UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K /A

Amendment No. 1

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009 or

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

Commission file number

333-123749

KRATON PERFORMANCE POLYMERS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-0411521**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

15710 John F. Kennedy Blvd, Suite 300

Houston, TX 77032	**281-504-4700**
(Address of principal executive offices, including zip code)	**(Registrant s telephone number, including area code)**

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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: x	Smaller reporting company: ¨

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

Estimated aggregate market value of the common equity held by nonaffiliates of Kraton Performance Polymers, Inc. June 30, 2009: $0.

Number of shares of Kraton Performance Polymers, Inc. Common Stock, $0.01 par value, outstanding at February 23, 2010: 30,726,403.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Kraton Performance Polymers, Inc. s proxy statement for the 2010 Annual Meeting of Shareholders are incorporated by reference in Part III.

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Explanatory Note

We are filing this Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2009, which was filed with the U.S. Securities and Exchange Commission on March 15, 2010, or the Original Filing. The sole purpose of this Amendment No. 1 is to provide selected quarterly financial data required by Item 302 of Regulation S-K that was omitted from the Original Filing, which is included below under Item 8 Financial Statements and Supplementary Data. Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, we have reattached our financial statements as exhibits to this Amendment No. 1. However, we have made no changes to our financial statements or to the Original Filing other than the correction noted above. Except as expressly set forth above, this Amendment No. 1 does not, and does not purport to, amend or restate the information in any other item of the Original Filing.

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PART II

Item 8. Financial Statements and Supplementary Data.

The financial statements are set forth herein commencing on page F-3 of this report.

Selected Quarterly Financial Data (Unaudited)

The following table sets forth a summary of Kraton Performance Polymers, Inc. s quarterly financial information for each of the four quarters ended December 31, 2009 and December 31, 2008:

	First Quarter(1)	Second Quarter(2)	Third Quarter(3)	Fourth Quarter(4)(5)	Total
	(In thousands, except per share data)				
2009					
Operating revenues	$ 184,957	$ 243,821	$ 288,518	$ 250,708	$ 968,004
Gross profit	8,934	35,761	69,969	60,868	175,532
Operating income	(26,849)	96	28,135	6,683	8,065
Net income (loss)	(16,461)	(4,178)	21,865	(1,516)	(290)
Earnings (loss) per common share					
Basic	(0.85)	(0.22)	1.13	(0.07)	(0.01)
Diluted	(0.85)	(0.22)	1.12	(0.07)	(0.01)
Weighted average common shares outstanding					
Basic	19,407	19,410	19,433	21,111	19,844
Diluted	19,407	19,410	19,496	21,111	19,844
2008					
Operating revenues	$ 266,861	$ 345,369	$ 382,167	$ 231,636	$ 1,226,033
Gross profit	48,785	62,546	94,448	48,971	254,750
Operating income (loss)	760	22,124	47,308	2,916	73,108
Net income (loss)	(9,413)	10,213	34,614	(6,995)	28,419
Earnings (loss) per common share					
Basic	(0.49)	0.53	1.78	(0.36)	1.46
Diluted	(0.49)	0.53	1.77	(0.36)	1.46
Weighted average common shares outstanding					
Basic	19,390	19,406	19,415	19,413	19,406
Diluted	19,390	19,448	19,511	19,413	19,483

(1) During the first quarter of 2009, we recorded a gain of $19.5 million associated with the purchase and retirement of a portion of the 8.125% senior subordinated notes, which is included in Gain on Extinguishment of Debt.

(2) During the second quarter of 2009, we recorded a gain of $4.3 million associated with the purchase and retirement of a portion of the 8.125% senior subordinated notes, which is included in Gain on Extinguishment of Debt.

(3) During the third quarter of 2009, we recorded restructuring costs of $6.0 million and a $1.1 million non-cash charge to write-down our inventory of spare-parts associated with the shutdown and exit from the Pernis, the Netherlands facilities, which are included in Cost of Goods Sold.

(4) During the fourth quarter of 2009, we recorded one-time accelerated depreciation of $14.3 million associated with the shutdown and exit from the Pernis, the Netherlands facilities, which is included in Depreciation and amortization of identifiable intangibles.

