

Kraton Performance Polymers, Inc.  
Form 10-Q  
May 01, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2012

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

Commission File Number 001-34581

**KRATON PERFORMANCE POLYMERS, INC.**

(Exact Name of Registrant as Specified in its Charter)

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**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**15710 John F. Kennedy Blvd.**

**Suite 300**

**Houston, TX 77032**

(Address of principal executive offices, including zip code)

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

Identification No.)

**281-504-4700**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Securities Exchange Act. (Check one):

Large accelerated filer:

Accelerated filer:

Non-accelerated filer:

Smaller reporting company:

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

Number of shares of Kraton Performance Polymers, Inc. Common Stock, \$0.01 par value, outstanding as of April 26, 2012: 32,241,134.

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**on Form 10-Q for**  
**Quarter Ended March 31, 2012**

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

Some of the statements in this Quarterly Report on Form 10-Q under the headings "Condensed Consolidated Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written or oral forward-looking statements in our periodic reports on Forms 10-K, 10-Q and 8-K, in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements are often characterized by the use of words such as "believes," "estimates," "expects," "projects," "may," "intends," "plans" or "anticipates," or by discussions of strategy, plans or intentions and in this report include statements regarding our general outlook; anticipated benefits of or performance of our products; beliefs regarding opportunities for new, high-margin applications; adequacy of cash flows to fund working capital and anticipated capital expenditures; our anticipated 2012 capital expenditures, including the amount of expenditures related to the semi-works plant, production optimization, and health, safety and environmental infrastructure and maintenance projects; our ability to meet conditions required to ensure full access to our senior secured credit facility; expectations regarding our counterparties' ability to perform; anticipated aggregate and fiscal year 2012 cost estimates for the planned Taiwan manufacturing facility, the portion of such costs we expect to pay, and the manner in which we expect to fund such costs; estimates regarding the tax expense of repatriating certain cash and short-term investments related to foreign operations; our ability to realize certain deferred tax assets and our beliefs with respect to tax positions; estimates related to the useful lives of certain assets for tax purposes; our anticipated dividend policy; expectations regarding our pension contributions for fiscal year 2012; and the outcome and financial impact of legal proceedings, including the IRS review of our U.S. Federal Income tax return for fiscal year 2009. Such forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or our achievements, or industry results, to differ materially from historical results, any future results, or performance or achievements expressed or implied by such forward-looking statements. There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Further description of these risks and uncertainties and other important factors are set forth in this report, in our latest Annual Report on Form 10-K, as subsequently amended on March 8, 2012, including but not limited to Part I, Item 1A. Risk Factors and Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations therein, and in our other filings with the Securities and Exchange Commission, and include, but are not limited to, risks related to:

conditions in the global economy and capital markets;

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

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

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

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

our ability to produce and commercialize technological innovations;

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

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

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

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

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financial and operating constraints related to our indebtedness;

the inherently hazardous nature of chemical manufacturing;

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

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

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

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

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

fluctuations in currency exchange rates;

our planned joint venture in Asia and whether or not it will materialize;

our relationship with our employees;

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

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

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

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

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

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

There may be other factors of which we are currently unaware or that we deem immaterial that may cause our actual results to differ materially from the expectations we express in our forward-looking statements. Although we believe the assumptions underlying our forward-looking

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statements are reasonable, any of these assumptions, and, therefore, also the forward-looking statements based on these assumptions could themselves prove to be inaccurate.

