Polymer Holdings LLC
Form 424B4
December 17, 2009
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-162248

Prospectus

10,294,118 Shares

Kraton Performance Polymers, Inc.

Common Stock

This is our initial public offering, and no public market currently exists for our common stock. Kraton Performance Polymers, Inc. is offering 10,294,118 shares of common stock.

Prior to this offering, there has been no public market for our common stock. The initial public offering price of the common stock is $13.50 per share. Our common stock has been approved for listing on the New York Stock Exchange under the symbol KRA .

We have granted the underwriters the right to purchase up to 1,544,117 shares of common stock at the offering price less the underwriting discount if the underwriters sell more than 10,294,118 shares of common stock in this offering. The underwriters can exercise this right at any time and from time to time, in whole or in part, within 30 days after the offering.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 15.

	Price to Public	Underwriting Discounts and Commissions	Proceeds, Before Expenses, to Issuer
Per Share	$ 13.50	$ 0.8775	$ 12.6225
Total	$ 138,970,593	$ 9,033,088.545	$ 129,937,504.455

Delivery of the shares of common stock will be made on or about December 22, 2009.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse

BofA Merrill Lynch

Morgan Stanley

Oppenheimer & Co.

Goldman, Sachs & Co. **KeyBanc Capital Markets**

The date of this prospectus is December 16, 2009.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Information contained in our web site does not constitute part of this prospectus.

The KRATON name, our logo and other trademarks mentioned in this prospectus are the property of their respective owners.

We obtained the industry and market data used throughout this prospectus from our own internal estimates and research as well as from industry and general publications and research, surveys and studies conducted by third parties.

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SUMMARY

The following summary includes basic information about our company and this offering. It may not contain all of the information that is important to you. For a more comprehensive understanding of our company and this offering, you should read this entire prospectus.

On or prior to the completion of the offering, we will convert our company from a Delaware limited liability company (Polymer Holdings LLC) into a Delaware corporation (Kraton Performance Polymers, Inc.).

In this prospectus, unless we indicate otherwise or the context requires:

Polymer Holdings, our company, we, our, ours and us refer to Polymer Holdings LLC and its consolidated subsidiaries prior to the conversion, and to Kraton Performance Polymers, Inc. and its consolidated subsidiaries after the conversion;

Kraton refers to Kraton Polymers LLC; and

the SBC industry refers to the elastomeric styrenic block copolymers industry and does not include the high styrene or rigid SBC business.

Our Company

General

We believe we are the world s leading producer of styrenic block copolymers (SBCs) as measured by 2008 sales and volumes. We market our products under the widely recognized KRATON® brand. Our estimates indicate that sales of our products, in the end-use markets we target, constituted 34% of global SBC revenue in 2008, approximately 3.1 times larger than our nearest competitor. SBCs are highly-engineered synthetic elastomers that we invented and commercialized over 40 years ago, which enhance the performance of numerous end-use products, imparting greater flexibility, resilience, strength, durability and processability. We focus on the end-use markets we believe offer the highest growth potential and greatest opportunity to differentiate our products from competing products. Within these end-use markets, we believe that we provide our customers with a broad portfolio of highly-engineered and value-enhancing polymers that are critical to the performance of our customers products. We seek to maximize the value of our product portfolio by introducing innovations that command premium pricing and by consistently upgrading from lower margin products. As the industry leader, we maintain significant competitive advantages, including a 40-year proven track record of innovation; world-class technical expertise; customer, geographical and end-use market diversity; and industry-leading customer service capabilities. These advantages are supported by a global infrastructure and a long history of successful capital investments and operational excellence.

Our SBC products are found in many everyday applications, including disposable baby diapers, the rubberized grips of toothbrushes, razor blades, power tools and in asphalt formulations used to pave roads. We believe that there are many untapped uses for our products, and we will continue to develop new applications for SBCs. Since January 1, 2008, we have been awarded 161 patents for new products or applications, which we believe will allow us to drive volume and revenue growth and expand our margins. We also develop, manufacture and market niche, non-SBC products that we believe have high growth potential, such as isoprene rubber latex, or IRL. IRL is a highly-engineered, reliable synthetic substitute for natural rubber latex. We believe the versatility of IRL offers significant opportunities for new, high-margin applications. Our IRL products, which are used in applications such as surgical gloves, have not been found to contain the proteins present in natural latex and are, therefore, not known to cause allergies. We believe we produce the highest purity IRL globally and that we are the only significant third-party supplier of the product. Our IRL business has grown at a compound annual growth rate of approximately 23% by volume from 2005 to 2008.

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We currently offer approximately 800 products to more than 700 customers in over 60 countries worldwide, and we manufacture our polymers on four continents (North America, Europe, South America and Asia). Our products are typically developed using our proprietary, and in many cases patent-protected, technology and require significant engineering, testing and certification. We are widely regarded as the industry s leading innovator and cost-efficient manufacturer in our end-use markets. We work closely with our customers to design products that meet application-specific performance and quality requirements. We expect these innovations to drive our organic growth, sustain our leadership position, expand our market share, improve our margins and produce a high return on invested capital. For example, in 2008, we developed a family of environmentally-friendly products to replace materials like polyvinyl chloride, or PVC, for medical packaging applications and wire and cable applications in electronics and automobiles.

Over the past several years, we have implemented a range of strategic initiatives designed to enhance our profitability and end-use market position. These include fixed asset investments to expand our capacity in high value products, enhance productivity at our existing facilities and significantly reduce our fixed cost structure through head count reductions, production line closures at our Pernis, the Netherlands, facility and system upgrades. During this period, we have shifted our portfolio to higher-margin products, substantially exited low-margin businesses such as footwear and implemented smart pricing strategies that have improved our overall margins and return on invested capital. We believe these initiatives provide us with a strong platform to drive growth, create significant operating leverage and position us to benefit from volume recovery in our end-use markets.

We believe that starting in late 2008 the global economic downturn, and associated reduction in customer and end-user inventory levels, caused an unprecedented slowdown across the industry. We experienced sales volume decline across all of our end-use markets, including the traditionally more stable consumer and medical applications. We believe that a significant factor in this decline was inventory de-stocking. The trend began to reverse itself in June 2009, as demand patterns began to shift towards recovery.

We generated total operating revenue of $1.2 billion and $717.3 million for the twelve and nine months ended December 31, 2008 and September 30, 2009, respectively, on volume of 313 kilotons and 199 kilotons, respectively. For the same periods, we generated net income of $28.4 million and $1.2 million and Adjusted EBITDA of $152.0 million and $56.3 million, respectively. We define Adjusted EBITDA and reconcile it to net income in footnote 3 under Summary Summary of Consolidated Financial Information and Other Data. We report under one operating segment.

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Our Industry Focus

The global demand for SBCs in 2008 exceeded 1,400 kilotons, resulting in sales of approximately $4.0 billion. According to management estimates, between 2001 and 2007, SBC demand for non-footwear applications grew at a compound annual growth rate of approximately 9.0%, or approximately 2.7 times global real GDP. In 2008, the SBC market contracted along with the global economy, reducing the 2001 to 2008 growth rate to 6.8%.

2008 Global SBC Consumption by Volume

SBCs are primarily sold into four end-uses: (1) Advanced Materials (compounding, personal care and polymer systems); (2) Adhesives, Sealants and Coatings; (3) Paving and Roofing; and (4) Footwear. Due to the higher selling prices in the Advanced Materials, Adhesives, Sealants and Coatings and Paving and Roofing end-uses relative to the Footwear end-use, the market share by end-use on a revenue basis is meaningfully different than on a volume basis.

2008 Global SBC Consumption by End-Use Market[(1)]

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Kraton focuses on the high-value end-use markets.

2008 Global SBC Consumption by End-Use Market Kraton vs. Industry[1]

There are two major types of SBCs: hydrogenated styrenic block copolymers, or HSBCs, and unhydrogenated styrenic block copolymers, or USBCs.

HSBCs. HSBC products are significantly more complex to produce than USBC products and, consequently, generate higher margins and generally command selling prices between two and three times those for USBCs. We believe our 47% end-use market share of 2008 HSBC sales leads the industry and is more than twice the size of our closest competitor. The HSBC class of products, which is typically more durable than USBC products, is primarily used in higher value-added Advanced Materials and Adhesives, Sealants and Coatings applications. We estimate that HSBCs accounted for approximately 12% of worldwide SBC industry sales in 2008.

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

- stretch properties in disposable diapers and adult incontinence products;
- soft feel in numerous consumer products such as the handles for razor blades, power tools and automobile interiors;
- impact resistance for demanding engineering plastic applications;
- flexibility for wire and cable plastic outer layers; and
- improved flow characteristics for many industrial and consumer sealants and lubricating fluids.

USBCs. We believe that our 30% market share of 2008 USBC sales, excluding Footwear, leads the industry, and is approximately 2.2 times that of our closest competitor in terms of 2008 sales. In 2008, we estimate that USBCs represented approximately 88% of worldwide SBC industry sales volumes and were used primarily in Footwear, Paving and Roofing and Adhesives, Sealants and Coatings end-use.

USBCs are used in all our end-use markets in a range of products to impart desirable 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;

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impact resistance for consumer plastics; and

increased processing flexibility in materials used in disposable diapers and adhesive applications, such as packaging tapes and labels.

Our End-Use Markets

We believe we hold the number one market position, based on 2008 sales and volume, in each of our targeted end-use markets. We have aligned our commercial activities to serve three core end-use markets that we believe have the highest growth and profitability potential: (1) Advanced Materials; (2) Adhesives, Sealants and Coatings; and (3) Paving and Roofing. We also serve a fourth end-use market, an Emerging Businesses category, which primarily includes our high-growth IRL business.

The following table describes our three core end-use markets together with our Emerging Businesses and other end-use markets and their approximate relative sizes:

End-Use Markets	Revenue Mix[1]	Our End-Use Market Position[2]	Our End-Use Market Share[2]	Our Relative End-Use Market Share[3]	Industry Compound Annual Growth Rate[4]	Selected Applications/Products
Advanced Materials	30%	#1	37%	2.2X	8.0%	Soft touch for consumer products (tooth brushes and razor blades) and power tools Impact resistant engineering plastics Automotive components Elastic films for disposable diapers and adult incontinence branded products Skin care products and lotions Disposable food packaging Medical packaging films and tubing, often to replace PVC
Adhesives, Sealants and Coatings	32%	#1	41%	2.6X	5.2%	Tapes and labels Non-woven and industrial adhesives Industrial and consumer weather sealants
Paving and Roofing	31%	#1	28%	1.9X	7.1%	Asphalt modification for performance roadways Asphalt modification for roofing felts and shingles
Emerging Businesses[5]	3%	N/A	N/A	N/A	17.7%	Surgical gloves Condoms
Other Markets[6]	4%	N/A	N/A	N/A	N/A	Lubricants and fuel additives High styrenics packaging

Footwear

(1) Based on 2008 sales of $1,171.3 million (excludes by-product sales which are reported as other revenues).
(2) Management estimates, based on 2008 sales.
(3) Management estimates, versus next largest competitor based on 2008 sales.
(4) Management estimates of volume growth, 2001 to 2008, except for Emerging Businesses, which is 2005 to 2008.

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(5) The Emerging Businesses end-use market primarily includes our IRL business as well as other businesses and products that are under development. We believe that we are the only major third-party supplier of IRL, and therefore end-use market position, end-use market share and relative end-use market share metrics are not meaningful.

(6) Our Other Markets end-use market is not directly comparable to our three core and Emerging Businesses end-use markets because it includes a mix of products ranging from lubricants and fuel additives to high styrenics packaging to footwear products. Therefore, we cannot estimate end-use market position, end-use market share, relative end-use market share or industry compound annual growth rate.

Our Competitive Strengths

The following competitive strengths help us to sustain our market leadership position and contribute to our ability to generate superior margins and strong cash flow. We expect these strengths to support our growth in the future:

The Market Leader in SBCs

We believe we hold the number one global market position based on 2008 sales and volumes, including a 34% market share of revenues in the end-use markets we target. Our Belpre, Ohio facility is the largest in terms of production capacity and the most product-diversified SBC plant in the world, and we believe it is the largest HSBC plant as well in terms of production capacity. We believe our Wesseling, Germany plant is a world scale and cost efficient facility. As the pioneer of SBCs over 40 years ago, we believe our KRATON® brand is widely recognized for our industry leadership, and we are particularly well-regarded for our process technology expertise and long track record of market-driven innovation.

Growth Through Innovation and Technological Know-how

SBC production and product development requires complex and specific expertise, which we believe many of our competitors are unable to replicate. As the industry pioneer, Kraton maintains a constant focus on enhancing the value-added attributes of our products and on developing new applications for SBCs. At December 31, 2008, we had approximately 1,176 granted patents and approximately 447 pending patent applications. Our Vision 20/20 program, introduced earlier this year, targets generating 20% of revenues by 2011 from new products or applications introduced in the prior five years. In 2008, we generated 13.5% of our sales from innovation driven revenue. We believe that our new product innovation will allow us to drive increases in our volume, expand product contribution margins and increase our customers reliance on Kraton s products and technical expertise. For example, for the nine months ended September 30, 2009, IRL represented 3.5% of revenues. Our sales of IRL from 2005 to 2008 grew at 23% by volume and are earning a unit contribution margin in excess of the company as a whole.

Diverse Global Manufacturing Capabilities and End-Use Market Exposures

We operate manufacturing facilities on four continents (North America, Europe, South America and Asia) producing what we believe to be the highest quality grades available of USBC and HSBC and high purity IRL. We believe we are the only SBC producer with this breadth of technical capabilities and global footprint, selling approximately 800 products in over 60 countries. Since 2003, we have successfully completed plant expansions totaling 60 kilotons of capacity, giving us a total capacity of 436 kilotons, at a total cost of less than $50 million. Our manufacturing and product footprint allow revenue diversity, both geographically and by end-use market. We believe our scale and footprint make us an attractive customer for our monomer suppliers which, in turn, allows us to offer a high degree of supply security to customers.

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Long-Standing, Strong Customer Relationships Supported by Leading Service Offering

We sell our products to over 700 customers, many of which we have had relationships with for 15 years or more. Our customers are broad-based, with no single customer accounting for more than 5% of our sales in 2008 (our top 10 customers represented 26% of sales in 2008). Our customers manufacturing processes are typically calibrated to the performance specifications of our products. Given the technical expertise and investment required to develop these formulations and the lead times required to replace them, we believe our customers face high switching costs. We believe our customers view our products as being high value-added, even though our products generally represent a small proportion of the overall cost of the finished product. Leveraging our global infrastructure, we believe we offer our customers a best-in-class service level that aligns us to their respective business models, through on demand order delivery and product development specifically designed for each customer s needs.

Experienced Management Team with a Track Record of Growth and Productivity Improvements

Our senior management team has an average industry experience of over 25 years, most of which is with some of the world s leading companies, including General Electric, Koch Industries and Chevron Phillips Chemical. Since early 2008, when the current executive team was put in place, we have instituted a number of strategic initiatives designed to enhance productivity, reduce costs and capital intensity, expand margins and drive innovation-led growth.

Our Business Strategy

Building on these competitive strengths, we are focused on achieving profitable top-line growth and improving margins through the introduction of highly-engineered, high value-added products to drive strong and sustainable cash flow.

Driving Growth and Margin Expansion Through Innovation

We have a 40-year track record of innovation dating back to our development of the first SBCs. Our research and development effort is focused on end-use markets and new product developments that we believe offer higher growth as well as opportunities to develop highly-differentiated products for our customers, thus yielding higher margin potential. We work very closely with our longstanding customer base to produce products that solve their specific technical requirements. For example, to address an industry trend to eliminate PVC from applications such as medical packaging and wire and cable, we have developed and commercialized a series of

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custom-designed polymers and compounds. In addition to this innovation-led growth, we believe that there are a number of end-use market dynamics that drive growth in our business such as: (1) the effect of the American Recovery and Reinvestment Act of 2009 on our paving business; (2) the general demand by customers for higher value-added products with better performance characteristics; and (3) the effect of an economic recovery on roofing applications.

Pursue Smart Pricing

In late 2007, we undertook a comprehensive review of our entire product portfolio, including both product-specific and customer-specific profitability analysis. As a result, we took a variety of actions including reducing or eliminating our exposure to lower margin business and increasing our prices to reflect the significant value-added benefits of our products to our customers products. For example, since the end of 2007, we have increased our unit contribution margins (the excess of the sale price of a unit of product over the variable cost to produce that unit) by more than 50%. We will continue to pursue pricing strategies that reflect the contribution to the end product of our high value and complex product offerings for which limited substitutes exist.

Invest in Key Growth Initiatives

As part of this offering, we plan to use some proceeds to fund high priority, high return strategic projects that will continue to allow us to more effectively and more efficiently serve our customers needs. One such project is the development of additional capacity in our IRL business to serve the rapid growth and to better capture the high margins that exist in this product line.

Continue to Pursue Operational Efficiencies

We have a history of implementing continuous process and cost improvement plans that have resulted in a significant reduction in our cost position and an improvement in the way we run our business. Since the beginning of 2007, we have implemented cost saving initiatives that have reduced costs by over $55 million, on an annual basis. In addition, on December 31, 2009, we will be exiting our Pernis facility in its entirety, which we expect will result in an additional $12 million in annual cost savings. Through these actions, we have created substantial operating leverage in our business model. We believe this demonstrates our management team s ability to successfully manage the business in a downturn and position us for significant growth and margin expansion in a global economic recovery. For a discussion of the costs associated with the Pernis exit, see Management s Discussion and Analysis Recent Developments.

Corporate and Other Information

We currently conduct our business through a Delaware limited liability company, Polymer Holdings LLC, and its consolidated subsidiaries. Prior to the closing of this offering, we will convert into a Delaware corporation to be named Kraton Performance Polymers, Inc.

Our principal executive offices are located at 15710 John F. Kennedy Boulevard, Suite 300, Houston, Texas 77032, and our telephone number is (281) 504-4700. Our corporate website address is *www.kraton.com*. We do not incorporate the information contained on, or accessible through, our corporate website into this prospectus, and you should not consider it part of this prospectus.

On or prior to the closing of this offering, TJ Chemical Holdings LLC, or TJ Chemical, will be merged into (and not survive the merger with) Kraton (for further details on this transaction, see Certain Relationships and Related Transactions Reorganization Transactions), at which time we will be owned directly by affiliates of TPG Capital, L.P. and J.P. Morgan Partners, LLC, a private equity division of JPMorgan Chase & Co. On December 23, 2003, Polymer Holdings acquired all the outstanding equity interests of Kraton from Ripplewood Chemical Holding LLC. The acquisition was funded, including transaction fees and expenses, in part through proceeds from the issuance of senior subordinated notes and borrowings under the term loan portion of the senior secured credit facility.

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Principal Stockholders

Following this offering and after giving effect to the merger of TJ Chemical into Kraton (see Certain Relationships and Related Transactions Reorganization Transactions), certain affiliates of TPG Capital, L.P., which we refer to collectively as TPG, will own approximately 38.8% of our common stock (approximately 36.8% pursuant to a full exercise of the underwriters over-allotment option) and certain affiliates of J.P. Morgan Partners, LLC, which we refer to collectively as JPMP, will own approximately 25.8% of our common stock (approximately 24.6% pursuant to a full exercise of the underwriters over-allotment option). Together TPG and JPMP will own, in the aggregate, approximately 64.6% of our common stock (approximately 61.4% if the underwriters over-allotment option is exercised in full).

TPG Capital, L.P.

TPG is a leading private investment firm with approximately $45 billion of assets under management as of September 30, 2009. The firm was founded in 1992 and is led by David Bonderman and James G. Coulter. Through its global buyout platform, TPG Capital, the firm generally makes significant investments in companies through acquisitions and restructurings across a broad range of industries throughout North America, Europe, Asia and Australia. Notable investments include Alltel Corp., Avaya, Inc., Burger King Holdings, Inc., Continental Airlines, Inc., Energy Future Holdings Corp. (formerly, TXU Corp.), Graphic Packaging International Corp., Grohe AG, Harrah s Entertainment, Inc., J Crew Group, Inc., Neiman Marcus Group, Inc., ON Semiconductor Corp., Seagate Technology, Shenzhen Development Bank Co., Ltd. and Texas Genco, LLC.

JPMorgan Partners

J.P. Morgan Partners, LLC is a private equity division of JPMorgan Chase & Co. (NYSE: JPM), one of the largest financial institutions in the United States. JPMP has invested over $15 billion worldwide in industrial, consumer, media, energy, financial services, healthcare and technology companies since its inception in 1984. In August 2006, the buyout and growth equity investment professionals of JPMP separated from JPMorgan Chase & Co. and formed CCMP Capital Advisors, LLC, or CCMP Capital, a global private equity firm specializing in buyout and growth equity investments. CCMP Capital has offices in New York, Texas and London. CCMP Capital advises JPMP on its portfolio of private equity investments, including the investment in our company; other notable investments include AMC Entertainment, Inc., Aramark Holdings Corporation, Grupo Corporative Ono, S.A., Jetro JMDH Holdings, Inc., Noble Environmental Power, LLC, QCE Holdings, LLC (Quiznos Sub), Warner Chilcott Holdings Co. and PQ Corporation.