(5) During the fourth quarter of 2008, we recorded a lower-of-cost-or-market adjustment for inventory of $8.1 million, which is included in Cost of Goods Sold.

Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per share information may not equal annual basic and diluted earnings per share.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) 1. Financial Statements

The following financial statements are included in Item 8:

Kraton Performance Polymers, Inc.

(i) Report of KPMG LLP, Independent Registered Public Accounting Firm

(ii) Consolidated Balance Sheets as of December 31, 2009 and 2008

(iii) Consolidated Statements of Operations years ended December 31, 2009, 2008 and 2007

(iv) Consolidated Statements of Changes in Stockholders and Member s Equity and Comprehensive Income (Loss) years ended December 31, 2009, 2008 and 2007

(v) Consolidated Statements of Cash Flows years ended December 31, 2009, 2008 and 2007

(vi) Notes to consolidated financial statements

2. Exhibits

The exhibits listed on the accompanying Exhibit Index are filed as part of this Amendment No. 1 on Form 10-K/A or incorporated herein by reference.

(b) Exhibits

See Item 15(a) 2 above.

(c) Financial Statement Schedule

See Schedule II.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 31, 2010

Kraton Performance Polymers, Inc.

/s/ KEVIN M. FOGARTY
Kevin M. Fogarty

President and Chief Executive Officer

This report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 31, 2010.

Signature	Title
/s/ KEVIN M. FOGARTY **Kevin M. Fogarty**	President, Chief Executive Officer and a Director (Principal Executive Officer)
/s/ STEPHEN E. TREMBLAY **Stephen E. Tremblay**	Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ LOUIS A. VITALE **Louis A. Vitale**	Controller (Chief Accounting Officer)
/s/ DAN F. SMITH* **Dan F. Smith**	Director and Chairman of the Board of Directors
/s/ BARRY J. GOLDSTEIN* **Barry J. Goldstein**	Director and Chairman of the Audit Committee
/s/ KELVIN L. DAVIS* **Kelvin L. Davis**	Director
/s/ MICHAEL G. MACDOUGALL* **Michael G. MacDougall**	Director
/s/ NATHAN H. WRIGHT* **Nathan H. Wright**	Director
/s/ TIMOTHY J. WALSH*	Director

Timothy J. Walsh	
/s/ KEVIN G. O BRIEN*	Director
Kevin G. O Brien	

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/s/ Steven J. Demetriou*	Director
Steven J. Demetriou	
/s/ Richard C. Brown*	Director
Richard C. Brown	
/s/ Karen A. Twitchell*	Director
Karen A. Twitchell	

*By: /s/ Stephen E. Tremblay
Stephen E. Tremblay

As attorney-in-fact

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KRATON PERFORMANCE POLYMERS, INC.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Kraton Performance Polymers, Inc.:

We have audited the accompanying consolidated balance sheets of Kraton Performance Polymers, Inc. (formerly Polymer Holdings LLC) and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders and member s equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of Kraton Performance Polymers, Inc. s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kraton Performance Polymers, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Houston, Texas

March 15, 2010

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	December 31, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 69,291	$ 101,396
Receivables, net of allowances of $1,335 and $2,512	115,329	95,443
Inventories of products, net	284,258	324,193
Inventories of materials and supplies, net	10,862	11,055
Deferred income taxes	3,107	14,778
Other current assets	16,770	6,769
Total current assets	499,617	553,634
Property, plant and equipment, less accumulated depreciation of $236,558 and $182,252	354,860	372,008
Identifiable intangible assets, less accumulated amortization of $42,741 and $36,169	75,801	67,051
Investment in unconsolidated joint venture	12,078	12,371
Deferred financing costs	7,318	8,184
Other long-term assets	24,825	18,626
Total Assets	$ 974,499	$ 1,031,874
LIABILITIES AND STOCKHOLDERS AND MEMBER S EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 2,304	$ 3,343
Accounts payable-trade	93,494	75,177
Other payables and accruals	68,271	69,349
Due to related party	19,006	25,585
Total current liabilities	183,075	173,454
Long-term debt, net of current portion	382,675	571,973
Deferred income taxes	13,488	34,954
Long-term liabilities	46,477	63,117
Total Liabilities	625,715	843,498
Commitments and contingencies (note 8)		
Stockholders and Member s equity		
Preferred stock, $0.01 par value; 100,000 shares authorized; none issued		
Common stock, $0.01 par value; 500,000 shares authorized; 29,709 shares issued and outstanding	297	
Additional paid in capital	311,665	
Member s equity		182,553
Retained earnings	(14)	
Accumulated other comprehensive income	36,836	5,823
Total stockholders and member s equity	348,784	188,376
Total Liabilities and Stockholders and Member s Equity	$ 974,499	$ 1,031,874

