

Kraton Performance Polymers, Inc.
Form 10-Q
August 01, 2013
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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 June 30, 2013

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

Commission File Number 001-34581

KRATON PERFORMANCE POLYMERS, INC.

(Exact Name of Registrant as Specified in its Charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

15710 John F. Kennedy Blvd.

Suite 300

Houston, TX 77032
(Address of principal executive offices, including zip code)

20-0411521
(I.R.S. Employer

Identification No.)

281-504-4700
(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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-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 Securities Exchange Act. (Check one):

Large accelerated filer:

Accelerated filer:

Non-accelerated filer:

Smaller reporting company:

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

Number of shares of Kraton Performance Polymers, Inc. Common Stock, \$0.01 par value, outstanding as of July 26, 2013: 32,528,011.

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on Form 10-Q for

Quarter Ended June 30, 2013

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Some of the statements in this Quarterly Report on Form 10-Q under the headings "Condensed Consolidated Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written or oral forward-looking statements in our periodic reports on Forms 10-K, 10-Q and 8-K, in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements are often characterized by the use of words such as "believes," "estimates," "expects," "projects," "may," "intends," "plans" or "anticipates," or by discussions of strategy, plans or intentions; anticipated benefits of or performance of our products; beliefs regarding opportunities for new, high-margin applications and other innovations; adequacy of cash flows to fund our working capital requirements; our investment in the joint venture with FPCC; debt payments, interest payments, capital expenditures, benefit plan contributions, and income tax obligations; our anticipated 2013 capital expenditures, compliance with the MACT rule, health, safety and environmental and infrastructure and maintenance projects, projects to optimize the production capabilities of our manufacturing assets and to support our innovation platform; our ability to meet conditions required to ensure full access to our senior secured credit facilities; expectations regarding our counterparties' ability to perform, including with respect to trade receivables; estimates regarding the tax expense of repatriating certain cash and short-term investments related to foreign operations; expectations regarding high-margin applications; our ability to realize certain deferred tax assets and our beliefs with respect to tax positions; expectations regarding our full year effective tax rate; our plans and expectations regarding our Asia expansion project; estimates related to the useful lives of certain assets for tax purposes; expectations regarding our pension contributions for fiscal year 2013; estimates or expectations related to monomer costs, ending inventory levels and related estimated charges; the outcome and financial impact of legal proceedings; expectations regarding the spread between FIFO and ECRC in future periods; and projections regarding environmental costs and capital expenditures and related operational savings. Such forward-looking statements involve known and unknown risks, uncertainties, and other important factors that could cause the actual results, performance or our achievements, or industry results, to differ materially from historical results, any future results, or performance or achievements expressed or implied by such forward-looking statements. There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Further description of these risks and uncertainties and other important factors are set forth in this report, in our latest Annual Report on Form 10-K, including but not limited to Part I, Item 1A. Risk Factors and Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations therein, and in our other filings with the Securities and Exchange Commission, and include, but are not limited to, risks related to:

conditions in the global economy and capital markets;

our reliance on LyondellBasell Industries for the provision of significant operating and other services;

the failure of our raw materials suppliers to perform their obligations under long-term supply agreements, or our inability to replace or renew these agreements when they expire;

limitations in the availability of raw materials we need to produce our products in the amounts or at the prices necessary for us to effectively and profitably operate our business;

significant fluctuations in raw material costs may result in volatility in our quarterly operating results and impact the market price of our common stock;

competition in our end use markets by other producers of styrenic block copolymers and by producers of products that can be substituted for our products;

our ability to produce and commercialize technological innovations;

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our ability to protect our intellectual property, on which our business is substantially dependent;

the possibility that our products infringe upon the intellectual property rights of others;

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seasonality in our business, particularly in our Paving and Roofing end use market;

our substantial indebtedness, which could adversely affect our financial condition and prevent us from fulfilling our obligations under the loan agreement and the senior notes;

financial and operating constraints related to our indebtedness;

the inherently hazardous nature of chemical manufacturing;

product liability claims and other lawsuits arising from environmental damage, personal injuries, other damages associated with chemical manufacturing or our products;

political, economic and local business risks in the various countries in which we operate;

health, safety and environmental laws, including laws that govern our employees' exposure to chemicals deemed harmful to humans;

regulation of our company or our customers, which could affect the demand for our products or result in increased compliance and other costs;

customs, international trade, export control, antitrust, zoning and occupancy and labor and employment laws that could require us to modify our current business practices and incur increased costs;

fluctuations in currency exchange rates;

we may have additional tax liabilities;

our formation of a joint venture to expand HSBC capacity in Asia is subject to risks and uncertainties;

our relationship with our employees;

loss of key personnel or our inability to attract and retain new qualified personnel;

the fact that we generally do not enter into long-term contracts with our customers;

a decrease in the fair value of our pension assets could require us to materially increase future funding requirements of the pension plan;

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domestic or international natural disasters or terrorist attacks may disrupt our operations;

Delaware law and some provisions of our organizational documents that make a takeover of our company more difficult;

our expectation that we will not pay dividends for the foreseeable future; and

we are a holding company with nominal net worth and will depend on dividends and distributions from our subsidiaries to pay any dividends.

There may be other factors of which we are currently unaware or that we deem immaterial that may cause our actual results to differ materially from the expectations we express in our forward-looking statements. Although we believe the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and, therefore, also the forward-looking statements based on these assumptions could themselves prove to be inaccurate.

Forward-looking statements are based on current plans, estimates, assumptions and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them publicly in light of new information or future events.