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The Offering

Common stock we are offering	10,294,118 shares.
Common stock to be outstanding after this offering	29,709,114 shares.
Use of proceeds	We estimate that our net proceeds from this offering will be approximately $126.1 million, after deducting estimated underwriting discounts and commissions and offering expenses.

We expect to use the net proceeds of this offering to repay a portion of the senior secured credit facility. We expect to use the remaining net proceeds for general corporate purposes, including to fund strategic capital projects such as alternative production capabilities for Isoprene Rubber, the development of additional capacity in our Isoprene Rubber Latex business, and/or the continuation of our upgrade of certain systems and operating controls at our Belpre, Ohio facility. See Use of Proceeds.

Underwriters option to purchase additional shares	We may sell up to 1,544,117 additional shares if the underwriters exercise their over-allotment option.
Dividend policy	We have not previously declared or paid any dividends or distributions on our common stock. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. We are currently prohibited from paying cash dividends on our common stock by the covenants in the senior secured credit facility and may be further restricted by the terms of future debt or preferred securities. See Dividend Policy.
Risk factors	Investing in our common stock involves a high degree of risk. See Risk Factors for a discussion of factors you should carefully consider before deciding to invest in our common stock.
New York Stock Exchange symbol	KRA

The number of shares of common stock to be outstanding after the offering is based on 19,414,996 shares of common stock outstanding after our conversion to a corporation and 10,294,118 shares to be sold in the offering.

The number of shares of common stock to be outstanding after this offering does not take into account an aggregate of 4,350,000 shares of common stock reserved for future issuance under the Polymer Holdings LLC Equity Incentive Plan and 1,594,962 shares of common stock reserved for future issuance under the TJ Chemical Option Plan in connection with the settlement of options outstanding as of the closing of this offering, based on the Conversion Ratio (as defined in the Compensation Discussion and Analysis) of 1:13.5120.

In addition, except as otherwise noted, all information in this prospectus:

- assumes the underwriters do not exercise their over-allotment option; and

gives effect to our conversion from a Delaware limited liability company to a Delaware corporation prior to the closing of this offering.

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Summary of Consolidated Financial Information and Other Data

The table below sets forth our selected consolidated historical financial data for the periods indicated. The summary consolidated historical financial data presented below for the years ended December 31, 2008, 2007 and 2006 and as of December 31, 2008 and 2007 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The summary financial data for the nine months ended September 30, 2009 and 2008 and as of September 30, 2009, have been derived from our unaudited consolidated financial statements, which are included elsewhere in this prospectus. The unaudited consolidated financial statements include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, that management considers necessary for the fair presentation of the consolidated financial information set forth in those statements. Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire year.

The selected financial information and other data presented below should be read in conjunction with the information contained in Use of Proceeds, Management s Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and the notes thereto, which are included elsewhere in this prospectus.

	Year ended December 31,			Nine months ended September 30,	
	2008	2007	2006	2009 (unaudited)	2008 (unaudited)
			(in thousands)		
Consolidated Statements of Operations Data:					
Operating Revenues					
Sales	$ 1,171,253	$ 1,066,044	$ 1,015,766	$ 682,061	$ 947,925
Other(1)	54,780	23,543	32,355	35,235	46,472
Total operating revenues	1,226,033	1,089,587	1,048,121	717,296	994,397
Cost of Goods Sold	971,283	938,556	843,726	602,633	788,618
Gross Profit	254,750	151,031	204,395	114,663	205,779
Operating Expenses					
Research and development expenses	27,049	24,865	24,598	15,115	21,129
Selling, general and administrative	101,431	69,020	73,776	56,585	73,578
Depreciation and amortization of identifiable intangibles	53,162	51,917	43,574	41,582	40,880
Total operating expenses	181,642	145,802	141,948	113,282	135,587
Gain on Extinguishment of Debt				23,831	
Equity in Earnings in Unconsolidated Joint Ventures(2)	437	626	168	305	314
Interest Expense, Net	36,695	43,484	66,637	24,783	27,696
Income (Loss) Before Income Taxes	36,850	(37,629)	(4,022)	734	42,810
Income Tax Expense (Benefit)	8,431	6,120	29,814	(485)	7,396
Net Income (Loss)	$ 28,419	$ (43,749)	$ (33,836)	$ 1,219	$ 35,414

(1) Other revenues include the sale of by-products generated in the production of polyisoprene rubber, or IR, and styrene-isoprene-styrene, or SIS.

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

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	Year ended December 31, 2008	Nine months ended September 30, 2009
Pro forma income per common share(1)		
Basic	$ 1.46	$ 0.06
Diluted	$ 1.45	$ 0.06
Shares used to compute basic pro forma income per share(2)	19,414,996	19,414,996
Shares used to compute diluted pro forma income per share(2)	19,592,190	19,592,190

(1) Pro forma to reflect the conversion of our company from a limited liability company to a corporation prior to the closing of this offering.
(2) Calculated based on number of common shares that would have been outstanding as of December 31, 2008 and September 30, 2009, assuming our conversion into a corporation.

	Year ended December 31,		Nine months ended September 30,
	2008	2007	2009
		(in thousands)	(unaudited)
Balance Sheet Data			
Cash and cash equivalents	$ 101,396	$ 48,277	$ 22,365
Total assets	1,031,874	984,894	939,880
Total debt	$ 575,316	$ 538,686	$ 485,815

	Fiscal Year			Nine months ended	
	2008	2007	2006	September 30, 2009	September 30, 2008
			(in thousands)		
Other Data					
EBITDA(1)(3)	$ 126,707	$ 57,772	$ 106,189	$ 67,099	$ 111,386
Adjusted EBITDA(2)(3)	152,048	68,310	121,908	56,314	123,497

(1) EBITDA represents net income before interest, taxes, depreciation and amortization. We present EBITDA because it is used by management to evaluate operating performance. We consider EBITDA an important supplemental measure of our performance and believe it is frequently used by investors and other interested parties in the evaluation of companies in our industry.

We also use EBITDA for the following purposes: our executive compensation plan bases incentive compensation payments on our EBITDA performance; and the senior secured credit facilities and the senior subordinated notes use EBITDA (with additional adjustments) to measure our compliance with covenants such as leverage and interest coverage.

EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

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 or principal payments, on our debts;

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; and

other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

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Because of these and other limitations, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA only supplementally. See the Consolidated Statements of Cash Flows included in our financial statements included elsewhere in this prospectus.

(2) We present Adjusted EBITDA as a further supplemental measure of our performance and because we believe these additional adjustments provide additional and helpful information to securities analysts, investors and other interested parties evaluating our performance. 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 subsequent footnote. 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 all the limitations applicable to EBITDA. 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) We reconcile Net Income/(Net Loss) to EBITDA and Adjusted EBITDA as follows:

	Fiscal Year			Nine months ended	
	2008	2007	2006	September 30, 2009	September 30, 2008
			(in thousands)		
Net Income/(Net Loss)	$ 28,419	$ (43,749)	$ (33,836)	$ 1,219	$ 35,414
Plus					
Interest expense, net	36,695	43,484	66,637	24,783	27,696
Income tax expense	8,431	6,120	29,814	(485)	7,396
Depreciation and amortization expenses	53,162	51,917	43,574	41,582	40,880
EBITDA(a)	$ 126,707	$ 57,772	$ 106,189	$ 67,099	$ 111,386

	Fiscal Year			Nine months ended	
	2008	2007	2006	September 30, 2009	September 30, 2008
			(in thousands)		
EBITDA(a)	$ 126,707	$ 57,772	$ 106,189	$ 67,099	$ 111,386
Add (deduct):					
Sponsor fees and expenses	2,000	2,000	2,000	1,500	1,500
Restructuring and related charges(b)	13,671	5,633	11,142	7,533	9,482
Other non-cash expenses(c)	9,670	2,905	2,577	4,013	1,129
Gain on extinguishment of debt(d)				(23,831)	
Adjusted EBITDA(a)	$ 152,048	$ 68,310	$ 121,908	$ 56,314	$ 123,497

(a) EBITDA and Adjusted EBITDA in the first nine months of 2009 were negatively impacted by approximately $30.9 million due to the sale of inventory produced when raw material costs were higher than the then current replacement cost. This large effect in the first nine months of 2009, which is included in EBITDA and Adjusted EBITDA amounts reflected above, was a result of the dramatic and swift decline in raw material costs from record high levels in the fourth quarter of 2008 (where the negative impact was approximately $2.3 million). Conversely, in the first nine months of 2008, EBITDA and Adjusted EBITDA, as reflected above, were positively impacted by approximately $39.5 million due to the sale of inventory produced when raw material costs were lower than the then current

replacement cost.

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(b) 2008 costs consist primarily of severance and retention costs associated with the restructuring of our Westhollow Technical Center and our research and technical services organizations, senior management changes in the first quarter and workforce reductions in the fourth quarter; 2007 costs are primarily costs in connection with the shutdown of our SIS plant in Pernis; and 2006 costs consist primarily of severance and other costs in connection with the rationalization of our facility in Belpre, Ohio and our U.S. headquarters, and charges related to a reorganization of our activities in Asia-Pacific and Belgium. All periods also reflect costs associated with evaluating merger and acquisition transactions and potential debt refinancing.

Restructuring and related charges discussed above were recorded in the Consolidated Statements of Operations, as follows.

	Fiscal Year			Nine months ended	
	2008	2007	2006	September 30, 2009	September 30, 2008
Cost of goods sold	$	$ 2,438	$ 5,495	$ 6,307	$
Research and development	$ 2,301	$ 345	$ 1,341	$	$ 2,301
Selling, general and administrative	$ 11,370	$ 2,850	$ 4,306	$ 1,226	$ 7,181
Total restructuring and related charges	$ 13,671	$ 5,633	$ 11,142	$ 7,533	$ 9,482

(c) For all periods, consists primarily of non-cash compensation, asset impairment charges and losses on the sale of fixed assets. For 2008 and 2009, also reflects the non-cash adjustment to lower inventory from first in first out cost to market value.

(d) 2009 reflects the non-recurring cash gain related to bond repurchases.

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RISK FACTORS

Buying shares of our common stock involves risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this prospectus, including the financial statements and the related notes appearing at the end of this prospectus, before deciding to purchase shares of our common stock.

Risk Factors Relating to our Business

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 and construction 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 and will continue to be affected by the global recession, including the turbulence in the credit markets, dislocations in the housing and commercial real estate markets, fluctuating commodity prices, volatile exchange rates and other challenges currently affecting the global economy and our customers. Although the effects of the global recession on our business appear to be easing, there can be no assurance that this trend will continue. If the global recession continues for significant future periods or deteriorates significantly, our results of operations, financial condition and cash flows could be materially adversely affected.

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

Prior to February 28, 2001, we were operated by Shell Chemicals, the chemicals operations unit of the Royal Dutch/Shell Group. Shell Chemicals continues to provide services that are important to our business. In addition, we have service agreements with LyondellBasell Industries, or LyondellBasell, the successor to another Shell Chemicals business. We are a party to:

- operating agreements pursuant to which LyondellBasell (in Berre, France and Wesseling, Germany) and Shell Chemicals (in Pernis, the Netherlands) operate and maintain our European manufacturing facilities and employ and provide almost all of the staff for those facilities;

- site services, utilities, materials and facilities agreements pursuant to which LyondellBasell and/or Shell Chemicals provide utilities and site services to our European manufacturing facilities and to one research and development facility; and

- lease agreements pursuant to which we lease our European manufacturing facilities from LyondellBasell and Shell Chemicals.

In January 2009, the U.S. operations of LyondellBasell along with one of its European holding companies, Basell Germany Holdings GmbH, filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. LyondellBasell is one of our major suppliers of raw materials and also operates our plants at Berre, France and Wesseling, Germany. The bankruptcy of LyondellBasell and any resulting restructuring of LyondellBasell s

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operations may adversely affect LyondellBasell s ability to provide services to us. To date, our operations have not been negatively impacted. However, we cannot predict the effect, if any, that LyondellBasell s bankruptcy will ultimately have upon our business in general, or our relationship with LyondellBasell in particular.

Under the terms of the above agreements, either party is permitted to terminate the applicable agreement in a variety of situations. Should Shell Chemicals or 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, Shell Chemicals or LyondellBasell terminates a facility lease, we would be forced to relocate our manufacturing facility. From time to time, as part of our ongoing business operations, we discuss potential changes in the terms of our various agreements with Shell Chemicals and/or LyondellBasell, based upon changes in market conditions or other factors. Any agreed changes to any of these contractual arrangements are not binding until the execution of formal documentation. The failure of Shell Chemicals or LyondellBasell to perform their obligations under, or the termination of, any of these contracts could 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, or on terms as favorable to us.

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

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: styrene, butadiene and isoprene. We use styrene in the production of almost all of our polymer products. We use butadiene in the production of SBS (styrene-butadiene-styrene) grades of USBCs and SEBS (styrene-ethylene-butylene-styrene) grades of HSBCs. We use isoprene in the production of SIS (styrene-isoprene-styrene) grades of USBCs, SEPS (styrene-ethylene-propylene-styrene) grades of HSBCs and polyisoprene rubber, or IR. 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, which may significantly impact our operations.

On December 13, 2007, we received a termination notice from Shell Chemicals for isoprene supply to our Pernis facility effective December 31, 2009. We recently amended the contract governing our U.S. supply of isoprene with Shell Chemicals to terminate on or after December 31, 2009 on one month prior notice by either party. Isoprene is primarily produced and consumed, by manufacturers, captively for the production of isoprene rubber, which is primarily used in the manufacture of rubber tires. As a result, there is limited non-captive isoprene available for purchase in the markets in which we operate. Future isoprene requirements for our IR products will be met by our overall isoprene sourcing strategies. We may not be able to obtain isoprene required for our operations at our Pernis facility or alternate locations on terms favorable to us or at all. Our U.S. butadiene supply agreement with Shell Chemicals expired as of April 30, 2009. We currently access butadiene at competitive rates, recently entered into a butadiene supply contract with a new supplier for 2010 and are engaged in efforts with several other suppliers to purchase ongoing and continuing supplies of butadiene. If we are unable to enter into agreements with alternative suppliers, we may not be able to meet our U.S. butadiene supply requirements in a timely manner or on favorable terms.

In addition, most of our long-term contracts contain provisions that allow our suppliers to limit the amount of raw materials shipped to us below the contracted amount in certain circumstances. During 2009, Shell Chemicals and other butadiene producers have limited supply at times due to raw material shortages and operational problems, and we have satisfied our butadiene needs by supplementing with spot market purchases. If we are required to obtain alternate sources for raw materials because Shell Chemicals or any other supplier is

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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 a timely manner or be able to enter into long-term supply agreements on terms as favorable to us. A lack of availability of raw materials could have an 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 demanded 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 sell only limited quantities into the world chemicals market. The major producers of isoprene are Goodyear, Shell Chemicals, Nippon Zeon, Braskem, several Chinese producers and various Russian manufacturers. Currently, Shell Chemicals is our major supplier of isoprene in the United States and Europe. In Japan, we obtain the majority of our isoprene requirements from JSR Corporation, or JSR, on a commercial supply basis and from alternative suppliers as needed. In Brazil, isoprene is 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 substitute supplies of isoprene from alternative suppliers in a timely manner or on favorable terms.

Because there is limited non-captive isoprene availability, the market for isoprene is thin and prices are particularly volatile. Prices for isoprene are determined by the supply and prices of natural and synthetic rubber, crude oil and natural gas prices and existing supply and demand in the market. Market prices for isoprene increased significantly during the second half of 2008 as energy prices peaked in the third quarter. Following the collapse of energy pricing in late 2008, isoprene prices receded in the first half of 2009 due to lower costs and weaker demand. A significant factor contributing to higher prices was the extreme tightness in the market caused by operational problems of some key producers and reduced availability of crude C5 inputs for the extraction units. Although improved producer operation mitigated this risk in 2008, weak ethylene demand and light (ethane versus naphtha) ethylene inputs have limited isoprene production for some of the suppliers. In addition to this limit due to ethylene inputs, operational problems could return in the future. A lack of availability of isoprene could have an adverse effect on our results of operations if we are unable to produce products containing isoprene.

If the availability of butadiene is limited, we may be unable to produce some of our products in quantities demanded by our customers, which could have an adverse effect on plant utilization and 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. Historically, the European market has been better balanced and provided exports to North America. Currently, Shell Chemicals is our major supplier of butadiene in the United States, and LyondellBasell is our major butadiene supplier in Europe. In January 2009, the U.S. operations of LyondellBasell along with one of its European holding companies, Basell Germany Holdings GmbH, filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. To date the U.S. bankruptcy has not negatively impacted our supply of butadiene in Europe. 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.

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 our raw materials. Our three principal raw materials (styrene, butadiene and isoprene) together represented approximately 52% of our total cost of goods sold in 2008. As a result of the significant portion of our cost of goods sold represented by these three monomers, our gross profit and 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.

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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 large international producers, as well as 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. If we are unable to keep pace with our competitors product and manufacturing process innovations, our financial condition and results of operations could be materially adversely affected.

Our most significant competitors are Asahi Chemical, Chi Mei, Dexco Polymers, Dynasol Elastomers, Korea Kumho P.C., Kuraray Company, Lee Chang Yung, LG Chemical, Polimeri Europa, Sinopec, Taiwan Synthetic Rubber Corporation and Zeon Corporation. Kuraray Company, Dynasol Elastomers, Korea Kumho P.C. and Sinopec have all expanded HSBC capacity over the last 3 years. Several competitors, including Dynasol, Lee Chang Yung and Sinopec, have expanded USBC capacity over the last 3 years.

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 non-SBC products may reduce demand for our products in the future and our customers may decide on alternate sources to meet their requirements.

In the Advanced Materials end-use market, our products compete against a wide variety of chemical and non-chemical alternatives, including thermoplastic vulcanizates, ethylene propylene diene monomer rubber, known as EPDM, thermoplastic polyolefin elastomers and thermoplastic polyurethanes, known as TPUs. The choice between these materials is influenced by performance characteristics, ease of use, desired aesthetics and total end-product cost. In addition, competing materials include spandex, natural rubber, polyvinyl chloride polymers and compounds, polyolefins, polyethylene terephthalate, known as PET, nylon and polycarbonate, based on performance, ease of use, desired aesthetics and total end-product cost.

In the Adhesives, Sealants and Coatings end-use market, SBC 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.

In the Paving and Roofing end-use market, our products primarily compete with atactic polypropylene, styrene butadiene rubber and unmodified asphalts. The choice between these materials is influenced by total end-product performance, cost and ease of use.

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 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. We need to continue to identify, develop and market

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innovative products on a timely basis to replace existing products in order to maintain our profit margins and our competitive position. We may not be successful in developing new products and technology that successfully compete with such materials and our customers may not accept any of our new products. If we fail to keep pace with evolving technological innovations or fail to modify our products in response to our customers needs, then our business, financial condition and results of operations could be adversely affected as a result of reduced sales of our products.

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 of our business. However, we may be unable to prevent third parties from using our intellectual property and other proprietary information without our authorization or 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, cause 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. Pursuant 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.

Any patents, issued or applied for, may not provide us with any competitive advantage and may be challenged by third parties. Our competitors also may 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. From time to time, we oppose the issuance of patent applications in the United States and other jurisdictions 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. In general, competitors or other parties may, from time to time, assert issued patents or other intellectual property rights against us. If we are legally determined, at some future date, to infringe or violate the intellectual property rights of another party, we may have to pay damages, stop the infringing use, or attempt to obtain a license agreement with the owner of such intellectual property. 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.

We have registered and applied for certain service marks and trademarks, and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. The applicable governmental authorities

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may not approve our pending 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.

We continually seek to improve our business processes and develop new products and applications. Many of our competitors have a substantial amount of intellectual property that we must continually monitor to avoid infringement. Although it is our policy and intention not to infringe valid patents, 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, possibly, 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. Any of the foregoing could cause us to incur significant costs and prevent us from selling our products.

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 the 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. 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.

Our substantial level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the senior secured credit facility and the senior subordinated notes.

We have substantial indebtedness. As of September 30, 2009, after giving effect to this offering and the use of proceeds therefrom, our total indebtedness would have been $385.9 million. Our indebtedness consists principally of the senior secured credit facility, which had $322.6 million outstanding as of September 30, 2009,

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and the 8.125% Senior Subordinated Notes due 2014, or the senior subordinated notes, which had $163.0 million outstanding as of September 30, 2009. The senior secured credit facility is payable in consecutive equal quarterly installments in an aggregate annual amount equal to 1.0% of the original principal amount and with the remaining balance payable in four equal quarterly installments commencing on September 30, 2012 and ending on May 12, 2013. The senior subordinated notes mature on January 14, 2014. In addition, subject to restrictions in the senior secured credit facility and the indenture governing the senior subordinated notes, Kraton and its subsidiaries may incur additional indebtedness.

As a result of our substantial indebtedness:

- our ability to obtain additional financing for working capital, capital expenditures, debt service requirements or other general corporate purposes may be impaired;
- we must use a substantial portion of our cash flow to pay principal of and interest on our indebtedness which will reduce the funds available to us for other purposes;
- we are more vulnerable to economic downturns and adverse industry conditions;
- our ability to capitalize on business opportunities and to react to competitive pressures, as compared to our competitors, may be compromised; and
- our ability to borrow additional funds or to refinance indebtedness may be limited.

