Kraton Performance Polymers, Inc.
Form 10-K
February 27, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
or

¨ 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)

Delaware (State or other jurisdiction of incorporation or organization)	20-0411521 (I.R.S. Employer Identification No.)
15710 John F. Kennedy Blvd, Suite 300 Houston, TX 77032 (Address of principal executive offices,	281-504-4700 (Registrant’s telephone number,

including zip code)	including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Kraton Performance Polymers, Inc. Common Stock, par value $0.01	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 x 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 x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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: x	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 x

Estimated aggregate market value of the common equity held by nonaffiliates of Kraton Performance Polymers, Inc. at June 30, 2013: $683,229,593. Number of shares of Kraton Performance Polymers, Inc. Common Stock, $0.01 par value, outstanding at February 21, 2014: 32,556,399.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Kraton Performance Polymers, Inc.'s proxy statement for the 2014 Annual Meeting of Shareholders are incorporated by reference in Part III.

Index to Annual Report

on Form 10-K for

Year Ended December 31, 2013

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Some of the statements in this Annual Report on Form 10-K under the headings “Business,” “Risk Factors,” “Selected Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Financial Statements and Supplementary Data” 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-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 “anticipa 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 Formosa Petrochemical Corporation (“FPCC”); our expectations regarding indebtedness to be incurred by our joint venture with FPCC; our proposed combination with the Styrenic Block Copolymer (“SBC”) business of LCY Chemical Corp. (“LCY”), the expectation that such combination will close in the fourth quarter of 2014 and expected synergies and other benefits therefrom and costs associated therewith; debt payments, interest payments, capital expenditures, benefit plan contributions, and income tax obligations; our anticipated 2014 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 planned Asia expansion project; our expectations regarding the startup of our semi-works facility in Belpre, Ohio during the first quarter of 2014; estimates related to the useful lives of certain assets for tax purposes; expectations regarding our pension contributions for fiscal year 2014; 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; the estimates and matters described under the caption “Item 7. Management’s Discussion and Analysis—Results of Operations—Outlook;” and projections regarding environmental costs and capital expenditures and related operational savings. 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. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements are set forth in this report, including but not limited to those under the heading “Risk Factors.” There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.

Forward-looking statements are based on current plans, estimates 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.

Presentation of Financial Statements.

The terms “Kraton,” “our company,” “we,” “our,” “ours” and “us” as used in this report refer collectively to Kraton Performan Polymers, Inc. and its consolidated subsidiaries.

This Form 10-K includes financial statements and related notes that present the 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.

PART I

Item 1. Business.
General

Our Company

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 than more commoditized products. 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.

We have a portfolio of innovations at various stages of development and commercialization, including

- polyvinyl chloride alternatives for wire and cable, and medical applications;
- polymers and compounds for soft skin and coated fabric applications for transportation and consumer markets;
- our NEXAR family of membrane polymers for water filtration, heating, ventilation, air conditioning and breathable fabrics; and
- synthetic cement formulations and other oilfield applications.

Our total SBC production capacity as of December 31, 2013 was approximately 420 kilotons. Production capacity at our facilities can vary greatly depending upon feedstock, product mix and operating conditions. We generated approximately $1,292.1 million of sales revenue and 313.5 kilotons of sales volume for the year ended December 31, 2013. In 2013, we generated 14.7% and 38.5% of our sales revenue from innovation-driven and differentiated products, respectively. Our customers are diversified by industry and geography with more than 800 customers in over 60 countries. 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.

We have had a long-standing relationship with many of our customers and work closely with our customers to design products that meet application-specific performance and quality requirements. We have a diverse customer base, with no single customer accounting for more than 10.0% of our sales revenue in 2013 and our top 10 customers together representing approximately 28.3% of our sales revenue in 2013. Because of the technical expertise and investment required to develop many of our product formulations and the lead times required to replace them, we believe our customers would likely incur additional costs by changing to an alternative vendor.

Over the past several years, we have implemented a range of strategic initiatives designed to enhance our profitability and end use market position, with a focus on increasing our scale and global footprint, particularly in Asia. These include fixed asset investments to expand our capacity in specialized products and enhance productivity at our existing facilities, our 50% investment in our joint venture, Kraton Formosa Polymers Corporation ("KFPC"), located in Mailiao, Taiwan, and fixed costs management through headcount reductions, production line closures at our facility in Pernis, Netherlands, and system upgrades. During this period, we shifted our focus from lower margin business, and we implemented pricing strategies designed to enhance our overall margins and return on invested capital. With the commercialization of newer innovations such as NEXAR and HiMA and increasing sales of Cariflex and products for oilfield service applications, our strategy is focused on continuing to advance our portfolio of higher-value, higher margin products, while, at the same time, expanding sales of our core product grades.

Corporate History

Prior to our initial public offering and related reorganization transactions in December 2009, we were an indirect wholly-owned subsidiary of TJ Chemical Holdings LLC and were indirectly owned by certain affiliates of TPG Capital, L.P., which we refer to collectively as "TPG," and certain affiliates of J.P. Morgan Partners, LLC, which we refer to collectively as "JPMP," and certain members of our management. We conduct our business through Kraton Polymers LLC and its consolidated subsidiaries. Prior to our initial public offering, Kraton Polymers LLC's parent company was Polymer Holdings LLC, a Delaware limited liability company. On December 16, 2009, Polymer Holdings LLC was converted from a Delaware limited liability company to a Delaware corporation and renamed Kraton Performance Polymers, Inc., which remains Kraton Polymers LLC's parent company. In addition, prior to the closing of the initial public offering, TJ Chemical was merged into (and did not survive the merger with) Kraton Polymers LLC. Our initial public offering was completed, and trading in our common stock on the New York Stock Exchange commenced, in December 2009. TPG and JPMP collectively owned a majority of our common stock following the initial public offering, and through two secondary public offerings conducted in September 2010 and April 2011, sold all of their holdings in our common stock.

Recent Developments

Entry into Definitive Agreement to Combine with the SBC Business of LCY. As previously announced, on January 28, 2014, we and two wholly-owned subsidiaries entered into a definitive agreement with LCY Chemical Corp. ("LCY") and a wholly-owned subsidiary of LCY (together with LCY, the "LCY Parties") to combine with the SBC business of LCY. LCY's SBC business operates through facilities located in Taiwan, Huizhou, China and Baytown, Texas. LCY will remain as a separate company following the combination and continue to operate its other lines of business following the closing.

Prior to the execution of the combination agreement, we formed a new holding company organized under the laws of England ("UK Holdco"). Pursuant to a merger contemplated in the combination agreement, each outstanding share of common stock of our company will be converted into the right to receive one ordinary share of UK Holdco, and we will become a wholly-owned subsidiary of UK Holdco. In addition, UK Holdco will issue ordinary shares to the LCY Parties in exchange for LCY's SBC business, which will be contributed to UK Holdco through the contribution of the equity interests in a group of LCY's subsidiaries (the "LCY Combination").

The shares to be issued to LCY at closing will constitute 50% of the shares of UK Holdco that will be outstanding immediately after the closing of the transactions contemplated by the combination agreement. The other 50% of the shares of UK Holdco will be owned by the stockholders of our company immediately prior to such closing. UK Holdco and LCY have also agreed to enter into a shareholder agreement (the "Shareholder Agreement") at the closing of the transactions. The Shareholder Agreement will set forth certain rights and limitations relating to LCY's ownership of the UK Holdco shares, including provisions relating to, among other things, representation on UK Holdco's board of directors ("UK Holdco Board"), standstill restrictions on certain actions (including the acquisition by LCY of additional UK Holdco shares), UK Holdco Board approval requirements on certain significant actions by UK Holdco, preemptive rights for LCY to purchase additional UK Holdco shares, restrictions on the direct or indirect transfer of the UK Holdco shares to be owned by LCY, arrangements regarding the voting of the UK Holdco shares held by LCY, restrictions on competition with UK Holdco on the part of LCY and registration rights for the UK Holdco shares to be held by LCY.

The closing of the transactions is subject to approval by the stockholders of both our company and LCY, receipt of certain regulatory approvals and other conditions. Closing of the transactions is expected to occur in the fourth quarter of 2014. Upon and after closing, the name of UK Holdco will be Kraton Performance Polymers plc, and the shares will be listed on the NYSE.

After the closing of the transactions, the UK Holdco Board will consist of fourteen directors, consisting of seven LCY-designated directors and seven directors that currently serve on our board of directors. Our chairman of the board of directors, Dan Smith, will be the initial chairman of the UK Holdco Board upon the closing, and it is anticipated he will serve in that position for two years following the closing. The chairman for the next two years will be selected by the LCY designees on the UK Holdco Board, and thereafter the chairman will be selected by the full UK Holdco Board. Kevin M. Fogarty, our current chief executive officer, will serve as chief executive officer of UK Holdco upon the closing. See “Part I, Item 1A. Risk Factors” below for a discussion of certain risks and uncertainties relating to the LCY Combination.

Products

Our Kraton polymer products are high performance elastomers that are engineered for a wide range of end use applications. Our products possess a combination of high strength and low viscosity, which facilitates ease of processing at elevated temperatures and high processing speeds. Our products can be processed in a variety of manufacturing applications, including injection molding, blow molding, compression molding, extrusion and hot melt, and solution applied coatings.

Our products are manufactured along the following primary product lines based upon polymer chemistry and process technologies:

- un-hydrogenated SBCs (“USBCs”);
- hydrogenated SBCs (“HSBCs”);
- Cariflex™ isoprene rubber (“IR”) and isoprene rubber latex (“IRL”); and
- compounds.

The majority of worldwide SBC production is dedicated to USBCs, which are primarily used in paving and roofing, adhesives, sealants and coatings, and footwear applications. HSBCs, which are significantly more complex and capital-intensive to manufacture than USBCs, are used in applications such as soft touch and flexible materials, personal hygiene products, medical products, automotive components and certain adhesives and sealant applications. Below is an overview of our four primary product lines.

USBCs. We developed the first USBC polymers in 1964 and built the first dedicated block copolymer facility in Belpre, Ohio, in 1971. As of December 31, 2013, our USBC product portfolio included 101 core commercial grades of products. Sales of USBC products comprised approximately 58.3%, 59.1% and 59.3% of our sales revenue in 2013, 2012 and 2011, respectively.

USBCs are used in three of our core end use markets (Advanced Materials; Adhesives, Sealants and Coatings; and Paving and Roofing) in a range of products to impart performance characteristics such as:

- resistance to temperature and weather extremes in roads and roofing;
- resistance to cracking, reduced sound transmission and better drainage in porous road surfaces;
- impact resistance for consumer plastics; and
- increased processing flexibility in adhesive applications, such as packaging tapes and labels, and materials used in disposable diapers.

HSBCs. We developed the first HSBC polymers in the late 1960s for use in production of soft, strong compounds for handles and grips and elastic components in diapers. As of December 31, 2013, our HSBC product portfolio included 77 core commercial grades of products. HSBC products are significantly more complex to produce than USBC products and, as a result generate higher margins than USBCs. Sales of HSBC products comprised 30.3%, 31.2% and 31.6% of our sales revenue in 2013, 2012 and 2011, respectively.

HSBCs are primarily used in our Advanced Materials and Adhesives, Sealants and Coatings end use markets to impart performance characteristics such as:

- stretch properties in disposable diapers and adult incontinence products;
- soft feel in numerous consumer products such as razor blades, power tools, and automobile internals;
- impact resistance for demanding engineering plastic applications;

- flexibility for wire and cable plastic outer layers;
- improved flow characteristics for many industrial and consumer sealant and lubricating fluids;
- resistance to ultraviolet light;
- processing stability and viscosity; and
- elevated temperature resistance.

Cariflex. We market our IR and IRL products under the Cariflex brand name. These products combine the key qualities of natural rubber, such as good mechanical properties and hysteresis, with purity and clarity enhancements, good flow, low gel content, and absence of nitrosamines and natural rubber proteins. As of December 31, 2013, our Cariflex product portfolio included 9 core commercial grades of products. Cariflex comprised 9.0%, 7.4% and 6.9% of our sales revenue in 2013, 2012 and 2011, respectively.

Isoprene rubber (formed from polymerizing isoprene) is a high purity, non-SBC product. Our IR polymers are available as bales of rubber or as latex. We focus our IR polymers, which are produced using nanotechnology, in demanding applications such as medical products, adhesives and tackifiers, paints, coatings and photo-resistors. Isoprene rubber latex (emulsion of IR in water) is a substitute for natural rubber latex, particularly in applications with high purity requirements, such as medical, healthcare, personal care and food contact operations. Our IRL is specialized polyisoprene latex with a controlled structure and low chemical impurity levels obtained through an anionic polymerization process followed by a proprietary latex processing step, both of which were first developed by us. IRL is durable, tear resistant, soft, transparent and odorless. In addition, the synthetic material is non-allergenic and has superior consistency and other advantages to natural rubber latex. IRL is predominately used in the synthetic surgical gloves and condoms.

We have undertaken several projects to support anticipated continued growth in demand for our Cariflex products. In 2011, we commissioned a line conversion project at our Belpre, Ohio, facility, which now provides for production of IR and replaces production capacity at our former manufacturing facility in Netherlands, which was closed in 2009. During 2011, we also successfully completed the expansion of our IRL capacity at our Paulinia, Brazil, facility. Further, we executed a contract with a supplier in Japan to expand manufacturing capacity for IRL. This expansion was completed in January 2013 and effectively doubled our existing capacity in Japan.

Compounds. Our Compounds are a mixture of Kraton polymers and other polymers, resins, oils or fillers and cover a wide range of polymers used in consumer and industrial applications. Compounds can be formulated so that they meet the specific requirements of our customers. These products are primarily used in soft-touch grips, sporting equipment, automotive components and personal care products. As of December 31, 2013, our Compounds product portfolio included 19 core commercial grades of products. Compounds comprised 2.3%, 2.1% and 1.9% of our sales revenue in 2013, 2012 and 2011, respectively.

Our End Use Markets

Our commercial activities are aligned to serve our four core end use markets: (1) Advanced Materials; (2) Adhesives, Sealants and Coatings; (3) Paving and Roofing; and (4) Cariflex.

	Revenue Mix ($ in millions)						
End Use Markets	2013		2012		2011		Selected Applications/Products
Advanced Materials	26.8 %	$346.3	26.9 %	$382.8	28.0 %	$402.6	Consumer disposable and consumer durable soft touch Engineering thermoplastics compatibilization and impact modification Personal care PVC alternatives for medical, wire and cable Disposable food packaging and closures Highly engineered polymer modification Skin care products and lotions Automotive interior and exterior Stoppers for medical/pharmaceutical
Adhesives, Sealants and Coatings	37.0 %	$477.6	35.9 %	$510.8	34.8 %	$499.7	Tapes and labels Non-woven and industrial adhesives Clear sealants Lubricant additives
Paving and Roofing	27.1 %	$350.9	29.6 %	$421.4	29.9 %	$429.3	Asphalt modification for performance roadways, bridges and airports Asphalt modification for roofing felts and shingles
Cariflex	9.0 %	$116.0	7.4 %	$105.9	6.9 %	$99.3	Surgical gloves Condoms
Other	0.1 %	$1.2	0.2 %	$2.2	0.4 %	$6.6	High styrenics packaging Footwear Other

Advanced Materials. We sell HSBC, USBC, and customized SBC based compounds, across multiple markets as part of the Advanced Materials end use market.

Our products primarily compete against a variety of chemical and non-chemical alternatives including, but not limited to, thermoplastic vulcanizate, thermoplastic polyurethane, PVC, thermoplastic polyolefin, polyethylene terephthalate, polycarbonate, polyamide, and ethylene-propylene-diene-monomer (“EPDM”) based products. We believe the ability to balance performance characteristics such as ease of use, desired aesthetics, haptics, and managing total end product costs are principal factors influencing final product decisions of our customers in this end use market.

Many of our products in this core end use market are customized formulations that are highly engineered to address specific customer needs, such as improved stretch and resilience characteristics in elastic film applications. As such, they require specialized product testing and validation, production and process evaluation. This results in long lead time to achieve customer and industry established approvals.

We believe demand for products in this end use market is principally driven by customer-specific needs and cost. Our innovation led growth strategy focuses on translating the inherent strengths of our product technologies such as flexibility, resilience, impact and moisture resistance, and aesthetics (clarity and haptics), and target opportunities where we can expand and/or have the potential to create new market spaces for our solutions.

Adhesives, Sealants and Coatings. We sell HSBC and USBC products in the Adhesives, Sealants and Coatings end use market.

Our products primarily compete with acrylics, silicones, solvent-based rubber systems and thermoplastic polyolefin elastomers. The choice between these materials is influenced by bond strength, specific adhesion, consistent performance to specification, processing speed, hot-melt application, resistance to water and total end-product cost.

Our SBCs are used in applications such as adhesives for diapers and hygiene products, sealants and coatings for construction and automotive applications, viscosity modification in lubricants as well as in health and beauty and cable gels and adhesives for tapes and labels. Our SBCs in this end use market are compatible with many other formulating ingredients. We have expanded our offering of formulated compounds for adhesives for protective films that provide improved adhesive performance with no residue or haze after removal. Furthermore our highly specialized grades are used in various combinations for the manufacturing of printing plates. One of our newest applications for functionalized SBC’s can be found in sprayable coatings and sealing products.

We believe demand for products in this end use market is driven largely by the consumption of disposable hygiene products that contain adhesives, particularly in elastic attachment. Further, we believe that cost reduction and consumer market appeal are principal factors driving increasing use of SBC based adhesives relative to paper labels in the pressure sensitive label market. The trend towards utilization of SBC based adhesives is primarily driven by cost reduction and higher performance.

Paving and Roofing. We sell USBC products in the Paving and Roofing end use markets.

Our products primarily compete with chemicals such as styrene-butadiene rubber latex, acetates, polyphosphoric acids, and thermoplastic materials like EPDM, polyethylene, atactic polypropylene and unmodified asphalts. We believe that customer choice in this end use market is driven principally by total end-product cost, temperature performance, bitumen source, and application.

Styrene-butadiene-styrene (“SBS”)-modified asphalt pavements enhance the strength and elasticity of asphalt-based paving compositions over an extended temperature range, thus increasing resistance to wear, rutting and cracking and therefore extending service life. In roofing applications, SBS-modified asphalt produces stronger and more durable felts and shingles, thus reducing the possibility of damage from weather, ice and water build-up and again extending service life.

We believe the ability to maintain roads in an environment where traffic demands are rising and repair budgets are decreasing is the primary issue facing governments and other road owners in every region and a principal driver of demand in this end use market. Our Highly Modified Asphalt Technology (“HiMA”) polymers provide better rut and cracking resistance than other elastic binders, while achieving 25-40% reduction in road thickness without any major sacrifice of viscosity or temperature performance. We believe this innovation will extend road life by allowing pavements to withstand heavy traffic loads and varying climate conditions.

Cariflex. We sell IR and IRL in this end use market. We primarily supply the surgical glove, condom and specialty medical device markets.

Our products primarily compete with natural rubber, conventional Ziegler Natta sourced solid IR, halo butyl rubber and several synthetic latex alternatives, notably neoprene, nitrile and polychloroprene latex rubber, as well as polyurethane.

In the medical device markets, we believe that demand for products is driven by purity of the product (including lower metal residuals content, the absence of natural rubber proteins and lower use of plasticisers) and mechanical properties applicable to surgical gloves, stoppers, closure and other packaging applications. In coatings applications, we believe that demand is driven by the level of impurity, as low levels facilitate more durable coatings that compete with epoxy coating systems. In electronic applications, we believe that demand is driven primarily by low metal content, which we believe reduces the likelihood of quality issues.

The surgical glove and condom markets are largely sourced by natural rubber latex products. However, we have seen a trend in surgeons using gloves made from synthetic latex alternatives, such as our IRL products. We believe this trend is driven by efforts to avoid allergies to natural rubber proteins, as well as comfort, consistent stretch and wearability factors imparted by synthetic latex such as our IRL. We have seen a similar trend in the market for condoms, which we believe is driven by these same factors.

Research, Development and Technology

Our research and development program is designed to develop new products and applications, provide technical service to customers, develop and optimize process technology, and assist in marketing new products. We spent $32.0 million, $31.0 million and $28.0 million for research and development for the years ended December 31, 2013, 2012 and 2011, respectively. From time to time, we also engage in customer-sponsored research projects; with average spending of approximately $1.0 million a year for the three-year period ended December 31, 2013.

Our research and development activities are primarily conducted in laboratories in Houston, Texas, and Amsterdam, Netherlands. We also own a laboratory in Paulinia, Brazil, that provides technical services to our South American customers. Our application and technical service laboratories in Shanghai, China, and Tsukuba, Japan, provide support to our Asian customers. In addition, we have technical service staff located in Mont St. Guibert, Belgium.

Our professionals perform research using scientific application equipment located primarily at our Houston, Amsterdam, and Shanghai research and development facilities. At all of our major research and development facilities, we produce new Kraton product samples for our customers and provide guidance to our manufacturing organization. Application equipment is used to evaluate polymers and compounds to determine optimal formulations. Our semi-works project at our Belpre, Ohio, location is mechanically complete, and the new facility is in the commissioning phase, with startup anticipated during the first quarter 2014. This facility will replace a pilot line that was previously maintained in Houston, and will provide scale up support to our manufacturing facilities as we commercialize new products in our innovation pipeline and will generate polymer samples for in-house researchers and external customers as we explore new products for the marketplace.

Sales and Marketing

Our business is predominantly based on a short sales cycle. We sell our products through a number of channels including a direct sales force, marketing representatives and distributors, with the majority of our products sold through our direct sales force. In countries where we generate substantial revenue, our sales force is organized by end use market in order to meet the specific needs of our customers. In geographic areas where it is not efficient for us to organize our sales force by end use market, we may use one sales team to service all end use markets.

In smaller markets, we often utilize marketing representatives who act as independent contractors to sell our products. In addition, we utilize distributors to service our smaller customers in all regions. Distributors sell a wide variety of products, which allows smaller customers to obtain multiple products from one source. In addition to our long-term relationships with distributors in North America and Europe, we have established relationships with a wide network of distributors in Latin America and the Asia Pacific region.

Our direct sales force, marketing representatives and distributors interact with our customers to provide both product advice and technical assistance. In general, they arrange and coordinate contact between our customers and our research and development personnel to provide quality control and new product solutions. Our close interaction with our customers has allowed us to develop and maintain what we consider to be strong customer relationships.

Sales revenue from our customers outside the United States was approximately 69.1%, 67.2% and 65.9% of our total sales revenue for the years ended December 31, 2013, 2012 and 2011, respectively. Direct sales we make outside of the United States are generally priced in local currencies and can be subject to currency exchange fluctuations when reported in our consolidated financial statements, which are maintained in U.S. dollars in accordance with U.S. generally accepted accounting principles ("GAAP"). For geographic reporting, revenue is attributed to the geographic location in which the customers' facilities are located. See Note 13 Industry Segment and Foreign Operations to the consolidated financial statements for geographic reporting of sales revenue and long-lived assets as of and for the years ended December 31, 2013, 2012 and 2011.

We generated our sales revenue from customers located in the following regions:

Revenue by Geography:	2013	2012	2011
Americas	39.3%	40.0%	41.0%
Europe, Middle East and Africa	38.7%	39.1%	40.0%
Asia Pacific	22.0%	20.9%	19.0%

Sources and Availability of Raw Materials

We use butadiene, styrene and isoprene (also referred to as monomers) as our primary raw materials in manufacturing our products.

For our U.S. facilities, we procure a substantial majority of our monomers from U.S. suppliers. In Europe, we generally procure our monomers from regional suppliers and in Brazil we generally purchase all our raw materials from local third-party suppliers. In Japan, butadiene and isoprene are supplied under our joint venture agreement with JSR Corporation (“JSR”) and styrene is sourced from local third-party suppliers. We believe our contractual and other arrangements with our suppliers of butadiene, styrene, and isoprene will generally provide an adequate supply of raw materials at competitive, market-based prices to support our current sales levels and that alternative sources of raw material supply are generally available to us, including on a spot market basis. However, we can provide no assurance that suppliers will perform under their contracts, that we will be able to adequately replace expiring or terminated contracts, that we would be able to obtain substitute arrangements on feasible terms or that we will generally be able to source raw materials on economic terms in the future.

Butadiene. Butadiene is available on the global petrochemical market with approximately eight producers in the Americas, 30 in Europe, 59 in Asia and six in the Middle East. We currently source our butadiene in the United States pursuant to contractual arrangements generally having terms ranging from one to two years, subject to renewal conditions, and butadiene in Europe pursuant to contracts and arrangements with LyondellBasell. The contract covering Germany will expire on December 31, 2040, and is subject to renewal conditions at the conclusion of the current term unless terminated with prior written notice by either party. We acquire butadiene in France from LyondellBasell under a contract that became effective on January 1, 2012 and expires on December 31, 2015, subject to renewal conditions. In Brazil, butadiene has been obtained from a local third-party source under contractual arrangements with terms typically of two years. We are in the process of negotiating a renewed contractual arrangement with this supplier, who has continued to supply butadiene since the expiration of the prior contract on a spot basis. In Japan, a majority of our butadiene needs are sourced from JSR on a commercial supply basis.

Styrene. Styrene is available on the global petrochemical market with approximately 11 producers located in the Americas, 20 in Europe, 52 in Asia and five in the Middle East. We currently source styrene in the United States, Europe and Brazil pursuant to contractual arrangements generally having terms ranging from one to two years, subject to renewal conditions.

Isoprene. Isoprene is primarily produced and consumed captively by manufacturers for the production of IR, which is primarily used in the manufacture of rubber tires. As a result, there is limited non-captive isoprene available in the market place. We currently source our global isoprene requirements through a variety of contractual arrangements generally having terms ranging from one to two years, subject to renewal conditions. We also purchase additional supplies of isoprene from various suppliers at prevailing market prices. In Japan, the majority of our isoprene needs are sourced from JSR on a commercial supply basis and from alternative suppliers as needed. We believe our contractual arrangements with several suppliers as well as spot arrangements and longstanding relationships with other third-party suppliers of isoprene will generally provide adequate future supplies of isoprene at competitive prices to support our current sales levels.

Competition

We compete with other SBC producers and non-SBC product producers primarily on the basis of price, breadth of product availability, product quality and speed of service from order to delivery. We believe our customers also base their supply decisions on the supplier’s ability to design and produce custom products and the availability of technical support. See “Part I, Item 1. Business” for further discussion of competition in our end use markets.

SBC Industry. Our most significant competitors in the SBC industry are: Asahi Chemical, Chi Mei, Dynasol Elastomers, Kuraray Company, Korea Kumho P.C., LCY, LG Chemical, Sinopec, Taiwan Synthetic Rubber Corporation, Versalis and Zeon Corporation. Generally, however, we believe individual competitors do not compete across all of our end use markets.

Product Substitution. We also compete against a broad range of alternative, non-SBC products within each of our end use markets. See “Part I, Item 1. Business” for further discussion of product substitution in our end use markets.

Operating and Other Agreements

Operating Agreements. LyondellBasell operates our manufacturing facility located in Berre, France. This facility is situated on a major LyondellBasell refinery and petrochemical site at which other third party tenants also own facilities. LyondellBasell charges us fees based on specified costs incurred in connection with operating and maintaining this facility, including the direct and indirect costs of employees and subcontractors, reasonable insurance costs, certain taxes imposed on LyondellBasell (other than income taxes) and depreciation and capital charges on certain assets. Pursuant to the agreement, LyondellBasell employs and provides all staff, other than certain managers, assistant managers and technical personnel, whom we may appoint. In March 2012, we executed a new operating agreement with LyondellBasell effective as of January 1, 2012. The agreement has an unlimited term, and is terminable as of any date after December 31, 2014 upon 18 months' prior notice by either party. The new agreement also provides for site services, utilities, materials and facilities, which had previously been under a separate agreement.

Pursuant to an agreement dated March 31, 2000, as subsequently amended, LyondellBasell operates and provides certain services, materials and utilities required to operate our manufacturing facility in Wesseling, Germany. We pay LyondellBasell a monthly fee, as well as costs incurred by LyondellBasell in providing the various services, even if the facility fails to produce any output (whether or not due to events within LyondellBasell's control), and even if we reject some or all output. This agreement is terminable after an initial term of 40 years upon five years' prior written notice.