See Notes to Consolidated Financial Statements

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Years ended December 31,		
	2009	**2008**	**2007**
Operating Revenues			
Sales	$ 920,362	$ 1,171,253	$ 1,066,044
Other	47,642	54,780	23,543
Total operating revenues	968,004	1,226,033	1,089,587
Cost of Goods Sold	792,472	971,283	938,556
Gross Profit	175,532	254,750	151,031
Operating Expenses			
Research and development	21,212	27,049	24,865
Selling, general and administrative	79,504	101,431	69,020
Depreciation and amortization of identifiable intangibles	66,751	53,162	51,917
Total operating expenses	167,467	181,642	145,802
Gain on Extinguishment of Debt	23,831		
Equity in Earnings of Unconsolidated Joint Venture	403	437	626
Interest Expense, net	33,956	36,695	43,484
Income (Loss) Before Income Taxes	(1,657)	36,850	(37,629)
Income Tax Expense (Benefit)	(1,367)	8,431	6,120
Net Income (Loss)	$ (290)	$ 28,419	$ (43,749)
Earnings (Loss) per common share			
Basic	$ (0.01)	$ 1.46	$ (2.26)
Diluted	$ (0.01)	$ 1.46	$ (2.26)
Weighted average common shares outstanding			
Basic	19,844	19,406	19,375
Diluted	19,844	19,483	19,375

See Notes to Consolidated Financial Statements

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS AND MEMBER S EQUITY AND COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings (post 12/17/2009)	Common Equity (pre 12/17/2009)	Accumulated Other Comprehensive Income (Loss)	Total
December 31, 2006	$	$	$	$ 183,918	$ 15,630	$ 199,548
Net loss				(43,749)		(43,749)
Other comprehensive loss						
Foreign currency translation adjustments, net of tax					21,457	21,457
Realized loss on interest rate swaps, net of tax					(1,863)	(1,863)
Decrease in pension liability, net of deferred tax liability of $1,800					4,337	4,337
Total comprehensive loss						(19,818)
Non-cash compensation related to equity awards				2,781		2,781
December 31, 2007				142,950	39,561	182,511
Net income				28,419		28,419
Other comprehensive loss						
Foreign currency translation adjustments, net of tax					5,396	5,396
Net unrealized loss on interest rate swaps					(858)	(858)
Reclassification of interest rate swaps into earnings					(1,326)	(1,326)
Increase in pension liability, net of tax					(36,950)	(36,950)
Total comprehensive loss						(5,319)
Cash contribution from member				10,000		10,000
Non-cash compensation related to equity awards				1,184		1,184
December 31, 2008				182,553	5,823	188,376
Net loss			(14)	(276)		(290)
Other comprehensive income						
Foreign currency translation adjustments, net of tax					14,023	14,023
Net unrealized loss on interest rate swaps					3,158	3,158
Reclassification of interest rate swaps into earnings					(2,827)	(2,827)
Increase in pension liability, net of tax					16,659	16,659
Total comprehensive income						30,723
Non-cash compensation related to equity awards				2,160		2,160
Liquidation of Kraton Polymers Management LLC				(1,760)		(1,760)
Non-cash contribution from member				2,560		2,560
Equity conversion December 16, 2009	194	185,043		(185,237)		
Public stock offering, December 17, 2009	103	126,622				126,725
December 31, 2009	$ 297	$ 311,665	$ (14)		$ 36,836	$ 348,784

