumed exercise of options            |                    | 449,220    |             | 367,303    |
| Weighted average common shares diluted |                    | 66,558,517 |             | 66,112,858 |
| Earnings per share:                    |                    |            |             |            |
| Basic                                  | \$                 | 1.32       | \$          | 1.26       |
| Diluted                                | \$                 | 1.31       | \$          | 1.25       |

Excluded from the computation of diluted earnings per share are options to purchase 67,098 and 221,639 shares of common stock for the three months ended March 31, 2012 and 2011, respectively. These options were outstanding during the periods reported but were excluded because the option exercise price was greater than the average market price of the shares.

**12. Pension and Post-Retirement Benefit Costs**

Components of net periodic benefit cost are as follows:

| Three Months Ended March 31, |      |                               |      |
|------------------------------|------|-------------------------------|------|
| Pension                      |      | Post-retirement<br>Healthcare |      |
| 2012                         | 2011 | 2012                          | 2011 |



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|                                       |               |               |               |               |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Service cost                          | \$ 254        | \$ 257        | \$ 2          | \$ 4          |
| Interest cost                         | 647           | 680           | 185           | 209           |
| Expected return on plan assets        | (620)         | (569)         |               |               |
| Amortization of transition obligation |               |               |               | 28            |
| Amortization of prior service cost    | 74            | 74            | 21            | 47            |
| Amortization of net loss              | 439           | 304           | 44            | 28            |
| <b>Net periodic benefit cost</b>      | <b>\$ 794</b> | <b>\$ 746</b> | <b>\$ 252</b> | <b>\$ 316</b> |

The Company contributed \$442 and \$354 to the Salaried pension plan in the first three months of 2012 and 2011, respectively, and contributed \$278 and \$154 to the Wage pension plan in the first three months of 2012 and 2011, respectively. The Company expects to make additional contributions of \$2,420 to the Salaried pension plan and \$1,645 to the Wage pension plan during the year ending December 31, 2012.

### 13. Commitments and Contingencies

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

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

*Contract Disputes with Goodrich and PolyOne.* In connection with the 1990 and 1997 acquisitions of the Goodrich Corporation ( Goodrich ) chemical manufacturing complex in Calvert City, Kentucky, Goodrich agreed to indemnify the Company for any liabilities related to preexisting contamination at the complex. For its part, the Company agreed to indemnify Goodrich for post-closing contamination caused by the Company's operations. The soil and groundwater at the complex, which does not include the Company's nearby PVC facility, had been extensively contaminated under Goodrich's operations. In 1993, Goodrich spun off the predecessor of PolyOne Corporation ( PolyOne ), and that predecessor assumed Goodrich's indemnification obligations relating to preexisting contamination.

In 2003, litigation arose among the Company, Goodrich and PolyOne with respect to the allocation of the cost of remediating contamination at the site. The parties settled this litigation in December 2007 and the case was dismissed. In the settlement the parties agreed that, among other things: (1) PolyOne would pay 100% of the costs (with specified exceptions), net of recoveries or credits from third parties, incurred with respect to environmental issues at the Calvert City site from August 1, 2007 forward; (2) either the Company or PolyOne might, from time to time in the future (but not more than once every five years), institute an arbitration proceeding to adjust that percentage; and (3) the Company and PolyOne would negotiate a new environmental remediation utilities and services agreement to cover the Company's provision to or on behalf of PolyOne of certain environmental remediation services at the site. The current environmental remediation activities at the Calvert City complex do not have a specified termination date but are expected to last for the foreseeable future. The costs incurred by PolyOne to provide the environmental remediation services were \$3,287 in 2011. On March 17, 2010, the Company received notice of PolyOne's intention to commence an arbitration proceeding under the settlement agreement. In this proceeding, PolyOne seeks to readjust the percentage allocation of costs and to recover approximately \$1,400 from the Company in reimbursement of previously paid remediation costs. The arbitration is currently stayed.

*Administrative Proceedings.* There are several administrative proceedings in Kentucky involving the Company, Goodrich and PolyOne related to the same manufacturing complex in Calvert City. In 2003, the Kentucky Environmental and Public Protection Cabinet (the Cabinet ) re-issued Goodrich's Resource Conservation and Recovery Act ( RCRA ) permit which requires Goodrich to remediate contamination at the Calvert City manufacturing complex. Both Goodrich and PolyOne challenged various terms of the permit in an attempt to shift Goodrich's clean-up obligations under the permit to the Company. The Company intervened in the proceedings. The Cabinet has suspended all corrective action under the RCRA permit in deference to a remedial investigation and feasibility study ( RIFS ) being conducted pursuant to an Administrative Settlement Agreement ( AOC ), which became effective on December 9, 2009. See *Change in Regulatory Regime* below. The proceedings have been postponed. Periodic status conferences will be held to evaluate whether additional proceedings will be required. On September 19, 2011, the Company filed a motion to dismiss the proceedings, which was denied on December 29, 2011.

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

*Monetary Relief.* Except as noted above with respect to the settlement of the contract litigation among the Company, Goodrich and PolyOne, none of the court, the Cabinet nor the EPA has established any allocation of the costs of remediation among the various parties that are involved in the judicial and administrative proceedings discussed above. At this time, the Company is not able to estimate the loss or reasonable possible loss, if any, on the Company's financial statements that could result from the resolution of these proceedings. Any cash expenditures that the Company might incur in the future with respect to the remediation of contamination at the complex would likely be spread out over an extended

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period. As a result, the Company believes it is unlikely that any remediation costs allocable to it will be material in terms of expenditures made in any individual reporting period.

*EPA Audit of Ethylene Units in Lake Charles.* During 2007, the EPA conducted an audit of the Company's ethylene units in Lake Charles, Louisiana, with a focus on leak detection and repair, or LDAR. In January 2008, the U.S. Department of Justice, or DOJ, notified the Company that the EPA had referred the matter to the DOJ to bring a civil case against the Company alleging violations of various environmental laws and regulations. The Company is engaged in negotiations with the EPA. The Company has

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recorded an accrual for a probable loss related to monetary penalties. Although the ultimate amount of liability is not ascertainable, the Company believes that the resolution of this matter will not 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 routine legal proceedings incidental to the conduct of its business. The Company does not believe that any of these routine legal proceedings will have a material adverse effect on its financial condition, results of operations or cash flows.

**14. Segment Information**

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

|                                      | <b>Three Months Ended<br/>March 31,</b> |                   |
|--------------------------------------|---|-------------------|
|                                      | <b>2012</b>                             | <b>2011</b>       |
| <b>Net external sales</b>            |   |                   |
| Olefins                              |   |                   |
| Polyethylene                         | \$ 445,420                              | \$ 446,703        |
| Ethylene, styrene and other          | 286,851                                 | 158,377           |
| <b>Total Olefins</b>                 | <b>732,271</b>                          | <b>605,080</b>    |
| Vinyls                               |   |                   |
| PVC, caustic soda and other          | 214,383                                 | 191,857           |
| Building products                    | 88,213                                  | 70,315            |
| <b>Total Vinyls</b>                  | <b>302,596</b>                          | <b>262,172</b>    |
|                                      | <b>\$ 1,034,867</b>                     | <b>\$ 867,252</b> |
| <b>Intersegment sales</b>            |   |                   |
| Olefins                              | \$ 101,457                              | \$ 106,270        |
| Vinyls                               | 388                                     | 320               |
|                                      | <b>\$ 101,845</b>                       | <b>\$ 106,590</b> |
| <b>Income (loss) from operations</b> |   |                   |
| Olefins                              | \$ 129,207                              | \$ 145,256        |
| Vinyls                               | 21,082                                  | (2,848)           |
| Corporate and other                  | (4,664)                                 | (1,771)           |
|                                      | <b>\$ 145,625</b>                       | <b>\$ 140,637</b> |