Under certain of these agreements, we are required to indemnify LyondellBasell, including in certain circumstances for loss and damages resulting from LyondellBassell's negligence in performing their obligations.

Information Systems

We utilize ERP software systems to support each of our facilities worldwide. Our ERP software systems utilize a single global system, which provides reliability of our systems. The ERP software systems are supported by internal resources. Technical upgrades to the ERP systems are performed every 12 to 18 months to ensure the recent functionality is available. New technology continues to be approved and implemented to improve efficiencies, network resiliency and critical information protection. An annual disaster recovery exercise is performed on critical systems, both internally and those utilizing third-party data centers.

Patents, Trademarks, Copyrights and Other Intellectual Property Rights

We rely on a variety of intellectual property rights to conduct our business, including patents, trademarks and trade secrets. In 2013, we were awarded 51 patents for new products or applications and at December 31, 2013, we had 1,176 granted patents and 249 pending patent applications. Since patents are generally in effect for a period of 20 years as of the filing date, this means that a significant portion of our portfolio will remain in effect for a long period (assuming most of these applications will be granted). The granted patents and the applications cover both the United States and foreign countries. We do not expect that the expiration of any single patent or specific group of patents would have a material impact on our business. Our material trademarks will remain in effect unless we decide to abandon any of them, subject to possible third-party claims challenging our rights. Similarly, our trade secrets will preserve their status as such for as long as they are the subject of reasonable efforts, on our part, to maintain their secrecy. A significant number of patents in our patent portfolio were acquired from Shell Chemicals. Shell Chemicals retained for itself fully-transferable and exclusive licenses for their use outside of the elastomers field, as well as fully-transferable, non-exclusive licenses within the field of elastomers for certain limited uses in non-competing activities. Shell Chemicals is permitted to sublicense these rights. Shell Chemicals also retains the right to enforce these patents outside the elastomers field and recover any damages resulting from these actions. Shell Chemicals may engage in or be the owner of a business that manufactures and/or sells elastomers in the elastomers field, so long as they do not use patent rights or technical knowledge exclusively licensed to us.

As a general matter, our trade names are protected by trademark laws. Our products are marketed under the registered trademarks “Kraton”, “Elexar”, “Giving Innovators Their Edge”, “NEXAR” and “Cariflex.”

In our almost 50 years in the SBC business, we have accumulated a substantial amount of technical and business expertise. Our expertise includes: product development, design and formulation, information relating to the applications in which our products are used, process and manufacturing technology, including the process and design information used in the operation, maintenance and debottlenecking of our manufacturing facilities, and the technical service that we provide to our customers. We hold extensive discussions with customers and potential customers to define their market needs and product application opportunities. Where we believe necessary, we have implemented trade secret protection for our technical knowledge through non-analysis, secrecy and related agreements.

Employees

We had 936 full-time employees at December 31, 2013. In addition, 172 LyondellBasell manufacturing employees operate our manufacturing facilities and provide maintenance services in Europe under various operating and services arrangements. See “—Operating and Other Agreements.” None of our employees in the United States are subject to collective bargaining agreements. In Europe, Brazil and Japan, a significant number of our employees are in arrangements similar to collective bargaining arrangements. We believe our relationships with our employees continue to be good.

Environmental Regulation

Our operations in the United States and abroad are subject to a wide range of environmental laws and regulations at the international, national, state and local levels. These laws and regulations govern, among other things, air emissions, wastewater discharges, solid and hazardous waste management, site remediation programs and chemical registration, use and management.

Pursuant to these laws and regulations, our facilities are required to obtain and comply with a wide variety of environmental permits for different aspects of their operations. Generally, many of these environmental laws and regulations are becoming increasingly stringent and the cost of compliance with these various requirements can be expected to increase over time.

For example, the U.S. Environmental Protection Agency ("EPA") issued new "maximum achievable control technology" ("MACT") standards for controlling hazardous air emissions from industrial boilers. The MACT rule applies to the coal-burning boilers at our Belpre, Ohio, facility. On December 20, 2012, the EPA announced that it had finalized the clean air standards for industrial boilers, and certain incinerators, and non-hazardous secondary materials. On January 31, 2013, the final rule was published in the Federal Register with an effective date of April 1, 2013 and a compliance date of January 31, 2016, three years from the date of publication in the Federal Register. We plan to be in compliance with the MACT standards prior to the expiration of the compliance period. Capital expenditures necessary to comply with the MACT rule are currently estimated to be $59.0 million of which approximately $6.0 million will be in the form of a capital lease. Through 2013, we have incurred an aggregate $18.0 million, of which $1.4 million was financed with a capital lease, and we currently expect 2014 capital expenditures for this project to be approximately $28.1 million, of which $4.1 million will be financed with a capital lease with the balance expected to be incurred in 2015. While this is a compliance driven project, we also expect to lower operating costs by approximately $10.0 million per year by 2016.

Environmental laws and regulations in various jurisdictions also establish programs and, in some instances, obligations to clean up contamination from current or historic operations. Under some circumstances, the current owner or operator of a site can be held responsible for remediation of past contamination regardless of fault and regardless of whether the activity was legal at the time that it occurred. Evaluating and estimating the potential liability related to site remediation projects is a difficult undertaking, and several of our facilities have been affected by contamination from historic operations.

Our Belpre, Ohio, facility is the subject of a site investigation and remediation program administered by the EPA pursuant to the Resource Conservation and Recovery Act (“RCRA”). In March 1997, Shell Chemicals entered into a consent order to investigate and remediate areas of contamination on and adjacent to the site. In March 2003, we joined Shell Chemicals in signing a new consent order that required additional remediation and assessment of various areas of contamination and continues to require groundwater-monitoring and reporting. Shell Chemicals continues to take the lead in this program, has posted financial assurance of $5.2 million for the work required under the consent order and has also indemnified us for the work required under this program, subject to the condition that we provide notice of any claims on or prior to February 28, 2021. In turn, we have agreed with Shell Chemicals that we will, for a fee, provide certain services related to the remediation program. We have agreed with Shell Chemicals that we will pay up to $100,000 per year for the groundwater monitoring associated with the 2003 consent order.

Our Brazilian facility has also been affected by prior Shell Chemicals operations. A Shell Chemicals pesticide manufacturing operation was previously located on a tract of land adjacent to our Brazilian facility. In addition, areas of our facility were used by Shell Chemicals as part of its crop protection business. Shell Chemicals has retained responsibility for remediating a former manufacturing facility located on our site and has also indemnified us for identified waste management areas used in prior operations. The indemnity for remediation relating directly to the facility for the previous pesticide manufacturing operations and for disposal activity related to that facility and for third-party claims regarding hazardous substance disposal expires in 2021. Shell Chemicals has installed a hydraulic barrier to prevent migration of ground water contamination and has completed other cleanup actions on the site.

Shell Chemicals agreed to indemnify us for specific categories of environmental claims brought with respect to matters occurring before our separation from Shell Chemicals in February 2001. Coverage under the indemnity varies depending upon the nature of the environmental claim, the location giving rise to the claim and the manner in which the claim is triggered. The indemnity for specific site clean-up matters and for third-party claims regarding hazardous substance disposal expires in 2021. Claims that may arise in the future related to past operations may not be covered by the Shell Chemicals’ indemnities, and amounts that are recoverable under those indemnities may not be sufficient to satisfy claims against us.

In addition, we may in the future be subject to claims that arise solely from events or circumstances occurring after February 2001 that would not, in any event, be covered by the Shell Chemicals’ indemnity. While we recognize that we may, in the future, be held liable with respect to remediation activities beyond those identified to date, at present we are not aware of any circumstances that are reasonably expected to give rise to remediation claims that would have a material adverse effect on our results of operations or cause us to exceed our projected level of anticipated capital expenditures.

In January 2014, our Belpre, Ohio facility experienced a mechanical equipment failure due to inclement weather that resulted in a release of process solvents into nearby waterways. Applicable authorities were notified, and cleanup activities are underway. Kraton may be required to pay governmental fines or sanctions in excess of $100,000 in connection with this event.

Insurance

We have levels of insurance that we believe to be customary for a company of our size in our industry. Our insurance policies are subject to customary deductibles and limits.

Seasonality

Seasonal changes and weather conditions typically affect the Paving and Roofing end use market and generally result in higher sales volumes into this end use market in the second and third quarters of the calendar year compared to the first and fourth quarters of the calendar year. Our other end use markets tend to show relatively little seasonality.

Available Information

We electronically file reports with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. Additionally, information about us, including our reports filed with the SEC, is available through our web site at http://www.kraton.com. Such reports are accessible at no charge through our web site and are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC. Our website and the information contained on that site, or connected to that site, are not incorporated by reference into this report.

Item 1A. Risk Factors.

Risk Factors Relating to the Proposed Combination with the SBC Business of LCY

Closing of the combination with LCY is subject to a number of material regulatory conditions.

The LCY Combination is subject to review by the Antitrust Division of the Department of Justice (the "Antitrust Division") and the Federal Trade Commission (the "FTC") under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and by the antitrust and competition authorities in Taiwan, the People's Republic of China and the Republic of Turkey, and potentially other jurisdictions. Conditions to closing the LCY Combination include the clearance and approval under the rules of the antitrust and competition authorities and that there is no judgment or regulatory action of a governmental body in effect that prohibits the LCY Combination contemplated by the combination agreement. We can provide no assurance that all required regulatory clearances will be obtained or that the conditions associated with such clearances will be acceptable to either party. In addition, in some circumstances, a third party could initiate a private action under antitrust laws challenging or seeking to enjoin the LCY Combination, before or after it is completed. We may not prevail and may incur significant costs in defending or settling any action under the antitrust and competition laws.

In addition to antitrust and competition law clearances, the transactions are subject to completion of a series of transactions in which LCY's SBC operations in Taiwan will be conveyed to a subsidiary of LCY prior to the contribution of the equity interests of such subsidiary to UK Holdco. Such transactions are subject to the approval of Taiwan regulatory authorities, and we and LCY can provide no assurance that such approvals will be obtained.

We and LCY are subject to business uncertainties and contractual restrictions while the proposed LCY Combination is pending, which could adversely affect each party's business and operations.

In connection with the pending LCY Combination, it is possible that some customers, suppliers and other persons with whom we or LCY have business relationships may delay or defer certain business decisions or, might decide to seek to terminate, change or renegotiate their relationship with us or LCY as a result of the LCY Combination, which could negatively affect our and LCY's respective revenues and earnings, as well as the market price of our common stock, regardless of whether the LCY Combination is completed. Under the terms of the combination agreement, we and LCY are subject to certain restrictions on the conduct of our respective businesses prior to completing the LCY Combination, including, but not limited to, limitations on incurring debt outside of borrowings under each party's revolving credit facility in the ordinary course and entering into acquisitions and dispositions, which may adversely affect our ability to execute certain of our respective business strategies. Furthermore, the process of planning to integrate two businesses and organizations for the post-LCY Combination period can divert management attention and resources and could ultimately have an adverse effect on each party.

Failure to successfully combine the businesses in the expected time frame may adversely affect the future results of the combined organization, and, consequently, the value of our common stock.

The success of the proposed LCY Combination will depend substantially on our ability to realize the anticipated benefits and synergies from combining our business with LCY's SBC business. To realize these anticipated benefits, the businesses must be successfully integrated and combined, and we will incur substantial costs to do so. We currently estimate the cost to achieve expected annual synergies of $65.0 million (expected to be fully realized by 2017) to be approximately $70.0 million over the three year period following closing and in addition, expect to incur transaction-related costs associated with completing the combination and integrating the businesses. The combined organization may not be able to achieve its objectives or expected synergies, in which case the anticipated benefits of the LCY Combination may not be realized fully or at all. In addition, costs to achieve anticipated synergies and benefits may exceed our estimates, and the actual integration may result in additional and unforeseen expenses, which could reduce the anticipated benefits of the LCY Combination. These unrealized benefits and difficulties could result in declines in the market value of our common stock.

Failure to complete the LCY Combination, or significant delays in completing the LCY Combination, could negatively affect the trading price of our common stock and our future business and financial results.

If the LCY Combination is not completed, or if there are significant delays in completing the LCY Combination, the trading price of our common stock and our future business and financial results could be negatively affected, and we will be subject to several risks, including the following:

- the parties may be liable for damages to one another under the terms and conditions of the combination agreement;
- negative reactions from the financial markets, including declines in the price of our common stock due to the fact that current prices may reflect a market assumption that the LCY Combination will be completed;
- having to pay certain significant costs relating to the LCY Combination; and
- the attention of our management will have been diverted to the LCY Combination rather than to our current operations and pursuit of other opportunities that could have been beneficial to the company.

We may not realize the benefits we anticipate from the proposed redomestication of our company from Delaware to the United Kingdom.

We may not realize the benefits that we expect to realize from the redomestication of our company from Delaware to the United Kingdom. The redomestication may also expose us to certain risks that could have an adverse effect on us or our results of operations. For example, tax laws could change in the future, and such changes could cause a material change in our worldwide effective corporate tax rate and cash flows. As a result, our actual effective tax rate may be materially different from our expectation. Further, if the redomestication is completed, the rights of our stockholders as stockholders of an English company will differ from the rights they have currently as shareholders of a U.S. company.

Risk Factors Relating to the Business

LyondellBasell Industries provides significant operating and other services under agreements that are important to our business. The failure of LyondellBasell to perform its obligations, or the termination of these agreements, could adversely affect our operations.

We have operating and service agreements with LyondellBasell Industries, or LyondellBasell, that are important to our business. We are a party to:

- operating agreements under which LyondellBasell (in Berre, France, and Wesseling, Germany) operates and maintains our European manufacturing facilities and employs and provides substantially all of the staff for those facilities; these operating agreements also provide for site services, utilities, materials and facilities, which had previously been under a separate agreements; and
- lease agreements under which we lease our European manufacturing sites (a 96 kiloton capacity facility in Wesseling, Germany and a 87 kiloton capacity facility in Berre, France) from LyondellBasell.

Under the terms of the above agreements, either party is permitted to terminate the applicable agreement in a variety of situations. The operating agreement relating to the Berre facility is terminable by either party upon 18 months' written notice. As of the date of this filing, no such notice has been given by either party. Should LyondellBasell fail to provide these services or should any operating agreement be terminated, we would be forced to obtain these services from third parties or provide them ourselves. Similarly, if in connection with or independent from the termination of an operating agreement, LyondellBasell terminates a facility lease, we would be forced to relocate our manufacturing facility. The failure of LyondellBasell to perform its obligations under, or the termination of, any of these agreements could materially adversely affect our operations and, depending on market conditions at the time of any such termination, we may not be able to enter into substitute arrangements in a timely manner, if at all, and if we are able to enter into a substitute arrangement, it may not be on terms as favorable to us.

Conditions in the global economy and capital markets may adversely affect the company’s results of operations, financial condition and cash flows.

Our products are sold in markets that are sensitive to changes in general economic conditions, such as automotive, construction and consumer products. Downturns in general economic conditions can cause fluctuations in demand for our products, product prices, volumes and margins. A decline in the demand for our products or a shift to lower-margin products due to deteriorating economic conditions could adversely affect sales of our products and our profitability and could also result in impairments of certain of our assets.

Our business and operating results have been affected by the global recession, fluctuating commodity prices, volatile exchange rates and other challenges currently affecting the global economy and our customers. Uncertainty regarding global economic conditions poses a continuing risk to our business, as consumers and businesses may postpone spending in response to tighter credit, negative financial news or declines in income or asset values, which may reduce demand for our products. If global economic and market conditions, or economic conditions in key markets, remain uncertain or deteriorate further, our results of operations, financial condition and cash flows could be materially adversely affected.

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, could increase our cost for these materials, interrupt production or otherwise adversely affect our results of operations.

Our manufacturing processes use three primary raw materials: butadiene, styrene and isoprene. We have entered into long-term supply agreements with Shell Chemicals, LyondellBasell and others to supply our raw material needs in the United States and Europe. As these contracts expire, we may be unable to renew these contracts or obtain new long-term supply agreements on terms favorable to us, if at all, which may significantly impact our operations.

In addition, most of our long-term contracts contain provisions that allow our suppliers to limit, or allocate, the amount of raw materials shipped to us below the contracted amount in certain circumstances. If we are required to obtain alternate sources for raw materials because a supplier is unwilling or unable to perform under raw material supply agreements or if a supplier terminates its agreements with us, we may not be able to obtain these raw materials from alternative suppliers in sufficient quantities or in a timely manner, and we may not be able to enter into long-term supply agreements on terms as favorable to us, if at all. A lack of availability of raw materials could have a material adverse effect on our results of operations.

If the availability of isoprene is limited, we may be unable to produce some of our products in quantities or on economic terms sought by our customers, which could have an adverse effect on our sales of products requiring isoprene.

Isoprene is not widely available, and the few isoprene producers tend to use their production for captive manufacturing purposes or to sell only limited quantities into the world chemicals market. As a result, there is limited non-captive isoprene available for purchase in the markets in which we operate.

Currently, we source our isoprene requirements for the United States and Europe from a portfolio of suppliers. In Japan, we obtain the majority of our isoprene requirements from our joint venture partner, and from alternative suppliers as needed. In Brazil, isoprene is primarily obtained from a local third party supplier. These suppliers may not be able to meet our isoprene requirements, and we may not be able to obtain isoprene in quantities required for our operations on terms favorable to us, or at all. A lack of availability of isoprene in the quantities we require to produce products containing isoprene could have a material adverse effect on our results of operations.

Because there is limited non-captive isoprene availability, the market for isoprene is thin and prices are particularly volatile. Prices for isoprene are impacted by the supply and prices of natural and synthetic rubber, prevailing energy prices and the existing supply and demand of isoprene in the market. In the past, tight supply in the isoprene market has been exacerbated by operational problems of some key producers and reduced availability of crude C5 inputs for the extraction units. More recently, the trend toward lighter ethylene cracker feedslates has reduced the supply of crude C5 in the United States. This decrease has been replaced by imports of crude C5 and/or isoprene. Significant increases in the cost of isoprene could have a material adverse impact on our business, financial condition or results of operations.

If the availability of butadiene is limited, we may be unable to produce some of our products in quantities or on economic terms sought by our customers, which could have an adverse effect on our sales of products requiring butadiene.

The North American market is structurally short of butadiene and has relied on imports of crude C4 and/or butadiene to balance demand. With the trend toward lighter ethylene cracker feedslates in the United States, there has been a reduction in the supply of crude C4. The North American market has been supplemented by imports of crude C4 and butadiene. Historically, the European market has been better balanced and provided exports to North America. Currently, our butadiene requirements in the United States are satisfied by several suppliers, and LyondellBasell is our major butadiene supplier in Europe. In general, the quantity of butadiene available in any one region is dependent on the cracking inputs of olefins plants, ethylene demand, inter-regional demand for butadiene and demand for other oil derivatives. Suppliers may not be able to meet our butadiene requirements, and we may not be able to obtain substitute supplies of butadiene from alternative suppliers in a timely manner or on favorable terms. A lack of availability of butadiene in the quantities we require to produce products containing butadiene could have a material adverse effect on our results of operations.

If the availability of styrene is limited, we may be unable to produce some of our products in quantities or on economic terms sought by our customers, which could have an adverse effect on facility utilization and our sales of products requiring styrene.

We satisfy our styrene requirements in the United States and Europe pursuant to purchase agreements with terms of one to two years, subject to renewal conditions. We have more than one supplier in each of these regions and also generally have alternatives for either modifying the contract, supply portfolio or obtaining spot supply. As contracts expire, we cannot give assurances that we will obtain new long-term supply agreements or that the terms of any such agreements will be on terms favorable to us, and consequently our future acquisition costs for styrene may therefore increase.

Increases in the costs of our raw materials could have an adverse effect on our financial condition and results of operations if those costs cannot be passed onto our customers.

Our results of operations are directly affected by the cost of raw materials. We use butadiene, styrene, and isoprene as our primary raw materials in manufacturing our products. On a first-in, first-out (FIFO) basis, these monomers together represented approximately $609.5 million, $732.9 million and $658.9 million or 57.2%, 61.5% and 58.8% of our total cost of goods sold for the years ended December 31, 2013, 2012 and 2011, respectively. Since the cost of our three primary raw materials comprise a significant amount of our total cost of goods sold, our selling prices for our products and therefore our total sales revenue is impacted by movements in our raw material costs, as well as the cost of other inputs. In the past we have experienced erratic and significant changes in the costs of these monomers, the cost of which has generally correlated with changes in energy prices, supply and demand factors, and prices for natural and synthetic rubber. The pricing for butadiene has historically been particularly volatile. Political unrest in the Middle East and market dislocation resulting from U.S. sanctions relating thereto could lead to increases in the price of crude oil, and, as a result, in the price of our primary raw materials. In addition, product mix can have an impact on our overall unit selling prices, since we provide an extensive product offering and therefore experience a wide range of unit selling prices. Because of the significant portion of our cost of goods sold represented by these three monomers, our gross profit margins could be adversely affected by changes in the cost of these raw materials if we are unable to pass the increases on to our customers.

In response to volatile raw material price increases, we have aggressively pursued price increases for our products to offset increased costs. Although we have been successful in recovering a substantial amount of the raw material cost increases while retaining customers, there can be no assurance that we can continue to recover raw material costs or retain customers in the future. As a result of our pricing actions, customers may become more likely to consider competitors’ products, some of which may be available at a lower cost. Significant loss of customers could result in a material adverse effect on our results of operations.

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

We use the FIFO basis of accounting for inventory and cost of goods sold, and therefore gross profit. In periods of raw material price volatility, reported results under FIFO will differ from what the results would have been if cost of goods sold were based on estimated current replacement cost (ECRC). Specifically, in periods of declining raw material costs, reported gross profit will be lower under FIFO than under ECRC, and in periods of rising raw material costs, gross profit will be higher under FIFO than under ECRC. However, because monomer costs are difficult to predict, we cannot accurately anticipate fluctuations in monomer costs with precision, or effectively or economically hedge against the effects of any such change. If monomer costs fluctuate in a quarter, our earnings will be affected, the magnitude of which could be significant, which could cause our earnings to depart from the periodic expectations of financial analysts or investors and, therefore, the market price of our common stock may be volatile as a result.

Our end use markets are highly competitive, and we may lose market share to other producers of styrenic block copolymers or to producers of other products that can be substituted for our products.

Our industry is highly competitive, and we face significant competition from both large international producers and from smaller regional competitors. Our competitors may improve their competitive position in our core end use markets by successfully introducing new products, improving their manufacturing processes or expanding their capacity or manufacturing facilities. Further, some of our competitors benefit from advantageous cost positions that could make it increasingly difficult for us to compete in markets for less-differentiated applications. If we are unable to keep pace with our competitors' product and manufacturing process innovations or cost position, our financial condition and results of operations could be materially adversely affected.

In addition, competition between styrenic block copolymers and other products within the end use markets in which we compete is intense. Increased competition from existing or newly developed SBC or non-SBC products may reduce demand for our products in the future and our customers may decide on alternate sources to meet their requirements. If we are unable to successfully compete with other producers of styrenic block copolymers or if other products can be successfully substituted for our products, our sales may decline.

If we are not able to continue the technological innovation and successful commercial introduction of new products, our customers may turn to other producers to meet their requirements.

Our industry and the end use markets into which we sell our products experience periodic technological change and ongoing product improvements. In addition, our customers may introduce new generations of their own products or require new technological and increased performance specifications that would require us to develop customized products. Innovation or other changes in our customers' product performance requirements may also adversely affect the demand for our products. Our future growth and profitability will depend on our ability to gauge the direction of the commercial and technological progress in all key end use markets, and upon our ability to successfully develop, manufacture and market products in such changing end use markets. In order to maintain our profit margins and our competitive position, we must continue to identify, develop and market innovative products on a timely basis to replace existing products. We may not be successful in developing new products and technology that successfully compete with newly introduced products and materials, and our customers may not accept, or may have lower demand for, any of our new products. Further, an important part of our strategy is the creation of demand for innovations that we develop and introduce to the markets. If we fail to keep pace with evolving technological innovations, fail to modify our products in response to our customers' needs or fail to develop innovations that generate additional demand, then our business, financial condition and results of operations could be adversely affected as a result of reduced sales of our products or diminished return on investment in innovations..

Our business relies on intellectual property and other proprietary information, and our failure to protect our rights could harm our competitive advantages with respect to the manufacturing of some of our products.

Our success depends to a significant degree upon our ability to protect and preserve our intellectual property and other proprietary information relating to our business. However, we may be unable to prevent third parties from using our intellectual property and other proprietary information without our authorization or from independently developing intellectual property and other proprietary information that is similar to ours, particularly in those countries where the laws do not protect our proprietary rights to the same degree as in the United States. The use of our intellectual property and other proprietary information by others could reduce or eliminate any competitive advantage we have developed, potentially causing us to lose sales or otherwise harm our business. If it becomes necessary for us to litigate to protect these rights, any proceedings could be burdensome and costly, and we may not prevail.

In addition, we acquired a significant number of patents from Shell Chemicals. According to the agreements with Shell Chemicals relating to their contribution of these patents to us and our ownership of these patents, Shell Chemicals retained for itself fully-transferable and exclusive licenses to their use outside of the elastomers business, as well as fully-transferable non-exclusive licenses within the field of elastomers for certain limited uses in non-competing activities. Shell Chemicals is permitted to sublicense these rights. Shell Chemicals also retains the right to enforce these patents outside the elastomers field and recover any damages resulting from these actions.

Our patent applications and issued patents may not provide us with any competitive advantage and may be challenged by third parties. Our competitors may also attempt to design around our patents or copy or otherwise obtain and use our intellectual property and other proprietary information. Moreover, our competitors may already hold or have applied for patents in the United States or abroad that, if enforced or issued, could possibly prevail over our patent rights or otherwise limit our ability to manufacture or sell one or more of our products in the United States or abroad. With respect to our pending patent applications, we may not be successful in securing patents for these claims. Our failure to secure these patents may limit our ability to protect inventions that these applications were intended to cover. In addition, the expiration of a patent can result in increased competition with consequent erosion of profit margins.

It is our policy to enter into confidentiality agreements with our employees and third parties to protect our unpatented proprietary manufacturing expertise, continuing technological innovation and other trade secrets, but our confidentiality agreements could be breached or may not provide meaningful protection for our trade secrets or proprietary manufacturing expertise. Adequate remedies may not be available in the event of an unauthorized use or disclosure of our trade secrets and manufacturing expertise. Violations by others of our confidentiality agreements and the loss of employees who have specialized knowledge and expertise could harm our competitive position and cause our sales and operating results to decline as a result of increased competition. In addition, others may obtain knowledge of our trade secrets through independent development or other access by legal means.

The applicable governmental authorities may not approve our pending service mark and trademark applications. A failure to obtain trademark registrations in the United States and in other countries could limit our ability to obtain and retain our trademarks and impede our marketing efforts in those jurisdictions. Moreover, third parties may seek to oppose our applications or otherwise challenge the resulting registrations. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition and could require us to devote resources to advertising and marketing new brands.

The failure of our patents, trademarks or confidentiality agreements to protect our intellectual property and other proprietary information, including our processes, apparatuses, technology, trade secrets, trade names and proprietary manufacturing expertise, methods and compounds, could have a material adverse effect on our competitive advantages over other producers.

Our products may infringe the intellectual property rights of others, which may cause us to incur unexpected costs or prevent us from selling our products.

Many of our competitors have a substantial amount of intellectual property. We cannot guarantee that our processes and products do not and will not infringe issued patents (whether present or future) or other intellectual property rights belonging to others, including, without limitation, situations in which our products, processes or technologies may be covered by patent applications filed by other parties in the United States or abroad.

From time to time, we oppose patent applications that we consider overbroad or otherwise invalid in order to maintain the necessary freedom to operate fully in our various business lines without the risk of being sued for patent infringement. If, however, patents are subsequently issued on any such applications by other parties, or if patents belonging to others already exist that cover our products, processes or technologies, we could be liable for infringement or have to take other remedial or curative actions to continue our manufacturing and sales activities with respect to one or more products.