See Notes to Consolidated Financial Statements

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years ended December 31, 2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ (290)	$ 28,419	$ (43,749)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of identifiable intangibles	66,751	53,162	51,917
Accretion of debt discount	5	24	24
Inventory impairment	1,769	8,100	
Amortization of deferred financing costs	4,090	2,139	2,715
Loss on disposal of fixed assets	348	184	274
Gain on extinguishment of debt	(23,831)		
Change in fair value of interest rate swaps	(2,827)	(1,378)	(1,553)
Distributed (undistributed) earnings in unconsolidated joint venture	30	604	(520)
Deferred income tax expense (benefit)	(4,623)	(5,445)	1,519
Non-cash compensation related to equity awards	2,160	1,184	2,781
Decrease (increase) in			
Accounts receivable	(16,680)	42,815	8,710
Due to/from related party	(6,180)	(6,007)	14,704
Inventories of products, materials and supplies	44,060	(86,738)	17,793
Other assets	(305)	(1,377)	(1,525)
Increase in			
Accounts payable-trade, other payables and accruals, and long-term	8,328	4,541	28,647
Net cash provided by operating activities	72,805	40,227	81,737
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(38,101)	(24,093)	(28,713)
Purchase of software	(15,322)		
Proceeds from sale of property, plant and equipment	3,870	26	43
Net cash used in investing activities	(49,553)	(24,067)	(28,670)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt	144,000	316,250	48,500
Repayment of debt	(308,131)	(279,644)	(92,148)
Cash contribution from member		10,000	
Proceeds from issuance of common stock	126,725		
Repayment of insurance note payable		(494)	(245)
Deferred financing costs	(3,216)		
Net cash provided by (used in) financing activities	(40,622)	46,112	(43,893)
Effect of exchange rate differences on cash	(14,735)	(9,153)	(4,498)
Net increase (decrease) in cash and cash equivalents	(32,105)	53,119	4,676
Cash and cash equivalents at beginning of period	101,396	48,277	43,601
Cash and cash equivalents at end of period	$ 69,291	$ 101,396	$ 48,277

Supplemental Disclosures			
Cash paid during the period for income taxes	$ 9,164	$ 11,251	$ 8,912
Cash paid during the period for interest	$ 34,707	$ 39,533	$ 37,052

See Notes to Consolidated Financial Statements

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KRATON PERFORMANCE POLYMERS, INC.

Notes to Consolidated Financial Statements

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1. Summary of Operations and Significant Accounting Policies

Organization and Description of Business. Kraton Performance Polymers, Inc., or Kraton Performance Polymers, and its direct and indirect subsidiaries, are, unless the context requires otherwise, collectively referred to herein as we, our, us, our company and/or the Company. Kraton Performance Polymers is the sole Member and 100% equity owner of Kraton Polymers LLC. As used herein, the term Kraton refers to Kraton Polymers LLC, and, unless the context herein requires otherwise, said term shall include the direct and indirect subsidiaries of Kraton Polymers LLC. Kraton Polymers LLC directly or indirectly owns 100% of the equity interests in (1) Elastomers Holdings LLC (holding company of Kraton s United States (U.S.) operations), (2) K.P. Global Holdings C.V. (holding company of the remainder of our global operations) and (3) Kraton Polymers Capital Corporation (a company with no obligations). We believe we are the world s leading producer in terms of sales revenues and sales 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. We manufacture products at five plants globally, including our flagship plant in Belpre, Ohio, the largest and most diversified SBC plant in the world, as well as plants in Germany, France, Brazil, and Japan. The plant in Japan is operated by a unconsolidated manufacturing joint venture.

Corporate History

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 LLC acquired all of Kraton s outstanding equity interests from Ripplewood Chemical. Prior to our initial public offering and related reorganization transactions, described below, we were a wholly-owned

KRATON PERFORMANCE POLYMERS, INC.

