

Kraton Performance Polymers, Inc.  
Form 10-Q  
May 02, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2013

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

Commission File Number 001-34581

**KRATON PERFORMANCE POLYMERS, INC.**

(Exact Name of Registrant as Specified in its Charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**15710 John F. Kennedy Blvd.**

**Suite 300**

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

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

Identification No.)

**281-504-4700**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer:

Accelerated filer:

Non-accelerated filer:

Smaller reporting company:

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

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

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**on Form 10-Q for**  
**Quarter Ended March 31, 2013**

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

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

conditions in the global economy and capital markets;

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

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

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

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

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

our ability to produce and commercialize technological innovations;

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

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

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

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

financial and operating constraints related to our indebtedness;

the inherently hazardous nature of chemical manufacturing;

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

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

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

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

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

fluctuations in currency exchange rates;

we may have additional tax liabilities;

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

our relationship with our employees;

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

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

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

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

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

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

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

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

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

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**Presentation of Financial Statements**

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

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

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 136,118	\$ 223,166
Receivables, net of allowances of \$485 and \$401	153,747	124,635
Inventories of products	349,788	340,323
Inventories of materials and supplies	10,469	10,331
Deferred income taxes	7,779	7,869
Other current assets	26,952	28,363
<b>Total current assets</b>	<b>684,853</b>	<b>734,687</b>
Property, plant and equipment, less accumulated depreciation of \$320,521 and \$311,779	378,542	381,205
Intangible assets, less accumulated amortization of \$71,026 and \$68,531	61,539	63,393
Investment in unconsolidated joint venture	12,989	13,582
Debt issuance costs	10,533	10,846
Deferred income taxes	67	79
Other long-term assets	26,226	25,397
<b>Total assets</b>	<b>\$ 1,174,749</b>	<b>\$ 1,229,189</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 0	\$ 15,074
Accounts payable-trade	107,960	99,167
Other payables and accruals	32,439	50,978
Deferred income taxes	511	513
Due to related party	22,421	16,080
<b>Total current liabilities</b>	<b>163,331</b>	<b>181,812</b>
Long-term debt, net of current portion	391,104	432,943
Deferred income taxes	20,787	22,273
Other long-term liabilities	101,488	99,946
<b>Total liabilities</b>	<b>676,710</b>	<b>736,974</b>
Commitments and contingencies (note 10)		
Equity:		
Kraton stockholders' equity:		
Preferred stock, \$0.01 par value; 100,000 shares authorized; none issued	0	0

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Common stock, \$0.01 par value; 500,000 shares authorized; 32,528 shares issued and outstanding at March 31, 2013; 32,277 shares issued and outstanding at December 31, 2012	325	323
Additional paid in capital	357,788	354,957
Retained earnings	167,697	171,445
Accumulated other comprehensive loss	(43,169)	(34,510)
<b>Total Kraton stockholders' equity</b>	<b>482,641</b>	<b>492,215</b>
Noncontrolling interest	15,398	0
<b>Total equity</b>	<b>498,039</b>	<b>492,215</b>
Total liabilities and equity	\$ 1,174,749	\$ 1,229,189

See Notes to Condensed Consolidated Financial Statements

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

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Sales revenue	\$ 340,107	\$ 408,313
Cost of goods sold	280,196	332,794
<b>Gross profit</b>	<b>59,911</b>	<b>75,519</b>
Operating expenses:		
Research and development	7,913	7,560
Selling, general and administrative	26,114	26,463
Depreciation and amortization	15,098	15,849
<b>Total operating expenses</b>	<b>49,125</b>	<b>49,872</b>
Earnings of unconsolidated joint venture	134	137
Interest expense, net	13,298	6,699
<b>Income (loss) before income taxes</b>	<b>(2,378)</b>	<b>19,085</b>
Income tax expense	1,446	2,732
<b>Consolidated net income (loss)</b>	<b>(3,824)</b>	<b>16,353</b>
Net loss attributable to noncontrolling interest	(76)	0
<b>Net income (loss) attributable to Kraton</b>	<b>\$ (3,748)</b>	<b>\$ 16,353</b>
Earnings (loss) per common share:		
Basic	\$ (0.12)	\$ 0.51
Diluted	\$ (0.12)	\$ 0.50
Weighted average common shares outstanding:		
Basic	32,062	31,908
Diluted	32,062	32,248

See Notes to Condensed Consolidated Financial Statements.

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**KRATON PERFORMANCE POLYMERS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(Unaudited)**

**(In thousands)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income (loss) attributable to Kraton	\$ (3,748)	\$ 16,353
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax of \$0	(9,271)	10,326
(Increase) decrease in unrealized loss on interest rate swaps, net of tax of \$0	837	(117)
Unrealized loss of net investment hedge, net of tax of \$0	(225)	0
Other comprehensive income (loss), net of tax	(8,659)	10,209
Comprehensive income (loss) attributable to Kraton	(12,407)	26,562
Comprehensive income attributable to noncontrolling interest	224	0
Consolidated comprehensive income (loss)	\$ (12,183)	\$ 26,562

See Notes to Condensed Consolidated Financial Statements

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**KRATON PERFORMANCE POLYMERS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**(Unaudited)**

**(In thousands)**

	<b>Common Stock</b>	<b>Additional Paid in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Kraton Stockholders Equity</b>	<b>Noncontrolling Interest</b>	<b>Total Equity</b>
Balance at December 31, 2011	\$ 321	\$ 347,455	\$ 187,636	\$ (17,618)			