We may also be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the patents, trademarks and other intellectual property rights of third parties by us or our licensees in connection with their use of our products. Intellectual property litigation is expensive and time-consuming, regardless of the merits of any claim, and could divert our management’s attention from operating our business.

If we were to discover that our processes, technologies or products infringe the valid intellectual property rights of others, we might need to obtain licenses from these parties or substantially re-engineer our products in order to avoid infringement. We may not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer our products successfully. Moreover, if we are sued for infringement and lose, we could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. If we incur significant costs to litigate our intellectual property rights or to obtain licenses, or if our inability to obtain required licenses for our processes, technologies or products prevents us from selling our products , our business and results of operations could be materially adversely affected.

A major failure of our information systems could harm our business.

We depend on integrated information systems to conduct our business. We may experience operating problems with our information systems as a result of system failures, viruses, computer “hackers” or other causes. If our systems for protecting against these risks prove not to be sufficient, we could be adversely affected by, among other things, loss or damage of intellectual property, proprietary information, or customer data, having our business operations interrupted, and increased costs to prevent, respond to, or mitigate attacks on our systems. Any significant disruption or slowdown of our systems could cause customers to cancel orders or cause standard business processes to become inefficient or ineffective, which could adversely affect our financial position, results of operations or cash flows.

Our business is subject to seasonality that may affect our quarterly operating results and impact the market price of our common stock.

Seasonal changes and weather conditions typically affect our Paving and Roofing end use market. In particular, sales volumes for paving products generally rise in the warmer months and generally decline during the colder months of fall and winter. Roofing product sales volumes tend to be more consistent throughout the year. In addition, abnormally cold or wet seasons may cause reduced purchases from our Paving and Roofing customers. However, because seasonal weather patterns are difficult to predict, we cannot accurately estimate fluctuations in our quarterly Paving and Roofing sales in any given year. If Paving and Roofing results cause our operating results to fall below the periodic expectations of financial analysts or investors, the market price of our common stock may decline.

Substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the senior secured credit facilities and the senior notes.

As of December 31, 2013, we had $350.0 million principal amount of indebtedness outstanding in the form of senior unsecured notes. Additionally, we have 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. As of December 31, 2013, the facilities were undrawn, and available borrowing capacity was $186.9 million.

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.

Although the terms of our senior secured credit facilities and the indenture governing the senior notes contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of important exceptions, and additional indebtedness that we may incur from time to time to finance projects or for other reasons in compliance with these restrictions could be substantial. For example, we expect a significant portion of the construction of the 30 kiloton plant in Mailiao, Taiwan by our KFPC joint venture will be financed with indebtedness, half of which we or one of our subsidiaries would guarantee. If we and our restricted subsidiaries incur significant additional indebtedness, the related risks that we face could increase.

Our indebtedness could:

- make it more difficult for us to satisfy our financial obligations;
- increase our vulnerability to adverse economic and industry conditions;
- increase the risk that we breach financial covenants and other restrictions in our debt agreements, which can be exacerbated by volatility in the cost of our monomers and the resulting impact on our earnings;
- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in the business and industry in which we operate;
- restrict us from exploiting business opportunities;
- place us at a disadvantage compared to our competitors that have less debt and lease obligations; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy and other general corporate purposes or to refinance our existing debt.

Our ability to pay principal of and interest on indebtedness, fund working capital and make anticipated capital expenditures depends on our future performance, which is subject to general economic conditions and other factors, some of which are beyond our control. There can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available under the senior secured credit facilities to fund liquidity needs, including debt service. Furthermore, if we decide to undertake additional investments in existing or new facilities, this will likely require additional capital, and there can be no assurance that this capital will be available.

Our debt instruments, including our senior secured credit facilities and the indenture governing our senior notes, impose significant operating and financial restrictions on us and affect our ability to access liquidity.

Our senior secured credit facilities and the indenture governing our senior notes contain, and any future indebtedness may contain, a number of restrictive covenants that impose significant operating and financial restrictions on us. Under the terms of our senior secured credit facilities, we are subject to a financial covenant requiring us to maintain a fixed charge coverage ratio of 1.0 to 1.0 if availability under the facilities is below specified amounts. In addition, our senior secured credit facilities and indenture include restrictions on our ability to, in certain circumstances, among other things:

- place liens on our or our subsidiaries' assets;
- make investments other than permitted investments;
- incur additional indebtedness;
- merge, consolidate or dissolve;

- sell assets;
- engage in transactions with affiliates;
- change the nature of our business;
- change our or our subsidiaries' fiscal year or organizational documents; and
- make restricted payments (including certain equity issuances).

A failure by us or our subsidiaries to comply with the covenants and restrictions contained in the agreements governing our indebtedness could result in an event of default under such indebtedness, which could adversely affect our ability to respond to changes in our business and manage our operations. Upon the occurrence of an event of default under any of the agreements governing our indebtedness, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in the agreements. Further, an event of default or acceleration of indebtedness under one instrument may constitute an event of default under another instrument. If any of our indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay this indebtedness in full, which could have a material adverse effect on our ability to continue to operate as a going concern.

Chemical manufacturing is inherently hazardous, which could result in accidents that disrupt our operations or expose us to significant losses or liabilities.

Hazards associated with chemical manufacturing and the related storage and transportation of raw materials, products and wastes exist in our operations and the operations of other occupants with whom we share manufacturing sites. These hazards could lead to an interruption or suspension of operations and have an adverse effect on the productivity and profitability of a particular manufacturing facility or on us as a whole. These potential risks include, but are not necessarily limited to:

- pipeline and storage tank leaks and ruptures;
- explosions and fires;
- inclement weather and natural disasters;
- terrorist attacks;
- mechanical failure; and
- chemical spills and other discharges or releases of toxic or hazardous substances or gases.

These hazards may result in personal injury and loss of life, damage to property and contamination of the environment, which may result in a suspension of operations and the imposition of civil or criminal penalties, including governmental fines, expenses for remediation and claims brought by governmental entities or third parties. The loss or shutdown of operations over an extended period at our Belpre facility, which is our largest manufacturing facility, or any of our other major operating facilities could have a material adverse effect on our financial condition and results of operations. Our property, business interruption and casualty insurance may not fully insure us against all potential hazards incidental to our business.

We may be liable for damages based on product liability claims brought against our customers in our end use markets.

Many of our products provide critical performance attributes to our customers' products that are sold to consumers who could potentially bring product liability suits in which we could be named as a defendant. The sale of these products entails the risk of product liability claims. If a person were to bring a product liability suit against one of our customers, the customer may attempt to seek contribution from us. A person may also bring a product liability claim directly against us. A successful product liability claim or series of claims against us in excess of our insurance coverage, for which we are not otherwise indemnified, could have a material adverse effect on our financial condition or results of operations. There can be no assurance that our efforts to protect ourselves from product liability claims in this regard will ultimately protect us from any such claims.

As a global business, we are exposed to local business risks in different countries, which could have a material adverse effect on our financial condition or results of operations.

We have significant operations in foreign countries, including manufacturing facilities, research and development facilities, sales personnel and customer support operations. Currently, we operate, or others operate on our behalf, facilities in Brazil, Germany, France and Japan, in addition to our operations in the United States. In February 2013, we executed definitive agreements governing the formation of a 50/50 joint venture with FPCC in Mailiao, Taiwan.

Our foreign operations are subject to risks inherent in doing business in foreign countries, including, but not necessarily limited to:

- new and different legal and regulatory requirements in local jurisdictions;
- export duties or import quotas;
- domestic and foreign customs and tariffs or other trade barriers;
- potential staffing difficulties and labor disputes;

- risk of non-compliance with the United States Foreign Corrupt Practices Act or similar anti-bribery legislation in other countries by agents or other third-party representatives;
- managing and obtaining support and distribution for local operations;
- increased costs of transportation or shipping;
- credit risk and financial conditions of local customers and distributors;
- potential difficulties in protecting intellectual property;
- risk of nationalization of private enterprises by foreign governments;
- potential imposition of restrictions on investments;
- potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries;
- foreign currency exchange restrictions and fluctuations;
- local political and social conditions, including the possibility of hyperinflationary conditions and political instability in certain countries; and
- civil unrest, including labor unrest, in response to local political conditions.

We may not be successful in developing and implementing policies and strategies to address the foregoing risks in a timely and effective manner at each location where we do business. Consequently, the occurrence of one or more of the foregoing risks could have a material adverse effect on our international operations or upon our financial condition and results of operations.

Compliance with extensive environmental, health and safety laws could require material expenditures, changes in our operations or site remediation.

Materials such as butadiene, styrene and isoprene, which are used in the manufacture of our products, can represent potentially significant health and safety concerns. Our products are also used in a variety of end uses that have specific regulatory requirements such as those relating to products that have contact with food or medical end uses.

We use large quantities of hazardous substances and generate hazardous wastes in our manufacturing operations. Consequently, our operations are subject to extensive environmental, health and safety laws and regulations at the international, national, state and local level in multiple jurisdictions. These laws and regulations govern, among other things, air emissions, wastewater discharges, solid and hazardous waste management, site remediation programs and chemical use and management. Many of these laws and regulations have become more stringent over time and the costs of compliance with these requirements may increase, including costs associated with any necessary capital investments. In addition, our production facilities require operating permits that are subject to renewal and, in some circumstances, revocation. The necessary permits may not be issued or continue in effect, and renewals of any issued permits may contain significant new requirements or restrictions. The nature of the chemical industry exposes us to risks of liability due to the use, production, management, storage, transportation and sale of materials that are heavily regulated or hazardous and can cause contamination or personal injury or damage if released into the environment.

Because of the nature of our operations, we could be subject to legislation and regulation affecting the emission of greenhouse gases. In the last five years, the EPA promulgated regulations applicable to projects involving greenhouse gas emissions above a certain threshold, and the U.S. and certain states within the U.S. have enacted, or are considering, limitations on greenhouse gas emissions. Jurisdictions outside the U.S. are also addressing greenhouse gases by legislation or regulation. In addition, efforts have been made and continue to be made at the international level toward the adoption of international treaties or protocols that would address global greenhouse gas emissions. These requirements to limit greenhouse gas emissions may require us to incur capital investments to upgrade our operations to comply with any future greenhouse gas emissions controls. While the impact of any such legislation, regulation, treaties or protocols is currently speculative, any such legislation, regulation, treaties or protocols, if enacted, may have an adverse effect on our operations or financial condition. Further, some scientific studies on the effect of the emission of greenhouse gases on climate suggest that adverse weather events may become stronger or more frequent in the future in certain of the areas in which we operate, although the scientific studies are not unanimous. Due to their location, some of our operations may be vulnerable to operational and structural damages resulting from hurricanes and other severe weather systems. Our insurance may not cover all associated losses. We are taking steps to mitigate physical risks from storms, but no assurance can be given that future storms will not have a material adverse effect on our business.

Compliance with environmental laws and regulations generally increases the costs of transportation and storage of raw materials and finished products, as well as the costs of storage and disposal of wastes. We may incur substantial costs, including fines, damages, criminal or civil sanctions and remediation costs, or experience interruptions in our operations for violations arising under environmental laws, regulations or permit requirements.

Regulation of our employees' exposure to butadiene could require material expenditures or changes in our operations.

Butadiene is a known carcinogen in laboratory animals at high doses and is being studied for its potential adverse health effects. The Occupational Safety and Health Administration limits the permissible employee exposure to butadiene. Future studies on the health effects of butadiene may result in additional regulations or new regulations in Europe that further restrict or prohibit the use of, and exposure to, butadiene. Additional regulation of butadiene could require us to change our operations, and these changes could affect the quality of our products and materially increase our costs.

We may be subject to losses due to lawsuits arising out of environmental damage or personal injuries associated with chemical manufacturing.

We face the risk that individuals could, in the future, seek damages for personal injury due to exposure to chemicals at our facilities or to chemicals otherwise owned or controlled by us. We may be subject to future claims with respect to workplace exposure, workers' compensation and other matters that are filed after the date of our acquisition of Shell Chemicals' elastomers business. While Shell Chemicals has agreed to indemnify us for certain claims brought with respect to matters occurring before our separation from Shell Chemicals in February 2001, those indemnity obligations are subject to limitations, and we cannot be certain that those indemnities will be sufficient to satisfy claims against us. In addition, we face the risk that future claims would fall outside of the scope of the indemnity due either to the limitations on the indemnity or to their arising from events and circumstances occurring after February 2001. Finally, under certain of the lease and operating agreements under which LyondellBasell leases and provides services to our sites in Wesseling, Germany, and Berre, France, we are required to indemnify LyondellBasell in certain circumstances, including in certain circumstances for loss and damages resulting from LyondellBasell's negligence in performing their obligations.

Some environmental laws could impose on us the entire cost of clean-up of contamination present at a facility even though we did not cause the contamination. These laws often identify the site owner as one of the parties that can be jointly and severally liable for on-site remediation, regardless of fault or whether the original activity was legal at the time it occurred. For example, our Belpre, Ohio, facility is the subject of a required remediation program to clean up past contamination at the site and at an adjacent creek and we are a party to that site clean-up order. While Shell Chemicals has posted financial assurance of $5.2 million for this program and has taken the lead in implementing the program, we may incur costs and be required to take action under this program. Similarly, the Shell Chemicals indemnity for remediation at the Belpre facility may not cover all claims that might be brought against us.

Our Paulinia, Brazil, facility also has on-site contamination resulting from past operations of Shell Chemicals. Although an indemnity from Shell Chemicals covers claims related to specified areas within the facility, we may be required to undertake and pay for remediation of these and other areas. The indemnity coverage from Shell Chemicals is limited in time and amount and we cannot rely upon it to cover possible future claims for on-site contamination separate from the areas specified in the indemnity. The Paulinia facility is also adjacent to a former Shell Chemicals site where we believe past manufacturing of hydrocarbons resulted in significant contamination of soil and groundwater and required relocation of nearby residents. It is our understanding that the Shell Chemicals portion of the site has changed ownership several times, which may impact financial responsibility for contamination on the site. While we are not aware of any significant contamination at our Paulinia facility, we could potentially be the subject of claims related to pesticide contamination and effects at some point in the future.

In general, there is always the possibility that a third-party plaintiff or claimant, or governmental or regulatory authority, could seek to include us in an action or claim for damages, clean-up, or remediation pertaining to events or circumstances occurring or existing at one or more of our sites prior to the time of our ownership or occupation of the applicable site. In the event that any of these actions or claims were asserted against us, our results of operations could be adversely affected.

Regulatory and statutory changes applicable to us or our customers could adversely affect our financial condition and results of operations.

We and many of the applications for the products in the end use markets in which we sell our products are regulated by various national and local rules, laws and regulations. Changes in any of these areas could result in additional compliance costs, seizures, confiscations, recall or monetary fines, any of which could prevent or inhibit the development, distribution and sale of our products. For example, changes in environmental regulations restricting the use of disposable diapers could cause a decline in sales to producers of that product. In addition, we benefit from certain trade protections, including anti-dumping protection. If we were to lose these protections, our results of operations could be adversely affected.

We are subject to 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.

We are subject to numerous regulations, including customs and international trade laws, export control, antitrust laws and zoning and occupancy laws that regulate manufacturers generally and/or govern the importation, promotion and sale of our products, the operation of factories and warehouse facilities and our relationship with our customers, suppliers and competitors. If these regulations were to change or were violated by our management, employees, suppliers, buying agents or trading companies, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational harm, which could reduce demand for our products and hurt our business and negatively impact our results of operations. In addition, changes in federal and state minimum wage laws and other laws relating to employee benefits could cause us to incur additional wage and benefits costs, which could negatively impact our profitability.

Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effects on our operations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business.

Fluctuations in currency exchange rates may significantly impact our results of operations and may significantly affect the comparability of our results between financial periods.

Our operations are conducted by subsidiaries in many countries. The results of the operations and the financial position of these subsidiaries are reported in the relevant foreign currencies and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements. The main currencies to which we are exposed, besides the U.S. dollar, are the Euro, Japanese Yen and Brazilian Real. The exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly and may continue to do so in the future. A depreciation of these currencies against the U.S. dollar will decrease the U.S. dollar equivalent of the amounts derived from these operations reported in our consolidated financial statements and an appreciation of these currencies will result in a corresponding increase in such amounts. Because many of our raw material costs are determined with respect to the U.S. dollar rather than these currencies, depreciation of these currencies may have an adverse effect on our profit margins or our reported results of operations. Conversely, to the extent that we are required to pay for goods or services in foreign currencies, the appreciation of such currencies against the U.S. dollar will tend to negatively impact our results of operations. In addition, currency fluctuations may affect the comparability of our results of operations between financial periods.

We incur currency transaction risk whenever we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. From time to time, we use hedging strategies to reduce our exposure to currency fluctuations. Given the volatility of exchange rates, there can be no assurance that we will be able to effectively manage our currency transaction risks, that our hedging activities will be effective or that any volatility in currency exchange rates will not have a material adverse effect on our financial condition or results of operations.

We may have additional tax liabilities.

We are subject to income taxes and state taxes in the U.S., as well as numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different to that which is reflected in our consolidated financial statements. Should any tax authority take issue with our estimates, our results of operations, financial position and cash flows could be adversely affected.

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

We are a 50/50 joint venture partner with FPCC to build, own and operate a 30 kiloton HSBC plant at FPCC's petrochemical site in Mailiao, Taiwan. Construction of the HSBC plant commenced recently; however, the plant may not be successfully constructed and operated within our expected timeframe or budget or yield expected results. In addition, the project remains subject to numerous known and unknown contingencies, including material governmental approvals and permitting; cost and availability of raw materials, labor and financing; weather and operational delays; and economic, political and other disruptions. If any of these risks materialize, our prospects in Asia and as a result, our ability to meet demand for HSBC products could be materially adversely affected.

In January 2014, a group of local residents in Mailiao, Taiwan, sued the Taiwanese Executive Yuan (the executive branch of the Taiwanese government) to overturn an appeal decision rendered by the Executive Yuan in which it had overturned a prior ruling of the Taiwan Environmental Protection Administration. The Taiwan EPA ruling in question required the inclusion of restrictive conditions relating to FPCC's entire petrochemical site in Mailiao, Taiwan, which is the site of our joint venture with FPCC, in the environmental permit for the construction of the HSBC plant by our joint venture company. Neither we nor our joint venture is a party to the proceedings, nor do we or our joint venture have any right under Taiwan law to join the proceedings. We have been informed that the court in the proceeding has issued a ruling that could reinstate the restrictive conditions in FPCC's environmental permit, although as of the date of this filing, we do not have clear guidance on the reasoning for or the extent of the judge's ruling. The ruling could conflict with the prior appeal decision of the Executive Yuan, and if the ruling is not overturned, it could adversely impact the ability of the joint venture to obtain material operating permits in the future.

Our relationship with our employees could deteriorate, which could adversely affect our operations.

As a manufacturing company, we rely on our employees and good relations with our employees to produce our products and maintain our production processes and productivity. We had 936 full-time employees as of December 31, 2013. A significant number of our non-U.S. employees are subject to arrangements similar to collective bargaining arrangements. With respect to these employees, we may not be able to negotiate labor agreements on satisfactory terms, and actions by our employees may disrupt our business. If these workers were to engage in a strike, work stoppage or other slowdown, our operations could be disrupted or we could experience higher labor costs. In addition, if our other employees were to become unionized, in particular our employees at our Belpre, Ohio facility, we could experience significant operating disruptions and higher ongoing labor costs, which could adversely affect our business and financial condition and results of operations. Because many of the personnel who operate our European facilities are employees of LyondellBasell, relations between LyondellBasell and its employees may also adversely affect our business and financial condition and results of operations.

Loss of key personnel or our inability to attract and retain new qualified personnel could hurt our business and inhibit our ability to operate and grow successfully.

Our success in the highly competitive markets in which we operate will continue to depend to a significant extent on our key employees. We are dependent on the expertise of our executive officers. Loss of the services of any of our executive officers could have an adverse effect on our prospects. We may not be able to retain our key employees or to recruit qualified individuals to join our company. The loss of key employees could result in high transition costs and could disrupt our operations.

We generally do not have long-term contracts with our customers and the loss of customers could adversely affect our sales and profitability.

With some exceptions, our business is based primarily upon individual sales orders with our customers. As such, our customers could cease buying our products from us at any time, for any reason, with little or no recourse. If multiple customers elected not to purchase products from us, our business prospects, financial condition and results of operations could be adversely affected.

A decrease in the fair value of pension assets could materially increase future funding requirements of the pension plan.

We sponsor a defined benefit pension plan. The total projected benefit obligation of our defined benefit pension plan exceeded the fair value of the plan assets by approximately $29.5 million at December 31, 2013. We contributed $6.2 million to the pension plan in 2013. Among the key assumptions inherent in the actuarially calculated pension plan obligation and pension plan expense are the discount rate and the expected rate of return on plan assets. If discount rates or actual rates of return on invested plan assets were to decrease, the pension plan obligation could increase materially. The size of future required pension contributions could result in our dedicating a substantial portion of our cash flow from operations to making the contributions, which could materially adversely affect our business, financial condition and results of operations.

Domestic or international natural disasters or terrorist attacks may disrupt our operations, decrease the demand for our products or otherwise have an adverse impact on our business.

Chemical related assets, and U.S. corporations such as ours, may be at greater risk of future terrorist attacks than other possible targets in the U.S. and throughout the world. Moreover, extraordinary events such as natural disasters may negatively affect local economies, including those of our customers or suppliers. The occurrence of such events cannot be predicted, although they can be expected to continue to adversely impact the economy in general and our specific markets. The resulting damage from such an event could include loss of life, property damage or site closure. Any, or a combination, of these factors could adversely impact our results of operations, financial position and cash flows.

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

Provisions of our charter and bylaws may have the effect of delaying, deferring or preventing a change in control of our company. A change of control could be proposed in the form of a tender offer or takeover proposal that might result in a premium over the market price for our common stock. In addition, these provisions could make it more difficult to bring about a change in the composition of our board of directors, which could result in entrenchment of current management. For example, our charter and bylaws:

- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- require that the number of directors be determined, and provide that any vacancy or new board seat may be filled, only by the board;
- do not permit stockholders to act by written consent;
- do not permit stockholders to call a special meeting;
- permit the bylaws to be amended by a majority of the board without shareholder approval, and require that a bylaw amendment proposed by stockholders be approved by two-thirds of all outstanding shares;
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- authorize the issuance of undesignated preferred stock, or “blank check” preferred stock, by our board of directors without shareholder approval.

Our Kraton Performance Polymers, Inc. Executive Severance Program and the equity arrangements with our executive officers also contain change in control provisions. Under the terms of these arrangements, the executive officers are entitled to receive significant cash payments, immediate vesting of options, restricted shares and notional shares, and continued medical benefits in the event their employment is terminated under certain circumstances within one year following a change in control, and with respect to certain equity awards, within two years following a change in control.

Any Supplemental Pension Benefits a participant may have accrued under the Kraton Polymers U.S. LLC Pension Benefit Restoration Plan also vests immediately on a change of control and any amounts accrued under the Kraton Polymers LLC Executive Deferred Compensation Plan are immediately payable upon a change of control. We disclose in proxy statements filed with the SEC potential payments to our named executive officers in connection with a change of control. Further, certain change of control transactions, including our proposed transaction with LCY, constitute an event of default under our credit facility and require us to repurchase our outstanding senior notes at a price equal to 101% of their principal amount, plus any accrued and unpaid interest. The combination agreement with LCY provides as a condition to closing that we obtain a waiver or an amendment under our credit facility and, in the case of our notes, a consent or alternatively obtain backstop financing to fund the change of control repurchase. We intend to obtain the applicable waivers or obtain alternative financing to satisfy the closing condition, but there can be no assurance that we will be successful in doing so. See “Item 7. Management’s Discussion and Analysis—Liquidity and Capital Resources—Known Trends and Uncertainties.”

These arrangements and provisions of our organizational documents and Delaware law may have the effect of delaying, deferring or preventing changes of control or changes in management of our company, even if such transactions or changes would have significant benefits for our stockholders. As a result, these provisions could limit the price some investors might be willing to pay in the future for shares of our common stock.

We do not currently pay dividends and may not pay any dividends for the foreseeable future.

We do not currently pay dividends, and we may not pay dividends to our stockholders for the foreseeable future. The senior secured credit facilities and our senior notes indenture limit our ability to pay cash dividends and may preclude us from paying cash dividends, and we may be subject to other restrictions on our ability to pay dividends from time to time. In addition, because we are a holding company, our ability to pay dividends depends on our receipt of cash dividends and distributions from our subsidiaries. Accordingly, investors must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our common stock. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend upon our results of operations, financial conditions, contractual restrictions, restrictions imposed by applicable law or the SEC and other factors our board deems relevant.

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

Kraton Performance Polymers, Inc. is a holding company with nominal net worth. We do not have any assets or conduct any business operations other than our investments in our subsidiaries, including Kraton Polymers LLC. As a result, our ability to pay dividends, if any, will be dependent upon cash dividends and distributions or other transfers from our subsidiaries. Payments to us by our subsidiaries will be contingent upon their respective earnings and subject to any limitations on the ability of such entities to make payments or other distributions to us. In addition, our subsidiaries are separate and distinct legal entities and have no obligation to make any funds available to us.

Item 1B. Unresolved Staff Comments.
None.

Item 2. Properties.
Our principal executive offices are located at 15710 John F. Kennedy Boulevard, Suite 300, Houston, Texas 77032.

We believe that our properties and equipment are generally in good operating condition and are adequate for our present needs. Production capacity at our sites can vary greatly depending upon feedstock, product mix and operating conditions.

Our properties consist primarily of manufacturing and research and development facilities for the production of specialty chemicals. The following table sets forth our principal facilities:

Location	Acres	Approximate Square Footage	Use	Owned/Leased	
Belpre, Ohio	350	3,600,000	Manufacturing	Owned	(1)
Wesseling, Germany	8.1	354,000	Manufacturing	Owned	(2)
Berre, France	9.0	392,000	Manufacturing	Owned	(2)
Paulinia, Brazil	179	2,220,000	Manufacturing	Owned	
Kashima, Japan	11.6	395,000	Manufacturing	Owned	(3)
Houston, Texas	N/A	105,500	R&D	Leased	(4)
Shanghai, China	N/A	33,000	R&D	Leased	(4)
Amsterdam, Netherlands	N/A	32,015	R&D	Leased	(4)
Tsukuba, Japan	4.5	23,327	R&D	Leased	(4)

(1) A portion of the HSBC capacity at the Belpre facility is owned by Infineum USA, a joint venture between Shell Chemicals and ExxonMobil.
(2) We lease the land, but own the manufacturing facility and production equipment.
(3) The Kashima, Japan, facility is owned by our 50%-50% joint venture with JSR.
(4) We lease the facility, but own the equipment.

Belpre, Ohio. Our Belpre site is our largest manufacturing facility, with connections to barge, rail and truck shipping and receiving facilities. The Belpre facility has approximately 192 kilotons of production capacity to which we are entitled. The Belpre facility currently produces USBC, HSBC, and Cariflex products. A portion of the HSBC capacity at Belpre is owned by Infineum USA. Infineum is a joint venture between Shell Chemicals and ExxonMobil that makes products for the lubricant additives business. Under a facility sharing agreement that terminates in 2030, we operate Infineum's share of the HSBC assets to manufacture a line of products for Infineum, and Infineum is entitled to a portion of the HSBC capacity at Belpre. Other than those assets owned by Infineum, we own the Belpre facility and the land on which it is located.

Wesseling, Germany. Our Wesseling manufacturing facility is located on the premises of LyondellBasell. The facility has direct access to major highways and extensive railway connections. Production capacity is approximately 96 kilotons. LyondellBasell owns the land on the premises and leases it to us. The lease is for a term of 30 years, beginning from March 31, 2000 and is extended automatically for a successive period of 10 years unless terminated upon one-year's written notice by either party. We own the SBC manufacturing facility and production equipment in the facility. The Wesseling facility currently produces USBC products. LyondellBasell provides us operating and site services, utilities, materials and facilities under a long-term production agreement. LyondellBasell has the right to approve any expansion of our facility at Wesseling although its consent may only be withheld if an expansion would be detrimental to the site.