Notes to Consolidated Financial Statements (Continued)

subsidiary of TJ Chemical Holdings LLC and were indirectly owned by certain affiliates of TPG Capital, L.P., which we refer to collectively as TPG, and certain affiliates of J.P. Morgan Partners, LLC, which we refer to collectively as JPMP, and certain members of our management.

Initial Public Offering

On December 16, 2009, Polymer Holdings, and its consolidated subsidiaries were converted from a Delaware limited liability company to a Delaware corporation and renamed Kraton Performance Polymers, Inc. In addition, prior to the closing of the IPO, TJ Chemical, was merged into (and did not survive the merger with) Kraton. Trading in shares of our common stock on the NYSE commenced on December 17, 2009 under the symbol KRA . On December 22, 2009, Kraton Performance Polymers, Inc., the parent and owner of 100% of the membership interests in Kraton closed its IPO. Including 887,082 shares issued on January 7, 2010 following the exercise of the underwriters over-allotment option, the aggregate shares issued in connection with the IPO amounted to 11,181,200 shares, at a price of $13.50 per share, and the net proceeds after the underwriting discounts and commissions and fees and expenses amounted to approximately $138.0 million. We used $100.0 million of the net proceeds to prepay outstanding indebtedness, with the balance to be used for general corporate purposes, including to fund strategic capital projects such as alternative production capabilities for Isoprene Rubber or IR, the development of additional capacity in our Isoprene Latex business, and/or the continuation of our upgrade of certain systems and operating controls at our Belpre, Ohio facility. Following the IPO, related reorganization transactions, and the exercise of the underwriters over-allotment option TPG, owned approximately 37.6% of our common stock and JPMP, owned approximately 25.1% of our common stock.

Basis of Presentation. The accompanying Consolidated Financial Statements presented herein are for us and our consolidated subsidiaries, each of which is a wholly-owned subsidiary. Polymer Holdings LLC, or Polymer Holdings, and its consolidated subsidiaries are treated as our predecessor entity for financial statement reporting purposes. The Consolidated Financial Statements present our historical financial statements and the historical financial statements of our predecessor. Accordingly the information for periods prior to December 22, 2009, is that of Polymer Holdings. The historical Consolidated Financial Statements presented for the years ended December 31, 2009, 2008 and 2007 and as of December 31, 2009 and 2008 have been derived from our audited consolidated financial statements.

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

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts and sales returns; the valuation of derivatives, deferred tax assets, property, plant and equipment, inventory, investments and share-based compensation; and liabilities for employee benefit obligations, asset retirement obligations, income tax uncertainties and other contingencies.

Reclassifications. Certain amounts reported in the Consolidated Financial Statements and Notes to Consolidated Financial Statements for the prior periods have been reclassified to conform to the current reporting presentation.

Cash and Cash Equivalents. It is our policy to invest our excess cash in investment instruments whose value is not subject to market fluctuations, such as bank deposits or certificates of deposit. Other permitted

KRATON PERFORMANCE POLYMERS, INC.

Notes to Consolidated Financial Statements (Continued)

investments include commercial paper of major U.S. corporations with ratings of A1 by Standard & Poor s Ratings Group or P1 by Moody s Investor Services, Inc., loan participations of major U.S. corporations with a short term credit rating of A1/P1 and direct obligations of the U.S. government or its agencies. We consider all investments having a remaining maturity of 3 months or less to be cash equivalents.

Receivables. Receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing receivables. We determine the allowance based on historical write-off experience and global economic data. We review the allowance for doubtful accounts quarterly. Past due balances over 90 days and above a specified amount are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance sheet credit exposure related to our customers.

Inventories. Our inventory is principally comprised of finished goods inventory. Inventories are stated at the lower of cost or market as 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.

Derivative Instruments and Hedging Activities. We account for derivatives and hedging activities in accordance with FASB ASC Topic 815, *Derivatives and Hedging* (Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended), which requires entities to recognize all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values. For derivatives designated in cash flow hedging relationships, changes in the fair value are either offset through earnings against the change in fair value of the hedged item attributable to the risk being hedged or recognized in accumulated other comprehensive income, to the extent the derivative is effective at offsetting the changes in cash flows being hedged until the hedged item affects earnings.