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Presentation of Financial Statements

The terms Kraton, our company, we, our, ours and us as used in this report refer collectively to Kraton Performance Polymers, Inc. and its consolidated subsidiaries. This Form 10-Q includes financial statements and related notes that present the condensed consolidated financial position, results of operations, comprehensive income, and cash flows of Kraton and its subsidiaries. Kraton is a holding company whose only material asset is its investment in its wholly owned subsidiary, Kraton Polymers LLC. Kraton Polymers LLC and its subsidiaries own all of our consolidated operating assets.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements.****KRATON PERFORMANCE POLYMERS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands, except par value)**

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 88,669	\$ 223,166
Receivables, net of allowances of \$502 and \$401	163,681	124,635
Inventories of products	336,622	340,323
Inventories of materials and supplies	10,730	10,331
Deferred income taxes	8,117	7,869
Other current assets	27,439	28,363
Total current assets	635,258	734,687
Property, plant and equipment, less accumulated depreciation of \$330,881 and \$311,779	387,883	381,205
Intangible assets, less accumulated amortization of \$73,546 and \$68,531	60,222	63,393
Investment in unconsolidated joint venture	13,231	13,582
Debt issuance costs	10,257	10,846
Deferred income taxes	344	79
Other long-term assets	25,339	25,397
Total assets	\$ 1,132,534	\$ 1,229,189
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 0	\$ 15,074
Accounts payable-trade	97,468	99,167
Other payables and accruals	39,132	50,978
Deferred income taxes	464	513
Due to related party	21,165	16,080
Total current liabilities	158,229	181,812
Long-term debt, net of current portion	351,066	432,943
Deferred income taxes	21,101	22,273
Other long-term liabilities	102,529	99,946
Total liabilities	632,925	736,974
Commitments and contingencies (note 10)		
Equity:		
Kraton stockholders' equity:		
Preferred stock, \$0.01 par value; 100,000 shares authorized; none issued	0	0

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Common stock, \$0.01 par value; 500,000 shares authorized; 32,528 shares issued and outstanding at June 30, 2013; 32,277 shares issued and outstanding at December 31, 2012	325	323
Additional paid in capital	359,795	354,957
Retained earnings	171,526	171,445
Accumulated other comprehensive loss	(47,144)	(34,510)
Total Kraton stockholders' equity	484,502	492,215
Noncontrolling interest	15,107	0
Total equity	499,609	492,215
Total liabilities and equity	\$ 1,132,534	\$ 1,229,189

See Notes to Condensed Consolidated Financial Statements

Table of Contents**KRATON PERFORMANCE POLYMERS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In thousands, except per share data)**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Sales revenue	\$ 334,543	\$ 375,756	\$ 674,650	\$ 784,069
Cost of goods sold	274,682	302,276	554,878	635,070
Gross profit	59,861	73,480	119,772	148,999
Operating expenses:				
Research and development	8,446	7,996	16,359	15,556
Selling, general and administrative	25,004	26,313	51,118	52,776
Depreciation and amortization	15,741	15,885	30,839	31,734
Total operating expenses	49,191	50,194	98,316	100,066
Earnings of unconsolidated joint venture	121	163	255	300
Interest expense, net	5,909	7,773	19,207	14,472
Income before income taxes	4,882	15,676	2,504	34,761
Income tax expense	905	3,269	2,351	6,001
Consolidated net income	3,977	12,407	153	28,760
Net income attributable to noncontrolling interest	148	0	72	0
Net income attributable to Kraton	\$ 3,829	\$ 12,407	\$ 81	\$ 28,760
Earnings per common share:				
Basic	\$ 0.12	\$ 0.38	\$ 0.00	\$ 0.89
Diluted	\$ 0.12	\$ 0.38	\$ 0.00	\$ 0.89
Weighted average common shares outstanding:				
Basic	32,073	31,930	32,068	31,919
Diluted	32,378	32,172	32,391	32,209

See Notes to Condensed Consolidated Financial Statements.

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	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income attributable to Kraton	\$ 3,829	\$ 12,407	\$ 81	\$ 28,760
Other comprehensive loss:				
Foreign currency translation adjustments, net of tax of \$0	(3,975)	(23,371)	(13,246)	(13,045)
(Increase) decrease in unrealized loss of interest rate swaps, net of tax of \$0	0	(17)	837	(134)
Increase in unrealized gain (loss) of net investment hedge, net of tax of \$0	0	1,803	(225)	1,803
Other comprehensive loss, net of tax	(3,975)	(21,585)	(12,634)	(11,376)
Comprehensive income (loss) attributable to Kraton	(146)	(9,178)	(12,553)	17,384
Comprehensive loss attributable to noncontrolling interest	(291)	0	(67)	0
Consolidated comprehensive income (loss)	\$ (437)	\$ (9,178)	\$ (12,620)	\$ 17,384

See Notes to Condensed Consolidated Financial Statements

Table of Contents**KRATON PERFORMANCE POLYMERS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****(Unaudited)****(In thousands)**

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Kraton Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2011	\$ 321	\$ 347,455	\$ 187,636	\$ (17,618)	\$ 517,794	\$ 0	\$ 517,794
Net income	0	0	28,760	0	28,760	0	28,760
Other comprehensive loss	0	0	0	(11,376)	(11,376)	0	(11,376)
Exercise of stock options	1	259	0	0	260	0	260
Non-cash compensation related to equity awards	0	3,737	0	0	3,737	0	3,737
Balance at June 30, 2012	\$ 322	\$ 351,451	\$ 216,396	\$ (28,994)	\$ 539,175	\$ 0	\$ 539,175
Balance at December 31, 2012	\$ 323	\$ 354,957	\$ 171,445	\$ (34,510)	\$ 492,215	\$ 0	\$ 492,215
Net income	0	0	81	0	81	72	153
Other comprehensive loss	0	0	0	(12,634)	(12,634)	(139)	(12,773)
Consolidation of variable interest entity	0	0	0	0	0	15,174	15,174
Exercise of stock options	2	308	0	0	310	0	310
Non-cash compensation related to equity awards	0	4,530	0	0	4,530	0	4,530
Balance at June 30, 2013	\$ 325	\$ 359,795	\$ 171,526	\$ (47,144)	\$ 484,502	\$ 15,107	\$ 499,609