Berre, France. Our Berre manufacturing facility is located in southeastern France. The facility has direct access to sea, rail and road transport and has a production capacity of approximately 87 kilotons. The Berre site is leased to us by LyondellBasell, which operates the facility and with which our lease exists under a long-term lease due to expire in 2030, however the lease is terminable by either party upon 18 months' written notice. As of the date of this filing, no such notice has been given by either party. We own the SBC manufacturing facility and production equipment at Berre. We currently produce USBC and HSBC products there. We have an operating agreement with LyondellBasell for various site services, utilities and facilities under a long-term agreement.

Paulinia, Brazil. Our Paulinia manufacturing facility is located with access to major highways. The facility currently has a production capacity of approximately 29 kilotons of USBC in addition to capacity dedicated to producing Cariflex products. We own the facility and the land at Paulinia. BASF owns the adjacent site and shares title to the facilities that are common to the two companies such as the administration building, cafeteria and maintenance facilities.

Kashima, Japan. Our Kashima manufacturing facility is owned and operated by a joint venture named Kraton JSR Elastomers K.K., ("KJE"), between us and JSR. The Kashima facility is located northeast of Tokyo on the main island of Honshu at a JSR site that includes several synthetic rubber facilities and butadiene and isoprene extraction units. This facility is serviced by rail, barge and truck connections. Production capacity is approximately 31 kilotons of USBC products, and we are generally entitled to 50% of this production pursuant to our joint venture agreement.

JSR markets its portion of the production under its own trademarks, and we market our portion of the production under the Kraton® brand name although this amount may vary from time to time based on the economic interest of the joint venture. We and JSR each have a right of first refusal on the transfer of the joint venture interests of the other.

Research, Development and Technical Service Facilities. Our research and development activities are primarily conducted in laboratories in Houston, Texas, and Amsterdam, Netherlands. We support our customers via a technical service network of laboratories around the globe. Our technical service laboratories are located in Shanghai, China, Tsukuba, Japan, and Paulina, Brazil. In addition we have a technical service office in Mont St. Guibert, Belgium.

We perform application development and technical service support in all locations. In addition, our research and development centers in Houston and Amsterdam carry out polymer and process development to support our manufacturing sites as well as our customers.

Item 3. Legal Proceedings.

We received notice in July, 2012 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.

In January 2014, our Belpre, Ohio facility experienced a mechanical equipment failure due to inclement weather that resulted in a release of process solvents into nearby waterways. Applicable authorities were notified, and cleanup activities are underway. Kraton may be required to pay governmental fines or sanctions in excess of $100,000 in connection with this event.

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. While the outcome of these proceedings cannot be predicted with certainty, our management does not expect any of these other existing matters, individually or in the aggregate, to have a material adverse effect upon our financial position, results of operations or cash flows. Furthermore, Shell Chemicals has agreed, subject to certain limitations, to indemnify us for certain claims brought with respect to matters occurring before February 28, 2001. As of the date of this Form 10-K, we have not been named as parties in any of these claims. Our right to indemnification from Shell Chemicals is subject to certain time limitations. 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.

For information regarding legal proceedings, including environmental matters, see “Part I, Item 1. Business—Environmental Regulation” and Note 11 Commitments and Contingencies (subsections (b) and (d) of which are incorporated herein by reference) to the consolidated financial statements for further discussion.

Item 4. Mine Safety Disclosures.
Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock has been listed on the New York Stock Exchange (NYSE) under the symbol "KRA" since December 17, 2009. Prior to that date, our equity securities were not listed on any exchange in each period indicated or traded on any public trading market. The following table sets forth the high and low intraday sales prices of our common stock per share, as reported by the NYSE.

	Stock Price Range	
	High	Low
2013		
Fourth Quarter	$ 23.98	$ 18.38
Third Quarter	$ 22.16	$ 18.33
Second Quarter	$ 23.73	$ 18.82
First Quarter	$ 28.26	$ 23.25
2012		
Fourth Quarter	$ 26.69	$ 19.54
Third Quarter	$ 27.30	$ 18.76
Second Quarter	$ 27.75	$ 17.61
First Quarter	$ 31.17	$ 20.73

We have not previously declared or paid any dividends or distributions on our common stock. As of February 24, 2014, we had approximately 108 shareholders of record of our common stock and approximately 4,998 beneficial owners.

Stock Performance Graph

The following graph reflects the comparative changes in the value from December 17, 2009, the first trading day of our common stock on the NYSE, through December 31, 2013, assuming an initial investment of $100 and the reinvestment of dividends, if any, in (1) our common stock, (2) the S&P SmallCap 600 Index, and (3) the Dow Jones U.S. Specialty Chemicals Index. The information under this caption is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing. Historical performance should not be considered indicative of future stockholder returns.

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Total Return to Shareholders'

(Includes reinvestment of dividends)

Company Name / Index	Annual Return Percentage, Years Ending 12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Kraton Performance Polymers, Inc.	0.37%	128.24%	(34.41)%	18.37%	(4.08)%
S&P SmallCap 600 Index	3.68%	26.31%	1.02%	16.33%	41.31%
Dow Jones U.S. Specialty Chemicals	1.04%	37.19%	(2.82)%	32.23%	22.88%

Company Name / Index	Cumulative Value of $100 Investment, through December 31, 2013 Base Period 12/17/09	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Kraton Performance Polymers, Inc.	$100.00	$100.37	$229.09	$150.26	$177.87	$170.61
S&P SmallCap 600 Index	$100.00	$103.68	$130.95	$132.28	$153.88	$217.45
Dow Jones U.S. Specialty Chemicals	$100.00	$101.04	$138.62	$134.70	$178.11	$218.87

Dividends

We have not previously declared or paid any dividends or distributions on our common stock and have instead deployed earnings to fund the development of our business. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital expenditure requirements, restrictions contained in current and future financing instruments and other factors that our board of directors deems relevant. Because we are a holding company, our ability to pay dividends depends on our receipt of cash dividends and distributions from our subsidiaries. The terms of our senior notes and senior secured credit facilities restrict our ability and the ability of our subsidiaries to pay dividends, as may the terms of any of our future debt or preferred securities. For more information about these restrictions, see Note 6 Long-Term Debt to the consolidated financial statements.

Kraton Polymers LLC—Debt Refinancing

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 the then existing senior secured credit facility and we repaid in full all outstanding amounts payable under the previously existing indebtedness. Borrowings under the Senior Secured Credit Facilities are subject to certain limitations. See Note 6 Long-Term Debt to the consolidated financial statements for further discussion.

Item 6. Selected Financial Data.

The selected financial data below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included under Item 7 of this Form 10-K as well as the consolidated financial statements and the related notes.

	Years ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Consolidated statements of operations data:					
Operating revenue:					
Sales revenue	$1,292,121	$1,423,122	$1,437,479	$1,228,425	$920,362
Other revenue(1)	0	0	0	0	47,642
Total operating revenue	1,292,121	1,423,122	1,437,479	1,228,425	968,004
Cost of goods sold	1,066,289	1,191,680	1,121,293	927,932	792,472
Gross profit	225,832	231,442	316,186	300,493	175,532
Operating expenses:					
Research and development	32,014	31,011	27,996	23,628	21,212
Selling, general and administrative	105,558	98,555	101,606	92,305	79,504
Depreciation and amortization	63,182	64,554	62,735	49,220	66,751
Impairment of long-lived assets	0	5,434	0	0	0
Total operating expenses	200,754	199,554	192,337	165,153	167,467
Gain (loss) on extinguishment of debt	0	0	(2,985)	0	23,831
Earnings of unconsolidated joint venture (2)	530	530	529	487	403
Interest expense, net	30,470	29,303	29,884	23,969	33,956
Income (loss) before income taxes	(4,862)	3,115	91,509	111,858	(1,657)
Income tax expense (benefit)	(3,887)	19,306	584	15,133	(1,367)
Consolidated net income (loss)	(975)	$(16,191)	$90,925	$96,725	$(290)
Net loss attributable to noncontrolling interest	(357)	0	0	0	0
Net income (loss) attributable to Kraton	$(618)	$(16,191)	$90,925	$96,725	$(290)
Earnings (loss) per common share:					
Basic	$(0.02)	$(0.50)	$2.85	$3.13	$(0.01)
Diluted	$(0.02)	$(0.50)	$2.81	$3.07	$(0.01)
Weighted average common shares outstanding:					
Basic	32,096	31,939	31,786	30,825	19,808
Diluted	32,096	31,939	32,209	31,379	19,808

(1) Other revenue includes the sale of by-products generated in the production of IR and SIS at Pernis, where we ceased production on December 31, 2009.

(2) Represents our 50% joint venture interest in Kraton JSR Elastomers K.K., which is accounted for using the equity method of accounting.

As of December 31,

	2013	2012	2011	2010	2009
	(in thousands)				
Consolidated balance sheets data:					
Cash and cash equivalents	$175,872	$223,166	$88,579	$92,750	$69,291
Total assets	$1,194,797	$1,229,189	$1,153,756	$1,080,723	$974,499
Total debt	$350,989	$448,017	$392,500	$382,675	$384,979

	2013	2012	2011	2010	2009
Other data:					
Ratio of earnings to fixed charges	0.80:1.00	1.02:1.00	3.54:1.00	5.07:1.00	0.95:1.00

Our earnings were insufficient to cover our fixed charges by approximately $8.7 million and $1.6 million for the years ended December 31, 2013 and 2009, respectively.

EBITDA, Adjusted EBITDA, Adjusted EBITDA at ECRC and Gross Profit at ECRC

We consider EBITDA, Adjusted EBITDA, Adjusted EBITDA at estimated current replacement cost (ECRC) and Gross Profit at ECRC to be important supplemental measures of our performance and believe they are frequently used by investors, securities analysts and other interested parties in the evaluation of our performance and/or that of other companies in our industry, including period-to-period comparisons. In addition, management uses these measures to evaluate operating performance, and our incentive compensation plan bases incentive compensation payments on our Adjusted EBITDA and Adjusted EBITDA at ECRC performance, along with other factors. EBITDA, Adjusted EBITDA, Adjusted EBITDA at ECRC and Gross Profit at ECRC have limitations as analytical tools and in some cases can vary substantially from other measures of our performance. You should not consider any of them in isolation, or as substitutes for analysis of our results under U.S. generally accepted accounting principles ("GAAP").

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
EBITDA(1)	$88,790	$96,972	$184,128
Adjusted EBITDA(2)	110,169	113,309	194,327
Adjusted EBITDA at ECRC(3)	140,906	143,842	127,995
Gross Profit at ECRC(3)	256,569	261,975	249,854

(1) EBITDA represents net income before interest, taxes, depreciation and amortization.

Limitations for EBITDA as an analytical tool include the following:

- EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest payments, on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA does not reflect any cash requirements for such replacements;
- EBITDA calculation under the terms of our debt agreements may vary from EBITDA presented herein, and our presentation of EBITDA herein is not for purposes of assessing compliance or non-compliance with financial covenants under our debt agreements;
- other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure; and
- EBITDA is not a measure of discretionary cash available to us to invest in the growth of our business.

(2) We prepare Adjusted EBITDA by adjusting EBITDA to eliminate the impact of a number of items we do not consider indicative of our ongoing operating performance. We explain how each adjustment is derived and why we believe it is helpful and appropriate in the reconciliation below. You are encouraged to evaluate each adjustment and the reasons we consider it appropriate for supplemental analysis. As an analytical tool, Adjusted EBITDA is subject to the limitations applicable to EBITDA described above. In addition, in evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

(3) Adjusted EBITDA at ECRC is Adjusted EBITDA net of the impact of the spread between the FIFO basis of accounting and ECRC and Gross Profit at ECRC is gross profit net of the impact of the spread between the FIFO basis of accounting and ECRC. Although we report our financial results using the FIFO basis of accounting, as part of our pricing strategy, we measure our business performance using the estimated current replacement cost of our inventory and cost of goods sold. We maintain our perpetual inventory in our global enterprise resource planning system. The carrying value of our inventory is determined using FIFO. At the beginning of each month, we determine the estimated current cost of our raw materials for that particular month, and using the same perpetual inventory system that we use to manage inventory and therefore costs of goods sold under FIFO, we revalue our ending inventory to reflect the total cost of such inventory as if it was valued using the estimated current replacement cost. The result of this revaluation from FIFO creates the spread between FIFO and ECRC. With inventory valued under FIFO and ECRC, we then have the ability to report cost of goods sold and therefore EBITDA, Adjusted EBITDA, Adjusted EBITDA at ECRC, Gross Profit, and Gross Profit at ECRC under both our FIFO convention and under estimated current replacement cost. As an analytical tool, Adjusted EBITDA at ECRC is subject to the limitations applicable to EBITDA described above, as well as the following limitations:

- due to volatility in raw material prices, Adjusted EBITDA at ECRC may, and often does, vary substantially from EBITDA, net income and other performance measures, including net income calculated in accordance with US GAAP; and
- Adjusted EBITDA at ECRC may, and often will, vary significantly from EBITDA calculations under the terms of our debt agreements and should not be used for assessing compliance or non-compliance with financial covenants under our debt agreements.

Because of these and other limitations, EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

Our presentation of non-GAAP financial measures and the adjustments made therein should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items, and in the future we may incur expenses or charges similar to the adjustments made in the presentation of our non-GAAP financial measures.

As a measure of our performance, Gross Profit at ECRC is limited because it often varies substantially from gross profit calculated in accordance with US GAAP due to volatility in raw material prices.

We compensate for these limitations by relying primarily on our GAAP results and using EBITDA, Adjusted EBITDA, Adjusted EBITDA at ECRC and Gross Profit at ECRC only as supplemental measures. See our financial statements included elsewhere in this Form 10-K.

We reconcile Gross Profit to Gross Profit at ECRC as follows:

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
Gross profit	$225,832	$231,442	$316,186
Add (deduct):			
Spread between FIFO and ECRC	30,737	30,533	(66,332)
Gross profit at ECRC	256,569	261,975	249,854

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We reconcile consolidated net income (loss) to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC as follows:

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
Net income (loss) attributable to Kraton	$(618)	$(16,191)	$90,925
Net loss attributable to noncontrolling interest	(357)	0	0
Consolidated net income (loss)	(975)	(16,191)	90,925
Add (deduct):			
Interest expense, net	30,470	29,303	29,884
Income tax expense (benefit)	(3,887)	19,306	584
Depreciation and amortization expenses	63,182	64,554	62,735
EBITDA	$88,790	$96,972	$184,128
Add (deduct):			
Settlement gain(a)	0	(6,819)	0
Property tax dispute(b)	0	6,211	0
Storm related charges(c)	0	2,481	0
Retirement plan settlement(d)	0	1,100	0
Restructuring charges(e)	815	1,359	1,755
Fees related to a proposed business combination(f)	9,164	0	0
Non-cash compensation expense(g)	7,894	6,571	5,459
Impairment of long-lived assets(h)	0	5,434	0
Production downtime related to MACT legislation(i)	3,506	0	0
Loss on extinguishment of debt(j)	0	0	2,985
Adjusted EBITDA	$110,169	$113,309	$194,327
Add (deduct):			
Spread between FIFO and ECRC	30,737	30,533	(66,332)
Adjusted EBITDA at ECRC	140,906	143,842	127,995

(a) Receipt from LyondellBasell in settlement of disputed charges, which is recorded in cost of goods sold.
(b) Charge associated with resolution of a property tax dispute in France, of which $5.6 million is recorded in cost of goods sold and $0.6 million is recorded in selling, general and administrative expenses.
(c) Storm related charge at our Belpre, Ohio facility, which is recorded in cost of goods sold.
(d) Retirement plan settlement charge associated with a disbursement from a benefit plan upon the retirement of an employee, which is recorded in selling, general and administrative expenses.
(e) Severance expenses, fees associated with the public offering of our senior notes and secondary public offering of our common stock and charges associated with the restructuring of our European organization, which are primarily recorded in selling, general and administrative expenses in 2013 and 2011, and primarily in cost of goods sold in 2012.
(f) Primarily professional fees, related to our proposed combination with the styrenic block copolymer operations of LCY Chemical Corp., which are recorded in selling, general and administrative expenses.
(g) 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.

(h) Impairment of long-lived assets, of which $3.4 million and $2.0 million were associated with the HSBC facility and other long-term assets, respectively.

(i) Costs of production downtime at our Belpre, Ohio facility, in preparation for the installation of natural gas boilers to replace the coal-burning boilers required by the MACT legislation, which is recorded in cost of goods sold.

(j) Loss on extinguishment of debt arising from the 2011 refinancing.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Item 8. Financial Statements and Supplementary Data. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to those described in the Item 1A. Risk Factors and below under the caption "Factors Affecting Our Results of Operations." Actual results may differ materially from those contained in any forward-looking statements.

OVERVIEW

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 than more commoditized products. We 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.

We have a portfolio of innovations at various stages of development and commercialization, including

- polyvinyl chloride alternatives for wire and cable, and medical applications;
- polymers and compounds for soft skin and coated fabric applications for transportation and consumer markets;
- our NEXAR family of membrane polymers for water filtration, heating, ventilation, air conditioning and breathable fabrics; and
- synthetic cement formulations and other oilfield applications.

Our products are manufactured along the following primary product lines based upon polymer chemistry and process technologies:

- un-hydrogenated SBCs ("USBCs");
- hydrogenated SBCs ("HSBCs");
- Cariflex isoprene rubber ("IR") and isoprene rubber latex ("IRL"); and

· compounds.

The majority of worldwide SBC production is dedicated to USBCs, which are primarily used in paving and roofing, in adhesives, sealants and coatings, and in footwear applications. HSBCs, which are significantly more complex and capital-intensive to manufacture than USBCs, are primarily used in more differentiated applications, such as soft touch and flexible materials, personal hygiene products, medical products, automotive components, and certain adhesives and sealant applications.

Product Line Sales Revenue:	2013	2012	2011
USBCs	58.3%	59.1%	59.3%
HSBCs	30.3%	31.2%	31.6%
Cariflex	9.0 %	7.4 %	6.9 %
Compounds	2.3 %	2.1 %	1.9 %
Other	0.1 %	0.2 %	0.3 %

End Use Markets Sales Revenue:	2013	2012	2011
Advanced Materials	26.8%	26.9%	28.0%
Adhesives, Sealants and Coatings	37.0%	35.9%	34.8%
Paving and Roofing	27.1%	29.6%	29.9%
Cariflex	9.0 %	7.4 %	6.9 %
Other	0.1 %	0.2 %	0.4 %

2013 Financial Overview

- Sales volume was 313.5 kilotons in 2013 compared to 313.4 kilotons in 2012.
- Sales revenue was $1,292.1 million in 2013 compared to $1,423.1 in 2012.
- Gross profit was $225.8 million in 2013 compared to $231.4 million in 2012. Gross profit at ECRC was $256.6 million in 2013 compared to $262.0 million in 2012.
- Adjusted EBITDA was $110.2 million in 2013 compared to $113.3 million in 2012. Adjusted EBITDA at ECRC was $140.9 million in 2013 compared to $143.8 million in 2012.
- Net loss attributable to Kraton was $(0.6) million or $(0.02) per diluted share in 2013 compared to net loss of $(16.2) million or $(0.50) per diluted share in 2012. Diluted loss per share was impacted by items that are discussed further in Net loss attributable to Kraton.
- Cash provided by operating activities was $105.5 million in 2013 compared to $146.3 million in 2012.

RESULTS OF OPERATIONS

Factors Affecting Our Results of Operations

Raw Materials and Product Mix. Our results of operations are directly affected by the cost of raw materials. We use butadiene, styrene, and isoprene as our primary raw materials in manufacturing our products. On a FIFO basis, these monomers together represented approximately $609.5 million, $732.9 million and $658.9 million or 57.2%, 61.5% and 58.8% of our total cost of goods sold for the years ended December 31, 2013, 2012 and 2011, respectively. Since the cost of our three primary raw materials comprise a significant amount of our total cost of goods sold, our selling prices for our products and therefore our total sales revenue is impacted by movements in our raw material costs, as well as the cost of other inputs. In addition, product mix can have an impact on our overall unit selling prices, since we provide an extensive product offering and therefore experience a wide range of unit selling prices.

The cost of butadiene and isoprene is impacted by worldwide supply and demand for the monomers, prevailing energy prices and prices for natural and synthetic rubber. The cost of styrene is impacted by worldwide supply and demand for styrene, benzene and ethylene and prevailing energy prices. In aggregate, average purchase prices decreased for butadiene and isoprene during 2013 compared to 2012, with an increase in average purchase prices for styrene. Average butadiene purchase prices were lower during 2012 compared to 2011. Average isoprene and styrene purchase prices were higher in 2012 compared to 2011, with a more significant increase in isoprene prices.

We use the FIFO basis of accounting for inventory and cost of goods sold, and therefore gross profit. In periods of raw material price volatility, reported results under FIFO will differ from what the results would have been if cost of goods sold were based on ECRC. Specifically, in periods of rising raw material costs, reported gross profit will be higher under FIFO than under ECRC. Conversely, in periods of declining raw material costs, reported gross profit will be lower under FIFO than under ECRC. In recognition of the fact that the cost of raw materials affects our results of operations and the comparability of our results of operations we provide the difference, or spread, between FIFO and ECRC.

- In 2013, reported results under FIFO were lower than results would have been on an ECRC basis by $30.7 million;
- In 2012, reported results under FIFO were lower than results would have been on an ECRC basis by $30.5 million;
- In 2011, reported results under FIFO were higher than results would have been on an ECRC basis by $66.3 million.

International Operations and Currency Fluctuations. We operate a geographically diverse business, serving customers in over 60 countries from five manufacturing facilities on four continents. Our sales and production costs are mainly denominated in U.S. dollars, Euro, Japanese Yen and Brazilian Real. From time to time, we use hedging strategies to reduce our exposure to currency fluctuations.

We generated our sales revenue from customers located in the following regions:

Revenue by Geography:	2013	2012	2011
Americas	39.3%	40.0%	41.0%
Europe, Middle East and Africa	38.7%	39.1%	40.0%
Asia Pacific	22.0%	20.9%	19.0%

Our financial results are subject to gains and losses on currency translations, which occur when the financial statements of foreign operations are translated into U.S. dollars. The financial statements of operations outside the United States where the local currency is considered to be the functional currency are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and the average exchange rate for each period for revenue, expenses, gains and losses and cash flows. The effect of translating the balance sheet into U.S. dollars is included as a component of accumulated other comprehensive income (loss). Any appreciation of the functional currencies against the U.S. dollar will increase the U.S. dollar equivalent of amounts of revenue, expenses, gains and losses and cash flows, and any depreciation of the functional currencies will decrease the U.S. dollar amounts reported. Our results of operations are also subject to currency transaction risk. We incur currency transaction risk when we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. The estimated impact from currency fluctuations amounted to a pre-tax loss of $4.8 million, a pre-tax loss of $6.4 million and a pre-tax income of $1.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. The primary driver for our pre-tax losses in 2013 and 2012 was the change in foreign currency exchange rates between the Japanese Yen and U.S. dollar and the Euro and U.S. dollar, respectively. The primary driver for our pre-tax income in 2011 was the change in foreign currency exchange rates between the Euro and U.S. dollar.

Seasonality. Seasonal changes and weather conditions typically affect the Paving and Roofing end use market generally resulting in higher sales volumes into this end use market in the second and third quarters of the calendar year versus the first and fourth quarters of the calendar year. However, sales volumes into this end use market were lower in the second and third quarter of 2012 than in the first quarter of 2012, during which demand was higher than normal, particularly in Europe and North America paving. Our other end use markets tend to show relatively little seasonality.

Outlook

In the first quarter of 2014 we experienced weather-related downtime at our Belpre, Ohio facility. In addition, our facility in Berre, France experienced an operating disruption resulting from a small fire which impacted one of the production lines at this facility. We currently estimate that these outages will result in lost production of approximately five kilotons, primarily in our HSBC product family. The aggregate negative impact of these events on estimated first quarter 2014 EBITDA and diluted earnings per share is currently estimated to be approximately $12.0 million and $0.37 per share, respectively, comprised of incremental expenses incurred to resume normal operations and the impact of under-absorbed fixed production costs. We currently do not expect these events will have a material impact on 2014 results beyond what we currently estimate will be recognized in the first quarter of 2014.

We currently estimate that in 2014 we will incur transaction costs and expenses, primarily related to professional fees, of between $15.0 million ($0.46 per diluted share) and $28.0 million ($0.86 per diluted share) associated with our proposed combination with the SBC business of LCY Chemical Corp.

The negative impact of the operating disruptions at Belpre, Ohio and Berre, France and the transaction costs associated with our proposed combination with the SBC business of LCY will be reflected in our GAAP net income (loss) and earnings (loss) per diluted share in our 2014 results, but will be excluded for purposes of determining Adjusted EBITDA and Adjusted EBITDA at ECRC.

We currently estimate that our results in the first quarter of 2014 will reflect a positive spread between FIFO and ECRC of approximately $3.0 million.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Sales Revenue

Sales revenue amounted to $1,292.1 million on sales volumes of 313.5 kilotons for the year ended December 31, 2013 compared to $1,423.1 million on sales volumes of 313.4 kilotons for the year ended December 31, 2012. The $131.0 million or 9.2% revenue decline (a decline of $121.7 million or 8.6% excluding a $9.3 million negative effect from currency fluctuations) was largely due to a reduction in global product sales prices associated with lower average raw material costs of $110.4 million and a $10.3 million negative effect associated with sales revenue mix.

The following factors influenced sales revenue in our end use markets:

- Advanced Materials. Sales revenue was $346.3 million for the year ended December 31, 2013 compared to $382.8 million for the year ended December 31, 2012. The $36.5 million or 9.5% revenue decline (a decline of $34.7 million or 9.1% excluding a $1.8 million negative effect from currency fluctuations) was primarily due to lower average selling prices, reflective of lower average raw materials costs, primarily butadiene, as sales volumes were essentially flat. With respect to innovation sales volumes, we experienced growth in personal care applications, partially offset by lower sales volumes in wire and cable applications.
- Adhesives, Sealants and Coatings. Sales revenue was $477.6 million for the year ended December 31, 2013 compared to $510.8 million for the year ended December 31, 2012. The $33.2 million or 6.5% revenue decline, which includes a slight decline in innovation revenue (a decline of $28.1 million or 5.5% excluding a $5.1 million negative effect from currency fluctuations) was primarily due to lower average selling prices indicative of lower average raw material costs, primarily butadiene and isoprene, as sales volumes were essentially flat.
- Paving and Roofing. Sales revenue was $350.9 million for the year ended December 31, 2013 compared to $421.4 million for the year ended December 31, 2012. The $70.5 million or 16.7% revenue decline (a decline of $72.8 million or 17.3% excluding a $2.3 million positive effect from currency fluctuations) was primarily due to lower average selling prices indicative of lower average raw material costs, primarily butadiene. In addition, although first half 2013 sales volumes were down 15.1% compared to the first half of 2012, primarily due to the effect of poor weather conditions in North America and Europe, second half 2013 sales volumes were up 14.7% due to improved demand compared to the second half of 2012. As a result, overall sales volumes decreased 1.0% year on year. Innovation sales volumes grew on improved demand for roofing applications and growth in our HiMA paving applications.
- Cariflex™. Sales revenue was $116.0 million for the year ended December 31, 2013 compared to $105.9 million for the year ended December 31, 2012. The $10.1 million or 9.5% revenue increase (an increase of $14.8 million or 14.0% excluding a $4.7 million negative effect from currency fluctuations) reflects a 13.5% increase in sales volumes, mainly in the surgical glove market and other medical and innovation applications.
- Other sales revenue decreased $1.0 million to $1.2 million for the year ended December 31, 2013.

Cost of Goods Sold

Cost of goods sold was $1,066.3 million for the year ended December 31, 2013 compared to $1,191.7 million for the year ended December 31, 2012. The $125.4 million or 10.5% decrease was driven largely by an $119.6 million reduction in raw material costs, a $5.4 million reduction due to changes in foreign currency exchange rates, a $4.6 million reduction due to sales mix, and the absence of net charges amounting to $2.3 million recorded in 2012, which related to a property tax dispute in France, storm-related charges, restructuring and other charges and the LBI settlement. Partially offsetting these decreases in cost of goods sold were increased costs from the production downtime related to the MACT legislation of $3.5 million, increased turnaround costs of $2.5 million, and other increases in cost of goods sold.