The ability for us 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 revolving credit facility to fund liquidity needs in an amount sufficient to enable us to service indebtedness. 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 the senior secured credit facility and the indenture governing the senior subordinated notes, impose significant operating and financial restrictions on us.

The senior secured credit facility and the indenture governing the senior subordinated notes impose significant operating and financial restrictions on us. These restrictions limit our ability, the ability of Kraton and the ability of its subsidiaries to, among other things:

- incur additional indebtedness;
- pay dividends or make certain other restricted payments and investments;
- create liens or other encumbrances; and
- transfer or sell certain assets or merge or consolidate with another entity.

These restrictions could limit our ability to plan for or react to market conditions or meet extraordinary capital needs or otherwise restrict corporate activities. Our ability to comply with these covenants may be affected by events beyond our control, and any material deviations from

our forecasts could require us to seek waivers or amendments of covenants, alternative sources of financing or reductions in expenditures. We may not be able to obtain such waivers, amendments or alternative financings, or if we obtain them, they may not be on terms acceptable to us.

A deterioration in our results of operations may cause us not to be in compliance with the financial covenants in the senior secured credit facility. Under the terms of the senior secured credit facility, as amended, we are subject to certain financial covenants, including maintenance of a minimum interest rate coverage ratio and a maximum leverage ratio. Our ability to continue to comply with the financial ratios is subject to changes in our results of operations and financial position including but not limited to: the prices for raw materials; the sales of products; our ability to successfully implement selected selling price increases; our ability to reduce costs; and our availability of cash to reduce existing indebtedness. We generated net income of $28.4 million for the year ended

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December 31, 2008 and net income of $1.2 million for the nine months ended September 30, 2009 and a net loss of $43.7 million for the year ended December 31, 2007. Furthermore, our earnings were insufficient to cover our fixed charges for the year ended December 31, 2007 by approximately $37.6 million. As of September 30, 2009, we were in compliance with the applicable financial ratios in the senior secured credit facility. We may not be able to maintain these ratios or avail ourselves of the equity cure provisions of the senior secured credit facility in future periods.

A breach of any of the covenants or restrictions contained in any of our existing or future financing agreements and instruments, including our inability to comply with the required financial covenants in the senior secured credit facility, could result in an event of default under those agreements. Such a default could allow the lenders under our financing agreements to discontinue lending, to accelerate the related debt and to declare all borrowings outstanding thereunder to be due and payable. In addition, the lenders could terminate any commitments they had made to supply us with further funds.

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 involves the risk of product liability claims. If a person were to bring a product liability suit against one of our customers, this 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 payments, for which we are not otherwise indemnified, could have a material adverse effect on our financial condition or results of operations. While we endeavor to protect ourselves from such claims and exposures in our contractual negotiations, there can be no assurance that our efforts 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, the Netherlands, France and Japan, in addition to our operations in the United States. Our offshore 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;
- 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;

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- foreign currency exchange restrictions and fluctuations; and

- local political and social conditions, including the possibility of hyperinflationary conditions and political instability in certain countries.

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

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

The 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. Although we maintain property, business interruption and casualty insurance of the types and in the amounts that we believe are customary for the industry, we are not fully insured against all potential hazards incidental to our business.

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.

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

Materials such as styrene, butadiene 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.

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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 both the national and local level in multiple jurisdictions. 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 any issued permits may contain significant new requirements. 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.

We operate coal-burning boilers at our facility in the United States that could be subject to legislation and regulation affecting the emissions of greenhouse gases. While the impact of any such legislation or regulation is currently speculative, any such legislation or regulation, if enacted, may have an adverse effect on our operations or financial condition.

We have health and safety management programs in place to help assure compliance with applicable regulatory requirements and with internal policies and procedures, as appropriate. Each facility has developed and implemented specific critical occupational health, safety, environmental and loss control programs. Compliance with environmental laws 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 these laws or permit requirements.

Management at our facility at Belpre, Ohio has identified several occupied buildings that are closer to the manufacturing process than would be consistent with industry guidelines required by the Occupational Safety and Health Administration. A $7.6 million project is underway to relocate these facilities, and this cost is included in our projected future capital expenditures. However, such costs may vary with changes in regulations or risk management strategy. This project is expected to be completed by the end of 2010.

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.

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.

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Our Paulinia, Brazil facility also has on-site contamination resulting from past operations of Shell Chemicals. The indemnity from Shell Chemicals covers claims related to certain specified areas within the plant, and 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 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.

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. As of September 30, 2009, we employed

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approximately 805 full-time employees. 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. Although we have historically maintained a good relationship with our employees, 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 Shell Chemicals or LyondellBasell, relations between Shell Chemicals and its employees or 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.

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. Beginning in 2008, we began implementing hedging strategies to minimize our exposure to certain foreign 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 or that any volatility in currency exchange rates will not have a material adverse effect on our financial condition or results of 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.

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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 $37.8 million at September 30, 2009. We contributed $9.0 million to the pension plan in 2008 and, based on the actuarial assumptions used in our consolidated financial statements, are forecasting contributions of approximately $4.2 million in calendar years 2009 and 2010, respectively. 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 interest rates and actual rates of return on invested plan assets were to decrease significantly, the pension plan obligation could increase materially. The size of future required pension contributions could result in us 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.

Risk Factors Relating to this Offering

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

Upon consummation of this offering, TPG and JPMP together will own approximately 64.6% of our common stock (approximately 61.4% if the underwriters over-allotment option is exercised in full). Pursuant to a registration rights and shareholders agreement to be entered into by TPG, JPMP and the company, TPG and JPMP will each have the right to participate in certain dispositions by the other party. TPG and JPMP will also be restricted from transferring common stock without the consent of the other party. Furthermore, each of TPG and JPMP will have the right to elect two directors to the board of directors of the company so long as it owns 10% or more of the outstanding common stock and one director so long as it owns 2% or more of the common stock. See Certain Relationships and Related Transactions Registration Rights and Shareholders Agreement. TPG and JPMP together will be able to exercise control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of significant corporate transactions and will have significant control over our management and policies. The interests of these stockholders may not be consistent with your interests as a stockholder. This control may also have the effect of deterring hostile takeovers, delaying or preventing changes in control or changes in management, or limiting the ability of our other stockholders to approve transactions that they may deem to be in the best interests of our company. In addition, our certificate of incorporation will provide that the provisions of Section 203 of the Delaware General Corporation Law, which relate to business combinations with interested stockholders, do not apply to us.

There has been no prior public market for our common stock, and we cannot assure you that an active trading market in our stock will develop or be sustained.

Prior to this offering, there has been no public market for our common stock. We cannot assure you that an active trading market will develop or be sustained after this offering. Although we have applied to have our common stock approved for listing on the New York Stock Exchange, we do not know whether third parties will find our common stock to be attractive or whether firms will be interested in making a market in our common stock. Also, if you purchase shares of common stock in this offering, you will pay a price that was not established in public trading markets. The initial public offering price of our common stock will be determined through negotiation between us and the representatives of the underwriters and thus may not be indicative of the market price for our common stock after this offering. Consequently, you may not be able to resell your shares above the initial public offering price and may suffer a loss on your investment.

Through their affiliates, certain underwriters for this offering are also creditors of our outstanding indebtedness, and therefore have interests in this offering beyond customary underwriting discounts and commissions.

Certain affiliates of Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated are lenders under the senior secured credit facility. We expect to use portions of the net proceeds of

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this offering to repay existing indebtedness under the term loan portion of the senior secured credit facility, under which Merrill Lynch, Pierce, Fenner & Smith Incorporated is a lender. As a result, such affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated may receive portions of the proceeds of this offering and have interests beyond customary underwriting discounts and commissions. For more information on the use of the proceeds of this offering, see Use of Proceeds.

The market price of our common stock may fluctuate significantly, and it may trade at prices below the initial public offering price.

The market price of our common stock after this offering may fluctuate significantly from time to time as a result of many factors, including:

- investors perceptions of our prospects;
- differences between our actual financial and operating results and those expected by investors and analysts;
- changes in analysts recommendations or projections;
- fluctuations in quarterly operating results;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- changes or trends in our industry;
- adverse resolution of new or pending litigation against us;
- additions or departures of key personnel;
- changes in general economic conditions; and
- broad market fluctuations.

Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. As a result, our common stock may trade at prices significantly below the initial public offering price.

Future sales of our shares could adversely affect the market price of our common stock.

If our existing stockholders sell substantial amounts of our common stock in the public market following this offering, or if we issue a large number of shares of our common stock in connection with future business activities, the market price of our common stock could decline significantly. Sales by our existing stockholders might also make it more difficult for us to raise equity capital by selling new common stock at a time and price that we deem appropriate.

Upon completion of this offering we will have 29,709,114 shares of common stock outstanding based on 19,414,996 shares outstanding after our conversion to a corporation and 10,294,118 shares to be sold in the offering. Of these outstanding shares, we expect all of the shares sold in this offering will be freely tradable in the public market. We expect 19,271,702 shares will be restricted securities as defined in the SEC s Rule 144 and may be sold by the holders into the public market from time to time in accordance with and subject to limitation on sales by affiliates under

Rule 144. All of these restricted shares will be eligible for sale under Rule 144 following expiration of the lockup agreements described below subject to limitation on sales by affiliates.

We, each of our officers, directors and our stockholders, have agreed to a 180-day lockup, meaning that, for a period of 180 days following the date of this prospectus, we and they will not sell shares of our common stock. However, this lockup is subject to several exceptions, and our lead underwriters in their sole discretion may release any of the securities subject to the lockup, at any time without notice.

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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 will:

- 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 any vacancy or new board seat be filled, only by the board;
- not permit stockholders to act by written consent (except for TPG and JPMP, as long as they own at least 50% of our outstanding common stock);
- not permit stockholders to call a special meeting (except for TPG and JPMP, as long as they own at least 50% of our outstanding common stock);
- 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 66 2/3% 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.

Many of our employment agreements, plans and 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 Units and Notional Units, and continued medical benefits in the event their employment is terminated under certain circumstances within one year 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 note that a change in control should not be triggered under these arrangements solely by this offering. See Executive Compensation, for disclosure regarding potential payments to Named Executive Offers following a change in control.

These and other 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 will be a controlled company within the meaning of the New York Stock Exchange rules, and, as a result, we will rely on exemptions from certain corporate governance requirements that provide protection to stockholders of other companies.

Upon completion of this offering, TPG and JPMP together will own more than 50% of the total voting power of our common stock, and we will be a controlled company under the New York Stock Exchange corporate governance listing standards. As a controlled company, an exception under the New York Stock Exchange listing standards will exempt us from the obligation to comply with certain of the New York Stock Exchange corporate governance requirements, including the requirements:

that a majority of our board of directors consist of independent directors, as defined under the rules of the New York Stock Exchange;

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that we have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities; and

that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities.

Accordingly, for so long as we are a controlled company, holders of our common stock may not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

Your share ownership in our company will be immediately and substantially diluted.

If you purchase shares of our common stock in this offering, you will experience an immediate and substantial dilution of $4.33 per share because the price that you pay will be substantially greater than the pro forma net tangible book value per share of such stock based on the pro forma net tangible book value per share as of September 30, 2009.

We do not expect to pay any dividends for the foreseeable future.

We do not anticipate paying any dividends to our shareholders for the foreseeable future. The senior secured credit facility precludes 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. The terms of certain of the senior subordinated notes substantially restrict our ability and the ability of our subsidiaries to pay dividends. 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.

Polymer Holdings 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. 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.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our company, the trading price for our common stock would be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our common stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price and trading volume to decline.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements made under the headings Summary, Business, Management s Discussion and Analysis of Financial Condition and Results of Operations, Financial Statements and elsewhere in this prospectus contain forward-looking statements that reflect our plans, beliefs, expectations and current views with respect to, among other things, future events and financial performance. Forward-looking statements are often characterized by the use of words such as believes, estimates, expects, projects, may, intends, plans or anticipates, or by discu strategy, plans or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from historical results or any future results, performance or achievements expressed, suggested or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to:

- conditions in the global economy and capital markets,
- our dependence on LyondellBasell, Shell Chemicals and other suppliers to perform their obligations to us,
- failure of our 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 and interrupt production,
- limited availability or increases in prices of raw materials used in our business,
- our substantial level of indebtedness and the operating and financial restrictions imposed by our debt instruments and related indentures,
- competitive pressures in the specialty chemicals industry,
- our ability to continue technological innovation and successful commercial introduction of new products,
- our ability to protect intellectual property and other proprietary information,
- losses due to lawsuits arising out of intellectual property infringement and product liability claims,
- losses due to lawsuits arising out of environmental damage or personal injuries associated with chemical manufacturing,
- compliance with extensive environmental, health and safety laws, including regulation of our employees exposure to butadiene, could require material expenditures or changes in our operations,
- the risk of accidents that could disrupt our operations or expose us to significant losses or liabilities,

- governmental regulations and trade restrictions,
- exposure to interest rate and currency fluctuations,
- acts of war or terrorism in the United States or worldwide, political or financial instability in the countries where our goods are manufactured and sold, and
- other risks and uncertainties described in this report and other reports and documents.

These 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.

You should carefully consider the Risk Factors and subsequent public statements, or reports filed with or furnished to the Securities and Exchange Commission, before making any investment decision with respect to our securities. If any of these trends, risks or uncertainties actually occurs or continues, our business, financial condition or operating results could be materially adversely affected, the trading prices of our securities could decline and you could lose all or part of your investment. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

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USE OF PROCEEDS

We estimate that our net proceeds from the sale of 10,294,118 shares of common stock offered by us will be approximately $126.1 million or approximately $145.6 million if the underwriters exercise their over-allotment option in full, after deducting underwriting discounts and estimated offering expenses payable by us of approximately $12.9 million or approximately $14.2 million if the underwriters exercise their over-allotment option in full.

We currently intend to use the net proceeds we receive from this offering to repay a portion of the senior secured credit facility. We expect to use the remaining net proceeds for general corporate purposes, including to fund strategic capital projects such as alternative production capabilities for Isoprene Rubber, the development of additional capacity in our Isoprene Rubber Latex business, and/or the continuation of our upgrade of certain systems and operating controls at our Belpre, Ohio facility.

The senior secured credit facility requires that Kraton prepay outstanding indebtedness in an aggregate amount equal to 50% of the proceeds of an issuance of capital stock by Kraton or us, net of underwriting discounts and commissions and other reasonable costs and expenses associated with this offering. Term loans under the senior secured credit facility are payable in 25 consecutive equal quarterly installments, in an aggregate annual amount equal to 1.0% of the original principal amount of the term loans with the remaining balance payable in four equal quarterly installments commencing on September 30, 2012, and ending on May 12, 2013. The remaining scheduled installments must be reduced on a pro rata basis in connection with the repayment contemplated herein. The term loans bear interest at a rate equal to the adjusted Eurodollar rate plus 2.00% per annum or, at our option, the base rate plus 1.00% per annum. As of September 30, 2009, we had total indebtedness of $485.9 million, consisting principally of $322.6 million of outstanding borrowings under the senior secured credit facility term loan and $163.0 million of outstanding senior subordinated notes.

Pending use of the net proceeds from this offering described above, we intend to invest the net proceeds in short- and intermediate-term AAA rated money market funds, overnight Eurodollar deposits, certificates of deposit or direct or guaranteed obligations of the United States government.

By establishing a public market for our common stock, this offering is also intended to facilitate our future access to public markets.

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DIVIDEND POLICY

Prior to our conversion from a limited liability company to a corporation we did not make any dividend payments to our members. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business, and we do not anticipate paying any cash dividends in the foreseeable future. We are currently prohibited from paying cash dividends on our common stock by the covenants in the senior secured credit facility and may be further restricted by the terms of any of our future debt or preferred securities. 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. The terms of certain of the senior subordinated notes substantially restrict our ability and the ability of our subsidiaries to pay dividends. For more information about these restrictions, see Description of Certain Indebtedness. 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.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of September 30, 2009:

1. on an actual basis; and

2. on an adjusted basis to reflect:

   our conversion to a corporation in the State of Delaware, which will occur prior to the completion of this offering;

   the sale of 10,294,118 shares of common stock offered by us in this offering, after deducting underwriting discounts and commissions and estimated offering expenses; and

   the application of the net proceeds from this offering (as described under the heading Use of Proceeds).

You should read this information together with our financial statements and the notes to those statements and the information included under the headings Management s Discussion and Analysis of Financial Condition and Results of Operations and Selected Consolidated Financial Data included elsewhere in this prospectus.

	As of September 30, 2009 (in millions)	
	Actual	As Adjusted (unaudited)
Cash and cash equivalents	$ 22.4	$ 48.5
Long-term debt, including current portion:		
Senior secured credit facility(1)	$ 322.6	$ 222.6
Senior subordinated notes (less $7.0 million held as Treasury Bonds)	163.0	163.0
Polymer Holdings LLC 12.00% discount notes	0.3	0.3
Total debt	485.9	385.9
Equity:		
Polymer Holdings LLC members equity	$ 203.7	
Kraton Performance Polymers, Inc. common stock, $0.01 par value per share; no shares authorized or issued and outstanding, actual (500,000,000 shares authorized; 29,709,114 shares issued and outstanding, as adjusted)		0.3
Additional paid in capital		329.5
Retained earnings		
Total equity	$ 203.7	$ 329.8
Total capitalization	$ 689.6	$ 715.7

Numbers in table may not foot, due to rounding.

(1) As of September 30, 2009, we had $322.6 million outstanding under the term loan portion of the senior secured credit facility and $75.5 million available under the revolving portion. On November 30, 2009, we increased the amount available under the revolving portion to $80.0 million. We have no drawings under the revolving portion.

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DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share and the pro forma as adjusted net tangible book value per share of our common stock after this offering. Our historical net tangible book value as of September 30, 2009 was $142.5 million, or approximately $7.34 per share (assuming 19,414,996 shares outstanding after our conversion to a corporation). Net tangible book value per share represents the amount of stockholders equity less the net book value of intangible assets, divided by the number of shares of common stock outstanding at that date.

Net tangible book value dilution per share to new investors represents the difference between the amount per share paid by purchasers of common stock in this offering and the pro forma as adjusted net tangible book value per share of common stock immediately after completion of this offering. After giving effect to our sale of shares of common stock in this offering at an initial public offering price of $13.50 per share and after deducting the estimated underwriting discounts and commissions, our pro forma as adjusted net tangible book value as of September 30, 2009 would have been $9.17 per share. This amount represents an immediate increase in net tangible book value of $1.83 per share to existing stockholders and an immediate dilution in net tangible book value of $4.33 per share to purchasers of common stock in this offering, as illustrated in the following table.

Assumed initial public offering price per share		$ 13.50
Historical net tangible book value per share as of September 30, 2009	$ 7.34	
Increase per share attributable to new investors	1.83	
As adjusted net tangible book value per share after giving effect to this offering		9.17
Dilution per share to new investors		$ 4.33

The following table summarizes, as of September 30, 2009, on the pro forma basis described above, the differences between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid, and the average price per share of our common stock paid by existing stockholders, after giving effect to the issuance of 10,294,118 shares of our common stock in this offering at an initial public offering price of $13.50 per share, before deducting the estimated underwriting discounts and commissions and offering expenses.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	19,414,996	65.4%	$ 261,124,229	65.3%	$ 13.45
New investors	10,294,118	34.6%	$ 138,970,593	34.7%	$ 13.50
Total	29,709,114	100%	$ 400,094,822	100%	$ 13.47

If the underwriters exercise their over-allotment option in full, the number of shares of common stock held by new investors will increase to 11,838,235, or 38.0 percent, of the total number of shares of our common stock outstanding after this offering.

The discussion and table above assume no exercise of stock options outstanding and no issuance of shares reserved for issuance under our equity incentive plans. As of September 30, 2009, there were an aggregate of 1,594,962 shares of common stock reserved for future issuance under the TJ Chemical Option Plan in connection with the settlement of options outstanding as of the closing of this offering, based on the Conversion Ratio of 1:13.5120. Following the closing of this offering, there will also be 4,350,000 shares of common stock reserved for future issuance under the Polymer Holdings LLC Equity Incentive Plan.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

The table below sets forth our selected consolidated historical financial data for the periods indicated.

The selected consolidated historical financial data presented below for the years ended December 31, 2005 and 2004 and as of December 31, 2006, 2005 and 2004 have been derived from our audited consolidated financial statements and are not included elsewhere in this prospectus. The selected consolidated historical financial data presented below for the years ended December 31, 2008, 2007 and 2006 and as of December 31, 2008 and 2007 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The selected consolidated historical financial data for the nine months ended September 30, 2009 and 2008 and as of September 30, 2009 and 2008 have been derived from our unaudited condensed consolidated financial statements, which are included elsewhere in this prospectus. Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire year. Our historical results are not indicative of our future performance.

The selected consolidated financial information and other data presented below should be read in conjunction with the information contained in Use of Proceeds, Management s Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and the notes thereto, which are included elsewhere in this prospectus.