See Notes to Condensed Consolidated Financial Statements

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	Six months ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 153	\$ 28,760
Adjustments to reconcile consolidated net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	30,839	31,734
Amortization of debt premium	(76)	0
Amortization of debt issuance costs	6,304	1,451
(Gain) loss on property, plant and equipment	(115)	415
Earnings from unconsolidated joint venture, net of dividends received	167	100
Deferred income tax benefit	(1,531)	(502)
Share-based compensation	4,530	3,737
<i>Decrease (increase) in:</i>		
Accounts receivable	(42,338)	(44,466)
Inventories of products, materials and supplies	(1,224)	7,154
Other assets	(1,818)	(848)
<i>Increase (decrease) in:</i>		
Accounts payable-trade	(1,836)	24,763
Other payables and accruals	(8,880)	(1,004)
Other long-term liabilities	3,188	622
Due to related party	8,188	16,822
Net cash provided by (used in) operating activities	(4,449)	68,738
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(34,742)	(22,548)
Purchase of software	(1,945)	(2,109)
Settlement of net investment hedge	(2,225)	2,854
Net cash used in investing activities	(38,912)	(21,803)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt	40,000	101,250
Repayments of debt	(136,875)	(3,750)
Capital lease payments	(950)	0
Contribution from noncontrolling interest	15,174	0
Proceeds from the exercise of stock options	310	260
Debt issuance costs	(4,794)	(2,728)
Net cash provided by (used in) financing activities	(87,135)	95,032
Effect of exchange rate differences on cash	(4,001)	(2,584)
Net increase (decrease) in cash and cash equivalents	(134,497)	139,383
Cash and cash equivalents, beginning of period	223,166	88,579

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Cash and cash equivalents, end of period	\$ 88,669	\$ 227,962
Supplemental disclosures:		
Cash paid during the period for income taxes, net of refunds received	\$ 5,463	\$ 10,913
Cash paid during the period for interest, net of capitalized interest	\$ 13,170	\$ 11,050
Capitalized interest	\$ 1,940	\$ 1,131
Supplemental non-cash disclosures:		
Capital accruals	\$ 5,298	\$ 2,842
Capital lease liability included in accounts payable	\$ 1,950	\$ 0

See Notes to Condensed Consolidated Financial Statements

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KRATON PERFORMANCE POLYMERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

Description of our Business. We are a leading global producer of styrenic block copolymers (SBCs) and other engineered polymers. We market our products under the Kraton[®], Cariflex[™] and NEXAR[™] brands. SBCs are highly-engineered synthetic elastomers, which we invented and commercialized almost 50 years ago, that enhance the performance of numerous end use products by imparting greater flexibility, resilience, strength, durability and processability. Our polymers are typically formulated or compounded with other products to achieve improved, customer-specific performance characteristics in a variety of applications. We seek to maximize the value of our product portfolio by emphasizing complex or specialized polymers and innovations that yield higher margins. We sometimes refer to these complex or specialized polymers or innovations as being more differentiated. Our products are found in many everyday applications, including personal care products such as disposable diapers and the rubberized grips of toothbrushes, razor blades and power tools. Our products are also used to impart tack and shear properties in a wide variety of adhesive products and to impart characteristics such as flexibility and durability in sealants and corrosion resistance in coatings. Our paving and roofing applications provide durability, extending road and roof life. We also produce Cariflex isoprene rubber and isoprene rubber latex. Our Cariflex products are highly-engineered, non-SBC synthetic substitutes for natural rubber and natural rubber latex. Our Cariflex products, which have not been found to contain the proteins present in natural rubber latex and are, therefore, not known to cause allergies, are used in applications such as surgical gloves and condoms. We believe the versatility of Cariflex provides opportunities for new, high-margin applications.

In addition to Cariflex, we have a portfolio of innovations at various stages of development and commercialization, including

polyvinyl chloride alternatives for wire, cable and medical applications;

polymers for slush molded automotive and faux leather applications;

our NEXAR family of membrane polymers for water filtration and breathable fabrics; and

synthetic cement formulations and other oilfield applications.

We manufacture our polymers at five manufacturing facilities globally, including our flagship facility in Belpre, Ohio, as well as facilities in Germany, France, Brazil and Japan. The facility in Japan is operated by an unconsolidated manufacturing joint venture. The terms Kraton, our company, we, our, ours and us as used in this report refer collectively to Kraton Performance Polymers, Inc. and its consolidated subsidiaries.

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements presented herein are for us and our consolidated subsidiaries, each of which is a wholly-owned subsidiary, except our 50% investment in our joint venture, Kraton Formosa Polymers Corporation (KFPC), located in Mailiao, Taiwan. KFPC is a variable interest entity for which we have determined that we are the primary beneficiary and, therefore, have consolidated into our financial statements. Our 50% investment in our joint venture located in Kashima, Japan is accounted for under the equity method of accounting. All significant intercompany transactions have been eliminated. These interim financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012 and reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present our results of operations and financial position. Amounts reported in our Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods or any other interim period, in particular due to the effect of seasonal changes and weather conditions that typically affect our sales into our Paving and Roofing end use market.

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Our significant accounting policies have been disclosed in Note 1 *Description of Business, Basis of Presentation and Significant Accounting Policies* in our most recent Annual Report on Form 10-K. There have been no changes to the policies disclosed therein. The accompanying unaudited condensed consolidated financial statements we present in this report have been prepared in accordance with those policies.

Use of Estimates. The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include

the useful lives of fixed assets;

allowances for doubtful accounts and sales returns;

the valuation of derivatives, deferred tax assets, property, plant and equipment, inventory, investments and share-based compensation; and

liabilities for employee benefit obligations, asset retirement obligations (ARO), income tax uncertainties and other contingencies.

Income Tax in Interim Periods. We conduct operations in separate legal entities in different jurisdictions. As a result, income tax amounts are reflected in these condensed consolidated financial statements for each of those jurisdictions. Tax laws and tax rates vary substantially in these jurisdictions and are subject to change based on the political and economic climate in those countries. We file our tax returns in accordance with our interpretations of each jurisdiction's tax laws. We record our tax provision or benefit on an interim basis using the estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated to the interim period.