Gross Profit

Gross profit was $225.8 million for the year ended December 31, 2013 compared to $231.4 million for the year ended December 31, 2012, a decrease of $5.6 million or 2.4%. Gross profit as a percentage of sales revenue was 17.5% and 16.3% for the years ended December 31, 2013 and 2012, respectively. Gross profit at ECRC was $256.6 million for the year ended December 31, 2013 compared to $262.0 million for the year ended December 31, 2012, a decrease of $5.4 million or 2.1%, largely due to the factors discussed in “Sales Revenue” and “Cost of Goods Sold.”

Operating Expenses

- Research and Development. Research and development expenses were $32.0 million for the year ended December 31, 2013 compared to $31.0 million for the year ended December 31, 2012, an increase of $1.0 million or 3.2% primarily due

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to an increase in employee related costs partially offset by decreased lease expense for our research and development facilities. Research and development expenses were 2.5% and 2.2% of sales revenue for the years ended December 31, 2013 and 2012, respectively.

- Selling, General and Administrative. Selling, general and administrative expenses were $105.6 million for the year ended December 31, 2013 compared to $98.6 million for the year ended December 31, 2012, an increase of $7.0 million or 7.1%. The increase was primarily due to $9.2 million of professional fees related to the proposed combination with the SBC Business of LCY, a $1.1 million increase in costs associated with the joint venture with FPCC and a $1.0 million increase in other professional fees, partially offset by a $1.0 million decrease in employee related costs, lower legal expenses of $1.1 million, and the absence of a 2012 retirement plan settlement charge of $1.1 million and a $0.6 million charge associated with the resolution of a property tax dispute in France during 2012. Selling, general and administrative expenses were 8.2% and 6.9% of sales revenue for the years ended December 31, 2013 and 2012, respectively.
- Depreciation and Amortization. Depreciation and amortization was $63.2 million for the year ended December 31, 2013 compared to $64.6 million for the year ended December 31, 2012, a decrease of $1.4 million or 2.1%.
- Impairment of long-lived assets. We did not incur any impairment charges of long-lived assets for the year ended December 31, 2013 compared to a $5.4 million charge for the year ended December 31, 2012.

Interest expense, net

Interest expense, net was $30.5 million for the year ended December 31, 2013 compared to $29.3 million for the year ended December 31, 2012, an increase of $1.2 million or 4.0%. The reduction in interest expense associated with lower outstanding indebtedness was more than offset by charges aggregating $5.8 million incurred in connection with our 2013 refinancing.

Income tax expense (benefit)

Our income tax provision was a $3.9 million benefit and a $19.3 million expense for the years ended December 31, 2013 and 2012, respectively. Our effective tax rate was 79.9% and 619.8% for the years ended December 31, 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.

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. As of December 31, 2013 and December 31, 2012, a valuation allowance of $90.0 million and $90.4 million, respectively, has been provided for net operating loss carryforwards and other deferred tax assets. For the year ended December 31, 2013, we have recorded changes in the valuation allowance for deferred tax assets as a result of our assessed ability to realize the tax benefit of our net operating loss carryforwards in certain jurisdictions, primarily in the United States. We decreased our valuation allowance by $0.4 million in 2013, which includes a $0.5 million decrease due to changes in other comprehensive income, partially offset by a $0.1 million increase to the income tax provision. The $0.1 million is comprised of $10.2 million of current year operating losses, offset by $10.1 million of income tax benefit related to the tax effect of unrealized pension gains. We increased our valuation allowance by $36.2 million in 2012, of which $30.7 million was included in the income tax provision and $5.5 million represents changes in equity. The $30.7 million increase in the valuation allowance is comprised of $13.5 million related to the reversal of the benefit recorded for prior year’s net operating losses and $17.2 million related to current year operating losses. We consider the reversal of deferred tax liabilities within the net operating loss carryforward period, projected future taxable income and tax planning strategies in making this assessment. Excluding the change in our valuation allowance, our effective tax rates would have been an 81.4% and 366.1% benefit for the years ended December 31, 2013 and 2012, respectively.

Net loss attributable to Kraton

Net loss attributable to Kraton was $(0.6) million or $(0.02) per diluted share for the year ended December 31, 2013, an increase in net income of $15.6 million, compared to a net loss of $(16.2) million or $(0.50) per diluted share for the year ended December 31, 2012.

Net loss for the year ended December 31, 2013 included the following:

- Restructuring charges of $0.7 million or $0.02 per diluted share
- Fees related to the proposed combination with the SBC Business of LCY of $9.2 million or $0.28 per diluted share
- Charges associated with the credit facility refinancing of $5.8 million or $0.18 per diluted share
- Production downtime related to MACT legislation of $3.5 million or $0.11 per diluted share

- Income tax benefit related to a portion of the change in our valuation allowance for deferred tax assets of $10.1 million or $0.31 benefit per diluted share
- Negative spread between FIFO and ECRC of $30.7 million or $0.96 per diluted share

Net loss for the year ended December 31, 2012 included the following:

- Receipt from LyondellBasell in settlement of disputed charges of $6.9 million or $0.22 benefit per diluted share
- Property tax dispute settlement charge of $6.2 million or $0.20 per diluted share
- Restructuring and other charges of $1.2 million or $0.03 per diluted share
- Retirement plan settlement charge of $1.1 million or $0.03 per diluted share
- Storm related charges of $2.5 million or $0.08 per diluted share
- Impairment of long-lived assets of $5.4 million or $0.17 per diluted share
- Income tax expense related to a portion of the change in our valuation allowance for deferred tax assets of $13.5 million or $0.42 per diluted share
- Negative spread between FIFO and ECRC of $30.5 million or $0.95 per diluted share

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Sales Revenue

Sales revenue decreased $14.4 million or 1.0% to $1,423.1 million for the year ended December 31, 2012 from $1,437.5 million for the year ended December 31, 2011. Excluding the negative effect of changes in foreign currency exchange rates totaling $66.7 million, revenue increased $52.3 million or 3.6%, of which $42.2 million resulted from a 3.4% increase in sales volume and $12.6 million resulted from increased average selling prices. Sales volumes were 313.4 kilotons and 303.0 kilotons for the years ended December 31, 2012 and 2011, respectively. Sales volumes increased primarily in Europe and Asia Pacific, which more than offset lower sales volumes into North America.

The following factors influenced our sales revenue in each of our end use markets:

- Advanced Materials. Sales revenue decreased $19.8 million or 4.9% to $382.8 million for the year ended December 31, 2012 from $402.6 million for the year ended December 31, 2011. Excluding the $10.3 million impact of changes in foreign currency exchange rates, sales revenue declined $9.5 million or 2.4%. Sales volume was down 2.8% due to reduced sales of less differentiated products in all regions, partially offset by sales volume growth of higher value HSBC products, primarily in Asia Pacific. With respect to innovation sales volume, we experienced growth in PVC alternatives for medical and wire and cable applications.
- Adhesives, Sealants and Coatings. Sales revenue increased $11.1 million or 2.2% to $510.8 million for the year ended December 31, 2012 from $499.7 million for the year ended December 31, 2011. Excluding a negative impact from changes in foreign currency exchange rates of $23.2 million, sales revenue was up $34.3 million or 6.9%. In addition to an increase in average selling prices, sales volume increased 3.7% with growth in all regions except North America, which was down modestly on lower sales volumes of less differentiated products. Sales volume increased for our innovation grades in lubricant additive, printing plate and oilfield applications.
- Paving and Roofing. Sales revenue decreased $7.8 million or 1.8% to $421.4 million for the year ended December 31, 2012 from $429.3 million for the year ended December 31, 2011. Excluding the effect of changes in foreign currency exchange rates totaling $26.7 million, revenue increased $18.9 million or 4.4% due to higher sales volumes partially offset by a decline in average selling prices, driven by lower average monomer costs. Sales volumes were up 7.6% primarily in the European and Middle Eastern, South American and Asia Pacific paving markets, which more than offset a decline in North America roofing volumes.
- Cariflex™. Sales revenue increased $6.6 million or 6.7% to $105.9 million for the year ended December 31, 2012 from $99.3 million for the year ended December 31, 2011. Excluding the $6.4 million impact from changes in foreign currency exchange rates, sales revenue improved $13.0 million or 13.1%. The revenue increase reflects increased sales volume, mainly in surgical glove applications, and an increase in average selling prices across the

Cariflex portfolio.

- Other sales revenue decreased $4.5 million to $2.2 million for the year ended December 31, 2012.

Cost of Goods Sold

Cost of goods sold increased $70.4 million or 6.3% to $1,191.7 million for the year ended December 31, 2012 from $1,121.3 million for the year ended December 31, 2011. The increase was driven largely by increased monomer costs in the amount of $85.2 million, which includes the year-over-year $96.9 million negative impact associated with the spread between the FIFO and ECRC basis, increased sales volumes in the amount of $30.9 million, a $5.6 million charge associated with the resolution of a property tax dispute in France, storm related charges of $2.5 million and restructuring and related charges of $1.0 million, partially offset by a $53.9 million decrease from changes in foreign currency exchange rates, and a $6.8 million benefit associated with a refund received in settlement of a matter with LyondellBasell (the "LBI settlement").

Gross Profit

Gross profit decreased $84.7 million or 26.8% to $231.4 million for the year ended December 31, 2012 from $316.2 million for the year ended December 31, 2011. For the year ended December 31, 2012, our reported gross profit under FIFO was lower than what it would have been under ECRC by approximately $30.5 million and for the year ended December 31, 2011 was higher by $66.3 million. See "—Factors Affecting Our Results of Operations—Raw Materials and Product Mix" above.

Operating Expenses

- Research and Development. Research and development expense increased $3.0 million or 10.8%, primarily due to an increase in employee related costs commensurate with additions to staffing levels among our scientists and increased lease expense for our research and development facilities, partially offset by lower maintenance and operational costs. Research and development expenses were 2.2% of sales revenue for the year ended December 31, 2012 and 1.9% of sales revenue for the year ended December 31, 2011.
- Selling, General and Administrative. Selling, general and administrative expense decreased $3.1 million or 3.0%. The decrease was primarily due to $2.9 million in lower information technology costs, $1.8 million from changes in foreign currency exchange rates and $1.2 million in restructuring and related costs, partially offset by $1.1 million of increased non-cash compensation expense, $1.1 million retirement plan settlement charge and a $0.6 million charge associated with the resolution of a property tax dispute in France. Selling, general and administrative expenses were 6.9% of sales revenue for the year ended December 31, 2012 and 7.1% of sales revenue for the year ended December 31, 2011.
- Depreciation and Amortization. Depreciation and amortization increased $1.8 million or 2.9%, primarily due to increased levels of capital expenditures and depreciation of our asset retirement obligations.
- Impairment of long-lived assets. We recorded a pre-tax charge of $5.4 million in the aggregate for the impairment of long-lived assets, of which $3.4 million was related to the HSBC facility in Mailiao, Taiwan and $2.0 million related to other long-lived assets. Our subsequent entry into definitive documents for the joint venture did not affect these charges.

Loss on Extinguishment of Debt

In connection with the refinancing of our indebtedness in the first quarter of 2011, we incurred a $3.0 million loss on the extinguishment of debt.

Interest expense, net

Interest expense, net decreased $0.6 million or 1.9% to $29.3 million for the year ended December 31, 2012 from $29.9 million for the year ended December 31, 2011. The decrease was primarily due to charges aggregating $5.2 million associated with the debt refinancing in the first quarter of 2011, partially offset by increased average debt balances.

Income tax expense

Our income tax expense was $19.3 million and $0.6 million for the years ended December 31, 2012 and 2011, respectively. Our effective tax rate was 619.8% and 0.6% for the years ended December 31, 2012 and 2011, 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 earned in foreign jurisdictions and our limited ability to utilize net operating loss carryforwards in certain jurisdictions, primarily in the United States.

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. As of December 31, 2012 and 2011, a valuation allowance of $90.4 million and $54.2 million, respectively, has been provided for net operating loss carryforwards and other deferred tax assets. We increased our valuation allowance by $36.2 million in 2012, of which $30.7 million represents current period net operating losses and a reversal of the benefit recorded for prior net operating losses and $5.5 million represents changes in other comprehensive income (loss). We reduced our valuation allowance by $12.2 million in 2011 of which $17.3 million represents the benefit of utilizing net operating losses and the assessment of our ability to utilize net operating losses in future periods, partially offset by a $5.1 million increase which represents changes in other comprehensive income (loss). Excluding the change in our valuation allowance, our effective tax rate would have been a 366.1% benefit and a 19.5% expense for the years ended December 31, 2012 and 2011, respectively.

Our pre-tax income is generated in a number of jurisdictions and is subject to a number of different effective tax rates that are significantly lower than the U.S. corporate statutory tax rate of 35.0%. For the year ended December 31, 2012, we earned $63.0 million of pre-tax income in jurisdictions with a full year effective tax rate of 8.7%. For the year ended December 31, 2011, we earned $83.6 million of pre-tax income in jurisdictions with a full year effective tax rate of 11.6%.

Net income (loss) attributable to Kraton

Net loss was $16.2 million or $0.50 per diluted share for the year ended December 31, 2012, a decrease of $107.1 million compared to net income of $90.9 million or $2.81 per diluted share for the year ended December 31, 2011. Net loss for the year ended December 31, 2012 included charges of approximately $16.4 million, net of tax, associated with a property tax dispute in France, impairment related charges, storm related charges, restructuring and related charges, a retirement plan settlement charge and costs associated with our March 2012 offering, partially offset by $6.9 million, net of tax, associated with the receipt from LyondellBasell in settlement of disputed charges. These items, net of tax, increased our diluted loss per share by $0.30 for the year ended December 31, 2012. Net income for the year ended December 31, 2011 included charges of approximately $9.8 million, net of tax, or $0.31 per diluted share associated with restructuring and related charges, costs associated with debt refinancing, costs associated with a secondary public offering of our common stock and charges associated with evaluating acquisition transactions. The impact of the change in our deferred tax asset valuation allowance increased our diluted loss per share by $0.95, of which $0.42 relates to the reversal of the benefit recorded for prior year's net operating losses and $0.53 relates to the current year operating losses for the year ended December 31, 2012, and increased our diluted earnings per share by $0.54 for the year ended December 31, 2011.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions and estimates that directly affect the amounts reported in the consolidated financial statements. Certain critical accounting policies requiring significant judgments, estimates, and assumptions are described in this section. We consider an accounting estimate to be critical if (1) it requires assumptions to be made that are uncertain at the time the estimate is made, and (2) changes to the estimate or different estimates that could have reasonably been used would have materially changed our consolidated financial statements.

We believe the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, should our actual experience differ from these assumptions and other considerations used in estimating these amounts, the impact of these differences could have a material impact on our consolidated financial statements.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing receivables and is determined based on our assessment of the credit worthiness of individual customers, historical write-off experience and global economic data. We review the allowance for doubtful accounts quarterly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance sheet credit exposure related to our customers.

Inventories. Our inventory is principally comprised of finished goods inventory. Inventories are stated at the lower of cost or market as primarily determined on a first-in, first-out basis. We evaluate the carrying cost of our inventory on a quarterly basis for this purpose. If the cost of the inventories exceeds their market value, provisions are made for the difference between the cost and the market value.

Property, Plant and Equipment. Property, plant and equipment are recorded at cost. Major renewals and improvements that extend the useful lives of equipment are capitalized. Repair and maintenance costs are expensed as incurred. Disposals are removed at carrying cost less accumulated depreciation with any resulting gain or loss reflected in earnings. We capitalize interest costs which are incurred as part of the cost of constructing major facilities and equipment. Depreciation is recognized using the straight-line method over the following estimated useful lives:

Machinery and equipment	20 years
Building and land improvements	20 years
Manufacturing control equipment	10 years
Office equipment	5 years
Research equipment and facilities	5 years
Vehicles	5 years
Computer hardware/information systems	3 years

Long-Lived Assets. In accordance with Impairment or Disposal of Long-Lived Assets Subsections of FASB ASC Subtopic 360-10, Property, Plant, and Equipment—Overall, (FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets), long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Asset Retirement Obligations (“ARO”). Our ARO consists of estimated costs of dismantlement, removal, site reclamation and similar activities associated with our facilities. We recognize the fair value of a liability for an ARO in the period in which we have an existing legal obligation associated with the retirement of our facilities and the obligation can reasonably be estimated. The associated asset retirement cost is capitalized as part of the carrying cost of the asset. The recognition of an ARO requires that we make numerous estimates, assumptions and judgments regarding such factors as the existence of a legal obligation for an ARO; estimated probabilities, amounts and timing of settlements; the credit-adjusted risk-free rate to be used; discount rate and inflation rates. In periods subsequent to initial measurement of the ARO, we recognize changes in the liability resulting from the accretion of the liability to its non-discounted amount and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Revisions also result in increases or decreases in the carrying cost of these assets. Increases in the ARO liability due to accretion is charged to depreciation and amortization expense. The related capitalized cost, including revisions thereto, is charged to depreciation and amortization expense. See Note 11 Commitments and Contingencies (subsection (c)) to the consolidated financial statements.

Contingencies. We are routinely involved in litigation, claims and disputes incidental to our business. Professional judgment is required to classify the likelihood of these contingencies occurring. A contingency is categorized as probable, reasonably possible, or remote. A contingency is classified as probable if the future event or events are likely to occur. For the probable contingencies, a loss is accrued and disclosed as of the date of the financial statements if it is both probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. A reasonably possible contingency occurs if the chance of the future event or events happening is more than remote but less than likely (reasonably possible but not probable). We disclose the loss contingencies in the footnotes to the financial statements but do not recognize any liability. A remote contingency is one where the chance of the future event or events occurring is slight. We neither accrue for nor disclose the liability in the notes to the financial statements.

Share-Based Compensation. Share-based compensation cost is measured at the grant date based on the fair value of the award. We recognize these costs using the straight-line method over the requisite service period. The Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan (the “Equity Plan”) allows for the grant to key employees, independent contractors, and eligible non-employee directors of incentive stock options, non-qualified stock options (which together with the incentive stock options, are referred to herein as (“Options”)), stock appreciation rights, restricted stock awards and restricted stock unit awards, in addition to other equity or equity-based awards as our board determines from time to time. We estimate the fair value of stock options using the Black-Scholes valuation model. Since our equity interests were privately held prior to our initial public offering we have limited publicly traded stock history, and as a result our estimated volatility is based on a combination of our historical volatility and similar companies’ stock that are publicly traded. Until such time that we have enough publicly traded stock history to estimate volatility based solely on our stock, we expect to estimate volatility of options granted based on a combination of our historical volatility and similar companies’ stock that are publicly traded. The expected term of options represents the period of time that options granted are expected to be outstanding. For all periods presented, we used the simplified method to calculate the expected term of options. The risk free interest rate for the periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. For all periods presented, the dividend yield is assumed to be zero based on historical and expected dividend activity. Forfeitures are based substantially on the history of cancellations of similar awards granted in prior years. See Note 3 Share-Based Compensation to the consolidated financial statements.

Income Taxes. We conduct operations in separate legal entities in different jurisdictions. As a result, income tax amounts are reflected in our consolidated financial statements for each of those jurisdictions.

Income taxes are recorded utilizing an asset and liability approach. This method gives consideration to the future tax consequences associated with the differences between the financial accounting and tax basis of the assets and liabilities as well as the ultimate realization of any deferred tax asset resulting from such differences. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. In determining whether a valuation allowance is required, the company evaluates primarily (a) the impact of cumulative losses in past years, and (b) current and/or recent losses. A recent trend in earnings despite cumulative losses is a prerequisite to considering not recording a valuation allowance.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, we believe it is more likely than not that we will realize the benefits of these deductible differences, net of the existing valuation allowances.

Benefit Plan Valuations. We sponsor a noncontributory defined benefit pension plan ("Pension Plan"), a non-qualified defined benefit pension plan, and an additional post-retirement benefit plan ("Retiree Medical Plan"). We annually evaluate significant assumptions related to the benefits and obligations of these plans. Our estimation of the projected benefit obligations and related benefit expense requires that certain assumptions be made regarding such variables as expected return on plan assets, discount rates, rates of future compensation increases, estimated future employee turnover rates and retirement dates, distribution election rates, mortality rates, retiree utilization rates for health care services and health care cost trend rates. The determination of the appropriate assumptions requires considerable judgment concerning future events and has a significant impact on the amount of the obligations and expense recorded. We rely in part on actuarial studies when determining the appropriateness of certain of the assumptions used in determining the benefit obligations and the annual expenses for these plans.

The discount rates are determined annually and are based on rates of return of high-quality long-term fixed income securities currently available with maturities consistent with the projected benefit payout period. The expected long-term rate of return on assets is derived from a review of anticipated future long-term performance of individual asset classes and consideration of an appropriate asset allocation strategy, given the anticipated requirements of the Pension Plan, to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. We also consider recent fund performance and historical returns in establishing the expected rate of return.

Movements in the capital markets impact the market value of the investment assets used to fund our Pension Plan. Future changes in plan asset returns, assumed discount rates and various other factors related to our pension and post-retirement plans will impact future pension expenses and liabilities.

The estimated effect of alternate assumptions on the 2014 estimated annual expense for the Pension Plan and Retiree Medical Plan were performed at varying discount rates, expected return on assets, expected salary increase, and, in the case of our Retiree Medical Plan, health care cost increases.

The measurement date of the Pension Plan's assets and obligations was December 31, 2013. We applied a 5.02% discount rate, assumed an 8.5% long term expected rate of return on plan assets and assumed an expected salary rate increase of 3.0%. The percentage of equity securities in our Pension Plan as of December 31, 2013 was approximately 57.6%, up from approximately 55.3% as of December 31, 2012, and the percentage of debt securities as of December 31, 2013 was approximately 33.8%, down from approximately 36.5% as of December 31, 2012. The plan's strategic target asset allocation as of December 31, 2013 was 50% equity, 30% debt and 20% other, with the "other" component consisting of a global market fund, a real estate fund, and a commodity fund, among others. We have assumed that the funds in the "other" category together would behave similarly to debt and therefore included the 20% "other" as bonds in our assessment.

We estimated a range of returns on the plan assets using a historical stochastic simulation model that determines the compound average annual return (assuming these asset classes—stocks, bonds and cash) over a 20-year historical period (the approximate duration of our liabilities under the Pension Plan). The distribution of results from these simulations provides the "best estimate range" of the expected results (the 25th to 75th percentile).

Based on the plan's current target asset allocation, the "best estimate range" for asset returns (before non-investment expenses) was 6.3% to 10.7%. The asset return assumption set for determining the 2014 FASB ASC 715 expense was 8.5%, after non-investment expenses paid by the Trust. Non-investment expenses have ranged from 0.4% to 0.6% over the last 3 years. Using the high-end of this range, the 8.5% return after non-investment expenses assumption is equivalent to a gross assumption of 9.1% (8.5% + 0.6%). A 9.1% rate falls within the "best estimate range", between the 50th and 75th percentile.

For the Pension Plan, a 100 basis point decrease in the assumed discount rate would result in a corresponding increase of $2.1 million in our estimated Pension Plan expense for 2014. A 100 basis point decrease from 8.5% in the rate of return on plan assets would result in a corresponding increase of $0.9 million and a 100 basis point increase in the expected salary rate would result in a corresponding increase of $0.9 million in expenses for 2014, in each case holding all other assumptions and factors constant.

For the Retiree Medical Plan, a 100 basis point decrease in the assumed discount rate would result in a corresponding increase of $0.3 million in our estimated expense and a 100 basis point increase in the assumed health care trend rate would result in a corresponding increase of $0.1 million in our estimated expense for 2014, in each case holding all other assumptions and factors constant. For additional information about our benefit plans, See Note 12 Employee Benefits to the consolidated financial statements.

Revenue Recognition. Sales are recognized in accordance with the provisions of ASC 605, Revenue Recognition—Overall, when the revenue is realized or realizable, and has been earned. Revenue for product sales is recognized when risk and title to the product transfer to the customer, which usually occurs at the time shipment is made. Our products are generally sold free on board shipping point or, with respect to countries other than the United States, an equivalent basis. As such, title to the product passes when the product is delivered to the freight carrier. Our standard terms of delivery are included in our contracts of sale, order confirmation documents and invoices. Shipping and other transportation costs charged to customers are recorded in both sales and cost of sales.

We have entered into agreements with some of our customers whereby they earn rebates from us when the volume of their purchases of our product reach certain agreed upon levels. We recognize the rebate obligation ratably, as a reduction of revenue.

LIQUIDITY AND CAPITAL RESOURCES

Known Trends and Uncertainties

Kraton Performance Polymers, Inc. is a holding company without any operations or assets other than the operations of its subsidiaries. Cash flows from operations of our subsidiaries, cash on hand and available borrowings under our credit facility are our principal sources of liquidity.

In March 2013, we entered into an asset-based revolving credit facility consisting of a U.S. senior secured revolving credit facility of $150.0 million and a Dutch senior secured revolving credit facility of $100.0 million (the "Senior Secured Credit Facilities"), to replace our then-existing senior secured credit facility, and repaid in full all outstanding amounts payable under the previously existing facility. The Senior Secured Credit Facilities are secured by receivables and inventory, and borrowing availability under the facilities is subject to borrowing base limitations based on the level of receivables and inventory available for security. The Senior Secured Credit Facilities include a $100.0 million uncommitted accordion feature that, subject to borrowing base availability and approval of the bank syndicate, could increase aggregate availability to $350.0 million. We cannot guarantee that all of the lending counterparties contractually committed to fund a revolving credit draw request will actually fund future requests, although we currently believe that each of the counterparties would meet their funding requirements. 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; provided that at no time shall there be more than four maturity dates under the Senior Secured Credit Facilities.

The Senior Secured Credit Facilities contain certain customary events of default, including, without limitation, a failure to make payments under the facilities, cross-default with respect to other indebtedness and cross-judgment default, certain bankruptcy events and certain change of control events. Consummation of our pending transaction with LCY would constitute a change of control, and therefore an event of default, under the Senior Secured Credit Facilities. Under the combination agreement with LCY, it is a condition to the parties' obligations to close the transaction that we obtain an amendment or waiver to the Senior Secured Credit Facilities providing that the transactions with LCY will not constitute a change of control thereunder. We intend to seek an amendment or waiver to satisfy the closing condition.

The Senior Secured Credit Facilities contain a financial covenant requiring us to maintain a fixed charge coverage ratio of 1.0 to 1.0 if availability under the facilities is below specified amounts. Our failure to comply with this financial maintenance covenant would give rise to a default under the Senior Secured Credit Facilities. If factors arise that negatively impact our profitability, we may not be able to satisfy this covenant. If we are unable to satisfy this covenant or other provisions of the Senior Secured Credit Facilities at any future time we would need to seek an amendment or waiver of such covenants or other provisions. The respective lenders under the Senior Secured Credit Facilities may elect not to consent to any amendment or waiver requests that we may make in the future, including the request we plan to make in connection with our pending transaction with LCY, and, if they do consent, they may do so on terms that are not favorable to us. In the event that we are unable to obtain any such waiver or amendment and we are not able to refinance or repay our Senior Secured Credit Facilities, our inability to meet the covenants or other provisions of the Senior Secured Credit Facilities would constitute an event of default, which would permit the bank lenders to accelerate the Senior Secured Credit Facilities. Such acceleration may in turn constitute an event of default under our senior notes or other indebtedness. In the case of our pending transaction with LCY, failure to obtain the specified consent or waiver from the lenders would result in a failure of a closing condition under the combination agreement. At December 31, 2013, we were in compliance with the covenants under the Senior Secured Credit Facilities.

