RALPH LAUREN CORP
Form DEF 14A
June 26, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

RALPH LAUREN CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO

THE OWNERS OF CLASS A COMMON STOCK AND CLASS B COMMON STOCK

OF

RALPH LAUREN CORPORATION

Purpose of the Meeting

The 2014 Annual Meeting of Stockholders of Ralph Lauren Corporation, a Delaware corporation, will be held at the St. Regis Hotel, 20th Floor, 2 East 55th Street, New York, New York, on Thursday, August 7, 2014, at 9:30 a.m., local time, for the following purposes:

1. To elect twelve directors to serve until the 2015 Annual Meeting of Stockholders;

2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending March 28, 2015;

3. To approve, on an advisory basis, the compensation of our named executive officers and our compensation philosophy, policies and practices as described herein;

4. To consider a shareholder proposal, if properly presented at the 2014 Annual Meeting of Stockholders; and

5. To transact such other business as may properly come before the meeting and any adjournments or postponements thereof.

The foregoing items of business are described more fully in the Proxy Statement accompanying this Notice. Only stockholders of record at the close of business on June 9, 2014 are entitled to notice of, and to vote at, the 2014 Annual Meeting of Stockholders and any adjournments or postponements thereof. We will be using the Securities and Exchange Commission s Notice and Access model, which allows us to make the proxy materials available on the Internet, as the primary means of furnishing proxy materials to stockholders. On or about June 26, 2014, we will mail to all stockholders a Notice of Internet Availability of Proxy Materials, which contains instructions for accessing our proxy materials on the Internet and voting by telephone or on the Internet. The Notice of Internet Availability of Proxy Materials also contains instructions for requesting a full printed set of the proxy materials.

Who May Attend

Only stockholders, their proxy holders and our invited guests may attend the meeting. If you are a stockholder whose shares are registered in your name, please bring photo identification. If you are a stockholder whose shares are held through an intermediary such as a bank or broker and you plan to attend the meeting, please bring photo identification and a letter from your bank or broker that confirms that you are the beneficial owner of those shares or a copy of your account statement reflecting your ownership as of June 9, 2014.

Notice Regarding the Availability of Proxy Materials

Pursuant to the rules of the Securities and Exchange Commission, the Proxy Statement, Annual Report on Form 10-K for the fiscal year ending March 29, 2014 and Notice of Annual Meeting are available at: http://investor.ralphlauren.com.

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Your Vote is Important

Please vote as promptly as possible by signing, dating and returning the enclosed proxy card or voting by telephone or on the Internet by following the instructions on your Notice of Internet Availability of Proxy Materials. In the event that a stockholder decides to attend the meeting, it, he or she may, if so desired, revoke the proxy by voting the shares in person at the meeting.

By Order of the Board of Directors

AVERY S. FISCHER

Senior Vice President, General Counsel and Secretary

New York, New York

June 26, 2014

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PROXY STATEMENT

FOR THE ANNUAL MEETING OF STOCKHOLDERS

General Information Regarding the Annual Meeting of Stockholders and Proxy Materials

This Proxy Statement is furnished to the stockholders of Ralph Lauren Corporation, a Delaware corporation, in connection with the solicitation by its Board of Directors (the Board) of proxies for its 2014 Annual Meeting of Stockholders to be held at the St. Regis Hotel, 20th Floor, 2 East 55th Street, New York, New York on Thursday, August 7, 2014, at 9:30 a.m., local time, and at any adjournments or postponements thereof.

This Proxy Statement, the Annual Report on Form 10-K (Annual Report on Form 10-K) for the fiscal year ending March 29, 2014 and the Notice of Annual Meeting will be made available to our stockholders on our website, http://investor.ralphlauren.com, on or about June 26, 2014. In this Proxy Statement, we refer to Ralph Lauren Corporation as the Company, we or us. A proxy delivered pursuant to this solicitation may be revoked by the person executing the proxy at any time before it is voted by giving written notice to our Secretary, by delivering a later dated proxy, or by voting in person at the Annual Meeting of Stockholders. The address of our principal executive offices is 650 Madison Avenue, New York, New York 10022.

Our fiscal year ends on the Saturday closest to March 31. All references to Fiscal 2015 represent the fiscal year ending March 28, 2015. All references to Fiscal 2014 represent the fiscal year ended March 29, 2014. All references to Fiscal 2013 represent the fiscal year ended March 30, 2013. All references to Fiscal 2012 represent the fiscal year ended March 31, 2012. All references to Fiscal 2011 represent the 52-week fiscal year ended April 2, 2011. All references to Fiscal 2010 represent the fiscal year ended April 3, 2010.

Questions and Answers about the Annual Meeting and Voting

Why did I receive these proxy materials?