Losses from jurisdictions for which no benefit can be realized and the income tax effects of unusual and infrequent items are excluded from the estimated annual effective tax rate. Valuation allowances are provided against the future tax benefits that arise from the losses in jurisdictions for which no benefit can be realized. The effects of unusual and infrequent items are recognized in the impacted interim period as discrete items.

The estimated annual effective tax rate may be significantly affected by nondeductible expenses and by our projected earnings mix by tax jurisdiction. Adjustments to the estimated annual effective income tax rate are recognized in the period during which such estimates are revised.

We have established valuation allowances against a variety of deferred tax assets, including net operating loss carryforwards, foreign tax credits and other income tax credits. Valuation allowances take into consideration our ability to realize these deferred tax assets and reduce the value of such assets to the amount that is deemed more likely than not to be recoverable. Our ability to realize these deferred tax assets is dependent on achieving our forecast of future taxable operating income over an extended period of time. We review our forecast in relation to actual results and expected trends on a quarterly basis. If we fail to achieve our operating income targets, we may change our assessment regarding the recoverability of our net deferred tax assets and such change could result in a valuation allowance being recorded against some or all of our net deferred tax assets. A change in our valuation allowance would impact our income tax expense/benefit and our stockholders' equity and could have a significant impact on our results of operations or financial condition in future periods.

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We have implemented all new accounting pronouncements that are in effect and that management believes would materially impact our financial statements. Management does not believe that there are any other new accounting pronouncements that have been issued that may have a material impact on our financial position or results of operations.

3. Share-Based Compensation

We account for share-based awards under the provisions of ASC 718, *Compensation Stock Compensation*. Accordingly, share-based compensation cost is measured at the grant date based on the fair value of the award and we expense these costs using the straight-line method over the requisite service period. Share-based compensation expense was \$2.0 million and \$1.9 million for the three months ended June 30, 2013 and 2012, respectively, and \$4.5 million and \$3.7 million for the six months ended June 30, 2013 and 2012, respectively. We have historically recorded these costs in selling, general and administrative expenses; however, beginning in the second quarter of 2013, a portion of these costs were recorded in cost of goods sold and research and development expenses.

4. Detail of Certain Balance Sheet Accounts

	June 30, 2013	December 31, 2012
	(In thousands)	
<i>Inventories of products:</i>		
Finished products	\$ 245,465	\$ 260,510
Work in progress	6,818	6,759
Raw materials	84,339	73,054
Total inventories of products	\$ 336,622	\$ 340,323
<i>Other payables and accruals:</i>		
Employee related	\$ 11,836	\$ 13,423
Income taxes payable	119	3,638
Other	27,177	33,917
Total other payables and accruals	\$ 39,132	\$ 50,978
<i>Other long-term liabilities:</i>		
Pension and other postretirement benefits	\$ 85,474	\$ 84,005
Other	17,055	15,941
Total other long-term liabilities	\$ 102,529	\$ 99,946
<i>Accumulated other comprehensive loss:</i>		
Foreign currency translation adjustments	\$ 13,710	\$ 26,956
Net unrealized loss on interest rate swaps	0	(837)
Net unrealized loss on net investment hedge	(1,661)	(1,436)
Pension liability	(59,193)	(59,193)
Total accumulated other comprehensive loss	\$ (47,144)	\$ (34,510)

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Basic EPS is computed by dividing net income attributable to Kraton by the weighted-average number of shares outstanding during the period.

Diluted EPS is computed by dividing net income attributable to Kraton by the diluted weighted-average number of shares outstanding during the period and, accordingly, reflects the potential dilution that could occur if securities or other agreements to issue common stock, such as stock options, were exercised, settled or converted into common stock and were dilutive. The diluted weighted-average number of shares used in our diluted EPS calculation is determined using the treasury stock method.

Unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock awards, are considered to be participating securities, and therefore, the two-class method is used for purposes of calculating EPS. Under the two-class method, a portion of net income is allocated to these participating securities and is excluded from the calculation of EPS allocated to common stock. Our restricted stock awards are subject to forfeiture and restrictions on transfer until vested and have identical voting, income and distribution rights to the unrestricted common shares outstanding.

The computation of diluted EPS excludes the effect of the potential exercise of stock options that are anti-dilutive. The number of stock options excluded from the computation was 872,406 and 760,087 for the three months ended June 30, 2013 and 2012, and 851,752 and 723,431 for the six months ended June 30, 2013 and 2012, respectively.

The effects of share-based compensation awards on the diluted weighted-average number of shares outstanding used in calculating diluted EPS are as follows:

	Three months ended June 30, 2013			Three months ended June 30, 2012		
	Net Income Attributable to Kraton (In thousands, except per share data)	Weighted Average Shares Outstanding	Earnings Per Share	Net Income Attributable to Kraton (In thousands, except per share data)	Weighted Average Shares Outstanding	Earnings Per Share
<i>Basic:</i>						
As reported	\$ 3,829	32,528		\$ 12,407	32,241	
Amounts allocated to unvested restricted shares	(54)	(455)		(120)	(311)	
Amounts available to common stockholders	3,775	32,073	\$ 0.12	12,287	31,930	\$ 0.38
<i>Diluted:</i>						
Amounts allocated to unvested restricted shares	54	455		120	311	
Non participating share units	0	125		0	29	
Stock options added under the treasury stock method	0	180		0	213	
Amounts reallocated to unvested restricted shares	(53)	(455)		(119)	(311)	
Amounts available to stockholders and assumed conversions	\$ 3,776	32,378	\$ 0.12	\$ 12,288	32,172	\$ 0.38