Based upon current and anticipated levels of operations, we believe that cash flows from operations of our subsidiaries, cash on hand, and borrowings available to us will be sufficient to fund our expected financial obligations, planned capital expenditures and anticipated liquidity requirements, including working capital requirements, our investment in the joint venture with FPCC, debt payments, interest payments, benefit plan contributions and income tax obligations. However, these cash flows are subject to a number of risks and uncertainties, including, but not limited to, earnings, sensitivities to the cost of raw materials, seasonality and fluctuations in foreign currency exchange rates. Because feedstock costs generally represent a substantial portion of our cost of goods sold, in periods of rising feedstock costs, we generally consume cash in operating activities due to increases in accounts receivable and inventory costs, partially offset by increased value of accounts payable. Conversely, during periods in which feedstock costs are declining, we generate cash flow from decreases in working capital. Additionally, our combination agreement with LCY contains restrictions on our incurrence of indebtedness, subject to specified exceptions that include borrowings under the Senior Secured Credit Facilities in the ordinary course. If we needed borrowings in excess of $10.0 million above what is available to us under the Senior Secured Credit Facilities and LCY did not provide its consent, our ability to fund our financial obligations may be adversely affected.

Going forward there can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available under our senior secured credit facilities to fund liquidity needs and enable us to service our indebtedness. At December 31, 2013, we had $175.9 million of cash and cash equivalents, which includes $66.8 million of cash-on-hand at KFPC, the consolidated joint venture in Asia. As of December 31, 2013, our available borrowing capacity was $186.9 million of which $0 million was drawn and as of the date of this filing, our available borrowing capacity was $192.1 million, of which $0 million was drawn. Excluding the $66.8 million of KFPC cash, our liquidity at December 31, 2013 amounted to $296.0 million. Our available cash and cash equivalents are held in accounts managed by third-party financial institutions and consist of cash invested in interest bearing funds and operating accounts. To date, we have not experienced any losses or lack of access to our invested cash or cash equivalents; however, we cannot provide any assurance that adverse conditions in the financial markets will not impact access to our invested cash and cash equivalents.

For additional information regarding our Senior Secured Credit Facilities, see "—Senior Secured Credit Facilities" in Note 6 Long-Term Debt to the consolidated financial statements, which is incorporated herein by reference.

We made contributions of $6.2 million to our pension plan for the year ended December 31, 2013 and $8.0 million for the year ended December 31, 2012. We expect our total pension plan contributions for the year ended December 31, 2014 to be $7.2 million. Our pension plan obligations are predicated on a number of factors, the primary ones being the return on our pension plan assets and the discount rate used in deriving our pension obligations. If the investment return on our pension plan assets does not meet or exceed expectations during 2014, and the discount rate decreases from the prior year, higher levels of contributions could be required in 2015 and beyond.

As of December 31, 2013, we had $163.9 million of cash and short-term investments related to foreign operations that management asserts are permanently reinvested. As a result of net operating loss carryforwards, management estimates that no additional cash tax expense would be incurred if this cash were repatriated.

Turbulence in U.S. and international markets and economies may adversely affect our liquidity and financial condition, the liquidity and financial condition of our customers, and our ability to timely replace maturing liabilities and access the capital markets to meet liquidity needs, resulting in adverse effects on our financial condition and results of operations. However, to date we have been able to access borrowings available to us in amounts sufficient to fund liquidity needs. Total receivables, net of allowances, for customers located in Italy, Spain, Portugal, Greece and Ireland aggregated approximately $5.4 million at December 31, 2013. We have not incurred to date, nor do we currently expect to incur any material losses associated with these trade receivables.

Our ability to pay principal and interest on our indebtedness, fund working capital, make anticipated capital expenditures and fund our investment in the joint venture with FPCC depends on our future performance, which is subject to general economic conditions and other factors, some of which are beyond our control. "See Part I, Item 1A. Risk Factors" for further discussion.

Operating Cash Flows and Liquidity

Net cash provided by operating activities totaled $105.5 million for the year ended December 31, 2013 and $146.3 million for the year ended December 31, 2012. This represents a net decrease of $40.9 million, which was primarily driven by changes in working capital. The net change in working capital was a source of cash of $43.8 million in 2013 compared to a source of cash of $72.9 million in 2012; a period-over-period decline in cash flows of $29.1 million. The period-over-period changes are as follows:

- $42.4 million decrease in cash flows associated with inventories of products, materials and supplies, largely due to changes in the quantity of raw material and finished goods inventories and to a lesser extent the costs of raw materials and finished goods inventories;
- $17.8 million decrease in cash flows associated with accounts receivable reflecting changes in timing of cash receipts and sales volumes, partially offset by decreases in revenue per ton; partially offset by
- $6.3 million increase in cash flows associated with trade accounts payable primarily due to the timing of payments partially offset by a decrease in the cost of raw materials; and

- $24.9 million net increase in cash flows due to the timing of payments of other items, including related party transactions, taxes, and pension costs.

Net cash provided by operating activities totaled $146.3 million for the year ended December 31, 2012 and $64.8 million for the year ended December 31, 2011. This represents a net increase of $81.6 million, which was driven by changes in working capital, partially offset by a decrease in net income, as follows:

- $128.6 million decrease in inventories of products, materials and supplies, largely due to lower cost and lower quantities;
- $24.4 million decrease in accounts receivable primarily related to lower sales revenue and improved days sales outstanding;
- $5.3 million increase in trade accounts payable primarily due to the timing of payments; and
- $9.7 million increase in related party payables associated with purchases and timing of payments to our joint venture in Japan; partially offset by

· $107.1 million decrease in net income.

Investing Cash Flows

Net cash used in investing activities totaled $88.7 million for the year ended December 31, 2013 and $69.9 million for the year ended December 31, 2012. Capital projects in 2013 included the following:

· $25.3 million to support our innovation platform, which includes $17.9 million related to the semi-works facility;
· $32.1 million related to projects to optimize the production capabilities of our manufacturing assets, which includes $13.6 million to comply with the MACT rule; and
· $18.9 million related to health, safety and environmental, including infrastructure and maintenance projects.

Net cash used in investing activities totaled $69.9 million for the year ended December 31, 2012 and $64.4 million for the year ended December 31, 2011. Capital projects in 2012 included the following:

· $22.3 million to support our innovation platform, which includes $20.2 million related to the semi-works facility;
· $23.8 million related to projects to optimize the production capabilities of our manufacturing assets; and
· $18.1 million related to health, safety and environmental, including infrastructure and maintenance projects.

Expected Capital Expenditures. We currently expect 2014 capital expenditures, excluding funding for the joint venture with FPCC, will be approximately $75.0 million to $80.0 million. Included in this estimate is approximately $28.1 million to comply with the MACT rule, of which $4.1 million will be financed with a capital lease, and approximately $16.0 million to $22.0 million for health, safety and environmental and infrastructure and maintenance projects. The remaining anticipated 2014 capital expenditures are primarily associated with projects to optimize the production capabilities of our manufacturing assets and to support our innovation platform.

In addition, we anticipate the total FPCC joint venture project construction cost will be at least $200.0 million. We currently estimate that the joint venture's 2014 capital expenditures will be approximately $110.0 million to $120.0 million. We and FPCC intend to pursue opportunities to obtain debt financing for project costs at the joint venture level. Based on our current assumptions with respect to final project cost, timing and the extent to which the project can be funded through third-party debt financing, we estimate our share of the funding for the joint venture will be approximately $50.0 million of which $41.6 million has been funded during the year ended December 31, 2013.

Financing Cash Flows and Liquidity

Our consolidated capital structure as of December 31, 2013 was approximately 56.7% equity, 38.8% debt and 4.5% noncontrolling interest compared to approximately 52.4% equity and 47.6% debt as of December 31, 2012.

Net cash used in financing activities totaled $62.2 million for the year ended December 31, 2013 compared to net cash provided by financing activities of $53.4 million for the year ended December 31, 2012, representing a period-over-period decline in cash from financing activities of $115.6 million. In 2013, we repaid the $96.9 million remaining principal amount of term loans and received $41.6 million from FPCC, which represents their portion of the equity investment in the joint venture. In 2012, we increased the amount outstanding under the 6.75% Senior Notes by $100.0 million and made a $40.0 million voluntary prepayment on the term loan portion of the senior secured credit facility.

Net cash provided by financing activities totaled $53.4 million for the year ended December 31, 2012 and net cash used in financing activities totaled $0.1 million for the year ended December 31, 2011. The $53.5 million increase in cash provided by financing activities was driven primarily by:

· $393.2 million repayment of debt primarily related to the refinancing in February 2011, compared to a $45.6 million repayment of debt during 2012, which primarily includes a $40.0 million voluntary prepayment on the term loan portion of the senior secured credit facility in September 2012;

- $12.1 million decrease in debt issuance costs paid; partially offset by
- $298.8 million decrease in proceeds from debt, primarily related to $150.0 million term debt and $250.0 million senior notes in February 2011, compared to $101.3 million from the issuance of senior notes in March 2012; and
- $7.3 million decrease in proceeds from the exercise of employee stock options.

Description of 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. The notes are general unsecured, senior obligations and are 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. Prior to March 1, 2015, we may redeem all or a part of the senior notes, at a redemption price equal to 100.00% of the principal amount of the senior notes redeemed plus the applicable premium as of, plus accrued and unpaid interest, if any, to the applicable redemption date. After March 1, 2015, we may redeem all or a part of the senior notes for 103.375%, 101.688%, and 100.000% of the principal amount in 2015, 2016 and 2017 and thereafter, respectively. See Note 6 Long-Term Debt, for further discussion.

Consummation of our pending transaction with LCY would constitute a change of control under the indenture governing our 6.75% senior notes, which would require us to offer to repurchase all outstanding notes at a price in cash equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest. Under the combination agreement with LCY, it is a condition to the parties' obligations to close the transaction that we (a) obtain a consent from noteholders under the indenture providing that the transactions with LCY will not constitute a change of control thereunder or (b) put into place arrangements with debt financing sources to provide financing for the change of control repurchase offer. We intend to obtain such a consent or put into place such a financing arrangement to satisfy the closing condition. The terms or cost to obtain such consent or put into place such financing may be unfavorable, and we may not be successful in obtaining such a consent or putting into place such an arrangement, which would result in a failure of the closing condition under our combination agreement with LCY. At December 31, 2013, we were in compliance with the covenants under the indenture governing our 6.75% senior notes.

Other Contingencies

As a chemicals manufacturer, our operations in the United States and abroad are subject to a wide range of environmental laws and regulations at both the national and local levels. These laws and regulations govern, among other things, air emissions, wastewater discharges, solid and hazardous waste management, site remediation programs and chemical use and management.

Pursuant to these laws and regulations, our facilities are required to obtain and comply with a wide variety of environmental permits for different aspects of their operations. Generally, many of these environmental laws and regulations are becoming increasingly stringent, and the cost of compliance with these various requirements can be expected to increase over time.

In the context of the separation in February 2001, Shell Chemicals agreed to indemnify us for specific categories of environmental claims brought with respect to matters occurring before the separation. However, the indemnity from Shell Chemicals is subject to dollar and time limitations. Coverage under the indemnity also varies depending upon the nature of the environmental claim, the location giving rise to the claim and the manner in which the claim is triggered. Therefore, if claims arise in the future related to past operations, we cannot give assurances that those claims will be covered by the Shell Chemicals' indemnity and also cannot be certain that any amounts recoverable will be sufficient to satisfy claims against us.

In addition, we may in the future be subject to claims that arise solely from events or circumstances occurring after February 2001, which would not, in any event, be covered by the Shell Chemicals' indemnity. While we recognize that we may in the future be held liable for remediation activities beyond those identified to date, at present we are not aware of any circumstances that are reasonably expected to give rise to remediation claims that would have a material adverse effect on our results of operations or cause us to exceed our projected level of anticipated capital expenditures.

The EPA issued new MACT standards for controlling hazardous air emissions from industrial boilers. The MACT rule applies to the coal-burning boilers at our Belpre, Ohio facility. On December 20, 2012, the EPA announced that it had finalized the clean air standards for industrial boilers, and certain incinerators, and non-hazardous secondary materials. On January 31, 2013 the final rule was published in the Federal Register with an effective date of April 1, 2013 and a compliance date of January 31, 2016, three years from publication in the Federal Register. We plan to be in compliance with the MACT standards prior to the expiration of the compliance period.

Except for the foregoing, we currently estimate that any expenses incurred in maintaining compliance with environmental laws and regulations will not materially affect our results of operations or cause us to exceed our level of anticipated capital expenditures. However, we cannot give assurances that regulatory requirements or permit conditions will not change, and we cannot predict the aggregate costs of additional measures that may be required to maintain compliance as a result of such changes or expenses.

We had no material operating expenditures for environmental fines, penalties, government imposed remedial or corrective actions during the years ended December 31, 2013, 2012 or 2011.

Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements as of December 31, 2013, other than operating leases.

Contractual Obligations

Our principal outstanding contractual obligations relate to the senior notes and related interest payments, the operating leases of some of our facilities, the minimum purchase obligations required under our KFPC joint venture agreement and other agreements, and the feedstock contracts with LyondellBasell and others to provide us with styrene, butadiene and isoprene. The following table summarizes our contractual cash obligations as of December 31, 2013 for the periods indicated.

	Payments Due by Period						
Dollars in Millions	Total	2014	2015	2016	2017	2018	2019 and after
Long-term debt obligations	$350.0	0	0	0	0	0	350.0
Estimated interest payments on debt	122.1	23.7	23.7	23.6	23.6	23.6	3.9
Operating lease obligations	44.1	9.7	8.5	5.7	5.1	4.7	10.4
Capital lease obligation	1.6	1.6	0	0	0	0	0
Purchase obligations(1)	4,406.2	344.4	286.7	170.3	169.6	211.9	3,223.3
Estimated Pension obligations(2)	34.3	4.9	3.6	5.4	3.7	2.6	14.1
Total contractual cash obligations	$4,958.3	$384.3	$322.5	$205.0	$202.0	$242.8	$3,601.7

(1) Included in the above table are our estimated minimum purchases required under our KFPC joint venture agreement. Due to the indefinite term of this joint venture, we have based our minimum purchases on an assumed 20 year useful life of the facility.

(2) This represents our future pension contributions utilizing the following assumptions:

- The plan was "frozen" at December 31, 2013;
- All assets at December 31, 2013 were moved into a portfolio of high quality bonds whose cash flow matches the expected cash flow of the "frozen" plan. The yield on the portfolio of bonds as of December 31, 2013 is equal to the estimated PPA effective rate at January 1, 2014. Assets were assumed to remain in such portfolio until all obligations of the plan were paid out;
- An estimated PPA effective rate as of January 1, 2014 of 4.51%.;
- All contributions are made at the latest date allowable by law; and
- All other assumptions as used in the 2013 funding actuarial valuation of the plan are met.

Impact of Inflation. Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to certain market risks, including risks from changes in interest rates, foreign currency exchange rates, and commodity prices that could impact our financial condition, results of operations and cash flows. We selectively manage our exposure to these and other market risks through regular operating and financing activities as well as through the use of market risk sensitive instruments. We use such financial instruments as risk management tools and not for speculative investment purposes. The market risk sensitive instruments that we have entered into as of December 31, 2013 consist of a series of non-deliverable forward contracts, forward contracts, and foreign currency option contracts.

Interest rate risk. We were exposed to interest rate risk as a result of our previously outstanding variable rate debt under our senior secured credit agreement which we refinanced in March 2013 and repaid all our outstanding indebtedness. Associated with the refinancing we terminated and settled the existing interest rate swap agreement that was in place to hedge or otherwise protect against interest rate fluctuations on a portion of our variable rate debt.

Foreign currency exchange risk. We conduct operations in many countries around the world. Our results of operations are subject to both currency transaction risk and currency translation risk. We incur currency transaction risk when we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. We are subject to currency translation risk because our financial condition and results of operations are measured and recorded in the relevant domestic currency and then translated into U.S. dollars for inclusion in our historical consolidated financial statements. We attempt to selectively manage significant exposures to potential foreign currency exchange losses based on current market conditions, future operating activities, and the associated cost in relation to the perceived risk of loss. The purpose of our foreign currency risk management activities is to minimize the risk that our cash flows from the sale and/or purchase of services and products in foreign currencies will be adversely affected by changes in exchange rates.

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. In 2013, we entered into a series of foreign currency option and forward contracts to reduce our exposure to exchange rate volatility. These 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 year. The notional amounts of open foreign currency option and forward contracts were $44.9 million at December 31, 2013 and $48.5 million at December 31, 2012. The notional amounts of our option and forward contracts do not generally represent amounts exchanged by the parties, and thus are not a measure of our exposure or of the cash requirements related to these contracts. As such, cash flows related to these contracts are typically not material. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the contracts, such as exchange rates.

In addition, we entered into a series of non-deliverable forward and foreign currency option contracts to protect our net investment in various foreign subsidiaries against adverse changes in exchange rates by fixing the U.S. dollar/Euro exchange rate and the New Taiwan Dollar/Euro exchange rate. These contracts qualified for hedge accounting in accordance with ASC 815-35 “Net Investment Hedges” and typically settled weekly or monthly and all were settled at December 31, 2013. See Note 8 Fair Value Measurements, Financial Instruments and Credit Risk to the consolidated financial statements for further discussion.

We use a sensitivity analysis model to measure the impact of a 10% adverse movement of foreign currency exchange rates against the U.S. dollar. A hypothetical 10% adverse change in the value of all our foreign currency positions relative to the U.S. dollar as of December 31, 2013 would result in a $0.8 million pre-tax loss for our net monetary assets denominated in currencies other than the U.S. dollar.

There are certain limitations inherent in the sensitivity analyses presented, primarily due to the assumption that interest rates and exchange rates change instantaneously in an equally adverse fashion. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled. While this is our best estimate of the impact of the various scenarios, these estimates should not be viewed as forecasts.

Commodity price risk. We are exposed to commodity price risk due to our forward contractual purchase commitments for raw materials. Styrene, butadiene and isoprene are primarily supplied by a portfolio of suppliers under long-term supply contracts and arrangements with various expiration dates. We are subject to future purchase commitments for commodities under minimum purchase contracts for raw materials. Based on pricing as of December 31, 2013, a hypothetical 10.0% change in the market price for these raw materials would change our 2014 cost of goods sold by $39.3 million.

Item 8. Financial Statements and Supplementary Data.

The financial statements are set forth herein commencing on page F-5 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934) was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. As of December 31, 2013, based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

Management’s Annual Report on Internal Control over Financial Reporting

See Management’s Annual Report on Internal Control over Financial Reporting on page F-2 of the audited consolidated financial statements provided under Item 8 of this Form 10-K.

Attestation Report of the Registered Public Accounting Firm

See Report of Independent Registered Public Accounting Firm on page F-3 of the audited consolidated financial statements provided under Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the three months ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.
None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2014 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 11. Executive Compensation.

Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2014 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2014 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2014 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 14. Principal Accountant Fees and Services.

Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2014 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) 1. Financial Statements

The following financial statements are included in Item 8:

Kraton Performance Polymers, Inc.

(i) The reports of KPMG LLP, Independent Registered Public Accounting Firm
(ii) Consolidated Balance Sheets as of December 31, 2013 and 2012
(iii) Consolidated Statements of Operations—years ended December 31, 2013, 2012 and 2011
(iv) Consolidated Statements of Comprehensive Income (Loss)—years ended December 31, 2013, 2012 and 2011
(v) Consolidated Statements of Changes in Equity—years ended December 31, 2013, 2012 and 2011
(vi) Consolidated Statements of Cash Flows—years ended December 31, 2013, 2012 and 2011
(vii) Notes to consolidated financial statements

2. Exhibits

The exhibits listed on the accompanying Exhibit Index are filed as part of this report and are on file with us.

(b) Exhibits

See Item 15(a) 2 above.

(c) Financial Statement Schedule

See Schedule II.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: February 27, 2014

Kraton Performance Polymers, Inc.

/S/ KEVIN M. FOGARTY
Kevin M. Fogarty

President and Chief Executive Officer

This report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 27, 2014.

Signature	Title
/S/ KEVIN M. FOGARTY Kevin M. Fogarty	President, Chief Executive Officer and a Director (Principal Executive Officer)
/S/ STEPHEN E. TREMBLAY Stephen E. Tremblay	Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ JASON P. CLARK Jason P. Clark	Chief Accounting Officer (Principal Accounting Officer)
/S/ RICHARD C. BROWN* Richard C. Brown	Director
/S/ ANNA C. CATALANO* Anna C. Catalano	Director
/S/ STEVEN J. DEMETRIOU* Steven J. Demetriou	Director
/S/ DOMINIQUE FOURNIER* Dominique Fournier	Director
/S/ JOHN J. GALLAGHER, III* John J. Gallagher	Director
/S/ BARRY J. GOLDSTEIN* Barry J. Goldstein	Director

/S/ FRANCIS S. KALMAN* Francis S. Kalman	Director
/S/ DAN F. SMITH* Dan F. Smith	Director
/S/ KAREN A. TWITCHELL* Karen A. Twitchell	Director

*By: /S/ STEPHEN E. TREMBLAY
Stephen E. Tremblay

As attorney-in-fact

KRATON PERFORMANCE POLYMERS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation to assess the effectiveness of our internal control over financial reporting as of December 31, 2013 based upon criteria set forth in the Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2013, our internal control over financial reporting is effective.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report that is included herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Kraton Performance Polymers, Inc.:

We have audited Kraton Performance Polymers, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Kraton Performance Polymers, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Kraton Performance Polymers, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Kraton Performance Polymers, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated February 27, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Houston, Texas

February 27, 2014

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Kraton Performance Polymers, Inc.:

We have audited the accompanying consolidated balance sheets of Kraton Performance Polymers, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of Kraton Performance Polymers, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kraton Performance Polymers, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Kraton Performance Polymers, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2014 expressed an unqualified opinion on the effectiveness of Kraton Performance Polymers, Inc.'s internal control over financial reporting.

/s/ KPMG LLP

Houston, Texas

February 27, 2014

KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 175,872	$ 223,166
Receivables, net of allowances of $315 and $401	129,356	124,635
Inventories of products	328,772	340,323
Inventories of materials and supplies	10,947	10,331
Deferred income taxes	7,596	7,869
Other current assets	20,665	28,363
Total current assets	673,208	734,687
Property, plant and equipment, less accumulated depreciation of $353,428 and $311,779	414,257	381,205
Intangible assets, less accumulated amortization of $78,784 and $68,531	57,488	63,393
Investment in unconsolidated joint venture	14,074	13,582
Debt issuance costs	9,213	10,846
Deferred income taxes	1,326	79
Other long-term assets	25,231	25,397
Total assets	$ 1,194,797	$ 1,229,189
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 0	$ 15,074
Accounts payable-trade	115,736	99,167
Other payables and accruals	54,539	50,978
Deferred income taxes	182	513
Due to related party	24,603	16,080
Total current liabilities	195,060	181,812
Long-term debt, net of current portion	350,989	432,943
Deferred income taxes	18,359	22,273
Other long-term liabilities	75,991	99,946
Total liabilities	640,399	736,974
Commitments and contingencies (note 11)		
Equity:		
Kraton stockholders' equity:		
Preferred stock, $0.01 par value; 100,000 shares authorized; none issued	0	0
Common stock, $0.01 par value; 500,000 shares authorized; 32,547 shares issued and outstanding at December 31, 2013; 32,277 shares issued and outstanding at December 31, 2012	325	323
Additional paid in capital	363,590	354,957
Retained earnings	170,827	171,445
Accumulated other comprehensive loss	(21,252)	(34,510)

Total Kraton stockholders’ equity	513,490	492,215
Noncontrolling interest	40,908	0
Total equity	554,398	492,215
Total liabilities and equity	$ 1,194,797	$ 1,229,189

See Notes to Consolidated Financial Statements

KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Years ended December 31,		
	2013	2012	2011
Sales revenue	$1,292,121	$1,423,122	$1,437,479
Cost of goods sold	1,066,289	1,191,680	1,121,293
Gross profit	225,832	231,442	316,186
Operating expenses:			
Research and development	32,014	31,011	27,996
Selling, general and administrative	105,558	98,555	101,606
Depreciation and amortization	63,182	64,554	62,735
Impairment of long-lived assets	0	5,434	0
Total operating expenses	200,754	199,554	192,337
Loss on extinguishment of debt	0	0	(2,985)
Earnings of unconsolidated joint venture	530	530	529
Interest expense, net	30,470	29,303	29,884
Income (loss) before income taxes	(4,862)	3,115	91,509
Income tax expense (benefit)	(3,887)	19,306	584
Consolidated net income (loss)	(975)	(16,191)	90,925
Net loss attributable to noncontrolling interest	(357)	0	0
Net income (loss) attributable to Kraton	$(618)	$(16,191)	$90,925
Earnings (loss) per common share:			
Basic	$(0.02)	$(0.50)	$2.85
Diluted	$(0.02)	$(0.50)	$2.81
Weighted average common shares outstanding:			
Basic	32,096	31,939	31,786
Diluted	32,096	31,939	32,209

See Notes to Consolidated Financial Statements

KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Years ended December 31,		
	2013	2012	2011
Net income (loss) attributable to Kraton	$(618)	$(16,191)	$90,925
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax of $0	(4,198)	(2,594)	(20,851)
Reclassification of loss on interest rate swap, net of tax of $0	837	0	1,073
Unrealized loss on interest rate swaps, net of tax of $0	0	(28)	(809)
Unrealized loss on net investment hedge, net of tax of $0	(490)	(2,335)	0
(Increase) decrease in benefit plans liability, net of tax of $10,065, $0, and $0	17,109	(11,935)	(17,926)
Other comprehensive income (loss), net of tax	13,258	(16,892)	(38,513)
Comprehensive income (loss) attributable to Kraton	12,640	(33,083)	52,412
Comprehensive loss attributable to noncontrolling interest	(722)	0	0
Consolidated comprehensive income (loss)	$11,918	$(33,083)	$52,412

See Notes to Consolidated Financial Statements

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Kraton Equity	Noncontrolling Interest	Total Equity
Balance at January 1, 2011	$ 314	$ 334,457	$ 96,711	$ 20,895	$ 452,377	$ 0	$ 452,377
Net income	0	0	90,925	0	90,925	0	90,925
Other comprehensive loss	0	0	0	(38,513)	(38,513)	0	(38,513)
Exercise of stock options	7	7,539	0	0	7,546	0	7,546
Non-cash compensation related to equity awards	0	5,459	0	0	5,459	0	5,459
Balance at December 31, 2011	$ 321	$ 347,455	$ 187,636	$ (17,618)	$ 517,794	$ 0	$ 517,794
Net loss	0	0	(16,191)	0	(16,191)	0	(16,191)
Other comprehensive loss	0	0	0	(16,892)	(16,892)	0	(16,892)
Exercise of stock options	2	931	0	0	933	0	933
Non-cash compensation related to equity awards	0	6,571	0	0	6,571	0	6,571
Balance at December 31, 2012	$ 323	$ 354,957	$ 171,445	$ (34,510)	$ 492,215	$ 0	$ 492,215
Net loss	0	0	(618)	0	(618)	(357)	(975)
Other comprehensive income (loss)	0	0	0	13,258	13,258	(365)	12,893
Consolidation of variable interest entity	0	0	0	0	0	41,630	41,630
Exercise of stock options	2	739	0	0	741	0	741
Non-cash compensation related to equity awards	0	7,894	0	0	7,894	0	7,894
Balance at December 31, 2013	$ 325	$ 363,590	$ 170,827	$ (21,252)	$ 513,490	$ 40,908	$ 554,398

See Notes to Consolidated Financial Statements

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net income (loss)	$(975)	$(16,191)	$90,925
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	63,182	64,554	62,735
Amortization of debt premium	(153)	(108)	0
Amortization of debt issuance costs	7,389	2,986	6,722
(Gain) loss on property, plant and equipment	(52)	415	90
Impairment of long-lived assets	0	5,434	0
Loss on extinguishment of debt	0	0	2,985
Earnings from unconsolidated joint venture, net of dividends received	(108)	(130)	(14)
Deferred income tax expense (benefit)	(15,546)	9,948	(10,461)
Share-based compensation	7,894	6,571	5,459
Decrease (increase) in:			
Accounts receivable	(1,158)	16,646	(7,704)
Inventories of products, materials and supplies	11,246	53,615	(74,965)
Other assets	179	(1,695)	7,841
Increase (decrease) in:			
Accounts payable-trade	14,944	8,680	3,418
Other payables and accruals	934	(6,481)	(12,025)
Other long-term liabilities	3,384	(1,534)	(4,120)
Due to related party	14,296	3,623	(6,111)
Net cash provided by operating activities	105,456	146,333	64,775
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant, and equipment	(81,080)	(65,006)	(60,311)
Purchase of software and other intangibles	(5,125)	(4,603)	(4,129)
Settlement of net investment hedge	(2,490)	(335)	0
Net cash used in investing activities	(88,695)	(69,944)	(64,440)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt	40,000	101,250	400,000
Repayments of debt	(136,875)	(45,626)	(393,160)
Capital lease payments	(2,950)	0	0
Contribution from noncontrolling interest	41,630	0	0
Proceeds from the exercise of stock options	741	933	8,271
Proceeds from insurance note payable	0	0	4,734
Repayments of insurance note payable	0	0	(4,734)
Debt issuance costs	(4,794)	(3,156)	(15,231)
Net cash provided by (used in) financing activities	(62,248)	53,401	(120)
Effect of exchange rate differences on cash	(1,807)	4,797	(4,386)

Net increase (decrease) in cash and cash equivalents	(47,294)	134,587	(4,171)
Cash and cash equivalents, beginning of period	223,166	88,579	92,750
Cash and cash equivalents, end of period	$175,872	$223,166	$88,579
Supplemental disclosures			
Cash paid during the period for income taxes, net of refunds received	$8,885	$14,241	$6,817
Cash paid during the period for interest, net of capitalized interest	$23,543	$24,402	$22,829
Capitalized interest	$4,180	$2,648	$2,259
Supplemental non-cash disclosures			
Capital accruals	$8,757	$7,512	$7,832
Capital lease liability	$1,565	$950	$0

See Notes to Consolidated Financial Statements

KRATON PERFORMANCE POLYMERS, INC.