**Depreciation and amortization**

|                     |           |           |
|---------------------|-----------|-----------|
| Olefins             | \$ 23,763 | \$ 21,644 |
| Vinyls              | 11,509    | 10,774    |
| Corporate and other | 122       | 160       |
|                     | \$ 35,394 | \$ 32,578 |

**Other income, net**

|                     |          |          |
|---------------------|----------|----------|
| Olefins             | \$ 956   | \$ 180   |
| Vinyls              | 240      | 511      |
| Corporate and other | 151      | 516      |
|                     | \$ 1,347 | \$ 1,207 |

**Provision for (benefit from) income taxes**

|                     |           |           |
|---------------------|-----------|-----------|
| Olefins             | \$ 42,175 | \$ 48,291 |
| Vinyls              | 6,016     | (2,153)   |
| Corporate and other | (1,209)   | (758)     |
|                     | \$ 46,982 | \$ 45,380 |

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

|                             | <b>Three Months Ended<br/>March 31,</b> |                  |
|-----------------------------|---|------------------|
|                             | <b>2012</b>                             | <b>2011</b>      |
| <b>Capital expenditures</b> |   |                  |
| Olefins                     | \$ 17,480                               | \$ 17,950        |
| Vinyls                      | 46,841                                  | 10,784           |
| Corporate and other         | 581                                     | 74               |
|                             | <b>\$ 64,902</b>                        | <b>\$ 28,808</b> |

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

|                            | <b>Three Months Ended<br/>March 31,</b> |                   |
|----------------------------|---|-------------------|
|                            | <b>2012</b>                             | <b>2011</b>       |
| Income from operations     | \$ 145,625                              | \$ 140,637        |
| Interest expense           | (12,177)                                | (12,920)          |
| Other income, net          | 1,347                                   | 1,207             |
| Income before income taxes | <b>\$ 134,795</b>                       | <b>\$ 128,924</b> |

|                     | <b>March 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---------------------|---------------------------|------------------------------|
| <b>Total assets</b> |                           |                              |
| Olefins             | \$ 1,413,225              | \$ 1,441,752                 |
| Vinyls              | 862,549                   | 824,825                      |
| Corporate and other | 1,054,273                 | 1,000,244                    |
|                     | <b>\$ 3,330,047</b>       | <b>\$ 3,266,821</b>          |

**15. Subsequent Events**

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

**Table of Contents****WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)****16. Guarantor Disclosures**

The Company's payment obligations under the Company's 5.6% senior notes due 2016 is fully and unconditionally guaranteed by each of its current and future domestic restricted subsidiaries that guarantee other debt of the Company or of another guarantor of the senior notes in excess of \$5,000 (the Guarantor Subsidiaries). Each Guarantor Subsidiary is 100% owned by Westlake Chemical Corporation. These guarantees are the joint and several obligations of the Guarantor Subsidiaries. The following unaudited condensed consolidating financial information presents the financial condition, results of operations and cash flows of Westlake Chemical Corporation, the Guarantor Subsidiaries and the remaining subsidiaries that do not guarantee the senior notes (the Non-Guarantor Subsidiaries), together with consolidating adjustments necessary to present the Company's results on a consolidated basis.

**Condensed Consolidating Financial Information as of March 31, 2012**

|   | <b>Westlake<br/>Chemical<br/>Corporation</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|--|-----------------------------------|--|---------------------|---------------------|
| <b>Balance Sheet</b>                      |  |                                   |  |                     |                     |
| Current assets                            |  |                                   |  |                     |                     |
| Cash and cash equivalents                 | \$ 868,944                                   | \$ 3,563                          | \$ 22,635                                  | \$                  | \$ 895,142          |
| Accounts receivable, net                  | 21,593                                       | 1,475,952                         | 4,718                                      | (1,057,654)         | 444,609             |
| Inventories                               |  | 407,949                           | 14,456                                     |                     | 422,405             |
| Prepaid expenses and other current assets | 183  | 11,252                            | 2,671                                      |                     | 14,106              |
| Deferred income taxes                     | 430  | 19,050                            | 134  |                     | 19,614              |
| Total current assets                      | 891,150                                      | 1,917,766                         | 44,614                                     | (1,057,654)         | 1,795,876           |
| Property, plant and equipment, net        |  | 1,255,117                         | 8,439                                      |                     | 1,263,556           |
| Equity investments                        | 2,708,670                                    | 53,978                            | 34,968                                     | (2,751,577)         | 46,039              |
| Restricted cash                           | 65,607                                       |                                   |  |                     | 65,607              |
| Other assets, net                         | 17,299                                       | 156,943                           | 2,285                                      | (17,558)            | 158,969             |
| Total assets                              | \$ 3,682,726                                 | \$ 3,383,804                      | \$ 90,306                                  | \$ (3,826,789)      | \$ 3,330,047        |
| Current liabilities                       |  |                                   |  |                     |                     |
| Accounts payable                          | \$ 1,045,333                                 | \$ 182,086                        | \$ 12,312                                  | \$ (1,042,282)      | \$ 197,449          |
| Accrued liabilities                       | 20,616                                       | 107,525                           | 1,745                                      | (15,372)            | 114,514             |
| Total current liabilities                 | 1,065,949                                    | 289,611                           | 14,057                                     | (1,057,654)         | 311,963             |
| Long-term debt                            | 753,694                                      | 10,889                            | 11,500                                     | (11,500)            | 764,583             |
| Deferred income taxes                     |  | 346,303                           | 708  | (6,058)             | 340,953             |
| Other liabilities                         | 53   | 49,431                            | 34   |                     | 49,518              |
| Stockholders' equity                      | 1,863,030                                    | 2,687,570                         | 64,007                                     | (2,751,577)         | 1,863,030           |

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|  |              |              |           |                |              |
|--|--------------|--------------|-----------|----------------|--------------|
| Total liabilities and stockholders' equity | \$ 3,682,726 | \$ 3,383,804 | \$ 90,306 | \$ (3,826,789) | \$ 3,330,047 |
|--|--------------|--------------|-----------|----------------|--------------|



**Table of Contents****WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)****Condensed Consolidating Financial Information as of December 31, 2011**