You received these proxy materials because you were a stockholder of Ralph Lauren Corporation on June 9, 2014, the record date for the Annual Meeting of Stockholders (the Record Date). At the Annual Meeting of Stockholders, stockholders will be asked to vote on several items of business. Since it is not practical or convenient for all stockholders to attend the meeting in person, our Board is seeking your proxy to vote on these matters.

What is the Notice and Access model and why did the Company elect to use it?

We are making the proxy materials available to stockholders on the Internet under the Securities and Exchange Commission s Notice and Access model. On or about June 26, 2014, we will mail to all stockholders a Notice of Internet Availability of Proxy Materials (Notice of Internet Availability) in lieu of mailing a full printed set of the proxy materials. Accordingly, our proxy materials are first being made available to our stockholders on our website, http://investor.ralphlauren.com, on or about June 26, 2014. The Notice of Internet Availability includes instructions for accessing the proxy materials and voting by telephone or on the Internet. You will also find instructions for requesting a full printed set of the proxy materials in the Notice of Internet Availability.

We believe the electronic method of delivery under the Notice of Internet Availability model will decrease postage and printing expenses, expedite delivery of proxy materials to you and reduce our environmental impact, and we encourage you to take advantage of the availability of the proxy materials on the Internet. If you received the Notice of Internet Availability but would like to receive a full printed set of the proxy materials in the mail, you may follow the instructions in the Notice of Internet Availability for requesting such materials.

How can I get electronic access to the proxy materials?

The Notice of Internet Availability will provide you with instructions for viewing our proxy materials for the Annual Meeting of Stockholders on the Internet and requesting that we send proxy materials to you by email. The proxy materials are also available on our website at http://investor.ralphlauren.com.

Who is entitled to vote?

Only holders of record of shares of our Class A Common Stock and Class B Common Stock (together, the Common Stock) at the close of business on the Record Date are entitled to notice of, and to vote at, the Annual Meeting of Stockholders and adjournments or postponements thereof. The presence, in person or by proxy, of the holders of one-third of the total number of shares of Common Stock outstanding on the Record Date will constitute a quorum for the transaction of business at the Annual Meeting of Stockholders.

On June 9, 2014, there were 61,539,206 outstanding shares of Class A Common Stock and 26,881,276 outstanding shares of Class B Common Stock. Except for the election of directors, the Class A Common Stock and Class B Common Stock vote together as a single class on all matters presented for the consideration of our stockholders. The Class A Common Stock is publicly traded on the New York Stock Exchange (NYSE) under the symbol RL ; the Class B Common Stock is owned by Ralph Lauren and entities owned by, or established for the benefit of, Mr. Lauren, or members of his family. Each owner of record of Class A Common Stock on the record date is entitled to one vote for each share. Each owner of record of Class B Common Stock on the record date is entitled to ten votes for each share.

What is the difference between a stockholder of record and a stockholder who holds stock in street name ?

If you hold shares of Ralph Lauren Corporation directly in your name with our transfer agent, Computershare, you are a stockholder of record or registered stockholder. The Notice of Internet Availability has been sent directly to you by the Company or by our representative.

If you own your shares indirectly through a broker, bank or other financial institution, your shares are said to be held in street name. Technically, your bank or broker will vote those shares. In this case, the Notice of Internet Availability has been forwarded to you by your broker, bank, other financial institution, or other designated representative. Through this process, your bank or broker collects voting instructions from all of its customers who hold shares of Ralph Lauren Corporation and then submits those votes to us.

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What are broker discretionary voting and broker non-votes?

For shares held in street name, when a broker or bank does not receive voting instructions from its customers, the question arises whether the broker or bank nonetheless has the discretion to vote those shares.

For routine matters, the NYSE gives brokers and banks the discretion to vote, even if they have not received voting instructions from their customers or the beneficial owners of such shares. In this Proxy Statement, only the ratification of our independent registered public accounting firm, Ernst & Young LLP (Ernst & Young), (Proposal 2) is a matter considered routine by the NYSE.

For non-routine matters, the NYSE prohibits brokers and banks from casting votes on behalf of the beneficial owners if they have not received voting instructions. When the bank or broker is unable to vote under these rules, it reports the number of unvoted shares to us as broker non-votes. In this Proxy Statement, the election of directors (Proposal 1), the advisory vote on executive compensation (Proposal 3) and consideration of a shareholder proposal (Proposal 4) are matters considered non-routine by the NYSE. As a result, on each of these items, if you hold your shares in street name, your shares will be voted only if you give instructions to your bank or broker.

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What are my voting options and what vote is needed to pass the proposals included in this Proxy Statement?