Notes to Consolidated Financial Statements

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1. Description of Business, Basis of Presentation and Significant Accounting Policies

Description of 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 than more commoditized products. 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.

We have a portfolio of innovations at various stages of development and commercialization, including

- polyvinyl chloride alternatives for wire and cable, and medical applications;
- polymers and compounds for soft skin and coated fabric applications for transportation and consumer markets;
- our NEXAR family of membrane polymers for water filtration, heating, ventilation, air conditioning 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 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.

Significant Accounting Policies. These financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present our results of operations and financial position.

Use of Estimates. The preparation of 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 consolidated financial statements and the reported amounts of revenue 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, income tax uncertainties and other contingencies.

Cash and Cash Equivalents. It is our policy to invest our excess cash in investment instruments whose value is not subject to market fluctuations, such as bank deposits or certificates of deposit. Other permitted investments include commercial paper of major U.S. corporations with ratings of A1 by Standard & Poor’s Ratings Group or P1 by Moody’s Investor Services, Inc., loan participations of major U.S. corporations with a short term credit rating of A1/P1 and direct obligations of the U.S. government or its agencies. We consider all investments having a remaining maturity, at the time of purchase, of three months or less to be cash equivalents.

Receivables. Receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing receivables and is determined based on our assessment of the credit worthiness of individual customers, historical write-off experience and global economic data. We review the allowance for doubtful accounts quarterly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have significant off-balance sheet credit exposure related to our customers.

Inventories. Our inventory is principally comprised of finished goods inventory. Inventories are stated at the lower of cost or market as primarily determined on a first-in, first-out basis. We evaluate the carrying cost of our inventory on a quarterly basis for this purpose. If the cost of the inventories exceeds their market value, provisions are made for the differences between the cost and the market value.

Derivative Instruments and Hedging Activities. We account for derivatives and hedging activities in accordance with ASC 815, “Derivatives and Hedging,” which requires entities to recognize all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values. For derivatives designated in cash flow hedging relationships, changes in the fair value are either offset through earnings against the change in fair value of the hedged item attributable to the risk being hedged or recognized in accumulated other comprehensive income (loss), to the extent the derivative is effective at offsetting the changes in cash flows being hedged until the hedged item affects earnings.

For all hedging relationships, we formally document the hedging relationship and our risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged transaction, the nature of the risk being hedged, how the hedging instrument’s effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method used to measure ineffectiveness. We also formally assess both at the inception of the hedging relationship and on an ongoing basis, whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in cash flows of hedged transactions. For derivative instruments that are designated and qualify as part of a cash flow hedging relationship, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

We discontinue hedge accounting prospectively when we determine that the derivative is no longer effective in offsetting cash flows attributable to the hedged risk, the derivative expires or is sold, terminated, or exercised, and the cash flow hedge is de-designated because a forecasted transaction is not probable of occurring, or we remove the designation of the cash flow hedge.

In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we continue to carry the derivative at its fair value on the balance sheet and recognize any subsequent changes in its fair value in earnings. When it is probable that a forecasted transaction will not occur, we discontinue hedge accounting and recognize immediately in earnings gains and losses that were accumulated in other comprehensive income (loss) related to the hedging relationship.

Property, Plant and Equipment. Property, plant and equipment are recorded at cost. Major renewals and improvements which extend the useful lives of equipment are capitalized. Repair and maintenance costs are expensed as incurred. Disposals are removed at carrying cost less accumulated depreciation with any resulting gain or loss reflected in earnings. We capitalize interest costs which are incurred as part of the cost of constructing major facilities and equipment. Depreciation is recognized using the straight-line method over the following estimated useful lives:

Machinery and equipment	20 years
Building and land improvements	20 years
Manufacturing control equipment	10 years
Office equipment	5 years
Research equipment and facilities	5 years
Vehicles	5 years
Computer hardware and information systems	3 years

Major Maintenance Activities. Major maintenance or turnaround costs are expensed as incurred.

Asset Retirement Obligations ("ARO"). We account for ARO's pursuant to the provisions of ASC 410-20, "Asset Retirement Obligations." ASC 410-20 requires us to record the fair value of an ARO as a liability in the period in which we have a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The ARO is also capitalized as part of the carrying cost of the asset and is depreciated over the life of the asset. The recognition of an ARO requires us to make numerous estimates, assumptions and judgments regarding such factors as the existence of a legal obligation for an ARO; estimated probabilities, amounts and timing of settlements; the credit-adjusted risk-free rate to be used; discount rate and inflation rates. Subsequent to the initial measurement of the ARO, the obligation is to be adjusted at the end of each period to reflect accretion of the liability to its non-discounted amount and changes in either the timing or the amount of the original estimated future cash flows underlying the obligation. Revisions also result in increases or decreases in the carrying cost of these assets. Increases in the ARO liability due to accretion is charged to depreciation and amortization expense. The related capitalized cost, including revisions thereto, is charged to depreciation and amortization expense.

We have no assets that are legally restricted for purposes of settling ARO's. We have determined that we have contractual or regulatory requirements to decommission and perform other remediation for many of our manufacturing facilities and other assets upon retirement. These manufacturing facilities have historically been profitable, and we plan to continue to upgrade these assets and expand the manufacturing capacity in conjunction with the growing market for our products. We plan to operate our manufacturing facilities for the foreseeable future and there are no current plans to close or convert these assets for use in the manufacture of fundamentally different products. Unlike our manufacturing assets in the United States and Brazil, our manufacturing assets in Europe are all located on leased land. For these assets, we used the lease termination dates as the estimate for when our ARO's related to those assets will be settled.

Long-Lived Assets. In accordance with the Impairment or Disposal of Long-Lived Assets Subsections of ASC 360-10, "Property, Plant, and Equipment—Overall," long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Intangible Assets. We have intangible assets related to technology, tradenames/trademarks, customer relationships and software as detailed in Note 4 Detail of Certain Balance Sheet Accounts to the consolidated financial statements. Intangible assets are amortized on the straight-line method over the estimated useful lives of the assets. The estimated useful life of technology, tradenames/trademarks and customer relationships is 15 years, while the estimated useful life of software is 10 years.

Pension and Other Postretirement Plans. We sponsor a noncontributory defined benefit pension plan, a non-qualified defined benefit pension plan, and an additional post-retirement benefit plan. We annually evaluate significant assumptions related to the benefits and obligations of these plans. Our estimation of the projected benefit obligations and related benefit expense requires that certain assumptions be made regarding such variables as expected return on plan assets, discount rates, rates of future compensation increases, estimated future employee turnover rates and retirement dates, distribution election rates, mortality rates, retiree utilization rates for health care services and health care cost trend rates. The determination of the appropriate assumptions requires considerable judgment concerning future events and has a significant impact on the amount of the obligations and expense recorded. We rely in part on actuarial studies when determining the appropriateness of certain of the assumptions used in determining the benefit obligations and the annual expenses for these plans.

Investment in Unconsolidated Joint Venture. Our 50% equity investment in a manufacturing joint venture at our Kashima site is accounted for under the equity method with our share of the operating results of the joint venture classified within earnings of unconsolidated joint venture.

We evaluate our equity method investment for impairment when events or changes in circumstances indicate, in our judgment, that the carrying value of such investment may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, we compare the estimated fair value of the investment to the carrying value of the investment to determine whether impairment has occurred. We assess the fair value of our equity method investment using commonly accepted techniques, and may use more than one method, including, but not limited to, recent third party comparable sales, internally developed analysis and analysis from outside advisors. If the estimated fair value is less than the carrying value and we consider the decline in value to be other than temporary, the excess of the carrying value over the estimated fair value is recognized in the financial statements as an impairment.

Debt Issuance Costs. We capitalize financing fees and other costs related to issuing long-term debt. We amortize these costs using the effective interest method, except for costs related to revolving debt, which are amortized using the straight-line method. The amortization of debt issuance costs are recorded in interest expense.

Contingencies . We are routinely involved in litigation, claims and disputes incidental to our business. Professional judgment is required to classify the likelihood of these contingencies occurring. All relevant information that can be acquired concerning the uncertain set of circumstances needs to be obtained and used to determine the probability classification. A contingency is categorized as probable, reasonably possible, or remote. A contingency is classified as probable if the future event or events are likely to occur. For the probable contingencies, a loss is accrued and disclosed as of the date of the financial statements if it is both probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. A reasonably possible contingency occurs if the chance of the future event or events happening is more than remote but less than likely (reasonably possible but not probable). We disclose the loss contingencies in the footnotes to the financial statements but do not recognize any liability. A remote contingency is one where the chance of the future event or events occurring is slight. We neither accrue for nor disclose the liability in the notes to the financial statements.

Environmental Costs. Environmental costs are expensed as incurred unless the expenditures extend the economic useful life of the relevant assets. Costs that extend the economic useful life of assets are capitalized and depreciated over the remaining life of those assets. Liabilities are recorded when environmental assessments, or remedial efforts are probable, and the cost can be reasonably estimated.

Disclosures about Fair Value of Financial Instruments. For cash and cash equivalents, receivables, accounts payable and certain accrued expenses the carrying amount approximates fair value due to the short maturities of these instruments. For long-term debt instruments and the interest rate swap agreements fair value is estimated based upon market values (if applicable) or on the current interest rates available to us for debt with similar terms and remaining maturities. Considerable judgment is required in developing these estimates.

Revenue Recognition. Sales revenue is recognized in accordance with the provisions of ASC 605, “Revenue Recognition—Overall,” when the revenue is realized or realizable, and has been earned. Revenue for product sales is recognized when risk and title to the product transfer to the customer, which usually occurs at the time shipment is made. Our products are generally sold free on board shipping point or, with respect to countries other than the United States, an equivalent basis. As such, title to the product passes when the product is delivered to the freight carrier. Our standard terms of delivery are included in our contracts of sale, order confirmation documents and invoices. Shipping and other transportation costs charged to customers are recorded in both sales and cost of sales.

We have entered into agreements with some of our customers whereby they earn rebates from us when the volume of their purchases of our product reach certain agreed upon levels. We recognize the rebate obligation ratably, as a reduction of revenue.

Research and Development Expenses. Research and development expenses are expensed as incurred.

Share-Based Compensation. Share-based compensation cost is measured at the grant date based on the fair value of the award. We recognize these costs using the straight-line method over the requisite service period. The Kraton Performance Polymers, Inc. Equity Incentive Plan (the “Equity Plan”) allows for the grant to key employees, independent contractors, and eligible non-employee directors of incentive stock options (for employees only), non-qualified stock options (which together with the incentive stock options, are referred to herein as (“Options”)), stock appreciation rights, restricted stock awards and restricted stock unit awards, in addition to other equity or equity-based awards (including performance-based awards) as our board determines from time to time. We estimate the fair value of stock options using the Black-Scholes valuation model. Since our equity interests were privately held prior to our initial public offering we have limited publicly traded stock history, and as a result our estimated volatility is based on a combination of our historical volatility and similar companies' stock that are publicly traded. Until such time that we have enough publicly traded stock history to estimate volatility based solely on our stock, we expect to estimate volatility of options granted based on a combination of our historical volatility and similar companies' stock that are publicly traded. The expected term of options represents the period of time that options granted are expected to be outstanding. For all periods presented, we used the simplified method to calculate the expected term of options. The risk free interest rate for the periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. For all periods presented, the dividend yield is assumed to be zero based on historical and expected dividend activity. Forfeitures are based substantially on the history of cancellations of similar awards granted in prior years. See Note 3 Share-Based Compensation to the consolidated financial statements.

Leases. Our leases entered into as of December 31, 2013 are classified as either operating or capital leases. A lease is deemed a capital lease when one of the following conditions is met: (1) ownership of the asset is transferred to the lessee at the end of the lease term, (2) the lease contains a bargain purchase option, (3) the lease term is 75% or more of the asset's useful life, or (4) the net present value of minimum lease payments is equal to 90% or more of the asset's fair market value. All other leases are classified as an operating lease. The capital lease obligation is classified as either a current liability or long term liability based on the lease payment schedule, and is offset by an asset purchased pursuant to the lease and depreciated in accordance with the our depreciation policy. Generally, operating lease payments are paid on a straight-line basis. For those leases which contain escalating rent payment clauses, we use the straight-line method to record lease expense.

Income Taxes. We conduct operations in separate legal entities in different jurisdictions. As a result, income tax amounts are reflected in these consolidated financial statements for each of those jurisdictions.

Income taxes are recorded utilizing an asset and liability approach. This method gives consideration to the future tax consequences associated with the differences between the financial accounting and tax basis of the assets and liabilities as well as the ultimate realization of any deferred tax asset resulting from such differences. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, we believe it is more likely than not that we will realize the benefits of these deductible differences, net of the existing valuation allowances.

Foreign Currency Translation and Foreign Currency Exchange Rates. Financial statements of our operations outside the United States where the local currency is considered to be the functional currency are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and the average exchange rate for each period for revenue, expenses, gains, losses and cash flows. The effects of translating such operations into U.S. dollars are included as a component of accumulated other comprehensive income (loss).

2. New Accounting Pronouncements

Adoption of Accounting Standards. We have implemented all new accounting pronouncements that are in effect and that management believes would materially impact our financial statements and do not believe that there are any other new accounting pronouncements that have been issued that might 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, “Share-Based Payment,” which established the accounting for share-based awards exchanged for employee services. 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 approximately $7.9 million, $6.6 million and $5.5 million, net of tax effects of $0.0 million for the years ended December 31, 2013, 2012 and 2011, 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. At December 31, 2013, there was approximately $3.5 million of unrecognized compensation expense related to non-vested option awards to be recognized over a weighted-average period of 1.38 years, and $4.4 million of unrecognized compensation expense related to awards of restricted stock, restricted share units and performance share units expected to be recognized over a weighted-average period of 1.87 years.

Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan. On November 30, 2009, our board of directors and our stockholders approved the Kraton Performance Polymers, Inc. Equity Incentive Plan (the "Equity Plan") and on May 25, 2011, our board of directors and stockholders approved the amendment and restatement of the Equity Plan. The Equity Plan allows for the grant to key employees, independent contractors, and eligible non-employee directors of incentive stock options (to employees only), non-qualified stock options (which together with the incentive stock options, are referred to herein as ("Options")), stock appreciation rights, restricted stock awards and restricted stock unit awards, in addition to other equity or equity-based awards (including performance-based awards) as our board determines from time to time.

Under this plan, there are a total of 4,350,000 shares of common stock reserved for issuance. As of December 31, 2013 and 2012 there were 2,304,949 and 2,730,598 shares of common stock available for issuance, respectively.

Stock Option Activity

Option activities for the year ended December 31, 2013 are as follows:

	Options (in thousands)	Weighted Average Exercise Price
Outstanding at December 31, 2012	1,536	$ 23.23
Granted	131	23.84
Exercised	53	14.01
Forfeited	16	22.75
Expired	3	36.93
Outstanding at December 31, 2013.	1,595	23.56
Exercisable at December 31, 2013	922	$ 22.14

We granted 131,321; 348,502; and 432,155 options to our employees during the years ended December 31, 2013, 2012 and 2011, respectively. These options have a ten year term and vest in equal installments over three years. The weighted-average grant-date fair value of options granted during the years ended December 31, 2013, 2012 and 2011 were $12.30, $13.23 and $17.15, respectively. There were 52,971; 65,352; and 555,619 options exercised during the years ended December 31, 2013, 2012 and 2011, respectively. The total intrinsic value of the options exercised was $0.5 million, $0.7 million and $11.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The following table summarizes additional information regarding the outstanding and exercisable options at December 31, 2013.

	Options (in thousands)	Weighted Average Exercise Price	Aggregate Intrinsic Value(1) (in thousands)	Weighted Average Remaining Contractual Term (in years)
Outstanding options	1,595	$ 23.56	$ 6,283	6.55
Exercisable options	922	$ 22.14	$ 4,885	5.77

(1) The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option as of December 31, 2013.

Weighted-Average Assumptions for Option Pricing

	2013	2012	2011
Risk-free interest rate	1.01 %	1.11 %	2.46 %

Expected dividend yield	0.00	%	0.00	%	0.00	%
Expected volatility	55.0	%	54.0	%	47.0	%
Expected term	6.0 years		6.0 years		6.0 years	

Since our equity interests were privately held prior to our initial public offering we have limited publicly traded stock history, and as a result our estimated volatility is based on a combination of our historical volatility and similar companies' stock that are publicly traded. Until such time that we have enough publicly traded stock history to estimate volatility based solely on our stock, we expect to estimate volatility of options granted based on a combination of our historical volatility and similar companies' stock that are publicly traded. The expected term of options represents the period of time that options granted are expected to be outstanding. For all periods presented, we used the simplified method to calculate the expected term of options. The risk free interest rate for the periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. For all periods presented, the dividend yield is assumed to be zero based on historical and expected dividend activity.

Restricted stock awards, Restricted share units and Performance share units

We may grant to certain employees time-vested restricted stock awards and time-vested restricted share units. In addition, we may grant performance share units, which vest after the achievement of performance criteria established at grant. Holders of restricted share units and performance share units do not have any beneficial ownership in the common stock underlying the restricted share units or performance share units, and the grant represents an unsecured promise to deliver common stock on a future date. Actual shares of common stock underlying the restricted share units will not be issued until the earlier of the passage of the vesting period, a change in control that also results in the termination of the grantee’s employment, or the death / disability of the participant. The performance share units vest at the end of a three-year period assuming continued employment and assuming our company’s achievement of the performance measures established by our Compensation Committee when the performance share units were initially granted. When performance share units vest, a number of shares of common stock equal to 0% to 200% of the initial grant amount will be issued, depending on the level of achievement of such performance measures. We awarded 203,027 and 116,982 shares of restricted stock to our employees, which are subject to a three-year cliff vesting, during the years ended December 31, 2013 and 2012, respectively. We issued 26,424 and 19,394 shares of restricted stock to members of the board of directors during the years ended December 31, 2013 and 2012, respectively, which vested on the grant date. We granted 28,976 restricted share units and 67,585 performance share units to our employees during the year ended December 31, 2013.

The following table represents the non-vested restricted stock awards, restricted share units and performance share units granted, vested and forfeited during 2013.

	Shares (in thousands)	Weighted-average Grant-date Fair Value
Non-vested shares at December 31, 2012	248	$ 29.88
Granted	326	23.78
Vested	49	19.09
Forfeited	12	28.75
Non-vested shares at December 31, 2013	513	$ 27.05

The total fair value of shares vested during the years ended December 31, 2013, 2012 and 2011 was $0.9 million, $1.2 million, and $0.8 million, respectively.

4. Detail of Certain Balance Sheet Accounts

	December 31, 2013	2012
	(in thousands)	
Inventories of products:		
Finished products	$246,758	$260,510
Work in progress	5,384	6,759
Raw materials	76,630	73,054
Total inventories of products	$328,772	$340,323
Property, plant and equipment:		
Land	$11,191	$11,326
Buildings	47,340	47,072
Plant and equipment	650,034	569,369
Construction in progress(1)	59,120	65,217
Property, plant and equipment	767,685	692,984
Less accumulated depreciation	353,428	311,779
Property, plant and equipment, net of accumulated depreciation	$414,257	$381,205
Intangible assets:		
Technology	$44,202	$44,726
Customer relationships	35,145	35,145
Tradenames/trademarks	24,445	23,149
Software	32,480	28,904
Intangible assets	136,272	131,924
Less accumulated amortization:		
Technology	$29,870	$26,897
Customer relationships	23,470	21,134
Tradenames/trademarks	15,488	13,942
Software	9,956	6,558
Total accumulated amortization	78,784	68,531
Intangible assets, net of accumulated amortization	$57,488	$63,393

(1) Construction in progress includes $4.5 million and $1.0 million of assets financed with short term capital leases as of December 31, 2013 and 2012, respectively.

	December 31, 2013	2012
	(in thousands)	
Other payables and accruals:		
Employee related	$16,066	$13,423
Other(1)	38,473	37,555
Total other payables and accruals	$54,539	$50,978
Other long-term liabilities:		
Pension and other postretirement benefits	$57,924	$84,005

Other	18,067	15,941
Total other long-term liabilities	$75,991	$99,946
Accumulated other comprehensive loss:		
Foreign currency translation adjustments	$22,758	$26,956
Net unrealized loss on interest rate swaps	0	(837)
Net unrealized loss on net investment hedge	(1,926)	(1,436)
Benefit plans liability	(42,084)	(59,193)
Total accumulated other comprehensive loss	$(21,252)	$(34,510)

(1) Included in other payables and accruals is $1.0 million due under a short term capital lease as of December 31, 2012.

Aggregate depreciation expense for property, plant and equipment was approximately $52.4 million, $54.6 million and $54.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Aggregate amortization expense for intangible assets was approximately $10.3 million, $10.0 million and $8.4 million for the years ended December 31, 2013, 2012 and 2011, respectively. Estimated amortization expense for each of the next five years is as follows:

December 31:	Amortization Expense (in thousands)
2014	$ 10,816
2015	$ 10,663
2016	$ 9,869
2017	$ 9,474
2018	$ 9,338

5. Earnings per Share (“EPS”)

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

Diluted EPS is computed by dividing net income 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 therefore is excluded from the calculation of EPS allocated to common stock. Restricted stock awards outstanding totaled 416,662, 248,097 and 199,615 at December 31, 2013, 2012 and 2011, respectively. These shares are subject to forfeiture and restrictions on transfer until vested and have identical voting, income and distribution rights to the unrestricted common shares outstanding. Our weighted average restricted stock awards outstanding were 392,329, 286,879 and 171,101 for the years ended December 31, 2013, 2012 and 2011, respectively.

Restricted share units of 58,467, 29,491 and 29,491 were outstanding at December 31, 2013, 2012 and 2011, respectively, including vested and non-vested restricted share units. For the years ended December 31, 2013 and 2012, the weighted average restricted share units of 52,784 and 29,491 are not included as a component of diluted EPS as they are anti-dilutive. The weighted average restricted share units of 31,089 are included in the computation of our diluted EPS for the year ended December 31 2011.

Performance share units of 67,585 were outstanding at December 31, 2013. The weighted average performance share units of 55,920 are not included as a component of diluted EPS as they are anti-dilutive for the year ended December 31, 2013.

Stock options of 1,594,581, 1,535,655 and 1,292,751 were outstanding at December 31, 2013, 2012 and 2011, respectively. The computation of diluted earnings per share excludes the effect of the potential exercise of stock options that are anti-dilutive. The number of stock options excluded from the computation was 1,594,581, 1,535,655 and 418,662 for the years ended December 31, 2013, 2012 and 2011, 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:

	Year ended December 31, 2013		
	Net Loss attributable to Kraton	Weighted Average Shares Outstanding	Loss Per Share
	(in thousands, except per share data)		
Basic:			
As reported	$ (618)	32,488	
Amounts allocated to unvested restricted shares	7	(392)	
Amounts available to common stockholders	$ (611)	32,096	$ (0.02)
Diluted:			
Amounts allocated to unvested restricted shares	(7)	392	
Non participating share units		0	
Stock options added under the treasury stock method		0	
Amounts reallocated to unvested restricted shares	7	(392)	
Amounts available to stockholders and assumed conversions	$ (611)	32,096	$ (0.02)

	Year ended December 31, 2012		
	Net Loss attributable to Kraton	Weighted Average Shares Outstanding	Loss Per Share
	(in thousands, except per share data)		
Basic:			
As reported	$ (16,191)	32,226	
Amounts allocated to unvested restricted shares	144	(287)	
Amounts available to common stockholders	$ (16,047)	31,939	$ (0.50)
Diluted:			
Amounts allocated to unvested restricted shares	(144)	287	
Non participating share units		0	
Stock options added under the treasury stock method		0	
Amounts reallocated to unvested restricted shares	144	(287)	
Amounts available to stockholders and assumed conversions	$ (16,047)	31,939	$ (0.50)

	Year ended December 31, 2011		
	Net Income attributable to Kraton	Weighted Average Shares Outstanding	Earnings Per Share
	(in thousands, except per share data)		

Basic:			
As reported	$90,925	31,957	
Amounts allocated to unvested restricted shares	(487)	(171)	
Amounts available to common stockholders	$90,438	31,786	$ 2.85
Diluted:			
Amounts allocated to unvested restricted shares	487	171	
Non participating share units		31	
Stock options added under the treasury stock method		392	
Amounts reallocated to unvested restricted shares	(480)	(171)	
Amounts available to stockholders and assumed conversions	$90,445	32,209	$ 2.81

6. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	2013	2012
	(in thousands)	
Term loans	$0	$96,875
6.75% unsecured notes	350,989	351,142
Total long-term debt	350,989	448,017
Less current portion of long-term debt	0	15,074
Long-term debt, less current portion	$350,989	$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 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 borrowers’ 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 December 31, 2013, our available borrowing capacity was $186.9 million of which $0.0 million was drawn. As of the date of this filing, our available borrowing capacity was $192.1 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 principal payments on our outstanding total debt as of December 31, 2013, are as follows:

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

See Note 8 Fair Value Measurements, Financial Instruments and Credit Risk to the consolidated financial statements.

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 $11.4 million and $13.9 million (of which $2.2 million and $3.1 million were included in other current assets) as of December 31, 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 $2.4 million (which excludes the $5.0 million of accelerated amortization), $3.0 million and $2.5 million (which excludes the $4.2 million of accelerated amortization) of debt issuance costs for the years ended December 31, 2013, 2012 and 2011, 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 is 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 December 31, 2013 and December 31, 2012, respectively. 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, and may affect the valuation of their fair value and their placement within the fair value hierarchy levels.

			Fair Value Measurements at Reporting Date Using		
	Balance Sheet Location	December 31, 2013	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	1,908	1,908	0	0
Total		$ 1,908	$ 1,908	$ 0	$ 0

			Fair Value Measurements at Reporting Date Using		
	Balance Sheet Location	December 31, 2012	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		
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.

Nonrecurring Fair Value Measurements. Our long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. When impairment has occurred, such long-lived assets are written down to fair value. For the year ended December 31, 2013 we determined that there was no impairment related to our long-lived assets.

The following table sets forth by level within the fair value hierarchy our fair value measurements with respect to non-financial assets that are measured at fair value on a nonrecurring basis. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of their fair value and their placement within the fair value hierarchy levels. See Note 9 Impairment Charges, for further discussion.