|   | <b>Westlake<br/>Chemical<br/>Corporation</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|---|--|-----------------------------------|---------------------------------------|-----------------------|---------------------|
| <b>Balance Sheet</b>                              |  |                                   |                                       |                       |                     |
| Current assets                                    |  |                                   |                                       |                       |                     |
| Cash and cash equivalents                         | \$ 803,320                                   | \$ 2,517                          | \$ 20,064                             | \$                    | \$ 825,901          |
| Accounts receivable, net                          |  | 1,384,705                         | 949                                   | (978,282)             | 407,372             |
| Inventories                                       |  | 478,229                           | 12,548                                |                       | 490,777             |
| Prepaid expenses and other current assets         | 363  | 10,332                            | 1,800                                 |                       | 12,495              |
| Deferred income taxes                             | 430  | 19,049                            | 132                                   |                       | 19,611              |
| <b>Total current assets</b>                       | <b>804,113</b>                               | <b>1,894,832</b>                  | <b>35,493</b>                         | <b>(978,282)</b>      | <b>1,756,156</b>    |
| Property, plant and equipment, net                |  | 1,223,073                         | 8,993                                 |                       | 1,232,066           |
| Equity investments                                | 2,597,598                                    | 53,912                            | 35,650                                | (2,640,419)           | 46,741              |
| Restricted cash                                   | 96,283                                       |                                   |                                       |                       | 96,283              |
| Other assets, net                                 | 17,650                                       | 132,968                           | 2,467                                 | (17,510)              | 135,575             |
| <b>Total assets</b>                               | <b>\$ 3,515,644</b>                          | <b>\$ 3,304,785</b>               | <b>\$ 82,603</b>                      | <b>\$ (3,636,211)</b> | <b>\$ 3,266,821</b> |
| Current liabilities                               |  |                                   |                                       |                       |                     |
| Accounts payable                                  | \$ 1,005,529                                 | \$ 210,476                        | \$ 3,748                              | \$ (992,719)          | \$ 227,034          |
| Accrued liabilities                               | 76   | 120,656                           | 2,392                                 | 14,437                | 137,561             |
| <b>Total current liabilities</b>                  | <b>1,005,605</b>                             | <b>331,132</b>                    | <b>6,140</b>                          | <b>(978,282)</b>      | <b>364,595</b>      |
| Long-term debt                                    | 753,674                                      | 10,889                            | 11,500                                | (11,500)              | 764,563             |
| Deferred income taxes                             |  | 336,165                           | 636                                   | (6,010)               | 330,791             |
| Other liabilities                                 | 53   | 50,458                            | 49                                    |                       | 50,560              |
| Stockholders' equity                              | 1,756,312                                    | 2,576,141                         | 64,278                                | (2,640,419)           | 1,756,312           |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 3,515,644</b>                          | <b>\$ 3,304,785</b>               | <b>\$ 82,603</b>                      | <b>\$ (3,636,211)</b> | <b>\$ 3,266,821</b> |

**Table of Contents****WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)****Condensed Consolidating Financial Information for the Three Months Ended March 31, 2012**

|  | <b>Westlake<br/>Chemical<br/>Corporation</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|--|-----------------------------------|--|---------------------|---------------------|
| <b>Statement of Operations</b>               |  |                                   |  |                     |                     |
| Net sales                                    | \$   | \$ 1,026,332                      | \$ 9,843                                   | \$ (1,308)          | \$ 1,034,867        |
| Cost of sales                                |  | 854,987                           | 8,551                                      | (1,308)             | 862,230             |
| Gross profit                                 |  | 171,345                           | 1,292                                      |                     | 172,637             |
| Selling, general and administrative expenses | 505  | 24,756                            | 1,751                                      |                     | 27,012              |
| (Loss) income from operations                | (505)  | 146,589                           | (459)                                      |                     | 145,625             |
| Interest expense                             | (12,171)                                     | (6)                               |  |                     | (12,177)            |
| Other income (expense), net                  | 3,534  | (1,700)                           | (487)                                      |                     | 1,347               |
| (Loss) income before income taxes            | (9,142)                                      | 144,883                           | (946)                                      |                     | 134,795             |
| (Benefit from) provision for income taxes    | (3,173)                                      | 50,231                            | (76)                                       |                     | 46,982              |
| Equity in net income of subsidiaries         | 93,782                                       |                                   |  | (93,782)            |                     |
| Net income (loss)                            | \$ 87,813                                    | \$ 94,652                         | \$ (870)                                   | \$ (93,782)         | \$ 87,813           |
| Comprehensive income (loss)                  | \$ 105,019                                   | \$ 111,344                        | \$ (358)                                   | \$ (110,986)        | \$ 105,019          |

**Condensed Consolidating Financial Information for the Three Months Ended March 31, 2011**

|  | <b>Westlake<br/>Chemical<br/>Corporation</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|--|-----------------------------------|--|---------------------|---------------------|
| <b>Statement of Operations</b>               |  |                                   |  |                     |                     |
| Net sales                                    | \$   | \$ 859,951                        | \$ 8,146                                   | \$ (845)            | \$ 867,252          |
| Cost of sales                                |  | 692,240                           | 8,273                                      | (845)               | 699,668             |
| Gross profit (loss)                          |  | 167,711                           | (127)                                      |                     | 167,584             |
| Selling, general and administrative expenses | 1,012  | 24,749                            | 1,186                                      |                     | 26,947              |
| (Loss) income from operations                | (1,012)                                      | 142,962                           | (1,313)                                    |                     | 140,637             |
| Interest expense                             | (12,909)                                     | (11)                              |  |                     | (12,920)            |
| Other income (expense), net                  | 3,196  | (2,715)                           | 726  |                     | 1,207               |
| (Loss) income before income taxes            | (10,725)                                     | 140,236                           | (587)                                      |                     | 128,924             |

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|   |           |           |          |             |           |
|---|-----------|-----------|----------|-------------|-----------|
| (Benefit from) provision for income taxes | (3,518)   | 49,146    | (248)    |             | 45,380    |
| Equity in net income of subsidiaries      | 90,751    |           |          | (90,751)    |           |
| Net income (loss)                         | \$ 83,544 | \$ 91,090 | \$ (339) | \$ (90,751) | \$ 83,544 |
| Comprehensive income                      | \$ 84,352 | \$ 91,365 | \$ 194   | \$ (91,559) | \$ 84,352 |

**Table of Contents****WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)****Condensed Consolidating Financial Information for the Three Months Ended March 31, 2012**

|  | <b>Westlake<br/>Chemical<br/>Corporation</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|--|-----------------------------------|--|---------------------|---------------------|
| <b>Statement of Cash Flows</b>   |  |                                   |  |                     |                     |
| <b>Cash flows from operating activities</b>  |  |                                   |  |                     |                     |
| Net income (loss)  | \$ 87,813                                    | \$ 94,652                         | \$ (870)                                   | \$ (93,782)         | \$ 87,813           |
| Adjustments to reconcile net income (loss) to net cash (used for) provided by operating activities |  |                                   |  |                     |                     |
| Depreciation and amortization  | 400  | 34,593                            | 801  |                     | 35,794              |
| Deferred income taxes  | (48)   | 779                               | 60   |                     | 791                 |
| Net changes in working capital and other   | (93,790)                                     | (12,415)                          | (1,918)                                    | 93,782              | (14,341)            |
| Net cash (used for) provided by operating activities   | (5,625)                                      | 117,609                           | (1,927)                                    |                     | 110,057             |
| <b>Cash flows from investing activities</b>  |  |                                   |  |                     |                     |
| Additions to property, plant and equipment   |  | (64,871)                          | (31)                                       |                     | (64,902)            |
| Proceeds from disposition of assets  |  |                                   | 3  |                     | 3                   |
| Proceeds from repayment of loan to affiliate   |  |                                   | 167  |                     | 167                 |
| Purchase of investments  |  | (2,961)                           |  |                     | (2,961)             |
| Settlements of derivative instruments  |  | 511                               |  |                     | 511                 |
| Net cash (used for) provided by investing activities   |  | (67,321)                          | 139  |                     | (67,182)            |
| <b>Cash flows from financing activities</b>  |  |                                   |  |                     |                     |
| Intercompany financing   | 44,883                                       | (49,242)                          | 4,359                                      |                     |                     |
| Dividends paid   | (4,914)                                      |                                   |  |                     | (4,914)             |
| Proceeds from exercise of stock options  | 480  |                                   |  |                     | 480                 |
| Utilization of restricted cash   | 30,800                                       |                                   |  |                     | 30,800              |
| Net cash provided by (used for) financing activities   | 71,249                                       | (49,242)                          | 4,359                                      |                     | 26,366              |
| Net increase in cash and cash equivalents  | 65,624                                       | 1,046                             | 2,571                                      |                     | 69,241              |
| Cash and cash equivalents at beginning of period   | 803,320                                      | 2,517                             | 20,064                                     |                     | 825,901             |
| Cash and cash equivalents at end of period   | \$ 868,944                                   | \$ 3,563                          | \$ 22,635                                  | \$                  | \$ 895,142          |