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	Six months ended June 30, 2013			Six months ended June 30, 2012		
	Net Income Attributable to Kraton (In thousands, except per share data)	Weighted Average Shares Outstanding	Earnings Per Share	Net Income Attributable to Kraton (In thousands, except per share data)	Weighted Average Shares Outstanding	Earnings Per Share
<i>Basic:</i>						
As reported	\$ 81	32,443		\$ 28,760	32,191	
Amounts allocated to unvested restricted shares	(1)	(375)		(243)	(272)	
Amounts available to common stockholders	80	32,068	\$ 0.00	28,517	31,919	\$ 0.89
<i>Diluted:</i>						
Amounts allocated to unvested restricted shares	1	375		243	272	
Non participating share units	0	92		0	29	
Stock options added under the treasury stock method	0	231		0	261	
Amounts reallocated to unvested restricted shares	(1)	(375)		(241)	(272)	
Amounts available to stockholders and assumed conversions	\$ 80	32,391	\$ 0.00	\$ 28,519	32,209	\$ 0.89

6. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2013	December 31, 2012
	(In thousands)	
Term loans	\$ 0	\$ 96,875
6.75% unsecured notes	351,066	351,142
Total long-term debt	351,066	448,017
Less current portion of long-term debt	0	15,074
Long-term debt, less current portion	\$ 351,066	\$ 432,943

Senior Secured Credit Facilities. In March 2013, we entered into an asset-based revolving credit facility consisting of a \$150.0 million U.S. senior secured revolving credit facility and a \$100.0 million Dutch senior secured revolving credit facility (the Senior Secured Credit Facilities). The Senior Secured Credit Facilities replaced our then existing senior secured credit facility, and we repaid in full all outstanding amounts payable under the previously existing indebtedness. Borrowing under the Senior Secured Credit Facilities is subject to borrowing base limitations based on the level of receivables and inventory available for security.

We may request up to an aggregate of \$100.0 million of additional revolving facility commitments of which up to an aggregate of \$40.0 million may be additional Dutch revolving facility commitments, provided that we satisfy additional conditions described in the Senior Secured Credit Facilities, and provided further that the U.S. revolver commitment is at least 60% of the commitments after giving effect to such increase.

Kraton Polymers U.S. LLC and Kraton Polymers Nederland B.V. are the borrowers under the Senior Secured Credit Facilities, and Kraton Performance Polymers, Inc., Kraton Polymers LLC, Elastomers Holdings LLC and Kraton Polymers Capital Corporation are guarantors. The Senior Secured Credit Facilities are secured

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by receivables and inventory. The Senior Secured Credit Facilities terminate on March 27, 2018; however, we may from time to time request that the lenders extend the maturity of their commitments. Availability under the Senior Secured Credit Facilities is limited to the lesser of the borrowing base and total commitments (less certain reserves).

U.S. borrowings under the Senior Secured Credit Facilities (other than swingline loans) bear interest at a rate equal to, at the applicable borrower's option, either (a) a base rate determined by reference to the greater of (1) the prime rate of Bank of America, N.A., (2) the federal funds rate plus 0.50% and (3) LIBOR plus 1.0%, or (b) a rate based on LIBOR, in each case plus an applicable margin. U.S. swingline loans shall bear interest at a base rate determined by reference to the greater of (1) the prime rate of Bank of America, N.A., (2) the federal funds rate plus 0.50% or (3) LIBOR plus 1.0%, in each case plus an applicable margin.

Dutch borrowings under the Senior Secured Credit Facilities bear interest at a rate equal to, at the applicable borrower's option, either (a) a fluctuating rate, with respect to Euros, Pounds Sterling and Dollars outside of the U.S. and Canada, equal to the rate announced by the European Central Bank and used as a base rate by the local branch of Bank of America in the jurisdiction in which such currency is funded, or (b) a rate based on LIBOR, in each case plus an applicable margin. The applicable margin is subject to a minimum of 0.5% and a maximum of 1.0% with respect to U.S. base rate loans, and a minimum of 1.5% and maximum of 2.0% for foreign base rate borrowings and LIBOR loans and is subject to adjustment based on the borrower's excess availability of the applicable facility for the most recent fiscal quarter.

In addition to paying interest on outstanding principal amounts under the Senior Secured Credit Facilities, the borrowers will be required to pay a commitment fee in respect of the unutilized commitments at an annual rate of 0.375%.

The Senior Secured Credit Facilities contain a financial covenant that if either (a) excess availability is less than the greater of (i) 12.5% of the lesser of the commitments and the borrowing base and (ii) \$31,250,000 or (b) U.S. availability is less than the greater of (i) 12.5% of the lesser of the U.S. commitments and U.S. borrowing base and (ii) \$18,750,000, then following such event, Kraton and its restricted subsidiaries must maintain a fixed charge coverage ratio of at least 1.0 to 1.0 for four fiscal quarters (or for a shorter duration if certain financial conditions are met). The Senior Secured Credit Facilities contain certain customary events of default, including, without limitation, a failure to make payments under the facility, cross-default and cross-judgment default, certain bankruptcy events and certain change of control events.

As of June 30, 2013, our available borrowing capacity was \$206.2 million of which \$0.0 million was drawn. As of the date of this filing, our available borrowing capacity was \$201.9 million, of which \$0.0 million was drawn.

6.75% Senior Notes due 2019. Kraton Polymers LLC and its wholly-owned financing subsidiary Kraton Polymers Capital Corporation issued \$350.0 million aggregate principal amount of 6.75% senior notes that mature on March 1, 2019 pursuant to an indenture, dated February 11, 2011 (\$250.0 million senior notes) and supplemental indenture thereto dated March 20, 2012 (\$100.0 million senior notes). The indenture provides that the notes are general unsecured, senior obligations and will be unconditionally guaranteed on a senior unsecured basis. We pay interest on the notes at 6.75% per annum, semi-annually in arrears on March 1 and September 1 of each year.

Debt Maturities. The remaining principal payments on our outstanding total debt as of June 30, 2013, are as follows:

	Principal Payments (In thousands)
December 31:	
2019	350,000
Total debt	\$ 350,000

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See Note 8 *Fair Value Measurements, Financial Instruments and Credit Risk* for fair value information related to our long-term debt.