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

### **Presentation of Financial Statements**

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

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

	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 233,476	\$ 88,579
Receivables, net of allowances of \$662 and \$549	186,567	142,696
Inventories of products, net	355,680	394,796
Inventories of materials and supplies, net	10,292	9,996
Deferred income taxes	2,140	2,140
Other current assets	31,353	27,328
<b>Total current assets</b>	<b>819,508</b>	<b>665,535</b>
Property, plant and equipment, less accumulated depreciation of \$298,121 and \$281,442	370,527	372,973
Identifiable intangible assets, less accumulated amortization of \$60,762 and \$58,530	65,603	66,184
Investment in unconsolidated joint venture	13,294	13,350
Debt issuance costs	13,179	11,106
Other long-term assets	24,946	24,608
<b>Total assets</b>	<b>\$ 1,307,057</b>	<b>\$ 1,153,756</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 8,438	\$ 7,500
Accounts payable-trade	102,449	88,026
Other payables and accruals	49,586	51,253
Due to related party	26,880	14,311
<b>Total current liabilities</b>	<b>187,353</b>	<b>161,090</b>
Long-term debt, net of current portion	483,437	385,000
Deferred income taxes	5,802	6,214
Other long-term liabilities	83,969	83,658
<b>Total liabilities</b>	<b>760,561</b>	<b>635,962</b>
Commitments and contingencies (note 11)		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 100,000 shares authorized; none issued	0	0
Common stock, \$0.01 par value; 500,000 shares authorized; 32,243 shares issued and outstanding at March 31, 2012; 32,092 shares issued and outstanding at December 31, 2011	322	321



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Additional paid in capital	349,594	347,455
Retained earnings	203,989	187,636
Accumulated other comprehensive loss	(7,409)	(17,618)
Total stockholders' equity	546,496	517,794
Total liabilities and stockholders' equity	\$ 1,307,057	\$ 1,153,756

See Notes to Condensed Consolidated Financial Statements

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
Sales revenue	\$ 408,313	\$ 344,828
Cost of goods sold	332,794	257,977
<b>Gross profit</b>	<b>75,519</b>	<b>86,851</b>
Operating expenses:		
Research and development	7,560	6,602
Selling, general and administrative	26,463	27,171
Depreciation and amortization	15,849	14,626
<b>Total operating expenses</b>	<b>49,872</b>	<b>48,399</b>
Loss on extinguishment of debt	0	2,985
Earnings of unconsolidated joint venture	137	141
Interest expense, net	6,699	11,181
<b>Income before income taxes</b>	<b>19,085</b>	<b>24,427</b>
Income tax expense	2,732	2,550
<b>Net income</b>	<b>\$ 16,353</b>	<b>\$ 21,877</b>
<b>Earnings per common share:</b>		
Basic	\$ 0.51	\$ 0.69
Diluted	\$ 0.50	\$ 0.68
<b>Weighted average common shares outstanding:</b>		
Basic	31,908	31,609
Diluted	32,248	32,197

See Notes to Condensed Consolidated Financial Statements

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**KRATON PERFORMANCE POLYMERS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

**(In thousands)**

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net income	\$ 16,353	\$ 21,877
Other comprehensive income:		
Foreign currency translation adjustments, net of tax of \$0 and \$0	10,326	17,305
Reclassification of loss on interest rate swap, net of tax of \$0 and \$0	0	1,073
Increase in unrealized loss of interest rate swaps, net of tax of \$0 and \$0	(117)	0
Other comprehensive income, net of tax	10,209	18,378
Total comprehensive income	\$ 26,562	\$ 40,255

See Notes to Condensed Consolidated Financial Statements

**Table of Contents****KRATON PERFORMANCE POLYMERS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 16,353	\$ 21,877
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,849	14,626
Amortization of debt issuance costs	668	4,762
Loss on disposal of fixed assets	358	5
Loss on extinguishment of debt	0	2,985
Net distributed earnings from unconsolidated joint venture	263	374
Deferred income tax expense (benefit)	(412)	735
Share-based compensation	1,880	1,294
<i>Decrease (increase) in:</i>		
Accounts receivable	(42,411)	(36,792)
Inventories of products, materials and supplies	41,958	(31,359)
Other assets	(3,342)	(12,626)
<i>Increase (decrease) in:</i>		
Accounts payable-trade	13,124	(4,677)
Other payables and accruals	(2,402)	(12,192)
Other long-term liabilities	251	