**Table of Contents****WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)****Condensed Consolidating Financial Information for the Three Months Ended March 31, 2011**

|  | <b>Westlake<br/>Chemical<br/>Corporation</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|--|-----------------------------------|--|---------------------|---------------------|
| <b>Statement of Cash Flows</b>   |  |                                   |  |                     |                     |
| <b>Cash flows from operating activities</b>  |  |                                   |  |                     |                     |
| Net income (loss)  | \$ 83,544                                    | \$ 91,090                         | \$ (339)                                   | \$ (90,751)         | \$ 83,544           |
| Adjustments to reconcile net income (loss) to net cash (used for) provided by operating activities |  |                                   |  |                     |                     |
| Depreciation and amortization  | 438  | 31,727                            | 851  |                     | 33,016              |
| Deferred income taxes  | 508  | 7,146                             | (238)                                      |                     | 7,416               |
| Net changes in working capital and other   | (90,716)                                     | (83,535)                          | 184  | 90,751              | (83,316)            |
| Net cash (used for) provided by operating activities   | (6,226)                                      | 46,428                            | 458  |                     | 40,660              |
| <b>Cash flows from investing activities</b>  |  |                                   |  |                     |                     |
| Additions to property, plant and equipment   |  | (28,748)                          | (60)                                       |                     | (28,808)            |
| Proceeds from disposition of assets  |  | 630                               |  |                     | 630                 |
| Proceeds from repayment of loan to affiliate   |  |                                   | 167  |                     | 167                 |
| Settlements of derivative instruments  |  | (222)                             |  |                     | (222)               |
| Net cash (used for) provided by investing activities   |  | (28,340)                          | 107  |                     | (28,233)            |
| <b>Cash flows from financing activities</b>  |  |                                   |  |                     |                     |
| Intercompany financing   | 18,201                                       | (18,076)                          | (125)                                      |                     |                     |
| Dividends paid   | (4,218)                                      |                                   |  |                     | (4,218)             |
| Proceeds from exercise of stock options  | 4,820  |                                   |  |                     | 4,820               |
| Utilization of restricted cash   | 11,175                                       |                                   |  |                     | 11,175              |
| Net cash provided by (used for) financing activities   | 29,978                                       | (18,076)                          | (125)                                      |                     | 11,777              |
| Net increase in cash and cash equivalents  | 23,752                                       | 12                                | 440  |                     | 24,204              |
| Cash and cash equivalents at beginning of period   | 611,158                                      | 53                                | 19,088                                     |                     | 630,299             |
| Cash and cash equivalents at end of period   | \$ 634,910                                   | \$ 65                             | \$ 19,528                                  | \$                  | \$ 654,503          |

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

This discussion and analysis should be read in conjunction with information contained in the accompanying unaudited consolidated interim financial statements of Westlake Chemical Corporation and the notes thereto and the consolidated financial statements and notes thereto of Westlake Chemical Corporation included in Westlake Chemical Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the 2011 Form 10-K). The following discussion contains forward-looking statements. Please read Forward-Looking Statements for a discussion of limitations inherent in such statements.

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

Beginning in 2009 and continuing through the first quarter of 2012, a cost advantage for ethane-based ethylene producers over naphtha-based ethylene producers allowed a strong export market and higher margins for North American chemical producers, including Westlake. Increased global demand for polyethylene since 2010 has resulted in increased sales volumes and improved operating margins and cash flow for our Olefins segment. However, some olefins industry consultants predict that increases in worldwide ethylene and ethylene derivative capacity, which have occurred over the past four years, primarily in the Middle East and Asia, may continue. As a result, our Olefins segment operating margins may be negatively impacted.

Weakness in the U.S. construction markets, which began in the third quarter of 2006, and the subsequent budgetary constraints in municipal spending, have contributed to lower domestic demand for our vinyls products. In addition, increases in feedstock costs, combined with the industry's inability to sufficiently raise domestic prices for PVC resin and building products in order to offset cost increases, significantly impacted our Vinyls segment's operating results in 2010 through the first quarter of 2012. Since late 2010, the PVC industry has experienced an increase in PVC resin export demand, driven largely by more competitive ethylene and energy cost positions in North America. As a consequence, domestic PVC resin operating rates improved while domestic supply of PVC resin tightened, resulting in improved margins and higher domestic prices for PVC resin. Looking forward, our Vinyls segment operating rates and margins may continue to be negatively impacted by the slow recovery of U.S. construction markets.

While the economic environment continues to be challenging for our customers, we believe our customer base remains generally healthy. As we continue to manage our business in this environment, including the slowdown in construction activity, we have taken steps designed to address the changes in demand and margins in our Vinyls segment and its resulting impact on our operations by matching production with sales demand and continuing to operate our plants in an efficient manner. We continue to monitor our cost management programs and discretionary capital spending. The impact of the global economic environment has been challenging to our business and, depending on the performance of the economy in the remainder of 2012 and beyond, could have a negative effect on our financial condition, results of operations or cash flows.

### **Recent Developments**

On March 22, 2012, a fire occurred at our Geismar, Louisiana vinyls complex, resulting in an unscheduled shut down of the vinyl chloride monomer (VCM) unit. VCM is an intermediate product used in the production of PVC at our Geismar complex. We currently estimate that the entire Geismar vinyls complex will be returned to normal operations by mid May 2012 and some sections of the complex's operations, including the PVC plant, may be operable earlier. In addition to the lost production resulting from the shut down, we incurred repair costs and unabsorbed fixed manufacturing costs related to the shut down in the first quarter of 2012. Further, we expect the Geismar shut down to continue to negatively impact our Vinyls segment results in the second quarter of 2012.

On January 13, 2012, we announced that we submitted a proposal to Georgia Gulf Corporation (Georgia Gulf) to acquire all of the outstanding shares of Georgia Gulf for \$30.00 per share in cash, or a total of approximately \$1.1 billion. Our proposal was not subject to financing conditions. Georgia Gulf rejected our proposal on January 16, 2012 and adopted a stockholder rights plan. On February 1, 2012, we announced that we were increasing our offer to \$35.00 per share in cash, or a total of approximately \$1.2 billion, with the possibility of offering our common stock as part of the offer consideration. On that date, Georgia Gulf also publicly rejected our increased offer. As of April 30, 2012, we held shares representing approximately 4.8% of the outstanding shares of common stock of Georgia Gulf.