7. Debt Issuance Costs

We capitalize the debt issuance costs related to issuing long-term debt and amortize these costs using the effective interest method, except for costs related to revolving debt, which are amortized using the straight-line method. We had net debt issuance costs of \$12.4 million and \$13.9 million (of which \$2.2 million and \$3.1 million were included in other current assets) as of June 30, 2013 and December 31, 2012, respectively. In connection with the March 2013 refinancing of our indebtedness, we charged to interest expense \$5.0 million of unamortized debt issuance costs related to our previously existing indebtedness and we capitalized \$4.8 million of debt issuance costs related to our new indebtedness. We amortized \$0.5 million and \$0.8 million of debt issuance costs for the three months ended June 30, 2013 and 2012, respectively, and \$1.3 million (which excludes the \$5.0 million of accelerated amortization) and \$1.5 million of debt issuance costs for the six months ended June 30, 2013 and 2012, respectively.

8. Fair Value Measurements, Financial Instruments and Credit Risk

ASC 820, *Fair Value Measurements and Disclosures* defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. ASC 820 requires entities to, among other things, maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions.

In accordance with ASC 820, these two types of inputs have created the following fair value hierarchy:

Level 1 Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability, including:

Quoted prices for similar assets or liabilities in active markets

Quoted prices for identical or similar assets or liabilities in markets that are not active

Inputs other than quoted prices that are observable for the asset or liability

Inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 Inputs that are unobservable and reflect our assumptions used in pricing the asset or liability based on the best information available under the circumstances (e.g., internally derived assumptions surrounding the timing and amount of expected cash flows). *Recurring Fair Value Measurements.* The following tables set forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2013 and December 31, 2012. These financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, which judgment may affect the valuation of their fair value and their

placement within the fair value hierarchy levels.

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	Balance Sheet Location	June 30, 2013	Fair Value Measurements at Reporting Date Using Quoted Prices		
			in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
Retirement plan asset noncurrent	Other long-term assets	1,519	1,519	0	0
Derivative liability current	Other payables and accruals	(135)	0	(135)	0
Total		\$ 1,384	\$ 1,519	\$ (135)	\$ 0

	Balance Sheet Location	December 31, 2012	Fair Value Measurements at Reporting Date Using Quoted Prices		
			in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
Derivative asset current	Other current assets	\$ 34	\$ 0	\$ 34	\$ 0
Retirement plan asset noncurrent	Other long-term assets	860	860	0	0
Derivative liability current	Other payables and accruals	(578)	0	(578)	0
Derivative liability noncurrent	Other long-term liabilities	(258)	0	(258)	0
Total		\$ 58	\$ 860	\$ (802)	\$ 0

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. We seek to minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings and monitoring the total value of positions with individual counterparties. In the event of a default by one of our counterparties, we may not receive payments provided for under the terms of our derivatives.

The following table presents the carrying values and approximate fair values of our long-term debt as of June 30, 2013 and December 31, 2012:

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Term loans	\$ 0	\$ 0	\$ 96,875	\$ 96,875
6.75% unsecured notes	\$ 351,066	\$ 353,500	\$ 351,142	\$ 364,000

The term loans are variable interest rate instruments, and as such, the fair value approximates their carrying value.

Financial Instruments

Interest Rate Swap Agreements. Periodically, we enter into interest rate swap agreements to hedge or otherwise protect against interest rate fluctuations on a portion of our variable rate debt. These interest rate swap agreements are designated as cash flow hedges on our exposure to the variability of future cash flows.

In June 2011, we entered into a \$75.0 million notional amount interest rate swap agreement with respect to a portion of our outstanding term loans. This agreement was effective on July 15, 2011 and was set to expire on June 15, 2014. However, on March 27, 2013, in connection with the refinancing of our credit facility, we terminated and settled the interest rate swap agreement, and as a result, recognized \$0.7 million of

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interest expense for the three months ended March 31, 2013. We recorded an unrealized loss of \$0.1 million in accumulated other comprehensive loss related to the effective portion of this interest rate swap agreement for the three months ended March 31, 2012.

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Fair Value Hedges. In April 2012, we entered into a series of non-deliverable forward contracts to reduce our exposure to fluctuations in the Canadian dollar (CAD) against the U.S. dollar in connection with the funding of certain capital expenditures. These non-deliverable forward contracts qualified for hedge accounting and were designated as fair value hedges in accordance with ASC 815-25 *Fair Value Hedges*. The non-deliverable forward contracts outstanding as of June 30, 2013 had notional amounts of CAD \$2.5 million and CAD \$1.6 million with settlement dates of September 9, 2013 and October 8, 2013, respectively. These hedges were effective in offsetting our exposure to the CAD and therefore the \$0.1 million loss on the hedge was offset by the \$0.1 million gain on the exposure associated with the funding of our semi-works facility for the three and six months ended June 30, 2013, and the \$0.2 million loss on the hedge was offset by the \$0.2 million gain on the exposure to the CAD for the three and six months ended June 30, 2012.

Net Investment Hedges. During 2012, we entered into a series of non-deliverable forward and foreign currency option contracts to protect our net investment in our European subsidiaries against adverse changes in exchange rates by fixing the U.S. dollar/Euro exchange rate. The notional amounts of these contracts ranged from 50.0 million to 100.0 million with all contracts expiring after thirty days. In June 2013, we entered into a 11.6 million notional amount non-deliverable forward contract to protect our net investment in our subsidiary in Taiwan against adverse changes in exchange rates by fixing the TWD/Euro exchange rate. These contracts qualify for hedge accounting and were designated as net investment hedges in accordance with ASC 815-35 *Net Investment Hedges*. We recorded in accumulated other comprehensive loss an aggregate \$0.2 million loss related to the settlement of the effective portion of these contracts during the six months ended June 30, 2013. We recorded in accumulated other comprehensive loss an aggregate \$1.8 million gain related to the settlement of the effective portion of these contracts during the three and six months ended June 30, 2012.