	Year ended December 31,					Nine months ended September 30,	
	2008	2007	2006	2005	2004	2009 (unaudited)	2008 (unaudited)
				(in thousands)			
Consolidated Statements of Operations Data:							
Operating Revenues							
Sales	$ 1,171,253	$ 1,066,044	$ 1,015,766	$ 952,921	$ 791,226	$ 682,061	$ 947,925
Other(1)	54,780	23,543	32,355	22,670	16,160	35,235	46,472
Total operating revenues	1,226,033	1,089,587	1,048,121	975,591	807,386	717,296	994,397
Cost of Goods Sold(2)	971,283	938,556	843,726	766,012	692,968	602,633	788,618
Gross Profit	254,750	151,031	204,395	209,579	114,418	114,663	205,779
Operating Expenses							
Research and development expenses	27,049	24,865	24,598	26,152	23,178	15,115	21,129
Selling, general and administrative	101,431	69,020	73,776	72,731	64,903	56,585	73,578
Depreciation and amortization of identifiable intangibles	53,162	51,917	43,574	44,090	42,630	41,582	40,880
Total operating expenses	181,642	145,802	141,948	142,973	130,711	113,282	135,587
Gain on Extinguishment of Debt						23,831	
Equity in Earnings in Unconsolidated Joint Ventures(3)	437	626	168	1,516	462	305	314
Interest Expense, Net	36,695	43,484	66,637	45,733	40,747	24,783	27,696
Income (Loss) Before Income Taxes	36,850	(37,629)	(4,022)	22,389	(56,578)	734	42,810
Income Tax Expense (Benefit)	8,431	6,120	29,814	(7,999)	19,645	(485)	7,396
Net Income (Loss)	$ 28,419	$ (43,749)	$ (33,836)	$ 14,390	$ (36,933)	$ 1,219	$ 35,414

(1) Other revenues include the sale of by-products generated in the production of IR and SIS.
(2) In the year ended December 31, 2005 this amount includes $1,684 (in thousands) of additional costs relating to the sale of inventory, the carrying value of which had been increased to reflect the manufacturing profit in inventory as part of TPG and JPMP s acquisition of our company.
(3) Represents our 50% joint venture interest in Kraton JSR Elastomers K.K., which is accounted for using the equity method of accounting.

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	Year ended December 31, 2008	Nine months ended September 30, 2009
Pro forma income per common share(1)		
Basic	$ 1.46	$ 0.06
Diluted	$ 1.45	$ 0.06
Shares used to compute basic pro forma income per share(2)	19,414,996	19,414,996
Shares used to compute diluted pro forma income per share(2)	19,592,190	19,592,190

(1) Pro forma to reflect the conversion of our company from a limited liability company to a corporation prior to the closing of this offering.
(2) Calculated based on number of common shares that would have been outstanding as of December 31, 2008 and September 30, 2009, assuming our conversion into a corporation.

	As of December 31,					As of September 30,	
	2008	2007	2006	2005	2004	2009	2008
				(in thousands)			
Balance Sheet Data							
Cash and cash equivalents	$ 101,396	$ 48,277	$ 43,601	$ 100,934	$ 46,357	$ 22,365	$ 84,239
Total assets	1,031,874	984,894	989,153	966,501	967,413	939,880	1,064,174
Total debt	$ 575,316	$ 538,686	$ 582,310	$ 567,988	$ 559,015	$ 485,815	$ 575,316

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing at the end of this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should review the section entitled Risk Factors of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We believe we are the world s leading producer, as measured by 2008 sales revenues and volumes, of styrenic block copolymers, or SBCs, a family of performance polymer products whose chemistry we pioneered over 40 years ago. SBCs are highly-engineered synthetic elastomers which enhance the performance of numerous products by delivering a variety of performance-enhancing characteristics, including greater flexibility, resilience, strength, durability and processability, and are a fast growing subset of the elastomers industry. Our polymers are typically formulated or compounded with other products to achieve improved, customer specific performance characteristics in a variety of applications. The majority of our polymers are highly customized to specific applications and thus are a critical component to the performance of our customers products, yet each polymer represents a small fraction of the overall cost of a customer s finished product. Each polymer requires a significant amount of testing and certification, which, when combined with our proprietary chemistry, encourages strong customer loyalty.

We believe that our superior technical expertise, strong customer relationships, track record of innovation, second-to-none service offering, diversity of customers and geographies, and history of continuous improvements, together with the recognized quality standard associated with our KRATON® brand name have enabled us to maintain our leading global position in SBCs. We serve a large number of customers across a diverse set of end-use markets in many regions of the world. As a result, we believe our sales are less sensitive to conditions in any one particular end-use market or region. We currently offer approximately 800 products to more than 700 customers in over 60 countries worldwide. We are the only SBC producer with manufacturing and service capabilities on four continents, enabling us to meet the global needs of our multinational customers. We manufacture products at six plants globally, including our flagship plant in Belpre, Ohio, the largest by production volume and most diversified SBC plant in the world, as well as plants in Germany, France, the Netherlands and Brazil, and a joint venture operated plant in Japan.

We serve three core end-use markets: (1) Advanced Materials; (2) Adhesives, Sealants and Coatings; and (3) Paving and Roofing. We also serve a fourth market, an Emerging Businesses category, which includes our IRL activity.

Recent Developments

Exit from Pernis facility. On September 10, 2009, we committed to exit our Pernis facility as of December 31, 2009. In connection with our exit from the Pernis facility, we incurred $5.1 million in asset retirement obligations, $6.0 million in restructuring costs and a $1.1 million non-cash charge to write-down our inventory of spare parts. The asset retirement obligations and the restructuring costs were recorded in the third quarter of 2009. As a result of our commitment to exit the Pernis facility, we performed an impairment test on the related property and equipment at September 30, 2009 pursuant to ASC 360-10-35, and concluded that there was no impairment. The $17.1 million of property and equipment related to Pernis will continue to be classified as assets held and used and will be fully depreciated over their remaining estimated useful life through December 31, 2009. We currently expect that the asset retirement obligations and the cash restructuring charges

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will be substantially paid in the first half of 2010. We currently expect the exit of our Pernis facility will result in an incremental cost savings of approximately $12.0 million per annum beginning in the first quarter of 2010. Prior to the exit, we manufactured isoprene rubber (IR) at the Pernis facility. We currently plan to transfer IR production to an alternative company site. We are in the process of completing project planning, including assessing capital expenditure requirements, for producing the alternative capacity. The capital expenditure requirements could be a multiple of the annual cost savings we expect to realize from the exit of the Pernis facility. We plan to satisfy customer demand for IR with inventory currently on hand and we believe the cash flow from the sale of IR inventory will likely mitigate a significant portion of the cash requirements for the alternative capacity.

Purchase of a portion of our senior subordinated notes. In April 2009, TJ Chemical purchased approximately $6.3 million face value of the senior subordinated notes for cash consideration of $2.5 million, which included accrued interest of $0.1 million. Immediately upon purchasing the senior subordinated notes, TJ Chemical contributed the purchased notes to Polymer Holdings, and we in turn contributed the notes to Kraton. No equity interest or other consideration was issued in exchange for the contribution of the senior subordinated notes, although members equity of each of Polymers Holdings and Kraton was increased by an amount equal to the cash consideration paid by TJ Chemical. Kraton holds the senior subordinated notes as treasury bonds. Also in April 2009, Kraton purchased approximately $0.7 million face value of the senior subordinated notes for cash consideration of $0.3 million which Kraton is holding as treasury bonds. We recorded a gain of approximately $4.3 million on the extinguishment of debt in the Condensed Consolidated Statements of Operations in the quarter ended June 30, 2009.

On March 16, 2009, Kraton purchased and retired $30 million face value of the senior subordinated notes for cash consideration of $10.9 million, which included accrued interest of $0.4 million. We recorded a gain of approximately $19.5 million in the quarter ending March 31, 2009 related to the purchase and retirement of these senior subordinated notes.

Pricing. Beginning in August 2009, we announced the implementation of a series of global price increases, which were generally broad-based across our end-use markets and in response to the increase in raw material and energy costs.

Customer Event. One of our major asphalt customers, SemMaterials L.P., SEM, filed a petition for bankruptcy relief under Chapter 11 of the U.S. Bankruptcy Code on July 22, 2008, along with several of SEM s affiliated companies. We had outstanding pre-petition receivables due from SEM of approximately $0.3 million at December 31, 2008 and $0.2 million as of February 15, 2009, for which we have filed an unsecured claim with the bankruptcy court. We do not believe that SEM s bankruptcy case will have a material effect upon our ongoing operations.

Overall market demand for asphalt has not been materially impacted by SEM s bankruptcy and SEM s bankruptcy has not materially impacted our sales volumes in our Paving and Roofing end-use markets, although our sales volumes have been impacted to date by the economic trends that have prevailed worldwide over the past several months.

LyondellBasell Industries. In January 2009, the U.S. operations of LyondellBasell along with one of its European-holding companies, Basell Germany Holdings GmbH, filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. LyondellBasell is one of our major suppliers of raw materials and also operates our plants at Berre, France and Wesseling, Germany.

To date, our operations have not been negatively impacted and we are continuing to do extensive business with LyondellBasell. However, going forward we cannot accurately predict the effect, if any, that LyondellBasell s bankruptcy will ultimately have upon our business in general, or our relationship with LyondellBasell in particular.

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Factors Affecting Our Results of Operations

Raw Materials. Our results of operations are directly affected by the cost of raw materials. We use three monomers as our primary raw materials in the manufacture of our products: styrene, butadiene and isoprene. These monomers together represented approximately 52% and 43% of our total cost of goods sold for the twelve months ended December 31, 2008, and the nine months ended September 30, 2009, respectively. Other raw materials used in our production process include catalysts, solvents, stabilizers and various process control chemicals. The cost of these monomers has generally been correlated with changes in crude oil prices and affected by global supply and demand and global economic conditions. The market prices for styrene and butadiene monomers declined significantly late in 2008 and into the first quarter of 2009. Continuing through 2009, these monomer costs have either stabilized or begun to increase.

We believe that through our contractual arrangements with suppliers, or through other arrangements, we can presently source adequate supplies of styrene, butadiene and isoprene at competitive, market-based prices. We can provide no assurances, however, that our suppliers of raw materials will not terminate applicable contracts at the expiration of their terms or that we will be able to obtain substitute contractual arrangements on comparable terms, or that we generally will be able to source raw materials on an economic basis in the future. Our U.S. butadiene supply agreement with Shell Chemicals expired as of April 30, 2009. We recently entered into a butadiene supply contract with a new supplier for 2010. We currently have access to adequate butadiene supplies at competitive market rates and are engaged in efforts with various suppliers and potential suppliers to purchase ongoing and continuing supplies of butadiene for our U.S. operations.

Styrene, butadiene and isoprene used by our U.S. and European facilities are primarily supplied by Shell Chemicals or its affiliates, LyondellBasell, and other suppliers under long-term supply contracts with various expiration dates. Our isoprene sales contract with Shell Chemicals in the United States ends on December 31, 2009, subject to termination as of that date or any date thereafter, on not less than one (1) month written notice given by either party. To date, neither party has given notice of termination under the contract. For our U.S. facilities, we also procure substantial amount of isoprene from several Chinese and Russian suppliers. We generally contract with them on a short-term basis, although the number of such contracts has been increasing since 2008.

In Japan, butadiene and isoprene supplies for our joint venture plant are supplied under our joint venture agreement, where our partner supplies our necessary requirements. Styrene in Japan is sourced from local third-party suppliers. Our facility in Paulinia, Brazil generally purchases all of its raw materials from local third-party suppliers.

International Operations and Currency Fluctuations. We operate a geographically diverse business serving customers in more than 60 countries from six manufacturing plants in six countries. For the nine months ended September 30, 2009, 42% of total operating revenues were generated from customers located in the Americas, 40% in Europe and 18% in the Asia Pacific region.

Although we sell and manufacture our products in many countries, our sales and production costs are mainly denominated in U.S. dollars, Euros, Japanese Yen and Brazilian Real.

Our financial results are subject to gains and losses on currency transactions denominated in currencies other than the functional currency of the relevant operations. Any gains and losses are included in operating income, but have historically not been material. On February 18, 2009, we entered into a foreign currency option contract to reduce our exposure to fluctuations in the Euro to U.S. dollar exchange rate for a notional amount of 47.3 million that expires on December 29, 2009. See Note 9(a) of Notes to Condensed Consolidated Financial Statements for further discussion. Historically, we have not undertaken hedging strategies to minimize the effect of currency fluctuations.

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In addition, 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 revenues, expenses, gains and losses and cash flows. The effect of translating the balance sheet into U.S. dollars is included as a component of other comprehensive income (loss) in member s equity. Any appreciation of the functional currencies against the U.S. dollar will increase the U.S. dollar equivalent of amounts of revenues, expenses, gains and losses and cash flows, and any depreciation of the functional currencies will decrease the U.S. dollar amounts reported.

Seasonality. Our business is subject to seasonality that may affect our quarterly operating results. Seasonal changes and weather conditions typically affect the 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. 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. Our other end-use markets, Advanced Materials and Adhesives, Sealants and Coatings, however, tend to show relatively little seasonality.

Outlook

The positive volume momentum that began in the second quarter of 2009, continued into the third quarter of 2009. Our quarterly sales volume, as compared to the previous year s comparable quarter, improved from a 24.0% decline in the second quarter of 2009 to a 9.7% decline in the third quarter of 2009, with our September 2009 sales volume narrowing to a 2.1% decline compared to September 2008.

We believe the positive volume momentum will continue into the fourth quarter of 2009. As a result, we currently expect that our fourth quarter 2009 sales volume should exceed our fourth quarter 2008 sales volume.

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Results of Operations

The following table summarizes certain information relating to our operating results that has been derived from our consolidated financial statements.

	Year ended December 31,			Nine months ended September 30,	
	2008	2007	2006	2009 (unaudited)	2008 (unaudited)
			(in thousands)		
Consolidated Statements of Operations Data:					
Operating Revenues					
Sales	$ 1,171,253	$ 1,066,044	$ 1,015,766	$ 682,061	$ 947,925
Other(1)	54,780	23,543	32,355	35,235	46,472
Total operating revenues	1,226,033	1,089,587	1,048,121	717,296	994,397
Cost of Goods Sold	971,283	938,556	843,726	602,633	788,618
Gross Profit	254,750	151,031	204,395	114,663	205,779
Operating Expenses					
Research and development expenses	27,049	24,865	24,598	15,115	21,129
Selling, general and administrative	101,431	69,020	73,776	56,585	73,578
Depreciation and amortization of identifiable intangibles	53,162	51,917	43,574	41,582	40,880
Total operating expenses	181,642	145,802	141,948	113,282	135,587
Gain on Extinguishment of Debt				23,831	
Equity in Earnings in Unconsolidated Joint Ventures(2)	437	626	168	305	314
Interest Expense, net	36,695	43,484	66,637	24,783	27,696
Income (Loss) Before Income Taxes	36,850	(37,629)	(4,022)	734	42,810
Income Tax Expense (Benefit)	8,431	6,120	29,814	(485)	7,396
Net Income (Loss)	$ 28,419	$ (43,749)	$ (33,836)	$ 1,219	$ 35,414

(1) Other revenues include the sale of by-products generated in the production of IR and SIS.
(2) Represents our 50% joint venture interest in Kraton JSR Elastomers K.K., which is accounted for using the equity method of accounting.

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The following table summarizes certain information relating to our operating results as a percentage of total revenues and has been derived from the financial information presented above. We believe this presentation is useful to investors in comparing historical results. Certain amounts in the table may not sum due to the rounding of individual components.

	Year ended December 31,			Nine months ended September 30,	
	2008	2007	2006	2009 (unaudited)	2008 (unaudited)
			(in thousands)		
Consolidated Statements of Operations Data:					
Operating Revenues					
Sales	95.5%	97.8%	96.9%	95.1%	95.3%
Other(1)	4.5	2.2	3.1	4.9	4.7
Total operating revenues	100.0	100.0	100.0	100.0	100.0
Cost of Goods Sold	79.2	86.1	80.5	84	79.3
Gross Profit	20.8	13.9	19.5	16	20.7
Operating Expenses					
Research and development expenses	2.2	2.3	2.3	2.1	2.1
Selling, general and administrative	8.3	6.3	7.0	7.9	7.4
Depreciation and amortization of identifiable intangibles	4.3	4.8	4.2	5.8	4.1
Total operating expenses	14.8	13.4	13.5	15.8	13.6
Gain on Extinguishment of Debt				3.3	
Equity in Earnings in Unconsolidated Joint Ventures(2)		0.1			
Interest Expense, net	3.0	4.0	6.4	3.5	2.8
Income (Loss) Before Income Taxes	3.0	(3.5)	(0.4)	0.1	4.3
Income Tax Expense (Benefit)	0.7	0.6	2.8	(0.1)	0.7
Net Income (Loss)	2.3%	(4.0)%	(3.2)%	0.2%	3.6%

(1) Other revenues include the sale of by-products generated in the production of IR and SIS.

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

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Operating Revenues

Operating revenues for the nine months ended September 30, 2009 decreased $277.1 million or 27.9% compared to the same period in 2008. The decrease was driven primarily by:

Sales decreased $265.9 million or 28.0%. Sales volume amounted to 199.4 kT for the nine months ended September 30, 2009 compared to 260.5 kT for the same period in 2008. The 61.1 kT or 23.5% decline in sales volume reduced sales by $209.6 million. Changes in (i) global product sales prices and product mix and (ii) the impact of changes in foreign currency exchange rates reduced sales by $17.7 million and $38.6 million, respectively.

The decrease in sales revenue of $265.9 million or 28.0% was comprised of a reduction in sales revenue of $86.1 million, $89.0 million, $104.4 million and $2.4 million in the Adhesives, Sealants and Coatings, the Advanced Materials, the Paving and Roofing and the Other Markets end-use markets, respectively. These decreases in sales revenue were partially offset by an increase totaling $16.2 million in the Emerging Businesses end-use market.

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The following are the primary factors influencing our sales volume in these end-use markets:

- In our Adhesives, Sealants and Coatings end-use market, we experienced a decline in overall demand that began in the fourth quarter of 2008 and continued into 2009. However, demand for non-woven applications supported by a modest improvement in consumer demand as well as continued growth in commercial and specialty tapes and labels had a positive impact on our upward volume trend starting in the second quarter of 2009 and continuing through the third quarter of 2009.

- In our Advanced Materials end-use market, our sales volume into key markets such as automotive, consumer electronics/appliances and personal care applications declined commensurate with global economic conditions; however, as market conditions improved late in the third quarter of 2009, volume began to recover.

- In our Paving and Roofing end-use market, roofing applications were lower due to the overall decline in construction activity, particularly in the commercial sector. We also experienced a decline in our paving business, largely due to delays associated with the uncertainty around the impact of the U.S. Government economic stimulus spending and budgetary constraints on state and local governments.

Other revenue decreased $11.2 million or 24.2%. Other revenue primarily consists of the sales of small quantities of by-products resulting from the manufacturing process of isoprene rubber, which is offset by a corresponding cost included in cost of goods sold.

Cost of Goods Sold

Cost of goods sold for the nine months ended September 30, 2009 decreased $186.0 million or 23.6% compared to the same period in 2008. The decrease was driven primarily by:

- $146.1 million related to the decline in sales volume,

- $29.8 million from changes in foreign currency exchange rates,

- $11.2 million due to lower by-product costs,

- $6.6 million in monomer and other production costs, offset by

- $7.7 million in plant turnaround costs.

As a percentage of operating revenues, cost of goods sold increased to 84.0% from 79.3%.

Gross Profit

Gross profit for the nine months ended September 30, 2009 decreased $91.1 million or 44.3% compared to the same period in 2008. The decrease was driven primarily by a decrease in sales volume. As a percentage of operating revenues, gross profit decreased to 16.0% from 20.7%.

Operating Expenses

Operating expenses for the nine months ended September 30, 2009 decreased $22.3 million or 16.5% compared to the same period in 2008. The decrease was driven primarily by:

Research and development decreased $6.0 million or 28.5%. The decrease was largely due to the costs associated with the realignment of our Research and Technology Service organization in 2008 of $3.3 million. As a percentage of operating revenues, research and development was unchanged at 2.1%.

Selling, general and administrative decreased $17.0 million or 23.1%. The decrease was primarily due to a reduction of our incentive compensation costs of $9.3 million and lower restructuring costs of $5.4 million. As a percentage of operating revenues, selling, general and administrative increased to 7.9% from 7.4%.

Interest Expense, Net.

Interest expense, net for the nine months ended September 30, 2009 decreased $2.9 million or 10.5% to $24.8 million compared to $27.7 million during the same period in 2008. The decrease was primarily due to lower interest rates and amortized gains from our interest rate swap that was settled in June 2008. The average

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debt balances outstanding were $546.9 million for the nine months ended September 30, 2009 and $557.8 million for the nine months ended September 30, 2008. The effective interest rates on our debt were 6.0% for the nine months ended September 30, 2009 and 6.6% for the nine months ended September 30, 2008.

Income Tax Expense

Income tax expense was a net benefit of $0.5 million for the nine months ended September 30, 2009 compared to an expense of $7.4 million for the nine months ended September 30, 2008. The effective tax rate for the nine months ended September 30, 2009 was (6.6)% compared to 17.3% for the nine months ended September 30, 2008. Our effective tax rate for the current period was lower than the statutory rate of 35% primarily due to a pretax loss, along with not recording a tax benefit for certain net operating losses generated during that period and changes in where our income is earned. Our effective tax rate for the prior period was higher than our statutory rate primarily due to an increase in pre-tax income, along with not recording a tax benefit for certain net operating losses generated during that period and a change in mix of pre-tax income between foreign and domestic tax jurisdictions.