**Table of Contents****Results of Operations**

|                             | 0000000000                              | 0000000000        |
|-----------------------------|---|-------------------|
|                             | <b>Three Months Ended<br/>March 31,</b> |                   |
|                             | <b>2012</b>                             | <b>2011</b>       |
|                             | <b>(dollars in thousands)</b>           |                   |
| <b>Net external sales</b>   |   |                   |
| Olefins                     |   |                   |
| Polyethylene                | \$ 445,420                              | \$ 446,703        |
| Ethylene, styrene and other | 286,851                                 | 158,377           |
| <b>Total Olefins</b>        | <b>732,271</b>                          | <b>605,080</b>    |
| Vinyls                      |   |                   |
| PVC, caustic soda and other | 214,383                                 | 191,857           |
| Building products           | 88,213                                  | 70,315            |
| <b>Total Vinyls</b>         | <b>302,596</b>                          | <b>262,172</b>    |
| <b>Total</b>                | <b>\$ 1,034,867</b>                     | <b>\$ 867,252</b> |

|                                      | <b>Three Months Ended<br/>March 31,</b> |                  |
|--------------------------------------|---|------------------|
|                                      | <b>2012</b>                             | <b>2011</b>      |
|                                      | <b>(dollars in thousands)</b>           |                  |
| <b>Income (loss) from operations</b> |   |                  |
| Olefins                              | \$ 129,207                              | \$ 145,256       |
| Vinyls                               | 21,082                                  | (2,848)          |
| Corporate and other                  | (4,664)                                 | (1,771)          |
| <b>Total income from operations</b>  | <b>145,625</b>                          | <b>140,637</b>   |
| Interest expense                     | (12,177)                                | (12,920)         |
| Other income, net                    | 1,347                                   | 1,207            |
| Provision for income taxes           | 46,982                                  | 45,380           |
| <b>Net income</b>                    | <b>\$ 87,813</b>                        | <b>\$ 83,544</b> |
| Diluted earnings per share           | \$ 1.31                                 | \$ 1.25          |

|  | <b>Three Months Ended<br/>March 31, 2012</b> |               |
|--|--|---------------|
|  | <b>Average<br/>Sales Price</b>               | <b>Volume</b> |
| <b>Product sales price and volume percentage change from prior year period</b> |  |               |
| Olefins  | +3.5%  | +17.6%        |
| Vinyls   | +10.3%                                       | +5.1%         |
| Company average  | +5.5%  | +13.8%        |

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2012</b>                             | <b>2011</b> |
| <b>Average industry prices <sup>(1)</sup></b> |   |             |
| Ethane (cents/lb)                             | 18.9                                    | 22.1        |

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|  |       |       |
|--|-------|-------|
| Propane (cents/lb)                         | 29.8  | 32.4  |
| Ethylene (cents/lb) <sup>(2)</sup>         | 55.2  | 49.3  |
| Polyethylene (cents/lb) <sup>(3)</sup>     | 99.0  | 96.7  |
| Styrene (cents/lb) <sup>(4)</sup>          | 74.3  | 74.0  |
| Caustic soda (\$/short ton) <sup>(5)</sup> | 603.3 | 470.0 |
| Chlorine (\$/short ton) <sup>(6)</sup>     | 274.2 | 315.0 |
| PVC (cents/lb) <sup>(7)</sup>              | 56.8  | 46.5  |



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- (1) Industry pricing data was obtained through IHS Chemical. We have not independently verified the data.
- (2) Represents average North American contract prices of ethylene over the period as reported by IHS Chemical.
- (3) Represents average North American contract prices of polyethylene low density film over the period as reported by IHS Chemical.
- (4) Represents average North American contract prices of styrene over the period as reported by IHS Chemical.
- (5) Represents average North American acquisition prices of caustic soda (diaphragm grade) over the period as reported by IHS Chemical.
- (6) Represents average North American contract prices of chlorine (into chemicals) over the period as reported by IHS Chemical.
- (7) Represents average North American contract prices of PVC over the period as reported by IHS Chemical. During the first quarter of 2012, IHS Chemical made a 23 cents per pound non-market downward adjustment to PVC resin prices. For comparability, we adjusted the prior year period's PVC resin price downward by 23 cents per pound based on the first quarter 2012 IHS Chemical non-market adjustment.

### ***Summary***

For the quarter ended March 31, 2012, net income was \$87.8 million, or \$1.31 per diluted share, on net sales of \$1,034.9 million. This represents an increase in net income of \$4.3 million, or \$0.06 per diluted share, over the quarter ended March 31, 2011 net income of \$83.5 million, or \$1.25 per diluted share, on net sales of \$867.3 million. Net sales for the first quarter of 2012 increased \$167.6 million compared to net sales for the first quarter of 2011, driven mainly by higher sales prices for our major products and the sale of feedstock. Income from operations was \$145.6 million for the first quarter of 2012 as compared to \$140.6 million for the first quarter of 2011. Income from operations benefited primarily from higher vinyls integrated product margins, partially offset by lower olefins integrated product margins. Income from operations in the first quarter of 2011 was negatively impacted as the result of a fire at a third party storage facility in Mont Belvieu, Texas.

## **RESULTS OF OPERATIONS**

### ***First Quarter 2012 Compared with First Quarter 2011***

*Net Sales.* Net sales increased by \$167.6 million, or 19.3%, to \$1,034.9 million in the first quarter of 2012 from \$867.3 million in the first quarter of 2011, primarily driven by higher sales prices for our major products and the sale of feedstock. Average sales prices for the first quarter of 2012 increased by 5.5% as compared to the first quarter of 2011. Overall sales volume increased by 13.8% as compared to the first quarter of 2011.

*Gross Profit.* Gross profit margin percentage decreased to 16.7% for the first quarter of 2012 from 19.3% for the first quarter of 2011. The first quarter 2012 gross profit margin percentage benefited from improved PVC resin, building products and caustic margins. However, this benefit was more than offset by a decrease in gross profit margin percentage mainly caused by product sales mix attributable to the sale of feedstock and lower olefins integrated product margins. The lower margins were primarily the result of the negative impact of high cost feedstock in inventory at December 31, 2011, which flowed through cost of sales in the first quarter of 2012 as a result of utilizing the first-in-first-out (FIFO) method of inventory accounting. Industry ethane prices dropped from an average of 85.6 cents per gallon in the fourth quarter of 2011 to an average of 56.3 cents per gallon in the first quarter of 2012.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses for the first quarter of 2012 of \$27.0 million were comparable to the prior year period amount of \$26.9 million as an increase in total selling expenses consistent with the increase in sales and an increase in consulting fees were mostly offset by lower expenses related to doubtful accounts.

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*Interest Expense.* Interest expense decreased marginally by \$0.7 million to \$12.2 million in the first quarter of 2012 from \$12.9 million in the first quarter of 2011 largely as a result of increased capitalized interest in the first quarter of 2012 on major capital projects. Debt balances and interest rates remained relatively unchanged from the prior year period.

*Other Income, Net.* Other income, net for the first quarter of 2012 of \$1.3 million increased slightly compared to the prior year period amount of \$1.2 million as higher interest income attributable to higher average cash balances for the period was mostly offset by lower foreign exchange currency gains.

*Income Taxes.* The effective income tax rate was 34.9% for the first quarter of 2012. The effective income tax rate for the first quarter of 2012 was below the U.S. federal statutory rate of 35.0% primarily due to state tax credits and the domestic manufacturing deduction, mostly offset by state income taxes. The effective income tax rate was 35.2% for the first quarter of 2011. The effective income tax rate for the first quarter of 2011 was above the U.S. federal statutory rate of 35.0% primarily due to state income taxes, mostly offset by the domestic manufacturing deduction.

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**Table of Contents*****Olefins Segment***

*Net Sales.* Net sales increased by \$127.2 million, or 21.0%, to \$732.3 million in the first quarter of 2012 from \$605.1 million in the first quarter of 2011, primarily due to higher sales prices for ethylene and ethylene co-products and the sale of feedstock. Average sales prices for the Olefins segment increased by 3.5% in the first quarter of 2012 as compared to the first quarter of 2011. Average sales volumes increased by 17.6% in the first quarter of 2012 as compared to the first quarter of 2011.

*Income from Operations.* Income from operations decreased by \$16.1 million, or 11.1%, to \$129.2 million in the first quarter of 2012 from \$145.3 million in the first quarter of 2011. This decrease was mainly attributable to lower olefins integrated product margins as compared to the prior year period. The lower margins were primarily the result of the negative impact of high cost feedstock in inventory at December 31, 2011, which flowed through cost of sales in the first quarter of 2012 as a result of utilizing the FIFO method of inventory accounting. Trading activity resulted in a gain of \$0.6 million in the first quarter of 2012 as compared to a loss of \$0.01 million in the first quarter of 2011.