Foreign Currency Hedges. Periodically, we enter into foreign currency agreements to hedge or otherwise protect against fluctuations in foreign currency exchange rates. These agreements typically do not qualify for hedge accounting and gains/losses resulting from both the up-front premiums and/or settlement of the hedges at expiration of the agreements are recognized in the period in which they are incurred. During the six months ended June 30, 2013 and 2012, we entered into a series of foreign currency option and forward contracts to reduce our exposure to exchange rate volatility. The contracts were structured such that the underlying foreign currency exchange gains/losses would be offset by the mark-to-market impact of the hedging instruments and reduce the impact of foreign currency exchange movements throughout the period. These contracts did not qualify for hedge accounting. For the three months ended June 30, 2013 and 2012, we settled these hedges and recorded an aggregate loss of \$0.06 million and a gain of \$0.03 million, respectively. For the six months ended June 30, 2013 and 2012, we recorded an aggregate loss of \$1.8 million and a gain of \$1.1 million, respectively. In all periods, the gains or losses on settlement of these hedges offset the underlying foreign currency exchange gains and losses recorded in cost of goods sold.

Credit Risk

We analyze the counterparties' financial condition prior to extending credit and we establish credit limits and monitor the appropriateness of those limits on an ongoing basis. We also obtain cash, letters of credit or other acceptable forms of security from customers to provide credit support, where appropriate, based on our financial analysis of the customer and the contractual terms and conditions applicable to each transaction.

9. Income Taxes

Our income tax expense was \$0.9 million and \$3.3 million for the three months ended June 30, 2013 and 2012 and \$2.4 million and \$6.0 million for the six months ended June 30, 2013 and 2012, respectively. Our effective tax rate was 18.5%, and 20.9% for the three months ended June 30, 2013 and 2012 and 93.9%, and 17.3% for the six months ended June 30, 2013 and 2012, respectively. Our effective tax rates differed from the U.S. corporate statutory tax rate of 35.0%, primarily due to the mix of pre-tax income or loss earned in certain jurisdictions and the change in our valuation allowance.

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As of June 30, 2013 and December 31, 2012, a valuation allowance of \$94.7 million and \$90.4 million, respectively, has been provided for net operating loss carryforwards and other deferred tax assets. We record a valuation allowance when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. We decreased our valuation allowance by \$3.1 million and \$0.1 million for the three months ended June 30, 2013 and 2012, respectively, which represents the utilization of net operating losses. We increased our valuation allowance by \$4.3 million for the six months ended June 30, 2013, of which \$4.5 million represents current period net operating losses, partially offset by \$0.2 million that represents changes in other comprehensive income (loss). We decreased our valuation allowance by \$0.2 million for the six months ended June 30, 2012, which represents the utilization of net operating losses. Excluding the change in our valuation allowance, our effective tax rate would have been 81.1% and 21.6% for the three months ended June 30, 2013 and 2012, respectively, and a 88.1% benefit and 18.0% expense for the six months ended June 30, 2013 and 2012, respectively, primarily due to the mix of pre-tax income or loss earned in certain tax jurisdictions.

As of June 30, 2013 and December 31, 2012, we had total unrecognized tax benefits of \$6.2 million and \$5.1 million, respectively, related to uncertain foreign tax positions, all of which, if recognized, would impact our effective tax rate. During the three months ended June 30, 2013 and 2012, we had an increase in uncertain tax positions of \$0.6 million and \$0.3 million, respectively, and \$1.1 million during the six months ended June 30, 2013 and 2012, primarily related to uncertain tax positions in Europe. We recorded interest and penalties related to unrecognized tax benefits within our provision for income taxes. We believe that no current tax positions that have resulted in unrecognized tax benefits will significantly increase or decrease within one year.

We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. For our U.S. federal income tax returns, the statute of limitations has expired through the tax year ended December 31, 2003. As a result of net operating loss carryforwards from 2004, the statute of limitations remains open for all years subsequent to 2003. In addition, open tax years for state and foreign jurisdictions remain subject to examination.

10. Commitments and Contingencies

Legal Proceedings. We received notice from the tax authorities in Brazil assessing R\$ 5.9 million in connection with tax credits that were generated from the purchase of certain goods. The credits were subsequently applied against taxes owed. The tax authorities assert that the goods purchased were not eligible to earn a credit. We have appealed this assessment and contend that the tax credits were earned. While the outcome of this proceeding cannot be predicted with certainty, we do not expect this matter to have a material adverse effect upon our financial position, results of operations or cash flows.

We and certain of our subsidiaries, from time to time, are parties to various other legal proceedings, claims and disputes that have arisen in the ordinary course of business. These claims may involve significant amounts, some of which would not be covered by insurance. A substantial settlement payment or judgment in excess of our accruals could have a material adverse effect on our financial position, results of operations or cash flows. While the outcome of these proceedings cannot be predicted with certainty, our management does not expect any of these existing matters, individually or in the aggregate, to have a material adverse effect upon our financial position, results of operations or cash flows.

Asset Retirement Obligations.

The changes in the aggregate carrying amount of our ARO liability are as follows:

	ARO Liability (In thousands)
Balance at December 31, 2012	\$ 9,837
Accretion expense	251
Foreign currency translation	(63)
Balance at June 30, 2013	\$ 10,025

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There have been no other material changes to our Commitments and Contingencies disclosed in our most recently filed Annual Report on Form 10-K.

11. Employee Benefits

Retirement Plans. The components of net periodic benefit cost related to U.S. pension benefits are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Service cost	\$ 762	\$ 765	\$ 1,700	\$ 1,590
Interest cost	1,385	1,438	2,795	2,791
Expected return on plan assets	(1,650)	(1,493)	(3,305)	(2,991)
Amortization of prior service cost	858	735	1,865	1,365
Net periodic benefit cost	\$ 1,355	\$ 1,445	\$ 3,055	\$ 2,755

We made contributions of \$2.6 million and \$3.3 million to our pension plan in the six months ended June 30, 2013 and 2012, respectively.