Net Income (Loss)

Net income was $1.2 million for the nine months ended September 30, 2009, a decrease of $34.2 million compared to a net income of $35.4 million in the same period in 2008.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Operating Revenues

Operating revenues for the year ended December 31, 2008 increased $136.4 million or 12.5% compared to the same period in 2007. The increase was driven primarily by:

Sales increased $105.2 million or 9.9%. The increase in sales was the result of increases in global product sales prices and changes in product mix of $173.3 million and the impact of changes in foreign currency exchange rates of $50.1 million, partially offset by a $118.2 million decrease related to a 44.5 kiloton, or 12.4% decline in sales volume. Sales volume amounted to 313.1 kilotons in 2008 compared to 357.6 kilotons in 2007.

The increase in sales revenue of $105.2 million or 9.9% was primarily comprised of an increase in sales revenue of $42.0 million, $11.2 million, $45.0 million and $11.8 million in the Adhesives, Sealants and Coatings, the Advanced Materials, the Paving and Roofing and the Emerging Businesses end-use markets, respectively. The increase in sales revenue was partially offset by decreases totaling $4.8 million in the Other Markets end-use markets. The following are the primary factors influencing sales volumes:

- Overall, volume was constrained due to butadiene availability in 2008.
- In our Adhesives, Sealants and Coatings end-use market, raw material availability was a primary driver, affecting North American tape and formulator customers.
- In our Advanced Materials end-use market, general weakness resulting from global economic conditions, partially offset by a modest growth in emerging markets due to increased demand for high quality isoprene latex rubber, used in medical applications.

We implemented a series of global price increases beginning in August 2008, which were generally broad-based across our end-use markets and in response to the increase in raw material and energy costs. As a result, even though sales volumes declined year-over-year, we experienced revenue growth in each of our end-use markets.

Other revenue increased $31.2 million or 132.7%. Other revenue primarily consists of the sales of small quantities of residual products that are a by-product of the manufacturing process of isoprene rubber; however the increase is offset by a corresponding increase in cost of goods sold.

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Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2008 increased $32.7 million or 3.5% compared to the same period in 2007. The increase was driven primarily by:

- $39.2 million increase from changes in foreign currency exchange rates,
- $37.1 million increase in monomer and other production costs,
- $31.2 million increase in by-product cost, and
- $8.1 million increase due to a lower-of-cost-or-market adjustment of our finished goods inventory, partially offset by
- $82.9 million decline in cost of goods sold directly related to the decline in sales volume.

As a percentage of operating revenues, cost of goods sold decreased to 79.2% from 86.1%.

Gross Profit

Gross profit for the year ended December 31, 2008 increased $103.7 million or 68.7% compared to the same period in 2007. As a percentage of operating revenues, gross profit increased to 20.8% from 13.9%.

Operating Expenses

Operating expenses for the year ended December 31, 2008 increased $35.8 million or 24.6% compared to the same period in 2007. The increase was driven primarily by:

Research and development increased $2.2 million or 8.8%. The increase was largely due to the costs associated with the realignment of our Research and Technology Service organization. As a percentage of operating revenues, research and development decreased to 2.2% from 2.3%.

Selling, general and administrative increased $32.4 million or 47.0%. The increase was primarily due to $13.4 million associated with our incentive compensation plan, $4.1 million from changes in foreign currency exchange rates, $5.5 million associated with senior executive and other management changes, $3.9 million in severance related charges, $1.2 million related to analysis of refinancing options and $0.8 million related to the initial implementation cost associated with our ERP implementation. As a percentage of operating revenues, selling, general and administrative increased to 8.3% from 6.3%.

Depreciation and amortization of identifiable intangibles increased $1.2 million or 2.4%. The increase in depreciation and amortization expense reflects assets that were under construction in prior periods that were completed and placed in service, including our polyisoprene latex plant at our Paulinia, Brazil facility, accelerated depreciation on the SIS plant assets at our Pernis facility beginning in September 2007, and changes in foreign currency exchange rates.

Equity in Earnings of Unconsolidated Joint Venture

The Kashima, Japan plant is operated by a manufacturing joint venture with JSR under the name Kraton JSR Elastomers K.K. We use the equity method of accounting for our joint venture at the Kashima site. Earnings in the joint venture decreased $0.2 million or 30.2% for the year ended December 31, 2008 compared to the same period in 2007.

Interest Expense, Net

Interest expense, net for the year ended December 31, 2008 decreased $6.8 million or 15.6% to $36.7 million compared to $43.5 million during the same period in 2007. The decrease was primarily due to lower interest rates, amortized gains from our interest rate swap and lower debt balances. The average debt balances

outstanding were $562.7 million and $565.6 million, respectively. The effective interest rates on our debt during the same periods were 6.5% and 7.5%, respectively.

Income Tax Expense

Income tax expense was $8.4 million for the year ended December 31, 2008, as compared to $6.1 million for the year ended December 31, 2007. Income tax expense increased by $2.3 million primarily due to an increase of taxable income. The effective tax rate was 22.9% for the year ended December 31, 2008, as compared to (16.3%) for the year ended December 31, 2007. Our effective tax rate for the current period was less than our statutory rate primarily due to not recording a tax benefit for certain net operating loss carryforwards generated during that period and recognition of deferred tax assets on U.S. operations that were previously offset by valuation allowances, as well as a different income mix between foreign and domestic tax jurisdictions. Our effective tax rate for the prior period was less than our statutory rate primarily due to not recording a tax benefit for certain net operating loss carryforwards generated during that period and a different income mix between foreign and domestic tax jurisdictions.

Net Income (Loss)

Net income was $28.4 million for the year ended December 31, 2008, an improvement of $72.2 million compared to a net loss of $43.7 million in 2007.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Operating Revenues

Operating revenues for the year ended December 31, 2007 increased $41.5 million or 4.0% compared to the same period in 2006. The increase was driven primarily by:

Sales increased $50.3 million or 4.9%. The increase in sales was the result of the impact of changes in foreign currency exchange rates of approximately $43.0 million and approximately $29.0 million due to a 6.0 kiloton or 1.7% increase in sales volumes of our products, partially offset by approximately $22.0 million due to product sales mix and year-over-year price decline in SIS sales given the lower cost and increased availability of isoprene monomer. Sales volume amounted to 357.6 kilotons in 2007 compared to 351.6 kilotons in 2006.

The increase in sales revenue of $50.3 million or 4.9% was primarily comprised of an increase in sales revenue of $37.5 million, $18.5 million and $0.8 million in the Advanced Materials, the Paving and Roofing and the Emerging Businesses end-use markets, respectively, partially offset by a decrease of $0.5 million in the Adhesives, Sealants and Coatings end-use market. The increase in sales revenue was also partially offset by decreases totaling $6.0 million in the Other Markets end-use markets. The following are the primary factors influencing sales volumes:

Growth in our Adhesives, Sealants and Coatings and Compounding end-use markets in the Asia Pacific region, the latter driven by innovation product growth.

Growth in Packaging and Films end-use markets in Europe and Asia Pacific, excluding Japan due to cap liners and innovation product growth.

Growth in Personal Care end-use market, including innovation product growth, partially offset by reduced volume in our North American Paving and Roofing end-use market due to poor weather condition and limited government paving budgets.

Other revenue decreased $8.8 million or 27.2%. Other revenue primarily consists of the sales of small quantities of residual products that are a by-product of the manufacturing process of isoprene rubber. The decrease was primarily due to decreased sales volumes, partially offset by the strengthening of the Euro against the U.S. dollar.

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Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2007 increased $94.8 million or 11.2% compared to the same period in 2006. The increase was driven primarily by:

- $47 million of increased monomer and other variable costs,
- $39 million increase related to foreign currency fluctuations,
- $14 million related to increased sales volumes and
- $9 million related to manufacturing cost absorption, partially offset by
- $9 million from lower by-product sales and
- $6 million decline in other manufacturing expenses primarily related to lower restructuring costs. The aggregate acquisition cost per metric ton for monomers increased 5% in 2007, due to the continued tight supply and demand conditions in the marketplace and rising crude oil prices.

As a percentage of total revenues, cost of goods sold increased to 86.1% from 80.5%.

Gross Profit

Gross profit for the year ended December 31, 2007 decreased $53.4 million or 26.1% compared to the same period in 2006. As a percentage of operating revenues, gross profit decreased to 13.9% from 19.5%.

Operating Expenses

Operating expenses for the year ended December 31, 2007 increased $3.9 million or 2.7% compared to the same period in 2006. The increase was driven primarily by:

Research and development increased $0.3 million or 1.1%. The increase was primarily due to foreign currency fluctuations. As a percentage of total revenues, research and development remained flat at 2.3%.

Selling, general and administrative decreased $4.8 million or 6.4%. The decrease was primarily due to lower incentive compensation; reduced personnel related costs due to restructuring activities implemented in 2006; and costs associated with our restructuring activities in 2006. These decreases were partially offset by an increase due to foreign currency fluctuations. As a percentage of total revenues, selling, general and administrative decreased to 6.3% from 7.0%.

Depreciation and amortization of identifiable intangibles increased $8.3 million or 19.1%. The increase in depreciation and amortization expense reflects assets that were under construction in 2006 that were completed and placed into service in 2006 and 2007, including our new polyisoprene latex plant at our Paulinia, Brazil facility; accelerated depreciation on the SIS plant assets at our Pernis facility; and foreign currency fluctuations.

Equity in Earnings of Unconsolidated Joint Venture

The Kashima, Japan plant is operated by a manufacturing joint venture with JSR under the name Kraton JSR Elastomers K.K. We use the equity method of accounting for our joint venture at the Kashima site. Earnings in the joint venture increased $0.4 million or 272.6% for the year ended December 31, 2007 compared to the same period in 2007.

Interest Expense, Net

Interest expense, net for the year ended December 31, 2007 decreased $23.2 million or 34.7% compared to the same period in 2006. This increase was primarily due to the higher debt balances compared to 2006 as a result of the amendment to the senior secured credit facility partially offset by the recognition of approximately

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$2.0 million of unrealized gain on interest rate swaps during 2007 upon the termination of the interest rate swap agreements on June 24, 2007. The adjustment reflects the additional income statement effects of our highly effective interest rate swaps that should have been reflected in prior periods. We evaluated the materiality of the adjustment, including both qualitative and quantitative considerations, and concluded that the adjustment was not material to 2007 or December 31, 2006. The average debt balances outstanding were $565.6 million and $537.2 million for the years ended December 31, 2007 and 2006, respectively. The effective interest rates on our debt during the same periods were 7.5% and 7.4%, respectively.

Income Tax Expense

Income tax expense was $6.1 million for the year ended December 31, 2007, as compared to $29.8 million for the year ended December 31, 2006. Income tax expense decreased by $23.7 million primarily due to a reduction of taxable income and an increase in valuation allowances for operating loss carryforwards in certain tax jurisdictions. The effective tax rate was (16.3%) for the year ended December 31, 2007, as compared to 741.3% for the year ended December 31, 2006. The decrease in the effective tax rate during the current period is related to the change in the mix of taxable income in our U.S. and international operations.

Net Income (Loss)

Net loss was $43.7 million for the year ended December 31, 2007, a loss of $9.9 million compared to a net loss of $33.8 million in 2006.

Critical Accounting Policies

The application of accounting policies and estimates is an important process that continues to evolve as our operations change and accounting guidance is issued. We have identified a number of critical accounting policies and estimates that require the use of significant estimates and judgments.

Management bases its estimates and judgments on historical experience and on other various assumptions that they believe are reasonable at the time of application. The estimates and judgments may change as time passes and more information becomes available. If estimates and judgments are different than the actual amounts recorded, adjustments are made in subsequent periods to take into consideration the new information.

Inventories. Our inventory is principally comprised of finished goods inventory. Inventories are stated at the lower of cost or market as determined on a first-in, first-out basis. On a quarterly basis, we evaluate the carrying cost of our inventory to ensure that it is stated at the lower of cost or market. Our products are typically not subject to spoiling or obsolescence and consequently our reserves for slow moving and obsolete inventory have historically not been significant. Cash flows from the sale of inventory are reported in cash flows from operations in the consolidated statement of cash flows.

Property, Plant and Equipment. Property, plant and equipment is recorded at cost. Major renewals and improvements which extend the useful lives of equipment are capitalized. Repair and maintenance expenses are charged to operations as incurred. We utilize the expensed as incurred method of accounting for planned major maintenance. Disposals are removed at carrying cost less accumulated depreciation with any resulting gain or loss reflected in operations. When applicable, we capitalize interest costs which are incurred as part of the cost of constructing major facilities and equipment. We did not record any capitalized interest in any periods presented. Depreciation is provided using the straight-line method over the following estimated useful lives:

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

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Impairment of Long-Lived Assets. Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), provides a single accounting model for long-lived assets to be disposed of. We adopted SFAS No. 144 on January 1, 2002.

In accordance with SFAS No. 144, long-lived assets, such as property, plant and equipment, and purchased intangibles 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. The company performs an impairment analysis of its long-lived assets at year end and after the occurrence of triggering events. The following are examples of such events or changes in circumstances:

- A significant decrease in the market price of a long-lived asset or asset group.
- A significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition.
- A significant adverse change in legal factors or in business climate that could affect the value of a long-lived asset or asset group, including an adverse action or assessment by a regulator.
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset or asset group.
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group.
- A current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset, calculated using discounted cash flow. No triggering events have occurred to cause an impairment analysis since December 2008 when the last impairment test was performed. At that time, the fair value of our long-lived assets was substantially in excess of the carrying value.

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

Net operating losses and credit carryforwards are recorded in the event such benefits are expected to be realized. Deferred taxes result from differences between the financial and tax bases of our assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. 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 pre-requisite 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.

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Benefit Plans. We sponsor a noncontributory defined benefit pension plan, a non-qualified defined benefit pension plan, and other postretirement benefit plans. The actuarial determination 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 selection of assumptions requires considerable judgment concerning future events and has a significant impact on the amount of the obligations recorded in the consolidated balance sheets and on the amount of expense included in the consolidated statements of operations.

Capital market declines experienced during the last half of 2008 have adversely impacted the market value of investment assets used to fund our defined benefit pension plans. 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 expense and liabilities.

Revenue Recognition. We recognize revenue from the time title transfers. We classify amounts billed to customers for shipping and handling as revenues, with the related shipping and handling costs included in cost of goods sold.

We have entered into agreements with some of our customers, whereby they earn rebates from us when the volume of their purchases of our products reaches certain agreed upon levels. We recognize the rebate obligation under these agreements as a reduction of revenue based on an allocation of the cost of honoring the rebates that are earned to each of the underlying revenue transactions that result in progress by the customer toward earning the rebate.

LIQUIDITY AND CAPITAL RESOURCES

Known Trends and Uncertainties

We are a holding company without any operations or assets other than the operations of our subsidiaries.

Credit markets in the United States have experienced varying degrees of credit volatility and contraction that have limited and reduced our ability to explore financing options. This volatility has been caused by many factors, including concerns about creditworthiness in the overall market, especially the financial services sector, which has culminated in the failure or consolidation of several large financial and investment institutions. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Continued turbulence in the U.S. and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, 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. During this credit contraction, we have been able to access borrowings available to us in amounts sufficient to fund liquidity needs.

Based upon current and anticipated levels of operations, we believe that cash flow from operations of our subsidiaries and borrowings available to us will be adequate for the foreseeable future for us to fund our working capital and capital expenditure requirements and to make required payments of principal and interest on our senior subordinated notes and senior secured credit facility. However, these cash flows are subject to a number of factors, including, but not limited to, earnings, sensitivities to the cost of raw materials, seasonality, currency transactions and currency translation. Since feedstock costs represent approximately 50% of our cost of production, in periods of rising feedstock costs, we consume cash in operating activities due to increases in accounts receivable and inventory, partially offset by increased value of accounts payable. Conversely, in periods where feedstock costs are declining, we generate cash flow from decreases in working capital. We currently

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expect to have lower levels of working capital in 2009. There can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our ability to access these markets on terms commercially acceptable to us or at all.

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 the senior secured credit facility to fund liquidity needs in an amount sufficient to enable us to service our indebtedness. At September 30, 2009, we had $22.4 million of cash and cash equivalents. 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 cash in our operating accounts. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets. As of September 30, 2009, we had available to us, upon compliance with customary conditions, $75.5 million under the revolving portion of the senior secured credit facility. On November 30, 2009, we increased the amount available under the revolving portion to $80.0 million. As of the date hereof, we have no drawings under the revolving portion. While we have met the conditions required to provide us full access to the revolving portion of the senior secured credit facility, we cannot guarantee that all of the counterparties contractually committed to fund a revolving credit draw request will actually fund future requests, although, based upon our present analysis, we currently believe that any such shortfall would not exceed 10% of the total amount of such revolver. Under the terms of the senior secured credit facility, as amended May 12, 2006, we are subject to certain financial covenants, including maintenance of a minimum interest rate coverage ratio and a maximum leverage ratio. We are required to maintain a fiscal quarter end interest coverage ratio of 2.75:1.00 beginning March 31, 2009 and 3.00:1.00 beginning March 31, 2010 and continuing thereafter. In addition, we are required to maintain a fiscal quarter end leverage ratio not to exceed 4.45 beginning March 31, 2009 through September 30, 2009 and 4.00 beginning December 31, 2009 and continuing thereafter.

Our failure to comply with any of these financial covenants would give rise to a default under the senior secured credit facility. As of September 30, 2009, we were in compliance with the applicable financial ratios in the senior secured credit facility and the other covenants contained in the senior secured credit facility and the indentures governing the senior subordinated notes. The maintenance of these financial ratios is based on our level of profitability. If the 2009 global economic environment worsens or other factors arise which negatively impact our profitability, we may not be able to satisfy our covenants. If we are unable to satisfy such covenants or other provisions at any future time we would need to seek an amendment or waiver of such financial covenants or other provisions. The respective lenders under the senior secured credit facility may not consent to any amendment or waiver requests that we may make in the future, and, if they do consent, they may not do so on terms which are favorable to us. In the event that we were unable to obtain any such waiver or amendment and we were not able to refinance or repay our debt instruments, our inability to meet the financial covenants or other provisions of the senior secured credit facility would constitute an event of default under our debt instruments, including the senior secured credit facility, which would permit the bank lenders to accelerate the senior secured credit facility.

From time to time, on an ongoing basis, we continue to evaluate options with respect to our overall debt structure, including, without limitation, the possibility of cash purchases, in the open market, privately negotiated transactions or otherwise, of our indebtedness up to amounts permitted under the senior secured credit facility. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. In March 2009, Kraton purchased and extinguished $30 million face value of the senior subordinated notes for cash consideration of $10.9 million, which included accrued interest of $0.4 million. We recorded a gain of approximately $19.5 million in the quarter ended March 31, 2009 related to the purchase and extinguishment of these senior subordinated notes. In April 2009, TJ Chemical purchased approximately $6.3 million face value of the senior subordinated notes for cash consideration of $2.5 million, which included accrued interest of $0.1 million. Immediately upon purchasing the notes, TJ Chemical contributed the purchased notes to us and we in turn contributed the notes to Kraton. Kraton holds the senior subordinated notes in treasury. Also in April 2009, Kraton purchased approximately $0.7 million face value of the senior subordinated notes for cash consideration of $0.3 million which are held as treasury bonds. We

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recorded a gain of approximately $4.3 million on the extinguishment of debt in the Condensed Consolidated Statements of Operations in the quarter ended June 30, 2009.

Capital market declines experienced during the last half of 2008 have adversely impacted the market value of investment assets used to fund our defined benefit pension plans. Based on December 31, 2008 valuations, we expect to make contributions of $6.2 million to the plans in 2009 versus $10.0 million in 2008. If the market value of these assets does not improve during 2009, higher levels of contributions could be required in 2010 and beyond.

Our ability to pay principal and interest on our 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. See Risk Factors for further discussion.

We intend to use proceeds from the offering of shares by us to repay $100 million under the term loan portion of the senior secured credit facility. See Use of Proceeds. As of September 30, 2009, after giving affect to this offering and the use of proceeds therefrom, our total indebtedness would have been $385.9 million. We anticipate that, following this initial public offering of our shares, we may, subject to market conditions, have greater access to the debt and equity capital markets. This access may, again subject to market conditions, facilitate our ability to raise funds in the future to engage in acquisitions and future capital expenditures.

Operating Cash Flows

Net cash provided by operating activities increased $37.7 million to $41.1 million for the nine months ended September 30, 2009 compared to $3.4 million provided by operating activities during the same period in 2008. This change was driven primarily by:

- $127.1 million decrease in inventories of products, materials and supplies, largely due to decreases in the cost of raw material feedstocks and volume,
- $14.0 million decrease in accounts receivable due to an improvement in days sales outstanding and the decline in sales volume, partially offset by
- $14.1 million increase in other assets largely due to the timing of certain payments of $8.2 million,
- $11.1 million decrease in due to/from affiliate, primarily due to the timing of payments for purchases made from our unconsolidated joint venture,
- $16.1 million decrease in accounts payable, indicative of the decline in volume,
- $23.8 million gain on the extinguishment of debt,
- $5.5 million decrease in deferred income tax expense, and
- $34.2 million in lower earnings.