***Vinyls Segment***

*Net Sales.* Net sales increased by \$40.4 million, or 15.4%, to \$302.6 million in the first quarter of 2012 from \$262.2 million in the first quarter of 2011. This increase was primarily driven by higher sales prices and sales volumes for all major products as compared to the first quarter of 2011. Average sales prices for the Vinyls segment increased by 10.3% in the first quarter of 2012 as compared to the first quarter of 2011. Average sales volumes for the Vinyls segment increased by 5.1% in the first quarter of 2012 as compared to the first quarter of 2011.

*Income (Loss) from Operations.* Income from operations was \$21.1 million in the first quarter of 2012 as compared to a loss from operations of \$2.8 million in the first quarter of 2011, an improvement of \$23.9 million. This improvement was primarily driven by lower feedstock costs, higher sales prices for all of our major products and higher sales volume for building products as compared to the prior year period. The first quarter 2012 income from operations was negatively impacted by the lost production, lost sales and the expensing of approximately \$1.3 million of costs associated with the unscheduled shut down of our Geismar VCM unit. While operating results for the first quarter of 2012 improved compared to the first quarter of 2011, our Vinyls segment continued to be negatively impacted by weakness in the U.S. construction markets and budgetary constraints in municipal spending.

**CASH FLOW DISCUSSION FOR THREE MONTHS ENDED MARCH 31, 2012 AND 2011****Cash Flows*****Operating Activities***

Operating activities provided cash of \$110.1 million in the first three months of 2012 compared to cash provided of \$40.7 million in the first three months of 2011. The \$69.4 million increase in cash flows from operating activities was primarily due to a decrease in working capital requirements, as compared to the prior year period. Changes in components of working capital, which we define for purposes of this cash flow discussion as accounts receivable, net, inventories, prepaid expenses and other current assets, less accounts payable and accrued liabilities, used cash of \$20.6 million in the first three months of 2012, compared to \$89.8 million of cash used in the first three months of 2011, a favorable change of \$69.2 million. This change was primarily the result of a decrease in inventory during the 2012 period that was larger than the decrease in inventory during the 2011 period, mainly attributable to lower feedstock costs.

***Investing Activities***

Net cash used for investing activities during the first three months of 2012 was \$67.2 million as compared to net cash used for investing activities of \$28.2 million in the first three months of 2011. Capital expenditures were \$64.9 million in the first three months of 2012 compared to \$28.8 million in the first three months of 2011. The higher capital expenditures in the 2012 period were largely attributable to capital expenditures incurred on the construction of the new chlor-alkali plant at our Geismar facility and the expansion of the ethylene unit at our Lake Charles, Louisiana complex. The remaining capital expenditures in the first three months of 2012 and capital expenditures in the first three months of 2011 primarily related to projects to improve production capacity or reduce costs and maintenance, safety and environmental projects at our various facilities. Purchases of equity securities in the first three months of 2012 totaled \$3.0 million and comprised of shares of Georgia Gulf common stock.

***Financing Activities***

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Net cash provided by financing activities during the first three months of 2012 was \$26.4 million as compared to net cash provided of \$11.8 million in the first three months of 2011. The 2012 period activity was primarily related to a \$30.8 million draw-down of our restricted cash for use for eligible capital expenditures, partially offset by the \$4.9 million payment of cash dividends. The 2011 period activity was primarily related to the draw-down of our restricted cash and proceeds from the exercise of stock options, partially offset by the \$4.2 million payment of cash dividends.

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES*****Liquidity and Financing Arrangements***

Our principal sources of liquidity are from cash and cash equivalents, restricted cash, cash from operations, short-term borrowings under our revolving credit facility and our long-term financing. As we continue to manage our business through the current economic environment, we have maintained our focus on cost control and various initiatives designed to preserve cash and liquidity.

In December 2011, we announced plans to perform a major modification of the ethylene furnaces at our Calvert City, Kentucky complex. We currently expect the modification to be completed by mid-2013. This capital project is currently estimated to cost approximately \$40.0 million and will be funded with cash on hand, cash flow from operations, and if necessary, our revolving credit facility and other external financing.

In August 2011, our Board of Directors authorized a stock repurchase program totaling \$100.0 million. As of March 31, 2012, we had repurchased 69,816 shares of our common stock for an aggregate purchase price of approximately \$2.5 million under this program. We did not repurchase any shares under the program during the quarter ended March 31, 2012. Purchases under this program may be made either through the open market or in privately negotiated transactions. Decisions regarding the amount and the timing of purchases under the program will be influenced by our cash on hand, our cash flow from operations, general market conditions and other factors. The program may be discontinued by our Board of Directors at any time.

In April 2011, we announced an expansion program to increase the ethane-based ethylene capacity of both of the ethylene units at our Lake Charles complex. We currently expect to complete the expansion of one of the two ethylene units by late 2012. This expansion is currently estimated to cost in the range of \$110.0 million to \$145.0 million. The additional capacity from this expansion is expected to provide ethylene for existing internal uses and may also be sold in the merchant market. In August 2010, we announced that we intend to proceed with the previously announced plans for the construction of a new chlor-alkali plant at our Geismar facility. The project is currently estimated to cost in the range of \$370.0 million to \$420.0 million and is targeted for start-up in the second half of 2013. These projects will be funded with cash on hand, cash flow from operations, the net proceeds from certain of the revenue bonds of the Louisiana Local Government Environmental Facility and Development Authority (the Authority), a political subdivision of the State of Louisiana, which are currently held as restricted cash, and, if necessary, our revolving credit facility and other external financing.

We believe that our sources of liquidity as described above will be adequate to fund our normal operations and ongoing capital expenditures. Funding of any potential large expansions or any potential acquisitions, including our proposed acquisition of Georgia Gulf, if consummated, may depend on our ability to obtain additional financing in the future. We may not be able to access additional liquidity at cost effective interest rates due to the volatility of the commercial credit markets.

***Cash and Restricted Cash***

Total cash balances were \$960.7 million at March 31, 2012, which included cash and cash equivalents of \$895.1 million and restricted cash of \$65.6 million. The restricted cash is held by a trustee until such time as we request reimbursement of amounts used to expand, refurbish and maintain our facilities in Calcasieu and Ascension Parishes of Louisiana. In addition, we have a revolving credit facility available to supplement cash if needed, as described under Debt below.

***Debt***

As of March 31, 2012, our long-term debt, including current maturities, totaled \$764.6 million, consisting of \$250.0 million principal amount of 6<sup>5</sup>/<sub>8</sub>% senior notes due 2016 (less the unamortized discount of \$0.3 million), \$100.0 million of 6<sup>1</sup>/<sub>2</sub>% senior notes due 2029, \$250.0 million of 6<sup>3</sup>/<sub>4</sub>% senior notes due 2032, \$89.0 million of 6<sup>1</sup>/<sub>2</sub>% senior notes due 2035 (the 2035 GO Zone 6<sup>1</sup>/<sub>2</sub>% Notes), \$65.0 million of 6<sup>1</sup>/<sub>2</sub>% senior notes due 2035 (the 2035 IKE Zone 6<sup>1</sup>/<sub>2</sub>% Notes) (collectively, the Senior Notes) and a \$10.9 million loan from the proceeds of tax-exempt waste disposal revenue bonds (supported by an \$11.3 million letter of credit). The 6<sup>1</sup>/<sub>2</sub>% senior notes due 2029, the 6<sup>3</sup>/<sub>4</sub>% senior notes due 2032, the 2035 GO Zone 6<sup>1</sup>/<sub>2</sub>% Notes and the 2035 IKE Zone 6<sup>1</sup>/<sub>2</sub>% Notes evidence and secure our obligations to the Authority under four loan agreements relating to the issuance of \$100.0 million, \$250.0 million, \$89.0 million and \$65.0 million aggregate principal amount of the Authority's tax-exempt revenue bonds, respectively. As of March 31, 2012, debt outstanding under the tax-exempt waste disposal revenue bonds bore interest at a variable rate. As of March 31, 2012, we were in compliance with all of the covenants with respect to our Senior Notes, our waste disposal revenue bonds and our revolving credit facility.