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

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

In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we continue to carry the derivative at its fair value on the balance sheet and recognize any subsequent changes in its

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Notes to Consolidated Financial Statements (Continued)

fair value in earnings. When it is probable that a forecasted transaction will not occur, we discontinue hedge accounting and recognize immediately in earnings gains and losses that were accumulated in other comprehensive income related to the hedging relationship.

Property, Plant and Equipment. Property, plant and equipment are recorded at cost. Major renewals and improvements which extend the useful lives of equipment are capitalized. Repair and maintenance expenses are charged to operations as incurred. Disposals are removed at carrying cost less accumulated depreciation with any resulting gain or loss reflected in operations. 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 average 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

Major Maintenance Activities. We incur maintenance costs on our major equipment. Repair and maintenance costs are expensed as incurred.

Asset Retirement Obligations. We account for asset retirement obligations pursuant to the provisions of ASC 410-20, Asset Retirement Obligations. ASC 410-20 requires us to record the fair value of an asset retirement obligation as a liability in the period in which we incur a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. ASC 410-20 also requires us to record a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is to be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

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

Long-Lived Assets. In accordance with Impairment or Disposal of Long-Lived Assets Subsections of FASB ASC Subtopic 360-10, *Property, Plant, and Equipment Overall*, (FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the

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extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Identifiable Intangible Assets. We have identifiable intangible assets related to technology, tradenames/trademarks, customer relationships and software as detailed in Note 3 below. Identifiable intangible assets are amortized on the straight-line method over the estimated useful lives of the assets. The estimated useful life of technology, tradenames/trademarks and customer relationships is 15 years, while the estimated useful life of software is 10 years.

Pension and Other Postretirement Plans. We have a noncontributory defined benefit pension plan covering substantially all of our employees upon their retirement. The benefits are based on age, years of service and the level of compensation during the five years before retirement. We also sponsor a defined benefit health care plan for substantially all retirees and full-time employees.

We record annual amounts relating to our pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. We review our assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income and amortized to net periodic cost over future periods using the corridor method. We believe that the assumptions utilized in recording our obligations under our plans are reasonable based on our experience and market conditions.

The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

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

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

Deferred Financing Costs. We capitalize financing fees and other related costs and amortize them to interest expense over the term of the related debt instrument using the effective interest method.

Environmental Costs. Environmental costs are expensed as incurred unless the expenditures extend the economic useful life of the relevant assets. Costs that extend the economic life of assets are capitalized and

depreciated over the remaining life of those assets. Liabilities are recorded when environmental assessments, or remedial efforts are probable, and the cost can be reasonably estimated.

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Notes to Consolidated Financial Statements (Continued)

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

Revenue Recognition. Sales are recognized in accordance with the U.S. Securities and Exchange Commission s Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition in Financial Statements when the revenue is realized or realizable, and has been earned. Revenue for product sales is recognized as risk and title to the product transfer to the customer, which usually occurs at the time shipment is made. The Company s products are generally sold FOB (free on board) shipping point or, with respect to countries other than the United States, an equivalent basis. As such, title to the product passes when the product is delivered to the freight carrier. The Company s standard terms of delivery are included in its contracts of sale, order confirmation documents and invoices.

Shipping and other transportation costs charged to customers are recorded in both sales and cost of sales. Sales revenues are reduced by the expense of rebates to customers as agreed upon volume targets are met.

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

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

Leases. All leases entered into as of December 31, 2009 are classified as operating leases. For those leases which contain escalating rent payment clauses, we use the straight-line method to record lease expense.

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

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

Foreign Currency Translation and Foreign Currency Exchange Rates. Financial statements of our operations outside the United States where the local currency is considered to be the functional currency are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and the

KRATON PERFORMANCE POLYMERS, INC.

Notes to Consolidated Financial Statements (Continued)

average exchange rate for each period for revenues, expenses, gains, and losses and cash flows. The effects of translating such operations into U.S. dollars are included as a component of other comprehensive income (loss) in stockholders / member s equity.