Cash and cash equivalents decreased from $101.4 million at December 31, 2008 to $22.4 million at September 30, 2009. Including amounts undrawn on our revolving loans, which amounted to $75.5 million at September 30, 2009 and $25.5 million at December 31, 2008, liquidity, defined as cash and cash equivalents (and the undrawn amount of our revolving loans), amounted to $97.9 million at September 30, 2009 and $126.9 million at December 31, 2008.

Net cash provided by operating activities decreased $41.5 million to $40.2 million in 2008 compared to $81.7 million in 2007. This change was driven primarily by:

$104.5 million increase in inventories of products, materials and supplies, largely due to an increase in the cost of raw material feedstocks,

$24.1 million decrease in accounts payable, indicative of the decline in sales volume,

$20.7 million increase in due to/from affiliate, primarily due to the timing of payments for purchases made from our unconsolidated joint venture, partially offset by

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$34.1 million decrease in accounts receivable due to an improvement in days sales outstanding and the decline in sales volume and by

$72.2 million of higher net income.

Cash and cash equivalents increased from $48.3 million at December 31, 2007 to $101.4 million at December 31, 2008. Including amounts undrawn on our revolving loans, which amounted to $25.5 million at December 31, 2008 and $75.5 million at December 31, 2007, liquidity amounted to $126.9 million at December 31, 2008 and $123.8 million at December 31, 2007.

Net cash provided by operating activities increased $83.8 million to $81.7 million in 2007 compared to $2.0 million used in 2006. This change was driven primarily by:

$70.9 million decrease in inventories of products, materials and supplies, largely due to the higher cost of raw material feedstocks in 2006 and to a lesser extent an increase in inventory quantity,

$22.3 million decrease in accounts receivable balances, due to an increase in days sales outstanding in 2006,

$21.2 million decrease in due to/from affiliate, primarily due to the timing of payments for purchases made from our unconsolidated joint venture,

$17.5 million increase in accounts payable primarily due to the timing of payments, partially offset by

$23.6 million in accretion of our debt discount,

$11.7 million in deferred income tax benefits,

$7.2 million increase in other assets, and by

$9.9 million increase in net loss.

Cash and cash equivalents increased from $43.6 million at December 31, 2006 to $48.3 million at December 31, 2007. Including amounts undrawn on our revolving loans, which amounted to $75.5 million at December 31, 2007 and $75.5 million at December 31, 2006, liquidity amounted to $123.8 million at December 31, 2007 and $119.1 million at December 31, 2006.

Investing Cash Flows

Net cash flows used in investing activities totaled $32.3 million for the nine months ended September 30, 2009 compared to net cash flows used in investing activities of $15.3 million during the same period in 2008. This $17.0 million increase was primarily driven by timing of capital expenditures.

Net cash flows used in investing activities totaled $24.1 million in 2008 compared to net cash flows used in investing activities of $28.7 million in 2007. This $4.6 million decrease was primarily driven by timing of capital expenditures.

Net cash flows used in investing activities totaled $28.7 million in 2007 compared to $37.9 million used in investing activities in 2006. This $9.2 million decrease was primarily driven by a lower rate of capital expenditures.

Expected Capital Expenditures. We are forecasting 2009 expenditures of approximately $50.0 million. Our minimum annual capital expenditure levels to maintain and achieve required improvements in our facilities in each of the next three to five years are expected to be approximately $12 million to $16 million. We are upgrading certain systems and operating controls at our Belpre facility. This project is designed to significantly improve the effectiveness, competitiveness and operating efficiency of the Belpre plant. The project began in the second-half of 2008 and will be completed in distinct phases extending into 2012, with 2009 spending estimated

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at $7.7 million and the total project spending estimated at $40.0 million. We also invested in Enterprise Resource Planning (ERP), which began in January 2009 at a cost of approximately $15.0 million that we incurred in 2009. We upgraded our ERP software systems utilizing a single global system and implementing best practices for our industry. For Europe and the United States, we completed this upgrade in August 2009 and for Brazil and Asia, we completed this upgrade in October 2009.

Financing Cash Flows and Liquidity

Our consolidated capital structure as of September 30, 2009, was 72% debt and 28% member s equity and Kraton s consolidated capital structure as of December 31, 2008, was 76% debt and 24% member s equity.

Net cash provided by financing activities totaled $46.1 million in 2008 compared to $43.9 million net cash used in financing activities in 2007. This change was driven primarily by:

- a voluntary pre-payment of $40 million on the term loan portion of the senior secured credit facility in September 2007; and
- a $50 million draw on the revolving portion of the senior secured credit facility in September 2008.

Net cash used in financing activities totaled $43.9 million in 2007 compared to $11.3 million net cash used in financing activities in 2006. This change was driven primarily by a voluntary pre-payment of $40 million on the term facility in September 2007.

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.

Management believes that we are in material compliance with all current environmental laws and regulations. We estimate that any expenses incurred in maintaining compliance with these requirements 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.

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 with respect for remediation activities beyond those

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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.

We had no material operating expenditures for environmental fines, penalties, government imposed remedial or corrective actions during the years ended December 31, 2008, 2007 or 2006.

Off-Balance Sheet Transactions

We are not involved in any off-balance sheet transactions as of September 25, 2009.

Contractual Obligations

Our principal outstanding contractual obligations relate to the long-term debt under the senior secured credit facility and the senior subordinated notes, the operating leases of some of our facilities and the feedstock contracts with Shell Chemicals, or its affiliates, LyondellBasell and others to provide us with styrene, butadiene and isoprene. The following table summarizes our contractual cash obligations for the periods indicated.

Contractual Obligations as of December 31, 2008:

		Payments Due by Period					
Dollars in Millions	**Total**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014 and after**
Long-term debt obligations	$ 575.3	$ 3.3	$ 3.3	$ 53.3	$ 158.4	$ 156.7	$ 200.3
Estimated interest payments on debt	169.4	33.0	35.4	38.4	32.8	21.7	8.1
Operating lease obligations	43.0	7.4	6.6	4.7	4.9	2.9	16.5
Purchase obligations(1)(2)	573.0	60.8	58.6	58.6	25.0	25.0	345.0
Total contractual cash obligations	$ 1,360.7	$ 104.5	$ 103.9	$ 155.0	$ 221.1	$ 206.3	$ 569.9

(1) Pursuant to two feedstock supply contracts with Shell Chemicals or its affiliates, we are obligated to purchase minimum quantities of isoprene each year. If we do not meet these minimums, we are obligated to pay a penalty of approximately $300 per ton up to a maximum aggregate penalty of approximately $2.2 million. Pursuant to the styrene and butadiene feedstock supply contracts with Shell Chemicals and its affiliates, we are obligated to purchase minimum quantities. The contracts do not contain a stated penalty for failure to purchase the minimum quantities. However, if we do not purchase the minimum requirements, it is required under the terms of the contracts to meet with Shell Chemicals in an effort to determine a resolution equitable to both parties.

(2) Pursuant to production agreements with LyondellBasell, we are obligated to pay a minimum indirect service fee each year of approximately $21.6 million. Not included in this table are future obligations arising under our Operating Agreements and Site Services, Utilities, Materials and Facilities Agreements that do not specify fixed or minimum quantities of goods or services to be purchased and do not contain fixed, minimum or variable price provisions. Under such agreements, our obligations to third parties are based on costs incurred by them in connection with the operation and maintenance of, and other services provided to, our European facilities. The terms of these agreements range between 20 years and 40 years and each agreement includes bilateral renewal rights. During the years ended December 31, 2008, 2007 and 2006, we incurred costs aggregating $70 million, $70 million and $58 million, respectively, under these agreements.

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.

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Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates, foreign currency exchange rates, credit risk and commodity prices. We currently do not hedge our exposure to these risks, except for the interest rate swap agreements and foreign currency option contracts discussed below.

Interest Rate Risk. We have $322.6 million of variable rate debt outstanding under the senior secured credit facility as of September 30, 2009. The debt bears interest at the adjusted Eurodollar rate plus 2.00% per annum or at our option, the base rate plus 1.00% per annum. In February 2008, we entered into a $325 million notional amount interest rate swap agreement to hedge or otherwise protect against Eurodollar interest rate fluctuations on a portion of our variable rate debt. The agreement had a fixed rate of 2.77%, with a margin of 2.0%, which resulted in a total cost of 4.77%, and a term through April 1, 2010. This agreement was designated as a cash flow hedge on the exposure of the variability of future cash flows subject to the variable quarterly interest rates on $325 million of the term loan portion of the senior secured credit facility. We settled the swap early in June 2008 and realized cash proceeds of $4.6 million, resulting in a gain on the sale of $4.6 million. The gain is deferred in accumulated other comprehensive income at September 30, 2009 and is being reclassified as a reduction in interest expense through March 31, 2010 using the effective interest method, unless we determine that the forecasted interest payments under the term facility are probable not to occur, in which case the gain would then be reclassified immediately to interest expense. In October 2008, we entered into a $320 million notional amount interest rate swap agreement to hedge or otherwise protect against Eurodollar interest rate fluctuations on a portion of our variable rate debt. The agreement had a fixed rate of 2.99%, with a margin of 2.0%, which resulted in a total cost of 4.99%, and a term through December 31, 2009. In May 2009, we entered into a $310 million notional amount interest rate swap agreement to hedge or otherwise protect against Eurodollar interest rate fluctuations on a portion of our variable rate debt. The agreement is effective on January 4, 2010 and expires on January 3, 2011 and has a fixed rate of 1.53%, with a margin of 2.0%, which resulted in a total cost of 3.53%. These agreements were designated as cash flow hedges on the exposure of the variability of future cash flows subject to the variable quarterly interest rates on the term loan portion of the senior secured credit facility.

Foreign Currency 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 whenever we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. With respect to currency translation risk, 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. In recent years, exchange rates between these currencies and U.S. dollars have fluctuated significantly and may do so in the future. Approximately, one-half of our revenue and costs are denominated in U.S. dollars. Euro-related currencies are also significant. In February 2009, we entered into a foreign currency option contract to reduce our exposure to fluctuations in the Euro to U.S. dollar exchange rate for a notional amount of 47.3 million which expires on December 29, 2009.

Credit Risk. Our customers are diversified by industry and geography with approximately 700 customers in approximately 60 countries worldwide. We do not have concentrations of receivables from these industry sectors throughout these countries. The recent global economic downturn may affect our overall credit risk. Where exposed to credit risk, we analyze the counterparties financial condition prior to entering into an agreement, 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.

Commodity Price Risk. We are subject to commodity price risk in our purchasing of raw materials and energy. From time to time we may hedge our commodity price exposure.

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New Accounting Pronouncements

The following new accounting pronouncements have been issued, but have not yet been adopted as of December 31, 2008:

SFAS No. 141R, Business Combinations. In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141R which replaces SFAS No. 141, Business Combinations. SFAS No. 141R requires: (i) Upon initially obtaining control, the acquiring entity in a business combination must recognize 100% of the fair values of the acquired assets, including goodwill, and assumed liabilities, with only limited exceptions even if the acquirer has not acquired 100% of its target. As a consequence, the current step acquisition model will be eliminated. (ii) Contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration. The concept of recognizing contingent consideration at a later date when the amount of that consideration is determinable beyond a reasonable doubt, will no longer be applicable. (iii) All transaction costs will be expensed as incurred. This topic is effective as of the beginning of an entity s first fiscal year beginning after December 15, 2008. Our adoption of this topic on January 1, 2009 has had no impact to our financial position, results of operations or cash flows. A significant impact may, however, be realized on any future acquisitions by us. The amount of such impact will depend on the nature and terms of such future acquisition, if any.

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. In March 2008, the FASB issued SFAS No. 161 which amends and expands the disclosure requirements for SFAS No. 133 with the intent to provide users of financial statements an enhanced understanding of how and why derivative instruments are used, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods within those fiscal years, beginning on or after November 15, 2008. For us, SFAS No. 161 is effective as of January 1, 2009. The adoption of SFAS No. 161 is not expected to materially affect our consolidated results of operations, financial position or cash flows.

FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. In April 2008, the FASB issued FSP No. FAS 142-3 which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP No. FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. For us, FSP No. FAS 142-3 is effective as of January 1, 2009. The adoption of FSP No. FAS 142-3 is not expected to materially affect our consolidated results of operations, financial position or cash flows.

FSP No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. In December 2008, the FASB issued FSP No. FAS 132(R)-1 which provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan and makes employers provide more transparency about the assets held by the retirement plan and the concentrations of risk in those plans. FSP No. FAS 132(R)-1 is effective for financial statements issued for fiscal years beginning after December 15, 2009, and interim periods within those fiscal years. For us, FSP No. FAS 132(R)-1 is effective as of January 1, 2010. We are currently evaluating the effect of adopting FSP No. FAS 132(R)-1.

FASB Staff Position (FSP) No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. In December 2008, the FASB issued FSP No. FAS 132(R)-1 which provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan and requires employers to provide more transparency about the assets held by the retirement plan and the concentrations of risk in those plans. FSP No. FAS 132(R)-1 is effective for financial statements issued for fiscal years beginning after December 15, 2009, and interim periods within those fiscal years. For us, FSP No. FAS 132(R)-1 is effective as of January 1, 2010. We are currently evaluating the effect of adopting FSP No. FAS 132(R)-1.

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INDUSTRY

Industry Overview

Elastomers are a diverse family of polymers that include natural and synthetic rubbers. Elastomers, as their name suggests, exhibit elastic or rubber-like characteristics. Thermoplastic elastomers, or TPEs, are a category of elastomers that are particularly desirable because, unlike other elastomers, they can be melted and reformed when heated, which reduces processing cost, time, energy use and waste. Styrenic block copolymers, or SBCs, are a high performance subset of TPEs. SBCs are used globally in a wide variety of industrial and consumer applications.

The global demand for SBCs in 2008 exceeded 1,400 kilotons with sales of approximately $4.0 billion. According to our management estimates, between 2001 and 2007, SBC demand for non-footwear applications grew at a compound annual growth rate of approximately 9.0%, or approximately 2.7 times global real GDP, and including Footwear, grew approximately 5.4%, or approximately 1.6 times global real GDP. In 2008, the SBC market contracted along with the global economy, reducing the 2001 to 2008 growth rate to 6.8%. Our estimates indicate that global SBC production is currently concentrated in developed industrial regions, with approximately 25% of industry volumes in North and South America, approximately 29% of industry volumes in Europe, the Middle East and Africa and approximately 46% of industry volumes in Asia Pacific.

SBCs are primarily sold into four end-uses: (1) Advanced Materials (compounding, personal care and polymer systems); (2) Adhesives, Sealants and Coatings; (3) Paving and Roofing; and (4) Footwear. Due to the higher selling prices in the Advanced Materials, Adhesives, Sealants and Coatings and Paving and Roofing end-uses relative to the Footwear end-use, the relative market share by end-use on a revenue basis is meaningfully different than on a volume basis.

SBC demand is satisfied by several competitors worldwide. We believe the top four producers supply 59% of the SBC products consumed globally. We believe we have approximately 34% (excluding Footwear and Other) market share while the next largest competitor in the SBC industry has approximately 11% market share in terms of 2008 sales revenue. Our most significant competitors in the SBC industry are: Asahi Chemical, Chi Mei, Dexco Polymers, Dynasol Elastomers, Kuraray, Korea Kumho P.C., Lee Chang Yung, LG Chemical, Polimeri Europa, Sinopec, Taiwan Synthetic Rubber Corporation and Zeon Corporation. We also compete in each of our end-use markets against non-SBC products that perform in a similar manner to our products.

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SBC Products

As illustrated in the table below, there are two major types of SBCs: hydrogenated styrenic block copolymers, or HSBCs, and unhydrogenated styrenic block copolymers, or USBCs.

HSBCs

HSBCs are produced in two primary configurations: SEBS (styrene-ethylene-butylene-styrene) and SEPS (styrene-ethylene-propylene-styrene), each in multiple grades. Generally, SEBS grades are used in advanced materials applications for general molded or extruded goods, including a broad range of consumer and industrial products requiring soft-touch characteristics. SEPS grades are more commonly used in the manufacture of adhesives and oil gels.

HSBC products are significantly more complex to produce than USBC products and, consequently, generate higher margins and generally command selling prices between two and three times those for USBCs. We believe our 47% end-use market share of 2008 HSBC sales leads the industry and is more than twice the size of our closest competitor. The HSBC class of products, which is typically more durable than USBC products, is primarily used in higher value-added Advanced Materials and Adhesives, Sealants and Coatings applications. We estimate that HSBCs accounted for approximately 12% of worldwide SBC industry sales in 2008.

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

stretch properties in disposable diapers and adult incontinence products;

soft feel in numerous consumer products such as the handles for razor blades, power tools and automobile interiors;

impact resistance for demanding engineering plastic applications;

flexibility for wire and cable plastic outer layers; and

improved flow characteristics for many industrial and consumer sealants and lubricating fluids.

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USBCs

USBCs are produced in two primary configurations: SBS (styrene-butadiene-styrene) and SIS (styrene-isoprene-styrene). In 2008, we estimate that USBCs represented approximately 88% of worldwide SBC industry sales volumes and were used primarily in Footwear, Paving and Roofing and Adhesives, Sealants and Coatings.

SBS. In 2008, we estimate that SBS products accounted for approximately 87% of worldwide USBC sales volumes. SBS is sold in both unmodified and oil-extended forms (blended with various amounts of oil to achieve the desired characteristics). The oil-extended grades of SBS are widely used in the Footwear end-use market. Unmodified grades of SBS are used in all four end-use markets, particularly Paving and Roofing and Footwear. We expect growth in SBS sales to be driven by the global expansion of adhesive and compounding applications and increasing penetration of modified asphalts in roofing and roadway construction.

SIS. In 2008, we estimate that SIS products accounted for approximately 13% of worldwide USBC sales volumes. SIS use is concentrated in the Adhesives, Sealants and Coatings end-use market because it provides superior specific adhesion and thermal behavior. SIS products have historically generated higher margins than SBS products due to their enhanced performance characteristics and their ability to add value to products used in adhesive applications. In addition, SIS is more difficult to produce than SBS due to the need for more demanding process controls and finishing technology. We expect growth in SIS sales to come primarily from increasing demand for hot-melt adhesive solutions used in the production of personal hygiene products and adhesives for tapes and labels and construction applications.

We believe that our 30% market share of 2008 USBC sales, excluding the Footwear end-use market, leads the industry, and is approximately 2.2 times that of our closest competitor in terms of 2008 sales.

USBCs are used in all our end-use markets in a range of products to impart desirable 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 materials used in disposable diapers and adhesive applications, such as packaging tapes and labels.

End-Uses for SBCs

SBCs are primarily sold into four end-uses: (i) compounding, personal care and polymer systems, or Advanced Materials; (ii) Adhesives, Sealants and Coatings; (iii) Paving and Roofing; and (iv) Footwear. We estimate that approximately 19% of the total 2008 industry SBC volume was consumed in Advanced Materials, approximately 36% was consumed in Paving and Roofing, approximately 19% was consumed in Adhesives, Sealants and Coatings and approximately 26% was consumed in Footwear and Other. Due to the higher selling prices in the Advanced Materials, Adhesives, Sealants and Coatings and Paving and Roofing end-uses relative to the Footwear and Other end-use, the relative share by end-use on a revenue basis is meaningfully different than on a volume basis. Based on our management estimates, on a revenue basis, approximately 24% of total industry SBC revenue in 2008 was related to Advanced Materials applications, approximately 32% was related to Paving and Roofing, approximately 23% was related to Adhesives, Sealants and Coatings applications and approximately 21% was related to Footwear and Other.

Advanced Materials. We estimate that advanced materials as an end-use represented approximately 19% of 2008 SBC industry sales volumes and approximately 24% of 2008 SBC industry revenue. According to management estimates, these applications grew at a compound annual growth rate of 11.4% from 2001 through

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2007. In general, SBCs are compounded with other polymers (for example, polypropylene) in relatively small amounts (typically less than 30%) to yield desired performance characteristics while constituting a small portion of the cost of the final product. Examples of advanced materials products include soft touch for consumer products (tooth brushes and razor blades) and power tools, impact resistant engineering plastics, automotive interior components, elastic films for disposable diapers and adult incontinence branded products, skin care products and lotions, disposable food packaging, and medical packaging films and tubing, often to replace PVC. HSBC applications are projected to grow faster than USBC applications.

In advanced materials industry applications, SBCs compete with other polymers (including PVCs, EPDM, thermoplastic vulcanizates and natural rubber) based on performance, ease of use, desired aesthetics and total end-product cost.

Adhesives, Sealants and Coatings. We estimate that adhesives, sealants and coatings represented approximately 19% of 2008 SBC industry sales volumes and approximately 23% of 2008 SBC industry revenue. According to management estimates, demand for SBCs in adhesives, sealants and coatings grew at a compound annual growth rate of 6.8% from 2001 through 2007. We expect industry growth to be supported by the continuing substitution of adhesives for mechanical fastening systems and the growing demand within developing countries for disposable hygiene products that contain adhesives and sealants. Examples of adhesives, sealants and coatings products include tapes and labels, non-woven and industrial and industrial and consumer weather sealants.

In various adhesives and sealant applications, SBCs compete with acrylics, solvent-based rubber systems and silicones based on bond strength, specific adhesion, consistent performance to specification, processing speed, water resistance, hot-melt application and total end-product cost.