***Revolving Credit Facility***

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We have a \$400.0 million senior secured revolving credit facility. The facility includes a provision permitting us to increase the size of the facility, up to four times, in increments of at least \$25.0 million each (up to a maximum of \$150.0 million) under certain circumstances if certain lenders agree to commit to such an increase.

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At March 31, 2012, we had no borrowings outstanding under the revolving credit facility. Any borrowings under the facility will bear interest at either LIBOR plus a spread ranging from 1.75% to 2.25% or a base rate plus a spread ranging from 0.25% to 0.75%. The revolving credit facility also requires an unused commitment fee of 0.375% per annum. All interest rates under the facility are subject to monthly grid pricing adjustments based on prior month average daily loan availability. The revolving credit facility matures on September 16, 2016. As of March 31, 2012, we had outstanding letters of credit totaling \$15.7 million and borrowing availability of \$384.3 million under the revolving credit facility.

Our revolving credit facility requires us to maintain a minimum fixed charge coverage ratio of 1.0:1 for successive 30-day periods after any date on which the borrowing availability under the facility is less than the greater of (1) 12.5% of the commitments under the facility and (2) \$50.0 million, until the borrowing availability exceeds the greater of the amount in clause (1) and the amount in clause (2) for a 30-day period.

In order to make acquisitions or investments, our revolving credit facility provides that (1) we must maintain a minimum borrowing availability of at least the greater of \$100.0 million or 25% of the total bank commitments under our revolving credit facility or (2) we must maintain a minimum borrowing availability of at least the greater of \$70.0 million or 17.5% of the total bank commitments under our revolving credit facility and meet a minimum fixed charge coverage ratio of 1.0:1 under our revolving credit facility. However, we may make specified distributions up to an aggregate of \$25.0 million and specified acquisitions up to an aggregate of \$25.0 million if either we maintain a minimum borrowing availability of at least the greater of \$70.0 million or 17.5% of the total bank commitments under our revolving credit facility or we meet the minimum fixed charge coverage ratio of 1.0:1 under our revolving credit facility. Notwithstanding the foregoing, we may make (1) investments up to \$200.0 million in one or more joint ventures that own feedstock, raw material and ethylene pipeline, storage and fractionating facilities and (2) additional investments up to \$55.0 million in Suzhou Huasu Plastics Co., Ltd. The revolving credit facility contains other customary covenants and events of default that impose significant operating and financial restrictions on us. These restrictions, among other things, provide limitations on the occurrence of additional indebtedness and our ability to create liens, to engage in certain affiliate transactions and to engage in sale-leaseback transactions. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt in the 2011 Form 10-K for more information on the revolving credit facility.

*GO Zone and IKE Zone Bonds*

As of March 31, 2012, we had drawn all the proceeds from the issuance of the 6<sup>3/4</sup>% senior notes due 2032, \$58.6 million of the proceeds from the issuance of the 2035 GO Zone 6<sup>1/2</sup>% Notes and \$28.3 million of the proceeds from the issuance of the 2035 IKE Zone 6<sup>1/2</sup>% Notes. The balance of the proceeds, plus interest income, remains with the trustee, and is classified on our consolidated balance sheets as a non-current asset, restricted cash, until such time as we request reimbursement of amounts used to expand, refurbish and maintain certain of our facilities in Louisiana. We had drawn all the proceeds from the issuance of the 6<sup>1/2</sup>% senior notes due 2029 as of December 31, 2010. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt in the 2011 Form 10-K for more information on the 6<sup>1/2</sup>% senior notes due 2029, the 6<sup>3/4</sup>% senior notes due 2032, the 2035 GO Zone 6<sup>1/2</sup>% Notes and the 2035 IKE Zone 6<sup>1/2</sup>% Notes. All domestic restricted subsidiaries that guarantee other debt of ours or of another guarantor of the Senior Notes in excess of \$5.0 million are guarantors of these notes.

*6<sup>5/8</sup>% Senior Notes*

In January 2006, we issued \$250.0 million aggregate principal amount of 6<sup>5/8</sup>% senior notes due 2016. The 6<sup>5/8</sup>% senior notes are unsecured and were issued with an original issue discount of \$0.8 million. There is no sinking fund and no scheduled amortization of the notes prior to maturity. The notes are subject to redemption and the holders may require us to repurchase the notes upon a change of control. All domestic restricted subsidiaries that guarantee other debt of ours or of another guarantor of the Senior Notes in excess of \$5.0 million are guarantors of the 6<sup>5/8</sup>% senior notes.

The indentures governing the Senior Notes contain customary covenants and events of default. Accordingly, these agreements generally impose significant operating and financial restrictions on us. These restrictions, among other things, provide limitations on incurrence of additional indebtedness, the payment of dividends, certain investments and acquisitions and sales of assets. However, the effectiveness of certain of these restrictions is currently suspended because the Senior Notes are currently rated investment grade by at least two nationally recognized credit rating agencies. The most significant of these provisions, if it were currently effective, would restrict us from incurring additional debt, except specified permitted debt (including borrowings under our credit facility), when our fixed charge coverage ratio is below 2.0:1. These limitations are subject to a number of important qualifications and exceptions, including, without limitation, an exception for the payment of our regular quarterly dividend of up to \$0.20 per share (currently \$0.0738 per share). If the restrictions were currently effective, distributions in excess of \$100.0 million would not be allowed unless, after giving pro forma effect to the distribution, our fixed charge coverage ratio is at least 2.0:1 and such payment, together with the aggregate amount of all other distributions after January 13, 2006, is less than the sum of 50% of our consolidated net income for the period from October 1, 2003 to the end of the most recent quarter for which financial statements have been filed, plus 100% of net cash proceeds received after October 1, 2003 as a contribution to our common equity capital or from the issuance or sale of certain securities, plus several other adjustments.





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### *Revenue Bonds*

In December 1997, we entered into a loan agreement with a public trust established for public purposes for the benefit of the Parish of Calcasieu, Louisiana. The public trust issued \$10.9 million principal amount of tax-exempt waste disposal revenue bonds in order to finance our construction of waste disposal facilities for an ethylene plant. The waste disposal revenue bonds expire in December 2027 and are subject to redemption and mandatory tender for purchase prior to maturity under certain conditions. Interest on the waste disposal revenue bonds accrues at a rate determined by a remarketing agent and is payable quarterly.

Our ability to make payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under our revolving credit facility will be adequate to meet our normal operating needs for the foreseeable future.

### *Off-Balance Sheet Arrangements*

None.