New Accounting Pronouncements 2009. The following new accounting pronouncements were adopted during 2009 and the effect of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements:

Adopted Accounting Standards

In January 2009, the Financial Accounting Standards Board (FASB), issued *FASB Staff Position (FSP) No. FAS No. 132(R)-1 Employers Disclosures about Pensions and Other Postretirement Benefit Plan Assets (FSP FAS No. 132(R)-1)*, included in the Codification as ASC 715-20-65-2. This topic provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. This topic is effective for fiscal years ending after December 15, 2009. Our adoption of the new guidance did not have a material effect on our consolidated financial statements.

In May 2009, the FASB issued new guidance for subsequent events. The new guidance, which is part of ASC 855, *Subsequent Events,* is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The new guidance is effective for fiscal years and interim periods ended after June 15, 2009 and will be applied prospectively. Our adoption of the new guidance did not have a material effect on our consolidated financial statements.

In April 2008, the FASB issued *FSP No. 142-3, Determination of the Useful Life of Intangible Assets (FSP No. 142-3)*, included in the Codification as ASC 350-30-50-4. This topic amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This topic is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. On January 1, 2009, we adopted this topic, which did not have any impact on our consolidated financial statements.

In March 2008, the FASB issued *SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133 (SFAS No. 161)*, included in the Codification as ASC 815-10-65-1. This topic requires enhanced disclosure related to derivatives and hedging activities. This topic must be applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items for all financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We adopted this topic on January 1, 2009.

In December 2007, the FASB issued *SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R))*, which is a revision of SFAS 141, Business Combinations, included in the Codification as ASC 805-10-05-2. The primary requirements of this topic are as follows: (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

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Notes to Consolidated Financial Statements (Continued)

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.

New Accounting Pronouncements. The following new accounting pronouncements have been issued, but have not yet been adopted as of December 31, 2009:

Future Adoption of Accounting Standards

In October 2009, FASB issued Accounting Standards Update (ASU), Number 2009-13 Revenue Recognition (Topic 605): Multiple-Deliverable Arrangements consensus of the FASB Emerging Issues Task Force. This update amends the revenue recognition guidance for arrangements with multiple deliverables. The amendments allow vendors to account for products and services separately rather than as a combined unit. A selling price hierarchy for determining the selling price of each deliverable is established in this ASU, along with eliminating the residual method. The amendments are effective for revenue arrangements that begin or are changed in fiscal years that start June 15, 2010 or later. We are in the process of assessing the provisions of this new guidance and currently do not expect that the adoption will have a material impact on our consolidated financial statements.

2. Share-Based Compensation

We account for share-based awards under the provisions of ASC 718, Share-Based Payment, which established the accounting for share-based awards exchanged for employee services. Accordingly, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. We record non-cash compensation expense for the restricted membership units, notional membership units and option awards over the vesting period using the straight-line method. See Note 12 for further discussion.

See Note 7(f) for a description of the TJ Chemical Holdings LLC 2004 Option Plan. There were 0, 11,463,118 and 50,000 options granted under this plan to our employees and directors during the years ended December 31, 2009, 2008 and 2007, respectively. We awarded 74,008 shares of restricted stock on December 22, 2009. There were no options exercised during the years ended December 31, 2009, 2008 and 2007, respectively.

We record non-cash compensation expense for the restricted membership units, notional membership units and option awards over the vesting period using the straight-line method. We recorded share-based employee compensation expense of approximately $1.4 million, $0.8 million and $1.5 million for the years ended December 31, 2009, 2008 and 2007, respectively, net of tax effects of $0.8 million, $0.4 million and $0.9 million, respectively. At December 31, 2009, there was approximately $1.4 million of unrecognized compensation cost related to non-vested option awards, and $1.5 million of unrecognized compensation expense related to non-vested restricted membership unit and notional membership unit awards expected to be recognized over a weighted-average period of 6.8 years.