Paving and Roofing. We estimate that Paving and Roofing as an end-use represented approximately 36% of 2008 SBC industry sales volumes and approximately 32% of 2008 SBC industry revenue. According to management estimates, the demand for SBCs in Paving and Roofing grew at a compound annual growth rate of 9.1% from 2001 through 2007 due to the increased demand for improved durability of SBC-modified asphalt products, as well as growing penetration rates in many developing economies. Examples of paving and roofing products include asphalt modification for performance roadways and asphalt modification for roofing felts and shingles.

Asphalt modification applications involve the addition of small amounts of SBS, typically about 2% to 6% by weight to asphalt used in road paving and approximately 11% by weight in roofing felts and shingles, to enhance the properties of the end product. Many end-users have determined that the increased cost of installing SBS-enhanced asphalt is offset by future maintenance savings and the benefit of less disruption due to the increased durability.

In asphalt modification, SBCs compete with atactic polypropylene, EPDM, ethylene vinyl acetate resins and unmodified asphalts based on total end-product performance and cost and ease-of-use.

Footwear. We estimate that Footwear represented approximately 25% of 2008 SBC industry sales volumes and approximately 19% of 2008 SBC industry revenue. According to management estimates, the demand for SBC in footwear declined by a compound annual growth rate of 1.8% from 2001 through 2007 due to changes in fashion and substitution by lighter materials in shoe soling. This application is the most commoditized demand for SBCs with high competitive intensity and management estimates that SBC demand in footwear applications will continue to decline in the future.

SBCs are used in footwear applications to impart flexibility, durability, strong elastomeric properties at low temperatures, thermal insulation and ease of coloration to shoe soles. There are also niche applications in high-performance outdoor footwear that demand the superior traction and durability provided by SBCs. In footwear

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applications, SBCs compete with leather, PVC, various synthetic and natural rubbers and polyurethane materials, based on appearance and feel, durability, grip and ease of processing.

Manufacturing Processes

Both USBCs and HSBCs are produced by anionic polymerization. This process involves joining polymer chains consisting of blocks of styrene and either butadiene or isoprene, in the presence of a solvent. The solvent is a processing aid and must be removed to recover the final product. In the case of USBCs, the solvent removal occurs immediately after polymerization. Steam is typically applied to the polymer/solvent mixture to evaporate the solvent. The remaining polymer is then compressed to remove the water produced by the steam and air-dried, leaving behind dry pellets of USBC products, which are then packaged and shipped.

The manufacture of HSBCs follows a similar process to that of USBCs, except that the polymer goes through a hydrogenation process prior to removal of the solvent. After polymerization, a chemical catalyst and hydrogen are added to the mix to hydrogenate the base USBC. The resulting polymer mixture then undergoes a solvent removal process. Similar to USBC production, steam is applied to remove the solvent. The remaining product mix is air-dried and then packaged and shipped. HSBCs are significantly more difficult to produce than USBCs because of the hydrogenation process. This critical step introduces sufficient complexity into the production process such that only a handful of manufacturers have been able to produce HSBCs of consistent quality in commercial quantities.

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BUSINESS

General

We believe we are the world s leading producer of styrenic block copolymers (SBCs) as measured by both 2008 sales and volumes. We market our products under the widely recognized KRATON® brand. Our estimates indicate that sales of our products, in the end-use markets we target, constituted 34% of global SBC revenue in 2008, approximately 3.1 times larger than our nearest competitor. SBCs are highly-engineered synthetic elastomers that we invented and commercialized over 40 years ago, which enhance the performance of numerous end-use products, imparting greater flexibility, resilience, strength, durability and processability. We focus on the end-use markets we believe offer the highest growth potential and greatest opportunity to differentiate our products from competing products. Within these end-use markets, we believe that we provide our customers with a broad portfolio of highly-engineered and value-enhancing polymers that are critical to the performance of our customers products. We seek to maximize the value of our product portfolio by introducing innovations that command premium pricing and by consistently upgrading from lower margin products. As the industry leader, we maintain significant competitive advantages, including a 40-year proven track record of innovation; world-class technical expertise; customer, geographical and end-use market diversity; and industry-leading customer service capabilities. These advantages are supported by a global infrastructure and a long history of successful capital investments and operational excellence.

Our SBC products are found in many everyday applications, including disposable baby diapers, the rubberized grips of toothbrushes, razor blades, power tools and in asphalt formulations used to pave roads. We believe that there are many untapped uses for our products, and we will continue to develop new applications for SBCs. Since January 1, 2008, we have been awarded 161 patents for new products or applications, which we believe will allow us to drive volume and revenue growth and expand our margins. We also develop, manufacture and market niche, non-SBC products that we believe have a high growth potential, such as isoprene rubber latex, or IRL. IRL is a highly-engineered, reliable synthetic substitute for natural rubber latex. We believe the versatility of IRL offers significant opportunities for new, high-margin applications. Our IRL products, which are used in applications such as surgical gloves, have not been found to contain the proteins present in natural latex and are, therefore, not known to cause allergies. We believe we produce the highest purity IRL globally and that we are the only significant third party supplier of the product. Our IRL business has grown at a compound annual growth rate of approximately 23% by volume from 2005 to 2008.

We currently offer approximately 800 products to more than 700 customers in over 60 countries worldwide, and we manufacture our polymers on four continents (North America, Europe, South America and Asia). Our products are typically developed using our proprietary, and in many cases patent-protected, technology and require significant engineering, testing and certification. We are widely regarded as the industry s leading innovator and cost-efficient manufacturer in our end-use markets. We work closely with our customers to design products that meet application-specific performance and quality requirements. We expect these innovations to drive our organic growth, sustain our leadership position, expand our market share, improve our margins and produce a high return on invested capital. For example, in 2008, we developed a family of environmentally-friendly products to replace materials like PVC for medical packaging applications and wire and cable applications in electronics and automobiles.

Over the past several years, we have implemented a range of strategic initiatives designed to enhance our profitability and end-use market position. These include fixed asset investments to expand our capacity in high value products, enhance productivity at our existing facilities and significantly reduce our fixed cost structure through head count reductions, production line closures at our Pernis facility and system upgrades. During this period, we have shifted our portfolio to higher-margin products, substantially exited low-margin businesses such as footwear and implemented smart pricing strategies that have improved our overall margins and return on invested capital. We believe these initiatives provide us with a strong platform to drive growth, create significant operating leverage and position us to benefit from volume recovery in our end-use markets.

We believe that starting in late 2008 the global economic downturn, and associated reduction in customer and end-user inventory levels, caused an unprecedented slowdown across the industry. Kraton experienced this

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sales volume decline across all of our end-use markets, including the traditionally more stable consumer and medical applications. We believe that a significant factor in this decline was inventory de-stocking. The trend began to reverse itself in June 2009, as demand patterns began to shift towards recovery.

Corporate Background

We are currently a Delaware limited liability company. We intend to convert to a Delaware corporation prior to the closing of this offering. Our principal executive offices are located at 15710 John F. Kennedy Boulevard, Suite 300, Houston, Texas 77032 and our telephone number is (281) 504-4700. Our corporate website address is *www.kraton.com*. We do not incorporate the information contained on, or accessible through, our corporate website into this prospectus, and you should not consider it part of this prospectus.

Prior to February 28, 2001, we operated as a number of business units as a part of Shell Chemicals and did not exist as a stand-alone entity. On February 28, 2001, Ripplewood Chemical Holding LLC, or Ripplewood Chemical, acquired us from Shell Chemicals through a master sale agreement. On December 23, 2003, Polymer Holdings acquired all of Kraton s outstanding equity interests from Ripplewood Chemical for consideration of $770.0 million for the business and $48.0 million for the excess cash on Kraton s balance sheet immediately prior to closing. The net cash funding requirements for the acquisition were satisfied through:

- $200.0 million from the proceeds from the issuance of the senior subordinated notes;
- $360.0 million of borrowings under the term loan portion of the senior secured credit facility; and
- an equity contribution to Kraton by us of $250.0 million in cash.

On November 2, 2004, Polymer Holdings issued $150 million in aggregate principal amount at maturity of 12% senior discount notes due 2014, the net proceeds of which were used to repay amounts under the senior secured credit facility and for general corporate purposes. The senior discount notes were issued in transactions exempt from the registration requirements of the Securities Act and were subsequently exchanged for identical notes registered under the Securities Act on October 20, 2005. On May 12, 2006, Polymer Holdings accepted for purchase and paid for a total of $149.75 million in aggregate principal amount at maturity of the senior discount notes pursuant to a tender offer and consent solicitation. Polymer Holdings subsequently suspended its reporting obligations with the Securities and Exchange Commission.

Prior to the reorganization transactions described under Certain Relationships and Related Party Transactions Reorganization Transactions, we were a wholly-owned subsidiary of TJ Chemical and were indirectly owned by TPG Partners III, L.P., TPG Partners IV, L.P. and certain of their parallel investment entities, JPMP Capital Corp. and affiliates and certain members of our management.

Our Competitive Strengths

The following competitive strengths help us to sustain our market leadership position and contribute to our ability to generate superior margins and strong cash flow. We expect these strengths to support our growth in the future:

The Market Leader in SBCs

We believe we hold the number one global market position based on 2008 sales and volumes, including a 34% market share of revenues in the end-use markets we target. Our Belpre, Ohio facility is the largest in terms of production capacity and the most product-diversified SBC plant in the world, and we believe it is the largest HSBC plant as well in terms of production capacity. We believe our Wesseling, Germany facility is world scale and cost efficient. As the pioneer of SBCs over 40 years ago, we believe our KRATON® brand is widely recognized for our industry leadership, and we are particularly well regarded for our process technology expertise and long track record of market-driven innovation.

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Growth Through Innovation and Technological Know-how

SBC production and product development requires complex and specific expertise, which we believe many of our competitors are unable to replicate. As the industry pioneer, Kraton maintains a constant focus on enhancing the value-added attributes of our products and on developing new applications for SBCs. At December 31, 2008, we had approximately 1,176 granted patents and approximately 447 pending patent applications. Our Vision 20/20 program, introduced earlier this year, targets generating 20% of revenues by 2011 from new products or applicants introduced in the prior five years. In 2008, we generated 13.5% of our sales from innovation driven revenue. We believe that our new product innovation will allow us to drive increases in our volume, expand product contribution margins and increase our customers reliance on Kraton s products and technical expertise. For example, for the nine months ended September 30, 2009, IRL represented 3.5% of revenues. Our sales of IRL from 2005 to 2008 grew at 23% by volume and are earning a contribution unit margin in excess of the company as a whole.

Diverse Global Manufacturing Capabilities and End-Use Market Exposures

We operate manufacturing facilities on four continents (North America, Europe, South America and Asia) producing what we believe to be the highest quality grades available of USBC and HSBC and high purity IRL. We believe we are the only SBC producer with this breadth of technical capabilities and global footprint, selling approximately 800 products in over 60 countries. Since 2003, we have successfully completed plant expansions totaling 60 kilotons of capacity, giving us a total capacity of 436 kilotons, at a total cost of less than $50 million. Our manufacturing and product footprint allow revenue diversity, both geographically and by end-use market. We believe our scale and footprint make us an attractive customer for our monomer suppliers which, in turn, allows us to offer a high degree of supply security to customers.

Long-Standing, Strong Customer Relationships Supported by Leading Service-Offering

We sell our products to over 700 customers, many of which we have had relationships with for 15 years or more. Our customers are broad-based, with no single customer accounting for more than 5% of our sales in 2008 (our top 10 customers represented 26% of sales in 2008). Our customers manufacturing processes are typically calibrated to the performance specifications of our products. Given the technical expertise and investment required to develop these formulations and the lead times required to replace them, we believe our customers face high switching costs. We believe our customers view our products as being high value-added, even though our products generally represent a small proportion of the overall cost of the finished product. Leveraging our global infrastructure, we believe we offer our customers a best-in-class service level that aligns us to their respective business models, through on demand order delivery and product development specifically designed for each customer s needs.

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Experienced Management Team with a Track Record of Growth and Productivity Improvements

Our senior management team has an average industry experience of over 25 years, most of which was with some of the world s leading companies, including General Electric, Koch Industries, and Chevron Phillips Chemical. Since early 2008, when the current executive team was put in place, we have instituted a number of strategic initiatives designed to enhance productivity, reduce costs and capital intensity, expand margins and drive innovation-led growth.

Our Business Strategy

Building on these competitive strengths, we are focused on achieving profitable top-line growth and improving margins through the introduction of highly-engineered, high value-added products to drive strong and sustainable cash flow.

Driving Growth and Margin Expansion Through Innovation

We have a 40-year track record of innovation dating back to our development of the first SBCs. Our research and development effort is focused on end-use markets and new product developments that we believe offer high growth as well as opportunities to develop highly-differentiated products for our customers, thus yielding higher margin potential. We work very closely with our longstanding customer base to produce products that solve their specific technical requirements. For example, to address an industry trend to eliminate PVC from applications such as medical packaging and wire and cable, we have developed and commercialized a series of custom-designed polymers and compounds. In addition to this innovation-led growth, we believe that there are a number of end-use market dynamics that will also drive growth in our business such as: (1) the effect of the American Recovery and Reinvestment Act of 2009 on our paving business; (2) the general demand by customers for higher value-added product performance characteristics; and (3) the effect of an economic recovery will have on our roofing applications.

Pursue Smart Pricing

In late 2007, we undertook a comprehensive review of our entire product portfolio, including both product-specific and customer-specific profitability analysis. As a result, we took a variety of actions including reducing or eliminating our exposure to lower margin business and increasing our prices to reflect the significant value-added benefits of our products to our customers products. For example, since the end of 2007, we have increased our unit contribution margins (the excess of the sale price of a unit of product over the variable cost to produce that unit) by more than 50%. We will continue to pursue pricing strategies that reflect the contribution to the end product of our high value and complex product offerings for which limited substitutes exist.

Invest in Key Growth Initiatives

As part of this offering, we plan to use some proceeds to fund high priority, high return strategic projects that will continue to allow us to more effectively and more efficiently serve our customers needs. One such project is the development of additional capacity in our IRL business to serve the rapid growth and to better capture the high margins that exist in this product line.

Continue to Pursue Operational Efficiencies

We have a history of implementing continuous process and cost improvement plans that have resulted in a significant reduction in our cost position and an improvement in the way we run our business. Since the beginning of 2007, we have implemented cost saving initiatives that have reduced costs by over $55 million, on an annual basis. For example, these initiatives include (i) programs to streamline our operations and lower staffing levels reducing our costs by approximately $25 million, (ii) the shutdown of SIS production in our Pernis facility in 2008 resulting in annual cost savings of $10 million, and (iii) SAP related cost reductions resulting in annual savings of $5 million.

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In connection with the exit from Pernis, we expect to incur approximately $12 million in asset retirement obligations, restructuring costs and write-downs during 2009 and the first half of 2010. We currently plan to transfer IR production currently at Pernis to an alternative company site.

Through these actions, we have created substantial operating leverage in our business model. We believe this demonstrates our management team s ability to successfully manage the business in a downturn and position us for significant growth and margin expansion in a global economic recovery.

New Innovations

Consistent with our strategy, we believe that we continue to lead SBC innovation as evidenced by numerous developments announced across several of our core end-use markets through the third quarter of 2009. Below are our most recently announced product innovations.

In January 2009, we announced the introduction of a new Kraton A family of polymers. Kraton A1535 is the first polymer in the new Advantaged series to debut for global commercialization later this year. The new product family is halogen-free recyclable and FDA-approved for direct food contact applications. The Advantaged polymers offer an expansion of opportunities for thermoplastic elastomers, or TPE, compounds in a variety of soft grip and other over-mold applications for markets that range from personal care to high tech electronics. In addition, Kraton A1535 can also be easily compounded with thermoplastic polyurethanes, or TPU, materials to reduce hardness and enhance flexibility.

In February 2009, we announced Kraton G1643, a clear solution to the market demand for materials with enhanced performance capabilities and lower system costs. Kraton G1643 is a very durable material and is highly compatible with polypropylene. It features excellent clarity and offers improved resistance to blushing and cracking which often occur during transport of large molded parts such as totes and bins. Manufacturers using Kraton G1643 have the ability to reduce wall thickness, and this lowers overall material usage and production costs.

In March 2009, we announced the introduction of the first high polymer content binder uniquely designed to enhance durability and safety of porous asphalt roads. The new tough binder has the capability to reduce aggregate loss (also known as raveling) which often results in increased road noise and damage to cars caused by debris. Contractors and binder producers will now have the opportunity to increase polymer concentrations to enhance performance without sacrificing workability and compatibility. Our new polymer is ideally suited for high performance asphalt road applications.

In April 2009, we announced a series of new formulations designed to support lower Volatile Organic Compound (VOC) requirements and reduce costs associated with contact adhesives. The unique structure of the styrenic block copolymers provides key advantages to formulators. The end block enables cohesion, good load bearing properties and temperature resistance, while the center block promotes adhesion and elongation.

In April 2009, we announced an innovation to double styrene-butadiene-styrene (SBS) modification levels in pre-modified asphalt emulsions. These new high polymer content or HPC emulsions are a result of our utilizing our latest development in high vinyl products. The effects of the enhanced mechanical properties can enable a transformation of traditional modified asphalt emulsion applications as well as open the door to new opportunities.

In May 2009, we announced our recent commercialization of Kraton G1645, a polymer that creates new opportunities to replace PVC in medical applications. In recent years there has been increased demand for eco-friendly, better performing products versus conventional elastomers. We have delivered breakthrough technology offering a clear, sterilizable, strong elastomer that offers a broad formulating window without the need for phthalate plasticizers. Our technology provides a solution that is eco-friendly and ultra-clear in comparison to PVC or silicone.

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In June 2009, we announced new advances in pressure sensitive adhesives for the tape market. We have determined it is now possible to blend our styrene-isoprene-butadiene-styrene (SIBS) and SBS polymers with rosin ester tackifying resins. The initial testing indicates the unique combination of Kraton SIBS and SBS with a rosin ester can produce a tape with properties similar to a traditional SIS and C5 hydrocarbon resin formulation, resulting in a system cost savings of 10% to 20%. The SIBS product is more compatible with the SBS, allowing higher concentrations of the lower cost SBS in tape formulations while maintaining excellent pressure sensitive performance.

In July and August 2009, we made announcements regarding our newly commercialized NEXAR polymer family. The new NEXAR polymers family offers a unique set of key performance attributes that can be used in a myriad of applications, ranging from water desalination, to industrial separation applications, to improving high performance textiles and clothing. The unique permselectivity of NEXAR membranes allows for a flow of moisture in one direction while blocking other substances such as potentially harmful chemicals.

In September 2009, we announced new developments for Kraton A SBCs that enable a new approach for environmentally friendly adhesives and oil gels. The use of the new class of Kraton polymers will make it possible to formulate pressure sensitive adhesives (PSAs), sealants and coatings using natural oils. The new technology offers a green solution and represents the latest addition to our portfolio of environmentally friendly materials.

Products

Our Kraton polymer products are high performance elastomers, which 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, hot melt and solution applied coatings.

We offer our customers a broad portfolio of products that includes approximately 200 core commercial grades of SBCs. We believe that the diversity and depth of our product portfolio is unmatched in the industry, serving the widest set of applications within each end-use.

While we organize our commercial activities around our three core end-uses, we manufacture our products along five primary product lines based upon polymer chemistry and process technologies: (1) unhydrogenated SBCs, or USBCs; (2) hydrogenated SBCs, or HSBCs; (3) isoprene rubber, or IR; (4) isoprene rubber latex, or IRL; and (5) Compounds. The majority of worldwide SBC capacity is dedicated to the production of USBCs, which are primarily used in the Paving and Roofing, Adhesives, Sealants and Coatings and Footwear end-use applications. HSBCs, which are significantly more complex and capital-intensive to manufacture than USBCs, are primarily used in higher value-added end-uses, including soft touch and flexible materials, personal hygiene products, medical products, automotive components and certain adhesives and sealant applications. The following product summaries highlight our portfolio of product grades, their key performance characteristics and selected applications:

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. Today, our HSBC product portfolio includes approximately 70 commercial grades of products. Our technical expertise in HSBC manufacturing and our history of HSBC innovation have led to what we believe is a 47% market share based on 2008 HSBC sales revenue. We believe this market share leads the industry, and is more than twice the size of our closest competitor. HSBC products are significantly more complex to produce than USBC products and, as a result, generally command selling prices between two and three times those for USBCs and generate higher margins. HSBC comprised 27%, 28% and 25% of our total sales revenue in 2008, 2007 and 2006, respectively.

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HSBC products impart higher performance characteristics than USBC products including: color range and stability, including resistance to ultraviolet light; processing stability and viscosity; and elevated temperature resistance. HSBCs are primarily used in our Advanced Materials and our Adhesives, Sealants and Coatings end-use markets to impart improved performance characteristics such as: (1) stretch properties in disposable diapers and adult incontinence products; (2) soft feel in numerous consumer products such as razor blades, power tools, and automobile internals; (3) impact resistance for demanding engineering plastic applications; (4) flexibility for wire and cable plastic outer layers; and (5) improved flow characteristics for many industrial and consumer sealants lubricating fluids.