	Fair Value Measurements as of Reporting Date				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2012	Total Impairment Charges
	(in thousands)				
Long-lived assets	$0	$ 0	$ 14,284	$ 14,284	$ 5,434
Total	$0	$ 0	$ 14,284	$ 14,284	$ 5,434

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

	December 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Term Loans (significant unobservable input – level 3)	$0	$0	$96,875	$96,875
6.75% unsecured notes (quoted prices in active market for identical assets – level 1)	$350,989	$369,250	$351,142	$364,000

The term loans were variable interest rate instruments, and as such, the fair value approximated 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 interest expense for the year ended December 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 year ended December 31, 2012.

In June 2010, we entered into a $215.0 million notional amount interest rate swap agreement. This agreement was effective on January 3, 2011 and was set to expire on January 3, 2012. However, on February 10, 2011, in connection with the refinancing of our previously existing indebtedness, we terminated and settled the interest rate swap agreement, and as a result, recognized $1.0 million of interest expense.

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 associated 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." These hedges were effective in offsetting our exposure to the CAD, and therefore the $0.1 million gain on these hedges was offset by the $0.1 million loss on the exposure associated with the funding of our semi-works facility for the year ended December 31, 2013. Similarly, for the year ended December 31, 2012, the $0.1 million loss on these hedges was offset by the $0.1 million gain on the exposure to the CAD.

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 TWD 450.0 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 New Taiwan Dollar/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." For the years ended December 31, 2013 and 2012, we recorded in accumulated other comprehensive loss an aggregate

$0.5 million and $2.3 million loss related to the settlement of the effective portion of these contracts, respectively.

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 years ended December 31, 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 years ended December 31, 2013 and 2012, we recorded an aggregate loss of $1.8 million and an aggregate gain of $1.6 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

Our customers are diversified by industry and geography with more than 800 customers in over 60 countries. 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. Impairment Charges

During 2012 we determined that we had impaired long-lived assets and, as a result, recorded pre-tax impairment charges aggregating $5.4 million, for the year ended December 31, 2012 . The $18.1 million carrying value of the long-lived assets was reduced to fair market value of $12.7 million. We used internally developed assumptions in determining the fair value of these long-lived assets, which are classified within level 3 of the fair value hierarchy.

10. Income Taxes

Income taxes are recorded utilizing an asset and liability approach. This method gives consideration to the future tax consequences associated with the differences between the financial accounting and tax basis of the assets and liabilities as well as the ultimate realization of any deferred tax asset resulting from such differences.

Our income tax provision was a $3.9 million benefit, and a $19.3 million and $0.6 million expense for the years ended December 31, 2013, 2012 and 2011, respectively. Our effective tax rates for the years ended December 31, 2013, 2012 and 2011 were 79.9%, 619.8% and 0.6%, 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. Excluding the change in our valuation allowance, our effective tax rates would have been an 81.4% and 366.1% benefit, and a 19.5% expense for the years ended December 31, 2013, 2012 and 2011, respectively.

The provision for income taxes is comprised of the following:

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
Current tax provision (benefit):			
U.S.	$(49)	$(50)	$228
Foreign	11,708	9,408	10,817
Total current tax provision	11,659	9,358	11,045
Deferred tax provision (benefit):			
U.S.	(10,065)	9,211	(9,211)
Foreign	(5,481)	737	(1,250)
Total deferred tax provision (benefit)	(15,546)	9,948	(10,461)
Total income tax expense (benefit)	$(3,887)	$19,306	$584

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Income (loss) before income taxes is comprised of the following:

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
Income (loss) before income taxes:			
U.S.	$(39,445)	$(46,930)	$5,860
Foreign	34,583	50,045	85,649
Total income (loss) before income taxes	$(4,862)	$3,115	$91,509

The provision for income taxes differs from the amount computed by applying the U.S. corporate statutory income tax rate to income (loss) before income taxes for the reasons set forth below:

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
Income taxes at the statutory rate	$(1,702)	$1,090	$32,028
Foreign tax rate differential	(4,278)	(20,931)	(13,683)
State taxes, net of federal benefit	(285)	2,010	84
Permanent differences	1,145	1,158	(1,552)
Deferred adjustments	0	2,847	0
Tax credits	0	92	(140)
Uncertain tax positions	1,020	2,214	(1,083)
Valuation allowance	72	30,709	(17,303)
Other	141	117	2,233
Income tax expense (benefit)	$(3,887)	$19,306	$584

	Years ended December 31,		
	2013	2012	2011
Income taxes at the statutory rate	35.0 %	35.0 %	35.0 %
Foreign tax rate differential	88.0	(671.9)	(15.0)
State taxes, net of federal benefit	5.9	64.5	0.1
Permanent differences	(23.6)	37.2	(1.7)
Deferred adjustments	0.0	91.4	0.0
Tax credits	0.0	3.0	(0.2)
Uncertain tax positions	(21.0)	71.1	(1.2)
Valuation allowance	(1.5)	985.8	(18.9)
Other	(2.9)	3.7	2.5
Effective tax rate	79.9 %	619.8 %	0.6 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as net operating loss and tax credit carryforwards. The tax effects of temporary differences are comprised of the following:

	December 31, 2013	2012
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$121,644	$105,709
Inventory	7,308	10,556
Benefit plans accrual	15,961	25,513
Other accruals and reserves	17,975	14,791
	162,888	156,569
Valuation allowance for deferred tax assets	(89,994)	(90,414)
Total deferred tax assets	$72,894	$66,155
Deferred tax liabilities:		
Property, plant and equipment	$(75,467)	$(74,216)
Intangible assets	(7,046)	(6,777)
Total deferred tax liabilities	(82,513)	(80,993)
Net deferred tax liabilities	$(9,619)	$(14,838)

	December 31 2013	2012
	(in thousands)	
Net deferred tax liabilities consist of:		
Current deferred tax assets	$7,596	$7,869
Non-current deferred tax assets	1,326	79
Current deferred tax liabilities	(182)	(513)
Non-current deferred tax liabilities	(18,359)	(22,273)
Net deferred tax liabilities	$(9,619)	$(14,838)

As of December 31, 2013, we had $344.8 million of net operating loss carryforwards, of which $73.3 million relates to foreign jurisdictions and $271.5 million relates to the United States, which will expire beginning in 2024 through 2033, if not utilized. We expect to generate sufficient taxable income in future years that will allow utilization of the portion of the net operating loss carryforwards for which no valuation allowance has been provided.

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. As of December 31, 2013 and December 31, 2012, a valuation allowance of $90.0 million and $90.4 million, respectively, has been provided for net operating loss carryforwards and other deferred tax assets. For the year ended December 31, 2013, we have recorded changes in the valuation allowance for deferred tax assets as a result of our assessed ability to realize the tax benefit of our net operating loss carryforwards in certain jurisdictions, primarily in the United States. We decreased our valuation allowance by $0.4 million in 2013, which includes a $0.5 million decrease due to changes in other comprehensive income, partially offset by a $0.1 million increase to the income tax provision. The $0.1 million is comprised of $10.2 million of current year operating losses, offset by a $10.1 million benefit related to the tax effect of unrealized pension gains. We increased our valuation allowance by $36.2 million in 2012, of which $30.7 million was included in the income tax provision and $5.5 million represents changes in equity. The $30.7 million increase in the valuation allowance is comprised of $13.5 million related to the reversal of the benefit recorded for prior year's net operating losses and $17.2 million related to current year operating losses. We consider the reversal of deferred tax liabilities within the net operating loss carryforward period, projected future taxable income and tax planning strategies in making this assessment.

For the period ending December 31, 2013, the unremitted earnings of our foreign subsidiaries are permanently reinvested in the corresponding country of origin. Accordingly, we have not provided deferred taxes for the differences between the book basis and underlying tax basis in those subsidiaries or on the foreign currency translation adjustment amounts related to such operations.

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 remains open for all years subsequent to 2003. In addition, open tax years for state and foreign jurisdictions remain subject to examination.

We recognize the tax impact of certain tax positions only when it is more likely than not those such positions are sustainable. The taxes are recorded in accordance with ASC 740-10, "Accounting for Uncertainty in Income Taxes," which prescribes the minimum recognition threshold.

As of January 1, 2013, we had total unrecognized tax benefits of approximately $5.1 million. During the year ended December 31, 2013, we had an increase of $1.3 million primarily related to uncertain tax positions in Europe. We recorded interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of December 31, 2013, we had $6.4 million of unrecognized tax benefits related to uncertain foreign tax positions, all of which, if recognized, would impact the effective tax rate. We believe that no current tax positions that have resulted in unrecognized tax benefits will significantly increase or decrease within one year.

The following presents a rollforward of our unrecognized tax benefits and associated interest and penalties.

	Unrecognized Tax Benefits	Interest and Penalties	Total
	(in thousands)		
Balance at December 31, 2011	$2,792	$ 18	$2,810
Increase in prior year tax positions	125	191	316
Increase in current year tax positions	1,930	0	1,930
Balance at December 31, 2012	$4,847	$ 209	$5,056
Increase in prior year tax positions	365	380	745
Increase in current year tax positions	622	0	622
Balance at December 31, 2013	$5,834	$ 589	$6,423

11. Commitments and Contingencies

(a) Lease Commitments

We have entered into various long-term non-cancelable operating leases. Future minimum lease commitments at December 31, 2013, are as follows: 2014—$9.7 million; 2015—$8.5 million; 2016—$5.7 million; 2017—$5.1 million; 2018—$4.7 million; and 2019 and thereafter—$10.4 million. For the years ended December 31, 2013, 2012, and 2011, we recorded $11.2 million, $12.8 million, and $9.7 million in rent expense, respectively.

(b) Environmental and Safety Matters

Our finished products are not generally classified as hazardous under U.S. environmental laws. However, our operations involve the handling, transportation, treatment, and disposal of potentially hazardous materials that are extensively regulated by environmental, health and safety laws, regulations and permit requirements. Environmental permits required for our operations are subject to periodic renewal and can be revoked or modified for cause or when new or revised environmental requirements are implemented. Changing and increasingly strict environmental requirements can affect the manufacturing, handling, processing, distribution and use of our chemical products and the raw materials used to produce such products and, if so affected, our business and operations may be materially and adversely affected. In addition, changes in environmental requirements can cause us to incur substantial costs in upgrading or redesigning our facilities and processes, including waste treatment, disposal, and other waste handling practices and equipment.

We conduct environmental management programs designed to maintain compliance with applicable environmental requirements at all of our facilities. We routinely conduct inspection and surveillance programs designed to detect and respond to leaks or spills of regulated hazardous substances and to correct identified regulatory deficiencies. However, a business risk inherent with chemical operations is the potential for personal injury and property damage claims from employees, contractors and their employees, and nearby landowners and occupants. While we believe our business operations and facilities generally are operated in compliance, in all material respects, with all applicable environmental and health and safety requirements, we cannot be sure that past practices or future operations will not result in material claims or regulatory action, require material environmental expenditures, or result in exposure or injury claims by employees, contractors and their employees, and the public. Some risk of environmental costs and liabilities are inherent in our operations and products, as it is with other companies engaged in similar businesses.

Our Paulinia, Brazil and Belpre, Ohio facilities are subject to a number of actual and/or potential environmental liabilities primarily relating to contamination caused by former operations at those facilities. Some environmental laws could impose on us the entire costs of cleanup regardless of fault, legality of the original disposal, or ownership of the disposal site. In some cases, the governmental entity with jurisdiction could seek an assessment for damage to the natural resources caused by contamination from those sites. Shell Chemicals has agreed, subject to certain limitations, in time and amounts, to indemnify us against most environmental liabilities related to the acquired facilities that arise from conditions existing prior to the closing.

We had no material operating expenditures for environmental fines, penalties, government imposed remedial or corrective actions in each of the years ended December 31, 2013, 2012, and 2011.

(c) Asset Retirement Obligations ("ARO")

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

	2013	2012
	(in thousands)	
Beginning balance	$9,837	$8,978
Additional accruals	0	897
Accretion expense	505	576
Obligations settled	(0)	(1,850)
Revisions in estimated cash flows	0	1,236
Foreign currency translation	155	0
Ending balance	$10,497	$9,837

(d) 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. While the outcome of these proceedings cannot be predicted with certainty, our management does not expect any of these other existing matters, individually or in the aggregate, to have a material adverse effect upon our financial position, results of operations or cash flows. Furthermore, Shell Chemicals has agreed, subject to certain limitations, to indemnify us for certain claims brought with respect to matters occurring before February 28, 2001. As of the date of this Form 10-K, we have not been named as parties in any of these claims. Our right to indemnification from Shell Chemicals is subject to certain time limitations. 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.

12. Employee Benefits

(a) U.S. Retirement Benefit Plan. We have a U.S. noncontributory defined benefit pension plan (“Pension Plan”) which covers all salaried and hourly wage employees in the United States, who were employed by us on or before December 31, 2005. Employees who began their employment with us after December 31, 2005 are not covered by our Pension Plan. The benefits under the Pension Plan are based primarily on years of service and employees’ pay near retirement. For our employees who were employed as of March 1, 2001 and who: (1) were previously employed by Shell Chemicals; and (2) elected to transfer their pension assets to us, we consider the total combined Shell Chemicals and Kraton service when calculating the employee’s pension benefit. For those employees who: (1) elected to retire from Shell Chemicals; or (2) elected not to transfer their pension benefit, only Kraton service (since March 1, 2001) is considered when calculating benefits.

The 2013 measurement date of the Pension Plan’s assets and obligations was December 31, 2013. Based on the funded status of our defined benefit pension plan as of December 31, 2013 and 2012, we reported a decrease in our accumulated other comprehensive loss of approximately $22.4 million and an increase of $10.3 million, respectively, and a related change in accrued pension obligations.

Information concerning the pension obligation, plan assets, amounts recognized in our financial statements and underlying actuarial and other assumptions are as follows:

	December 31, 2013	2012
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$133,727	$111,948
Service cost	3,332	3,130
Interest cost	5,506	5,510
Benefits paid	(3,641)	(3,184)
Actuarial (gain) / loss	(16,702)	16,323
Benefit obligation at end of year	$122,222	$133,727
Change in plan assets:		
Fair value at beginning of year	$81,364	$67,177
Actual return on plan assets	8,776	9,346
Employer contributions	6,210	8,025
Benefits paid	(3,641)	(3,184)
Fair value at end of year	$92,709	$81,364
Funded status at end of year	$(29,513)	$(52,363)
Amounts recognized on balance sheet:		
Noncurrent liabilities	$(29,513)	$(52,363)
Amounts recognized in accumulated other comprehensive loss:		
Prior service cost	$0	$0
Net actuarial loss	24,021	46,467
Amounts recognized in accumulated other comprehensive loss	$24,021	$46,467

The accumulated benefit obligation for the Pension Plan was $112.7 million and $119.9 million at December 31, 2013, and 2012, respectively.

Estimated Future Benefit Payments.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	(in thousands)
2014	$ 3,997
2015	4,323
2016	4,652
2017	5,072
2018	5,452
Years 2019-2023	34,369
	$ 57,865

Net periodic pension costs consist of the following components:

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
Service cost benefits earned during the period	$3,332	$3,130	$2,605
Interest on prior year's projected benefit obligation	5,506	5,510	5,135
Expected return on plan assets	(6,608)	(5,936)	(5,239)
Amortization of net actuarial loss	3,576	2,617	916
Net periodic pension costs	$5,806	$5,321	$3,417

Discount rates are determined annually and are based on rates of return of high-quality long-term fixed income securities currently available and expected to be available during the maturity of the pension benefits.

	December 31, 2013	2012
Weighted average assumptions used to determine benefit obligations:		
Measure date	12/31/2013	12/31/2012
Discount rate	5.02 %	4.21 %
Rates of increase in salary compensation level	3.00 %	3.00 %
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	4.21 %	4.83 %
Rates of increase in salary compensation level	3.00 %	3.00 %
Expected long-term rate of return on plan assets	8.50 %	8.50 %

Our management relied in part on actuarial studies in establishing the expected long-term rate of return on assets assumption. The study includes a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the Pension Plan to determine the average rate of earnings expected on the funds invested to provide for the Pension Plan benefits. While the study gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. Based on our most recent study, the expected long-term return assumption for our Pension Plan effective for 2014 will remain at 8.5%.

Pension Plan Assets. We maintain target allocation percentages among various asset classes based on an investment policy established for the pension plan. The target allocation is designed to achieve long term objectives of return, while mitigating downside risk and considering expected cash flows. The plan's strategic target allocation as of December 31, 2013 was 50% equity, 30% debt and 20% consisting of real estate funds, hedge funds and commodity funds. The latter was assumed to behave similar to debt securities and therefore we included this 20% asset allocation as bonds in the model. Our investment policy is reviewed from time to time to ensure consistency with our long term objective.

Our Pension Plan asset allocations at December 31, 2013 and 2012 by asset category are as follows:

	Percentage of Plan Assets at December 31, 2013	2012
Equity securities	57.6 %	55.3 %
Debt securities	33.8 %	36.5 %
Real estate	4.0 %	4.1 %
Other	4.6 %	4.1 %
Total	100.0 %	100.0 %

No pension assets were invested in debt or equity securities of Kraton at December 31, 2013 and 2012.

The inputs and methodology used for valuing securities are not an indication of the risk associated with investing in those securities. The following is a description of the primary valuation methodologies used for assets measured at fair value:

Common/Collective Trust Funds: Valued at the net asset value per unit held at year end as quoted by the funds.

Mutual Funds, Real Estate and Other: Valued at the net asset value of shares held at year end as quoted in the active market.

A summary of total investments for our pension plan assets measured at fair value is presented below. See Note 8 Fair Value Measurements, Financial Instruments and Credit Risk to the consolidated financial statements for a detailed description of fair value measurements and the hierarchy established for Level 1, 2 and 3 valuation inputs.

	Pension Plan Assets Fair Value Measurements at December 31, 2013			
	Total	Quoted Prices In Active Markets Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash and Cash Equivalents	$472	$ 472	$ 0	$ 0
Common/Collective Trust Funds(a):				
Equity Funds	30,547	0	30,547	0
Debt Funds	19,094	0	19,094	0
Mutual Funds:				
Equity Funds	22,899	22,899	0	0
Debt Funds	12,262	12,262	0	0
Real Estate	3,668	3,668	0	0
Other	3,767	3,767	0	0
Total	$92,709	$ 43,068	$ 49,641	$ 0

	Pension Plan Assets Fair Value Measurements at December 31, 2012			
	Total	Quoted Prices In Active Markets Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash and Cash Equivalents	$64	$ 64	$ 0	$ 0
Common/Collective Trust Funds(a):				
Equity Funds	24,864	0	24,864	0
Debt Funds	16,788	0	16,788	0
Mutual Funds:				
Equity Funds	20,082	20,082	0	0
Debt Funds	12,876	12,876	0	0
Real Estate	3,364	3,364	0	0
Other	3,326	3,326	0	0
Total	$81,364	$ 39,712	$ 41,652	$ 0

(a) Strategies are generally to invest in equity or debt securities, or a combination thereof, that match or outperform certain predefined indices.

(b) Other Retirement Benefit Plans. Certain employees are eligible to participate in a non-qualified defined benefit restoration plan ("BRP") which are intended to restore certain benefits under the Pension Plan in the United States and the Kraton Savings Plan in the United States, which would otherwise be lost due to certain limitations imposed by law on tax-qualified plans. We did not make any contributions for the years ended December 31, 2013 and 2011, respectively, and we made $1.6 million in contributions to the BRP for the year ended December 31, 2012. As of December 31, 2013 and 2012, amounts recognized as a component of other long-term liabilities for the benefit restoration plans were $1.3 million and $1.9 million, respectively.

(c) Postretirement Benefits Other Than Pensions. Health and welfare benefits are provided to benefit eligible employees in the United States who retire from Kraton and were employed by us prior to January 1, 2006. Retirees under the age of 65 are eligible for the same medical, dental, and vision plans as active employees, but with an annual cap on premiums that vary based on years of service and ranges from $7,000 to $10,000 per employee. Our subsidy schedule for medical plans is based on accredited service at retirement. Retirees are responsible for the full cost of premiums for postretirement dental and vision coverage. In general, the plans stipulate that health and welfare benefits are paid as covered expenses as incurred. We accrue the cost of these benefits during the period in which the employee renders the necessary service.

Employees who were retirement eligible as of February 28, 2001, have the option to participate in either Shell Chemicals or Kraton postretirement health and welfare plans.

ASC 715, "Compensation-Retirement Benefits," requires that we measure the plans' assets and obligations that determine our funded status at the end of each fiscal year and the 2013 measurement date of the plans' assets and obligations was December 31, 2013. We are also required to recognize as a component of accumulated other comprehensive loss the changes in funded status that occurred during the year that are not recognized as part of new periodic benefit cost.

Based on the funded status of our postretirement benefit plan as of December 31, 2013 and 2012, we reported a decrease in our accumulated other comprehensive loss of approximately $3.9 million and an increase of $1.4 million, respectively, and a related change in accrued pension obligations.

Information concerning the plan obligation, the funded status and amounts recognized in our financial statements and underlying actuarial and other assumptions are as follows:

	December 31,	
	2013	2012
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of period	$29,437	$26,684
Service cost	557	493
Interest cost	1,155	1,206
Benefits and expenses paid (premiums)	(1,052)	(955)
Actuarial (gain) loss	(3,204)	2,009
Benefit obligation at end of period	$26,893	$29,437
Reconciliation of plan assets(1):		
Employer contributions	$1,052	$955
Benefits paid	(1,052)	(955)
	$0	$0
Funded status at end of year	$(26,893)	$(29,437)

(1) Shell Chemicals has committed to a future cash payment related to retiree medical expenses based on a specified dollar amount per employee, if certain contractual commitments are met. We have recorded an asset of approximately $9.0 million and $9.2 million as our estimate of the present value of this commitment as of December 31, 2013 and 2012, respectively.

	December 31,	
	2013	2012
	(in thousands)	
Amounts recognized in the balance sheet:		
Current liabilities	$(1,173)	$(1,076)
Noncurrent liabilities	(25,720)	(28,361)
	$(26,893)	$(29,437)
Amounts recognized in accumulated other comprehensive loss:		
Prior service cost	$0	$0
Net actuarial loss	7,554	11,466

$7,554	$11,466

Net periodic benefit costs consist of the following components:

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
Service cost	$557	$493	$414
Interest cost	1,155	1,206	1,246
Amortization of net actuarial loss	708	566	412
Net periodic benefit costs	$2,420	$2,265	$2,072

	December 31, 2013	2012
Weighted average assumptions used to determine benefit obligations:		
Measurement date	12/31/2013	12/31/2012
Discount rate	4.86 %	4.02 %
Rates of increase in salary compensation level	N/A	N/A
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	4.02 %	4.65 %
Rates of increase in salary compensation level	N/A	N/A
Expected long-term rate of return on plan assets	N/A	N/A

	December 31, 2013	2012
Assumed health care cost trend rates:		
Health care cost trend rate assumed for next year	7.50 %	8.00 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate	2020	2020

Discount rates are determined annually and are based on rates of return of high-quality long-term fixed income securities currently available and expected to be available during the maturity of the postretirement benefit plan.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effect (in thousands):

	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 46	$ (65)
Effect on postretirement benefit obligation	766	(998)

(d) Kraton Savings Plan. The Kraton Savings Plan, as adopted on March 1, 2001, covers substantially all U.S. employees, including executive officers. Through automatic payroll deduction, participants have the option to defer up to 60% of eligible earnings in any combination of pretax and/or post-tax contributions, subject to annual dollar limitations set forth in the Internal Revenue Code. Under this plan, we have two types of employer contributions:

(1) For our standard contributions, we make matching contributions of 50% of the first 6% contributed by the employee after completing one year of service, and we make matching contributions of 100% of the first 6% contributed by the employee after completing five years of service.

(2) For our enhanced contributions, we make employer contributions of 3% for employees who have less than five years of service and a 4% contribution for employees who have five or more years of service.

For our employees who were employed as of February 28, 2001, and who were previously employed by Shell Chemicals, we recognize their Shell Chemicals years of service for purposes of determining employer contributions under our Plan. Our contributions to the plan for the years ended December 31, 2013, 2012, and 2011, were $3.7 million, $3.4 million, and $3.2 million, respectively.

13. 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 regularly 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 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”);

Cariflex™ isoprene rubber and isoprene rubber latex; and
compounds.
Sales revenue for our four primary product lines is as follows:

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
USBCs	$753,087	$841,437	$852,070
HSBCs	392,131	443,869	454,835
Cariflex	116,003	105,898	99,412
Compounds	29,730	29,716	26,578
Other	1,170	2,202	4,584
	$1,292,121	$1,423,122	$1,437,479

During the years ended December 31, 2013, 2012, and 2011, no single customer accounted for 10.0% or more of our total sales revenue.

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 presented at historical cost.

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

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
Sales revenue:			
United States	$399,547	$466,496	$490,373
Germany	172,625	191,636	212,079
Japan	81,056	89,131	91,788
China	72,103	76,283	61,039
Brazil	55,549	49,735	50,777
France	47,443	48,352	46,233
Italy	43,321	44,490	49,484
Thailand	42,402	40,959	32,209
Belgium	39,825	45,599	43,339
United Kingdom	36,736	37,993	40,644
Netherlands	29,146	32,110	36,991
Malaysia	26,353	19,208	16,592
Turkey	23,403	29,777	25,004
Mexico	17,710	13,188	11,437
Sweden	17,269	17,467	15,830
Taiwan	17,182	19,914	17,378
Canada	16,187	18,856	22,703
Argentina	15,672	14,833	13,502
Poland	13,751	21,945	19,084

South Korea	12,923	15,489	13,742
Austria	12,863	16,811	21,498
Australia	10,248	17,396	13,146
All other countries	88,807	95,454	92,607
	$1,292,121	$1,423,122	$1,437,479

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	December 31,	
	2013	2012
	(in thousands)	
Long-lived assets, at cost:		
United States	$453,157	$411,969
France	123,804	118,275
Brazil	76,524	79,585
Germany	64,258	55,581
Netherlands	27,865	15,255
Taiwan	12,935	0
China	7,226	5,906
Japan	1,696	1,978
All other countries	220	4,435
	$767,685	$692,984

14. 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:

	Years ended December 31,		
	2013	2012	2011
Purchases from related party	$50,728	$48,370	$34,610

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

15. Variable Interest Entity

In February 2013, we executed definitive agreements providing for a 50/50 joint venture with 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, with additional Kraton contributions of $15.0 million and $11.4 million in August and October 2013, respectively. As a result, the total investment by each of us and FPCC amounted to $41.6 million as of December 31, 2013. 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 2013 financial statements and have reflected FPCC's ownership as a noncontrolling interest.

The following table summarizes the fair value of KFPC assets and liabilities as of February 27, 2013 recorded upon initial consolidation in our consolidated balance sheet and the carrying amounts of such assets and liabilities as of December 31, 2013, before intercompany eliminations.

	December 31, 2013	February 27, 2013
	(In thousands)	
Cash and cash equivalents	$66,816	$ 30,348
Other current assets	256	0
Property, plant and equipment	12,912	0
Intangible assets	10,094	0
Other long-term assets	462	0
Total assets	$90,540	$ 30,348
Current liabilities	8,724	0
Total liabilities	$8,724	$ 0

16. 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.

KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATING BALANCE SHEET

December 31, 2013

(In thousands, except par value)

	Kraton	Kraton Polymers LLC(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$0	$0	$ 11,792	$ 164,080	$0	$ 175,872
Receivables, net of allowances of $315	0	80	45,971	83,305	0	129,356
Inventories of products	0	0	176,823	151,949	0	328,772
Inventories of materials and supplies	0	0	8,898	2,049	0	10,947
Deferred income taxes	0	0	3,952	3,644	0	7,596
Other current assets	0	2,071	1,541	17,053	0	20,665
Total current assets	0	2,151	248,977	422,080	0	673,208
Property, plant and equipment, less accumulated depreciation of $353,428	0	47,157	241,650	125,450	0	414,257
Intangible assets, less accumulated amortization of $78,784	0	34,208	23,280	0	0	57,488
Investment in consolidated subsidiaries	534,742	1,325,811	0	0	(1,860,553)	