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Stock Option Activity

Information pertaining to option activity for the year ended December 31, 2009 is as follows:

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value(1) (in millions)
Outstanding at December 31, 2008	22,101	$ 1.00	6.8	
Granted				
Exercised				
Forfeited or expired	685	1.00		
Outstanding at December 16, 2009	21,416	1.00		
Conversion rate is 7.4008 new to 100 old(2)				
Outstanding at December 17, 2009	1,585	13.51		
Granted				
Exercised				
Forfeited or expired				
Outstanding at December 31, 2009	1,585	13.51	6.8	0.1
Exercisable at December 31, 2009	955	13.51	6.0	

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

(2) $100 \div 7.4008 = 13.51$.

Prior to December 17, 2009, we engaged an independent valuation and financial consultant to estimate the fair value of the options issued using the Black-Scholes Merton option-pricing model.

The number, weighted average exercise price and weighted average remaining contractual life of options outstanding as of December 31, 2009, and the number and weighted average exercise price of options exercisable as of December 31, 2009 follow:

	Range of Exercise Prices	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
Outstanding options	$ 13.51	1,585	$ 13.51	6.8
Exercisable options	13.51	955	13.51	6.0

See Note 7(e) for a description of the TJ Chemical Holdings LLC Membership Units Plan. TJ Chemical Holdings LLC may grant time-vested restricted membership units and time-vested notional membership units to certain employees. Holders of notional membership units do not have any beneficial ownership in the underlying membership units and the grant represents an unsecured promise to deliver membership units on a future date. Actual membership units underlying the restricted membership units and the notional membership units will not be distributed until the earlier of a change in control or the termination of the grantee s employment.

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Notes to Consolidated Financial Statements (Continued)

The following table represents the restricted membership units, notional membership units and restricted stock granted, vested and forfeited during 2009.

	Unit (in thousands)	Grant Date Fair Value per Unit
Restricted and Notional Units and Restricted Stock		
Non-vested shares at January 1, 2009	2,454	$ 1.00
Granted		
Vested		
Forfeited	729	1.00
Non-vested shares at December 16, 2009	1,725	$ 1.00
Conversion rate is 7.4008 new to 100 old		
Non-vested shares at December 17, 2009	128	$ 13.51
Granted	74	13.51
Vested		
Forfeited		
Non-vested shares at December 31, 2009	202	$ 13.51

Weighted-Average Assumptions for Option Pricing

	2009	2008	2007
Risk-free interest rate	n/a	3.59%	3.40%
Expected dividend yield	n/a	0.00%	0.00%
Expected volatility	n/a	0.38	0.40
Expected term	n/a	5 years	5 years

Since our membership units were privately held prior to the IPO, the estimated volatility is based on the historical volatility of similar companies stock that is publicly traded. The expected term of options represents the period of time that options granted are expected to be outstanding. The risk free interest rate for the periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The weighted average fair value per option at the date of grant for options granted in 2008 and 2007 was $0.31 in both years, as valued using the Black-Scholes Merton option-pricing model. No options were granted in 2009. Option grants subsequent to 2009 will be valued at the fair market value of our common stock on the date of grant.

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3. Detail of Certain Balance Sheet Accounts

	December 31, 2009	December 31, 2008
	(in thousands)	
Inventories of products, net:		
Finished products	$ 223,500	$ 271,449
Work in progress	3,254	1,781
Raw materials	57,504	50,963
	$ 284,258	$ 324,193
Property, plant and equipment:		
Land	$ 8,782	$ 15,240
Buildings	32,467	37,601
Plant and equipment	508,057	482,880
Construction in progress	42,112	18,539
	591,418	554,260
Less accumulated depreciation	236,558	182,252
	$ 354,860	$ 372,008
Identifiable intangible assets:		
Technology	$ 44,813	$ 44,813
Customer relations	35,213	35,213
Trademarks	23,194	23,194
Software	15,322	
	118,542	103,220
Less accumulated amortization	42,741	36,169
	$ 75,801	$ 67,051
Other payables and accruals:		
Employee related	$ 5,783	$ 25,418
Interest	7,366	10,316
Property and other taxes	4,255	