USBCs. We developed the first USBC polymers in 1964. Our flagship Belpre, Ohio site, the first dedicated block copolymer plant, was built in 1971. Today, our USBC product portfolio includes approximately 90 commercial grades of products. We believe that our 30% share of 2008 USBC sales revenue (excluding Footwear) leads the industry, and is approximately 2.2 times that of our closest competitor. USBC comprised 65%, 64% and 66% of our total sales revenue in 2008, 2007 and 2006, respectively.

USBCs are used in all our end-use markets in a range of products to impart desirable characteristics, such as: (1) resistance to temperature and weather extremes in roads and roofing; (2) resistance to cracking, reduced sound transmission and better drainage in porous road surfaces; (3) impact resistance for consumer plastics; and (4) increased processing flexibility in adhesive applications, such as packaging tapes and labels, and materials used in disposable diapers. As with SBCs in general, USBCs are most often blended with substrates to impart the aforementioned performance enhancements. We made the strategic decision to largely exit the less attractive footwear market and focus our resources on the greater value proposition offered by the remaining end-uses for our USBC products.

IR. Isoprene Rubber (formed from polymerizing isoprene) is a line of high purity isoprene rubber products and is a non-SBC product. These products combine the key qualities of natural rubber, such as good mechanical properties and hysteresis, with superior features such as high purity, excellent clarity, good flow, low gel content, no nitrosamines and no natural rubber proteins. Our IR polymers are available as bales of rubber or as latex. IR polymers are useful in the production of medical products, adhesives, tackifiers, paints, coatings and photo-resistors.

IRL. 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 unique polyisoprene latex with controlled structure and low chemical impurity levels manufactured through an anionic polymerization process followed by a proprietary latex processing step both of which were developed by us. IRL is durable, tear resistant, soft, transparent and odorless. In addition, the synthetic material has unparalleled consistency and it is non-allergenic, providing a distinct property advantage over natural rubber latex.

Compounds. Our Compounds are a mixture of Kraton polymers and other polymers, resins, oils or fillers to enhance the final properties for processing. Compounds cover a wide range of polymers tailored to meet specific customer needs in consumer and industrial applications. Compounds can be formulated so that they can be extruded, injection molded, foamed, etc. to meet the final application requirements. These products are primarily used in soft-touch grips, sporting equipment, automotive components and personal care products. Compounds comprised 3%, 3% and 4% of our total sales revenue in 2008, 2007 and 2006, respectively.

Our End-Use Markets

We believe we hold the number one market position, based on 2008 sales and volume, in each of our targeted end-use markets. We have aligned our commercial activities to serve three core end-use markets that we believe have the highest growth and profitability potential: (1) Advanced Materials; (2) Adhesives, Sealants and Coatings; and (3) Paving and Roofing. We also serve a fourth end-use market, an Emerging Businesses category, which primarily includes our high-growth isoprene rubber latex, or IRL business.

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The following table describes our three core end-use markets together with our Emerging Businesses and other end-use markets and their approximate relative sizes:

End-Use Markets	Revenue Mix[1]	Our End-Use Market Position[2]	Our End-Use Market Share[2]	Our Relative End-Use Market Share[3]	Industry Compound Annual Growth Rate[4]	Selected Applications/Products
Advanced Materials	30%	#1	37%	2.2X	8.0%	Soft touch for consumer products (tooth brushes and razor blades) and power tools Impact resistant engineering plastics Automotive interior components Elastic films for disposable diapers and adult incontinence branded products Skin care products and lotions Disposable food packaging Medical packaging films and tubing, often to replace PVC
Adhesives, Sealants and Coatings	32%	#1	41%	2.6X	5.2%	Tapes and labels Non-woven and industrial adhesives Industrial and consumer weather sealants
Paving and Roofing	31%	#1	28%	1.9X	7.1%	Asphalt modification for performance roadways Asphalt modification for roofing felts and shingles
Emerging Businesses[5]	3%	N/A	N/A	N/A	17.7%	Surgical gloves Condoms
Other Markets[6]	4%	N/A	N/A	N/A	N/A	Lubricants and fuel additives High styrenics packaging Footwear

(1) Based on 2008 sales of $1,171.3 million (excludes by-product sales which are reported as other revenues).
(2) Management estimates, based on 2008 sales.
(3) Management estimates, versus next largest competitor based on 2008 sales.
(4) Management estimates of volume growth, 2001 to 2008 except for Emerging Businesses, which is 2005 to 2008.
(5) The Emerging Businesses end-use market primarily includes our IRL business as well as other businesses and products that are under development. We believe that we are the only major third-party supplier of IRL, and therefore end-use market position, end-use market share and relative end-use market share metrics are not meaningful.
(6)

Our Other Markets end-use market is not directly comparable to our three core and Emerging Businesses end-use markets because it includes a mix of products ranging from lubricants and fuel additives to high styrenics packaging to footwear products. Therefore, we cannot estimate end-use market position, end-use market share, relative end-use market share or industry compound annual growth rate.

Advanced Materials. Through sales of HSBC, USBC and IR products, as well as certain compounded products, we maintained a leading position in the global Advanced Materials end-use market with a 37% market share, based on 2008 sales.

Advanced Materials polymers and compounds from Kraton are used in a range of diverse applications, many of which require customized formulations, product testing with long lead time approvals, and production

evaluations for specific end-use customers and applications. As such, customer loyalty tends to be strongest in this end-use market, helped in part by the fact that many of the applications are patent protected. The degree of complexity in the manufacturing of these products and the attractive value proposition for our customers drives higher sustainable margins for this end-use market.

We believe our Advanced Materials growth is driven by customers desire for improved product flexibility and resilience, impact resistance, moisture resistance and aesthetics in consumer products, medical products, packaging and automotive components. In addition, due to health and recycling (or green) concerns, one trend that is particularly a focus for our company is replacing PVC in a number of demanding medical (blood and IV bags, tubes and stoppers) and electronic (wire and cable outer layer) applications.

A differentiating driver for our expected Advanced Materials growth is our unique ability to design and manufacture certain custom compound formulations. One specific example is Kraton compounds that provide critical stretch performance for the infant care (diaper) and adult incontinence markets.

***Adhesives, Sealants and Coatings*.** Through sales of HSBC, USBC and certain IR products, we have continued our tradition of holding a leading position in the global Adhesives, Sealants and Coatings end-use market, garnering a 41% market share in 2008 in this end-use market.

Our Adhesive, Sealants and Coatings polymers are used in a number of demanding applications such as: adhesives for diapers and hygiene products; sealants for construction and automotive applications; and adhesives for tapes and labels. We expect our growth to be supported by the continuing substitution of adhesives for mechanical fastening systems and the growing demand within developing countries for disposable hygiene products that contain adhesives and sealants.

The other significant growth application for our SBCs is for tapes and labels. In both solvent-based and hot-melt forms, Kraton SBCs impart water resistance, color stability, strong bonding characteristics, high cohesive strength, good ultraviolet light resistance, heat stability and long shelf life. In addition, our SBCs compatibility with many other formulating ingredients and their suitability for hot-melt systems are major factors in demand growth. Furthermore, we believe our blend of new SIBS and SBS polymers with rosin ester tackifying resins can produce a tape with properties similar to a traditional SIS hydrocarbon resin formulation, but with cost savings of 10% to 20%.

In 2008, we largely exited the increasingly commodity-like portions of the tape and label business, choosing to refocus our development and manufacturing capacity on higher value-added and more proprietary products. Our history of innovation in the Adhesives, Sealants and Coatings end-use market has allowed us to capitalize on our unique product offerings, significantly enhancing the value of this end-use market to the business.

Paving and Roofing. Through sales of primarily USBC products, we maintained a leading market position with 28% market share in 2008 of the global asphalt modification SBC industry. We believe that our sales into the Paving and Roofing end-use market will see meaningful growth driven by U.S. and European government stimulus spending, improvement in roofing demand including re-stocking of depleted roofing supply chains, and continued penetration of polymer modified road surfaces. In the United States specifically, the American Recovery and Reinvestment Act of 2009 provides $6.9 billion in 2010 for incremental Federal Highway Administration funding (25% of the $27.5 billion in total committed to highway construction). We believe that the American Recovery and Reinvestment Act of 2009 will yield additional demand for our products, particularly in 2010 when the largest portion of funds is anticipated to be distributed to states and federal agencies.

The addition of our SBS in asphalt greatly improves the strength and elasticity of asphalt-based paving compositions over an extended temperature range, thus increasing resistance to wear, rutting and cracking. 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.

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We believe our growth in the Paving and Roofing end-use market will benefit from new products we have recently introduced, and those that are currently under development, to respond to industry trends for elevated polymer content roads and surfaces, over-lay compatibility with concrete systems, and general environmental awareness (for example, road contraction emissions).

Emerging Businesses. We use this end-use to commercialize and manage innovations that are outside of our current end-use organizational structure. For example, IR is a line of high purity isoprene rubber products that combines the key qualities of natural rubber, such as good mechanical properties and hysteresis, with superior features such as high purity, excellent clarity, good flow, low gel content, no nitrosamines and no natural rubber proteins. IR polymers in general are used in high volume, lower value-added applications such as tire rubber. However, we focus our unique IR polymers, produced using state-of-the-art nanotechnology, in more demanding applications such as medical products, adhesives and tackifiers, paints, coatings and photo-resistors. Approximately half of our current IR production is converted into IRL (emulsion of IR in water), a substitute for natural rubber latex, particularly in applications with high purity requirements, such as medical, healthcare, personal care and food contact applications. IRL is durable, tear resistant, soft, transparent and odorless. Most importantly, IRL is non-allergenic for both doctor and patient, providing a distinct property advantage over natural rubber latex.

Today, we produce 86% of the world s IRL by sales, and product adoption appears to be rapidly increasing. IRL is predominately used in the synthetic surgical glove market. Over the last three years, the compound annual growth rate for our IRL markets was 22.7%. The combination of increasing demand, favorable market dynamics and competitive differentiation make this a key product offering for us. We currently anticipate growth to continue for the foreseeable future, and will likely need to add capacity to our global supply system.

In addition to IRL, we believe we have a robust portfolio of innovations at various stages of development and commercialization that we believe will fuel our future growth. One such example is our Nexar family of membrane polymers for water filtration and breathable fabrics.

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 $26.4 million, $24.0 million and $ 23.3 million for company-sponsored research and development for the years ended December 31, 2008, 2007 and 2006, respectively. From time to time, we also engage in customer-sponsored research projects, with spending of approximately $1.0 million a year for the three-year period ended December 31, 2008. As of September 30, 2009, approximately 94 personnel are dedicated to this critical business activity.

Our research and development activities are primarily conducted in laboratories in Houston, Texas and Amsterdam, the 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 and Tsukuba provide support to our Asian customers. In August 2008, we executed a purchase and sale agreement to sell our Tsukuba, Japan facility which was completed in the first quarter of 2009. We opened a new technical service laboratory in Tsukuba, Japan in March 2009. In addition, we have technical service staff located in Mont St. Guibert, Belgium.

Our experienced, knowledgeable professionals perform product research using extensive scientific application equipment located at our Houston and Amsterdam research and development facilities. Our Houston laboratory also includes a comprehensive pilot plant for a number of uses. In early 2009, we moved into a new building that will house our Houston-based research and technology service organization. The new facility is expected to yield cost savings when compared with our previous facilities leased at Shell Chemicals Westhollow location in Houston. The new facility is designed specifically to enhance the effectiveness of our research and technology service team. At both of our major research and development facilities we produce new Kraton product samples for our customers and provide guidance to our manufacturing organization. In addition, we also

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use our pilot plant to test new raw materials and new process technologies in order to improve the manufacturing performance of our products. Application equipment is used in all of our research and technical service labs to evaluate polymers and compounds to determine optimal formulations.

Since the introduction of SBCs in the mid-1960s, we have experienced strong demand for the development of new products that utilize the enhancing properties offered by our polymers. We believe we have a strong new product pipeline to take advantage of many new opportunities. As a proven product innovator, we will continue to employ our product knowledge and technical expertise to provide application-based solutions for our customers highly specialized needs. This can include modifications to current products as well as significant new innovations aimed at displacing more expensive, less efficient product solutions in 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, sales agents and distributors. The majority of our products are sold through our direct sales force. In countries where we generate substantial revenues, 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 sales agents 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 allow 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. We have transferred some existing small customers to distributors, and are working to transfer others, to free up our sales force to focus on more substantial opportunities.

Our sales force, distributors and agents 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 strong customer relationships. In addition, we focus our sales efforts on those customers who value the quality of our products, service and technical support.

Total operating revenues from our operations outside the United States were approximately 66%, 66% and 58% of our total operating revenues in the years ended December 31, 2008, 2007 and 2006, 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 Principals (GAAP). For geographic reporting, revenues are attributed to the geographic location in which the customers facilities are located. We generated 43% of our 2008 net product sales revenues from customers located in the Americas, 41% in Europe, the Middle East and Africa and 16% in the Asia Pacific region. See Note 13 to our Consolidated Financial Statements for geographic reporting for total operating revenues and long-lived assets as of and for the years ended December 31, 2008, 2007 and 2006.

Sources and Availability of Raw Materials

We use three monomers as our primary raw materials in the manufacture of our products: styrene, butadiene and isoprene. These monomers together represented approximately 52% of our total costs of goods sold in 2008. Other raw materials used in our production processes include catalysts, solvents, stabilizers and various process control chemicals. The cost of these monomers has generally been correlated with changes in crude oil prices and affected by global supply and demand and global economic conditions. After significant increases in the cost of these monomers through the third quarter of 2008, the market prices for these monomers declined significantly

late in the year. On a year-over-year basis, the cost of raw material feedstocks included in our cost of goods sold increased approximately 9% excluding the impact of foreign currency exchange rates and sales volume changes in 2008.

We believe our contractual and other arrangements with suppliers of styrene, butadiene and isoprene provide an adequate supply of raw materials at competitive, market-based prices. We can provide no assurances that contract suppliers will not terminate these contracts at the expiration of their contract terms, that we will be able to obtain substitute arrangements on comparable terms, or that we generally will be able to source raw materials on an economic basis in the future.

Styrene, butadiene and isoprene used by our U.S. and European facilities are primarily supplied by Shell Chemicals or its affiliates, LyondellBasell, and other suppliers under long-term supply contracts with various expiration dates. For our U.S. facilities, we also procure a substantial amount of isoprene from a variety of suppliers from Russia, China and Japan. These purchases include both spot and contract arrangements. We generally contract with them on a short-term basis, although the number of such contracts has been increasing since 2008.

In January 2009, the U.S. operations of LyondellBasell, along with one of its European-holding companies, Basell Germany Holdings GmbH, filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. LyondellBasell is one of our major suppliers of raw materials in Europe and also operates our plants at Berre, France and Wesseling, Germany. We cannot accurately predict the effect, if any, that LyondellBasell s bankruptcy will have upon our business, or our relationships with LyondellBasell. To date, there have been no significant changes in our commercial relationship with LyondellBasell.

In Japan, butadiene and isoprene supplies for our joint venture plant are supplied under our joint venture agreement, where our partner supplies our necessary requirements. Styrene in Japan is sourced from local third-party suppliers. Our facility in Paulinia, Brazil generally purchases all of its raw materials from local third-party suppliers.

Styrene. Styrene is available on the global petrochemical market with approximately 13 producers located in the Americas, 11 producers located in Europe and 41 producers located in Asia. The top four producers worldwide are: Dow Chemical Company, LyondellBasell, BASF and Shell Chemicals, which collectively account for approximately one-third of global capacity. Styrene prices are primarily driven by worldwide supply and demand, and the cost of ethylene and benzene and are influenced by prevailing crude oil and natural gas prices. Market prices for styrene increased during 2008 as crude oil prices reached record levels, peaking early in the fourth quarter, then subsequently declined during the remainder of the quarter as crude oil prices decreased significantly.

We satisfy our styrene requirements in the United States pursuant to several purchase agreements with maturities ranging from the end of 2009 to the end of 2011, subject to renewal conditions. We are in the process of negotiating a new contract with a termination date at the end of 2011 with one of our suppliers to replace a purchase agreement expiring at the end of 2009. 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 as a consequence, our future acquisition costs for styrene may therefore increase.

We historically sourced our styrene requirements in Europe from Shell Chemicals pursuant to a contract that expired on February 28, 2007, and from BASF pursuant to a contract that expired on July 31, 2007. We have fully satisfied our styrene requirements in Europe with new purchase contracts expiring on February 28, 2010 that meet our present needs. 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 as a consequence, our future acquisition costs for styrene may therefore increase.

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For our agreements covering our manufacturing facility in the United States, the price we pay for styrene varies with the published prices of styrene and/or the raw materials used to produce styrene. The price we pay for styrene under our agreement covering the Netherlands, France and Germany varies to reflect the published price for styrene even though our purchase price is subject to certain minimums and maximums that vary with other factors.

Butadiene. Butadiene is available on the global petrochemical market with approximately 9 producers in the Americas, 19 producers in Western Europe and 36 producers located in Asia. Prices for butadiene reflect worldwide supply and demand and prevailing crude oil and ethylene prices. Since 2006, we have generally experienced increasing prices for butadiene. Although butadiene pricing was generally strong for most of 2008 due to tight supply/demand and the influence of rising crude oil costs, pricing decreased in late 2008 in response to weakening demand and crude oil price decreases. Pricing has strengthened during the third quarter of 2009 primarily due to butadiene supply limitations.

We have historically had adequate supplies of butadiene. However, in 2008 our supply of butadiene was constrained primarily in North America and Japan due to an industry-wide shortage in those regions that was primarily driven by limited availability of crude C4. Going forward, we believe our contractual and other arrangements with our suppliers will generally provide adequate future supplies of butadiene at competitive prices to support our current sales levels. Growth in the production of our products that require butadiene could be limited by our ability to source additional butadiene at competitive prices.

We currently source butadiene in the United States pursuant to spot supply arrangements with Shell Chemicals and other suppliers. Our U.S. butadiene purchases vary with the published prices for butadiene on world markets. We are currently finalizing butadiene supply contracts with various suppliers, and have recently entered into a butadiene supply contract with a new supplier for supply commencing in 2010 that will expire on December 31, 2012. No assurances can be given that any other agreement(s) will be entered into or as to the volumes or terms of any such agreement(s).

We currently source our butadiene in Europe pursuant to contracts with LyondellBasell. The contract covering Germany will expire on December 31, 2040, and will be renewed automatically at the conclusion of the current term unless terminated with prior written notice by either party. The contract covering France expired effective December 31, 2008. We are presently acquiring butadiene from LyondellBasell in France under a term sheet reflecting an agreement in principle that has been reached between the parties. However, we can provide no assurance to the nature of the final agreement or as to the volumes or terms of such an agreement. The price we pay for butadiene under our agreements covering France and Germany vary based upon the published price for butadiene, the amount of butadiene purchased during the preceding calendar year and/or the cost of butadiene manufactured. In Brazil, butadiene is obtained from a local third-party source. In Kashima, Japan, a majority of our butadiene needs are sourced from JSR on a commercial supply basis. 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 as a consequence, our future acquisition costs for butadiene may therefore increase.

Isoprene. Isoprene is primarily produced and consumed captively by manufacturers for the production of isoprene rubber, which is primarily used in the manufacture of rubber tires. As a result, there is limited non-captive isoprene available in the market place. Prices for isoprene are determined by the supply and prices of natural and synthetic rubber, crude oil and natural gas prices, and existing supply and demand in the market. Market prices for isoprene rose substantially from 2005 through 2006 but declined during 2007 as global supply improved. Subsequently, isoprene prices increased for most of 2008. Following the collapse of energy prices in late 2008, isoprene pricing declined during the first half of 2009. Most recently, isoprene prices have stabilized with moderately rising energy and supply limitations. The increase was largely driven by the reduced availability of raw materials for isoprene extraction. The economic advantage of lighter feeds for ethylene plants reduced the manufacture of by-products, including crude isoprene.

Our largest supplier of isoprene is Shell Chemicals, who pursuant to multiple contracts provides a market-based price component as well as a formula component for determining our net transaction price. If we fail to

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purchase 95% of the agreed quantity of isoprene in either the United States or the Netherlands in a given year, unless excused because of reasonably unforeseen circumstances, including plant breakdowns, we must pay Shell Chemicals an idle capacity fee pursuant to formulas set forth in the contract. The agreement providing isoprene to our Belpre, Ohio facility expires on December 31, 2009 but has been amended to provide for automatic renewal unless either party provides one month prior written notice. As of the filing of this prospectus, we have entered into two isoprene contracts expiring in 2011 and 2012, respectively, for isoprene supply to our plants in Europe, North America and South America. We are in negotiations with other suppliers regarding one or more isoprene supply contracts for periods after December 31, 2009. We also purchase additional supplies of isoprene from various suppliers at prevailing market price. In Kashima, Japan, the majority of our isoprene needs are sourced from JSR on a commercial supply basis and from alternative suppliers as needed. As contracts expire, we may not be able to obtain new long-term supply agreements and the terms of any such agreement may not be on terms favorable to us.

On September 10, 2009, we committed to exit the Pernis facility, where we currently produce IR, as of December 31, 2009. We currently plan to transfer IR production to an alternative company site. We are in the process of completing project scoping, including associated capital requirements, for producing the alternative capacity, and until such alternative production capacity is brought on line, we plan to satisfy customer demand for IR with inventory currently on hand. We believe future isoprene requirements for IR products will be met by our overall i