## **FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Certain of the statements contained in this report are forward-looking statements. All statements, other than statements of historical facts, included in this report that address activities, events or developments that we expect, project, believe or anticipate will or may occur in the future are forward-looking statements. Forward-looking statements can be identified by the use of words such as believes, intends, may, should, could, anticipates, or comparable terminology, or by discussions of strategies or trends. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot give any assurances that these expectations will prove to be correct. Forward-looking statements relate to matters such as:

future operating rates, margins, cash flow and demand for our products;

industry market outlook;

production capacities;

our ability to borrow additional funds under our credit facility;

our ability to meet our liquidity needs;

our intended quarterly dividends;

future capacity additions and expansions in the industry;

our proposal to acquire Georgia Gulf;

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timing, funding and results of the expansion programs at our Lake Charles and Calvert City complexes;

timing, funding and results of the planned new chlor-alkali plant in Geismar;

timing and cost of repairs at the Geismar vinyls complex;

health of our customer base;

pension plan funding requirements and investment policies;

compliance with present and future environmental regulations and costs associated with environmentally related penalties, capital expenditures, remedial actions and proceedings, including any new laws, regulations or treaties that may come into force to limit or control carbon dioxide and other greenhouse gases emissions or to address other issues of climate change;

the utilization of net operating loss carryforwards;

effects of pending legal proceedings; and

timing of and amount of capital expenditures.

We have based these statements on assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe were appropriate in the circumstances when the statements were made.

Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such statements. These statements are

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subject to a number of assumptions, risks and uncertainties, including those described in Risk Factors in the 2011 Form 10-K and the following:

general economic and business conditions;

the cyclical nature of the chemical industry;

the availability, cost and volatility of raw materials and energy;

uncertainties associated with the United States and worldwide economies, including those due to the global economic slowdown and political tensions in the Middle East and elsewhere;

current and potential governmental regulatory actions in the United States and regulatory actions and political unrest in other countries;

industry production capacity and operating rates;

the supply/demand balance for our products;

competitive products and pricing pressures;

instability in the credit and financial markets;

access to capital markets;

terrorist acts;

operating interruptions (including leaks, explosions, fires, weather-related incidents, mechanical failure, unscheduled downtime, labor difficulties, transportation interruptions, spills and releases and other environmental risks);

changes in laws or regulations;

technological developments;

our ability to implement our business strategies; and

creditworthiness of our customers.

Many of these factors are beyond our ability to control or predict. Any of the factors, or a combination of these factors, could materially affect our future results of operations and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not guarantees of our future performance, and our actual results and future developments may differ materially from those projected in the forward-looking statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels. Every forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### ***Commodity Price Risk***

A substantial portion of our products and raw materials are commodities whose prices fluctuate as market supply and demand fundamentals change. Accordingly, product margins and the level of our profitability tend to fluctuate with changes in the business cycle. We try to protect against such instability through various business strategies. Our strategies include ethylene product feedstock flexibility and moving downstream into the olefins and vinyls products where pricing is more stable. We use derivative instruments in certain instances to reduce price volatility risk on feedstocks and products. Based on our open derivative positions at March 31, 2012, a hypothetical \$0.10 increase in the price of a gallon of ethane would have increased our income before taxes by \$1.3 million and a hypothetical \$0.10 increase in the price of a MMBtu of natural gas would have decreased our income before taxes by \$0.1 million. Additional information concerning derivative commodity instruments appears in Notes 8 and 9 to the consolidated financial statements.

#### ***Interest Rate Risk***

We are exposed to interest rate risk with respect to fixed and variable rate debt. At March 31, 2012, we had variable rate debt of \$10.9 million outstanding. All of the debt outstanding under our revolving credit facility (none was outstanding at March 31, 2012) and our loan relating to the tax-exempt waste disposal revenue bonds are at variable rates. We do not currently hedge our variable interest rate debt, but we may do so in the future. The average variable interest rate for our variable rate debt of \$10.9 million as of March 31, 2012 was 0.35%. A hypothetical 100 basis point increase in the average interest rate on our variable rate debt would increase our annual interest expense by approximately \$0.1 million. Also, at March 31, 2012, we had \$754.0 million aggregate principal amount of fixed rate debt. We are subject to the risk of higher interest cost if and when this debt is refinanced. If interest rates are 1% higher at the time of refinancing, our annual interest expense would increase by approximately \$7.5 million.

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**Item 4. Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Senior Vice President, Chief Financial Officer and Treasurer, of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 or 15d-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based upon that evaluation, our President and Chief Executive Officer and our Senior Vice President, Chief Financial Officer and Treasurer concluded that our disclosure controls and procedures are effective with respect to (i) the accumulation and communication to our management, including our Chief Executive Officer and our Chief Financial Officer, of information required to be disclosed by us in the reports that we submit under the Exchange Act, and (ii) the recording, processing, summarizing and reporting of such information within the time periods specified in the SEC's rules and forms.

There were no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

The 2011 Form 10-K, filed on February 23, 2012, contained a description of various legal proceedings in which we are involved, including environmental proceedings at our facilities in Calvert City. See Note 13 to the unaudited consolidated financial statements within this Quarterly Report on Form 10-Q for a description of certain of those proceedings, which information is incorporated by reference herein.

**Item 1A. Risk Factors**

For a discussion of risk factors, please read Item 1A, Risk Factors in the 2011 Form 10-K. There have been no material changes from those risk factors.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information on our purchase of equity securities during the quarter ended March 31, 2012:

| Period        | Total Number<br>of Shares<br>Purchased<br>(1) | Average Price<br>Paid Per<br>Share | Total Number<br>of Shares<br>Purchased as Part<br>of Publicly<br>Announced<br>Plans<br>or Programs<br>(2) | Maximum Number<br>(or Approximate<br>Dollar Value) of<br>Shares that<br>May Yet Be<br>Purchased Under the<br>Plans or Programs (2) |
|---------------|---|------------------------------------|---|--|
| January 2012  |   | \$                                 |   | \$ 97,482,000  |
| February 2012 | 102,776                                       | \$ 57.18                           |   | \$ 97,482,000  |
| March 2012    |   | \$                                 |   | \$ 97,482,000  |
|               | 102,776                                       | \$ 57.18                           |   |  |

(1) The shares purchased during the period covered by this report represent shares withheld by us in satisfaction of withholding taxes due upon the vesting of restricted stock granted to our employees under the 2004 Plan.

(2) On August 22, 2011, we announced the authorization by our Board of Directors of a \$100.0 million stock repurchase program. As of March 31, 2012, 69,816 shares of common stock had been acquired at an aggregate purchase price of \$2.5 million. Decisions regarding the amount and the timing of purchases under the program will be influenced by our cash on hand, our cash flow from operations, general market conditions and other factors. The program may be discontinued by our Board of Directors at any time.

**Item 6. Exhibits**

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### Exhibit No.

|         |  |             |   |
|---------|--|-------------|---|
| 31.1    | Rule 13a   | 14(a) / 15d | 14(a) Certification (Principal Executive Officer) |
| 31.2    | Rule 13a   | 14(a) / 15d | 14(a) Certification (Principal Financial Officer) |
| 32.1    | Section 1350 Certification (Principal Executive Officer and Principal Financial Officer) |             |   |
| 101.INS | XBRL Instance Document <sup>(1)</sup>  |             |   |
| 101.SCH | XBRL Taxonomy Extension Schema Document <sup>(1)</sup>                                   |             |   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document <sup>(1)</sup>                     |             |   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document <sup>(1)</sup>                           |             |   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document <sup>(1)</sup>                    |             |   |

- (1) Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**WESTLAKE CHEMICAL CORPORATION**

Date: May 2, 2012

By: */s/ ALBERT CHAO*  
**Albert Chao**  
**President and Chief Executive Officer**  
  
**(Principal Executive Officer)**

Date: May 2, 2012

By: */s/ M. STEVEN BENDER*  
**M. Steven Bender**  
**Senior Vice President, Chief Financial Officer and Treasurer**  
  
**(Principal Financial Officer)**