

Kraton Performance Polymers, Inc.
Form 10-Q
November 03, 2010
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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 September 30, 2010

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

Commission File Number

Kraton Performance Polymers, Inc.
Kraton Polymers LLC

001-34581
333-123747

KRATON PERFORMANCE POLYMERS, INC.

KRATON POLYMERS LLC

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(Exact Name of Registrant as Specified in its Charter)

**Kraton Performance Polymers, Inc.
Kraton Polymers LLC**

**Delaware
Delaware**
(State or other jurisdiction of

**20-0411521
26-3739386**
(I.R.S. Employer

incorporation or organization)

Identification No.)

15710 John F. Kennedy Blvd.

Suite 300

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

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.

Kraton Performance Polymers, Inc.
Kraton Polymers LLC

YES NO
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 October 29, 2010: 31,252,979.

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on Form 10-Q for

Quarter Ended September 30, 2010

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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. Such forward-looking statements involve known and unknown risks, uncertainties, assumptions 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 our latest Annual Report on Form 10-K, as amended, including but not limited to Part 1, Item 1A. Risk Factors and Part 1, 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;

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;

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

infringement of our products on the intellectual property rights of others;

seasonality in our Paving and Roofing business;

financial and operating constraints related to our substantial level of indebtedness;

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

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

the inherently hazardous nature of chemical manufacturing;

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

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

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;

our relationship with our employees;

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

fluctuations in currency exchange rates;

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

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

concentration of ownership among our principal stockholders, which may prevent new investors from influencing significant corporate decisions.

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 Performance Polymers, our company, we, our, ours and us as used in this report refer collectively to Kraton Performance Polymers, Inc. and its consolidated subsidiaries; Kraton refers to Kraton Polymers LLC, unless we indicate or the context suggests otherwise. This combined Form 10-Q is separately filed by Kraton Performance Polymers and Kraton. Information contained herein relating to Kraton is filed by Kraton Performance Polymers and separately by Kraton on its own behalf.

This Form 10-Q includes financial statements and related notes that present the condensed consolidated financial position, results of operations and cash flows of Kraton Performance Polymers and its subsidiaries and the condensed consolidated financial position, results of operations and cash flows of Kraton and its subsidiaries. Kraton Performance Polymers is a holding company whose only material asset is its investment in Kraton, which is its wholly-owned subsidiary. Kraton and its subsidiaries own all of the consolidated operating assets of our company.

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

	September 30, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 78,285	\$ 69,291
Receivables, net of allowances of \$977 and \$1,335	153,905	115,329
Inventories of products, net	337,655	284,258
Inventories of materials and supplies, net	9,636	10,862
Deferred income taxes		3,107
Other current assets	14,932	16,770
Total current assets	594,413	499,617
Property, plant and equipment, less accumulated depreciation of \$231,559 and \$236,558	351,990	354,860
Identifiable intangible assets, less accumulated amortization of \$48,885 and \$42,741	71,740	75,801
Investment in unconsolidated joint venture	12,641	12,078
Deferred financing costs	5,755	7,318
Other long-term assets	30,303	24,825
Total Assets	\$ 1,066,842	\$ 974,499
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 2,304	\$ 2,304
Accounts payable-trade	93,009	93,494
Deferred income taxes	640	
Other payables and accruals	52,167	68,271
Due to related party	19,541	19,006
Insurance note payable	1,490	
Total current liabilities	169,151	183,075
Long-term debt, net of current portion	380,947	382,675
Deferred income taxes	15,408	13,488
Other long-term liabilities	47,443	46,477
Total Liabilities	612,949	625,715
Commitments and contingencies (note 11)		
Stockholders equity		

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Preferred stock, \$0.01 par value; 100,000 shares authorized; none issued		
Common stock, \$0.01 par value; 500,000 shares authorized; 31,204 shares issued and outstanding	312	297
Additional paid in capital	330,976	311,665
Retained earnings	86,412	(14)
Accumulated other comprehensive income	36,193	36,836
Total stockholders' equity	453,893	348,784
Total Liabilities and Stockholders' Equity	\$ 1,066,842	\$ 974,499

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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Operating Revenues				
Sales	\$ 335,442	\$ 270,454	\$ 940,260	\$ 682,061
Other		18,064		35,235
Total operating revenues	335,442	288,518	940,260	717,296
Cost of Goods Sold	252,561	218,549	699,139	602,633
Gross Profit	82,881	69,969	241,121	114,663
Operating Expenses				
Research and development	6,125	5,075	17,681	15,115
Selling, general and administrative	24,819	20,282	68,653	56,585
Depreciation and amortization of identifiable intangibles	13,027	16,477	36,042	41,582
Total operating expenses	43,971	41,834	122,376	113,282
Gain on Extinguishment of Debt				23,831
Earnings of Unconsolidated Joint Venture	81	129	317	305
Interest Expense, net	6,127	8,044	18,463	24,783
Income Before Income Taxes	32,864	20,220	100,599	734
Income Tax Expense (Benefit)	4,828	(1,645)	14,173	(485)
Net Income	\$ 28,036	\$ 21,865	\$ 86,426	\$ 1,219
Earnings per common share (note 7)				
Basic	\$ 0.90	\$ 1.13	\$ 2.80	\$ 0.06
Diluted	\$ 0.88	\$ 1.12	\$ 2.76	\$ 0.06
Weighted average common shares outstanding				
Basic				