The components of net periodic benefit cost related to other post-retirement benefits are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Service cost	\$ 145	\$ 128	\$ 290	\$ 256
Interest cost	293	305	585	610
Amortization of prior service cost	182	150	364	300
Net periodic benefit cost	\$ 620	\$ 583	\$ 1,239	\$ 1,166

12. Industry Segment and Foreign Operations

We operate in one segment for the manufacturing and marketing of engineered polymers. In accordance with the provisions of ASC 280, *Segment Reporting*, our chief operating decision-maker has been identified as the President and Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire company. Since we operate in one segment and in one group of similar products, all financial segment and product line information required by ASC 280 can be found in the condensed consolidated financial statements.

We manufacture our products along the following primary product lines based upon polymer chemistry and process technologies:

un-hydrogenated SBCs (USBCs);

hydrogenated SBCs (HSBCs);

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Cariflex isoprene rubber and isoprene rubber latex; and

compounds.

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Sales revenue for our four primary product lines is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
USBCs	\$ 192,543	\$ 218,908	\$ 389,316	\$ 462,100
HSBCs	104,937	118,145	213,031	250,521
Cariflex	29,244	29,805	56,273	52,450
Compounds	7,544	8,666	15,448	17,114
Other	275	232	582	1,884
	\$ 334,543	\$ 375,756	\$ 674,650	\$ 784,069

For geographic reporting, sales revenue is attributed to the geographic location in which the customers' facilities are located. Long-lived assets consist primarily of property, plant and equipment, which are attributed to the geographic location in which they are located and are presented at historical cost.

Sales revenue and long-lived assets by geographic region are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Sales revenue:				
United States	\$ 100,929	\$ 122,089	\$ 214,237	\$ 272,339
Germany	42,304	50,583	85,685	100,200
Japan	20,080	21,834	37,131	41,196
China	17,503	20,072	36,193	39,917
Brazil	12,984	11,666	26,881	25,820
Italy	10,927	10,407	23,398	24,501
France	11,361	12,792	23,195	26,827
Belgium	12,432	11,589	23,114	25,594
United Kingdom	10,285	11,225	20,759	23,088
Thailand	10,182	13,651	20,164	21,632
The Netherlands	6,577	7,502	16,214	20,792
Malaysia	7,385	4,435	13,138	10,115
Turkey	5,914	9,108	11,590	18,777
Taiwan	3,493	3,248	9,939	10,040
Mexico	4,809	3,178	9,683	6,448
Canada	4,919	5,154	9,679	10,598
Sweden	5,499	5,396	9,572	8,706
Argentina	4,246	2,988	8,911	7,773
South Korea	3,936	3,959	7,159	8,389
Australia	4,143	5,664	6,985	8,780
Austria	4,344	5,204	6,070	10,155
Poland	2,385	7,420	3,811	10,121
All other countries	27,906	26,592	51,142	52,261
	\$ 334,543	\$ 375,756	\$ 674,650	\$ 784,069

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	June 30, 2013	December 31, 2012
	(In thousands)	
Long-lived assets, at cost:		
United States	\$ 418,222	\$ 411,969
France	118,955	118,275
Brazil	77,083	79,585
Germany	58,109	55,581
Netherlands	24,063	15,255
Taiwan	9,321	0
China	6,973	5,906
Japan	1,733	1,978
All other countries	4,305	4,435
	\$ 718,764	\$ 692,984

13. Related Party Transactions

We own a 50% equity investment in a SBC manufacturing joint venture with JSR Corporation (JSR) under the name of Kraton JSR Elastomers K.K. (KJE) located in Kashima, Japan. We and JSR separately, but with equal rights, participate in distributions in the sales of the thermoplastic rubber produced by KJE.

The aggregate amounts of related-party transactions were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Purchases from related party	\$ 10,054	\$ 12,792	\$ 22,725	\$ 30,670

Our due to related party is solely related to our commercial arrangement associated with KJE, which requires payment by each party within 150 days of invoice.

14. Variable Interest Entity

In February 2013, we executed definitive agreements providing for a 50/50 joint venture with Formosa Petrochemical Corporation (FPCC) to build, own and operate a 30 kiloton HSBC plant at FPCC's petrochemical site in Mailiao, Taiwan. The joint venture company, Kraton Formosa Polymers Corporation (KFPC), is a Taiwan entity with each of Kraton and FPCC having equal representation on the board. Both Kraton and FPCC made an initial investment of approximately \$15.2 million at inception. We have exclusive rights to purchase all production from KFPC. Additionally, we will be obligated to purchase a minimum volume each year, with the minimum obligation increasing over the first three years the plant is operational. As such, we have determined that we are the primary beneficiary of this variable interest entity and, therefore, have consolidated KFPC in our financial statements as of and for the six months ended June 30, 2013 and have reflected FPCC's ownership as a noncontrolling interest.

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The following table summarizes the fair value of KFPC assets and liabilities as of February 27, 2013 recorded upon initial consolidation in our condensed consolidated balance sheet and the carrying amounts of such assets and liabilities as of June 30, 2013, before intercompany eliminations.

	June 30, 2013	February 27, 2013
	(In thousands)	
Cash and cash equivalents	\$ 21,287	\$ 30,348
Other current assets	191	0
Property, plant and equipment	9,318	0
Intangible assets	10,115	0
Total assets	\$ 40,911	\$ 30,348
Current liabilities	10,698	0
Total liabilities	\$ 10,698	\$ 0

15. Supplemental Guarantor Information

Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, (the Issuers), are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Performance Polymers, Inc. and Elastomers Holdings LLC, a U.S. holding company and wholly-owned subsidiary of Kraton Polymers LLC, collectively, (the Guarantors), fully and unconditionally guarantee on a joint and several basis, the Issuers obligations under the 6.75% senior notes. Our remaining subsidiaries are not guarantors of the 6.75% senior notes. We do not believe that separate financial statements and other disclosures concerning the guarantor subsidiaries would provide any additional information that would be material to investors in making an investment decision.

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**KRATON PERFORMANCE POLYMERS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET**

June 30, 2013

(Unaudited)

(In thousands, except par value)