Only votes cast FOR a nominee will be counted in the election of directors. Votes that are withheld with respect to one or more nominees will result in those nominees receiving fewer votes but will not count as a vote against the nominees. You have the right to vote FOR or AGAINST each of the other proposals, or to ABSTAIN from voting The following table summarizes each proposal, the Board s recommendation, the affirmative vote required for approval and whether broker discretionary voting is allowed.

Proposal Number	Proposal	Board Recommendation	Affirmative Vote Required for Approval	Broker Discretionary Voting Allowed
1	Election of Directors			
	Four directors (the Class A Directors) will be elected by a plurality vote of the shares of Class A Common Stock present in person or by proxy at the 2014 Annual Meeting of Stockholders and eligible to vote.	FOR each nominee	Plurality vote	No
	Eight directors (the Class B Directors) will be elected by a plurality vote of the shares of Class B Common Stock present in person or by proxy at the 2014 Annual Meeting of Stockholders and eligible to vote.	FOR each nominee	Plurality vote	No
2	Ratification of the appointment of Ernst & Young as our independent registered public accounting firm for the fiscal year ending March 28, 2015.	FOR	Majority of votes cast	Yes
3		FOR		No

	Approval, on an advisory basis, of the compensation of our named executive officers and our compensation philosophy, policies and practices.		Majority of votes cast	
4	Consideration of a shareholder proposal, if properly presented at the 2014 Annual Meeting of Stockholders, requesting that we issue a human rights risk assessment report on our website no later than the 2015 Annual Meeting.	AGAINST	Majority of votes cast	No

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How will broker non-votes and abstentions be counted?

Broker non-votes and abstentions are counted for purposes of determining whether a quorum is present. Only FOR and AGAINST votes are counted for purposes of determining the votes cast in connection with each proposal. Therefore, broker non-votes and abstentions will not be counted as a vote FOR the election of directors in Proposal 1 and will have no effect on determining whether the affirmative vote constitutes a majority of the votes cast with respect to Proposals 2, 3 and 4.

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(PROPOSAL 1)

ELECTION OF DIRECTORS

Our Third Amended and Restated By-laws provide that our Board may fix the number of directors constituting the entire Board between six and twenty. The Board has currently fixed the number of directors constituting the entire Board at twelve. Our Board is presently divided into two classes, with all directors being elected annually. Pursuant to our Amended and Restated Certificate of Incorporation, the four Class A Directors will be elected by the holders of Class A Common Stock and the eight Class B Directors will be elected by the holders of Class B Common Stock, each to serve until the 2015 Annual Meeting of Stockholders and until his or her successor is elected and qualified.

Twelve of our current directors have been nominated for re-election at the 2014 Annual Meeting of Stockholders. Joel L. Fleishman, Frank A. Bennack, Jr., Hubert Joly and Steven P. Murphy have been nominated for election as Class A Directors. Ralph Lauren, Jackwyn L. Nemerov, David Lauren, John R. Alchin, Arnold H. Aronson, Joyce F. Brown, Judith A. McHale and Robert C. Wright have been nominated for election as Class B Directors. On May 31, 2014, Roger N. Farah resigned from our Company as Executive Vice Chairman. He will remain on our Board until the date of the 2014 Annual Meeting of Stockholders. We know of no reason why any nominee would be unable or unwilling to serve. If any nominee becomes unable or unwilling to serve for any reason, our Board, based on the recommendation of the Nominating & Governance Committee, may either reduce the number of directors or designate a substitute nominee. If a substitute nominee is designated, the persons named in the enclosed proxy will vote all proxies that would otherwise be voted for the named nominee or nominees for the election of such substitute nominee or nominees.

OUR BOARD RECOMMENDS A VOTE FOR EACH NOMINEE AS A DIRECTOR TO HOLD OFFICE UNTIL THE 2015 ANNUAL MEETING OF STOCKHOLDERS AND UNTIL HIS OR HER SUCCESSOR IS ELECTED AND QUALIFIED. PROXIES RECEIVED BY THE BOARD WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY IN THEIR PROXIES THAT AUTHORITY IS WITHHELD AS TO ONE OR MORE NOMINEES.

Class A Director Nominees for Election

Frank A. Bennack, Jr.	Age 81	Mr. Bennack has been a director of the Company since January 1998. He served as Chief Executive Officer of The Hearst Corporation (Hearst) from 1979 to 2002 and then again from June 2008 to June 2013. Mr. Bennack has been the Chairman of the Executive Committee and Vice Chairman of the board of directors of Hearst since 2002. He serves on the board of Lincoln Center for the Performing Arts and has served on the boards of Hearst-Argyle Television, Inc., Wyeth Corporation and JPMorgan Chase & Co. He is also Chairman of the New York-Presbyterian Hospital and The Paley Center for Media. The Board has determined that he is an audit committee financial expert. **Experience, Qualifications, Attributes and Skills** Mr. Bennack brings to our Board a distinguished career and extensive business experience as Executive Vice Chairman of Hearst, one of the nation s largest private companies engaged in a broad range of publishing, broadcasting, cable networking and diversified communications activities. His current position as Hearst s Executive Vice Chairman and previous position as Chief Executive Officer gives him critical insights into the operational issues facing a large corporation and provides our Board with valuable experience in the areas of finance, financial reporting and strategic planning. As a result of his current and past service as a member of the boards of other various public companies and non-profit organizations, he provides our Board with perspective with respect to governance and other important matters that come before our Board. Mr. Bennack s service as a member of the Board since 1998 provides him with extensive knowledge of our business.
Joel L. Fleishman	Age 80	Mr. Fleishman, a director of the Company since January 1999, has been Professor of Law and Public Policy at the Sanford School of Public Policy at Duke University since 1971 and the Director of the Samuel and Ronnie Heyman Center for Ethics, Public Policy and the Professions at Duke University since 1991. He is also the Director of the Center for Strategic Philanthropy and Civil Society. He currently serves on the board of directors of the Urban Institute and is a founding member of the Board of Trustees of the Partnership for Public Service. Mr. Fleishman has also served on the board of Boston Scientific Corporation, and was previously Chairman of the board of

directors of the Urban Institute.

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Experience, Qualifications, Attributes and Skills

Mr. Fleishman brings strong leadership and extensive public policy and legal experience to our Board. He also brings a unique perspective to the Board from his long tenure in the academic world. Mr. Fleishman s long-standing scholarly work and public service and extensive experience as a professor of law and public policy provides our Board with valuable insight into a variety of legal and ethical issues relevant to us. He also served as a board member of Boston Scientific Corporation and, as a result of this service, he has a broad understanding of the operational, financial and strategic issues facing a public company. He has been a member of our Board since 1999 and accordingly, his knowledge of our business is an important aspect of his service on our Board.

Hubert Joly Age 54

Mr. Joly has been a director of the Company since June 2009. He has served as the President and Chief Executive Officer of Best Buy Co., Inc. (Best Buy) since September 2012. Mr. Joly also serves as a member of Best Buy s board of directors. Previously, he served as President and Chief Executive Officer of Carlson from 2008 to 2012, after he joined Carlson in 2004 as President and Chief Executive Officer of Carlson Wagonlit Travel. He also served as Executive Vice President, American Assets at Vivendi Universal from 2002 to 2004 and in various other positions at Vivendi Universal since 1999. Mr. Joly is currently on the boards of the Minneapolis Institute of Arts, the Minnesota Business Partnership and the Retail Industry Leaders Association. He previously served on the boards of Carlson, The Rezidor Hotel Group, Carlson Wagonlit Travel and the World Travel and Tourism Council.

Experience, Qualifications, Attributes and Skills

Mr. Joly brings to our Board extensive management and leadership experience obtained through his roles as President and Chief Executive Officer of Best Buy and formerly as President and Chief Executive Officer of Carlson. His current position as Chief Executive Officer of Best Buy gives him critical insights into the operational issues facing a large international corporation, as well as unique perspective on issues and opportunities facing a large multi-channel retailer and provides our Board with valuable insight in the areas of finance, financial reporting and strategic planning. In his current position and as a former executive at Carlson, Vivendi Universal and Electronic Data Systems, Mr. Joly possesses a deep understanding of international issues affecting us.

Steven P. Murphy	Age 60	Mr. Murphy has been a director of the Company since November 2005. He has been the Chief Executive Officer of Christie s International plc (Christie s), one of the world s largest fine art auctioneers, since September 2010. He previously served as the President and Chief Executive Officer of Rodale Inc. (Rodale), a privately held publishing and media company, from 2002 to December 2009, and joined Rodale in 2000 as its President and Chief Operating Officer. Mr. Murphy held the position of Executive Vice President and Managing Director of Disney Publishing Worldwide from 1998 until 2000. From 1991 to 1998, he served as President of EMI Music/Angel Records.

Experience, Qualifications, Attributes and Skills

Mr. Murphy brings to the Board extensive business and management experience obtained through his current role as Chief Executive Officer of Christie s as well as through his former role as Chief Executive Officer of Rodale. As Chief Executive Officer of Christie s, Mr. Murphy has insight into operational issues facing a large international corporation and provides the Board with valuable experience in the areas of finance and strategic planning. As Chief Executive Officer of Rodale, he had broad-based responsibilities with respect to financial reporting, marketing, sales and the creation of product development. In addition, Mr. Murphy s extensive experience in the area of publishing and entertainment provides the Board with insight into the areas of media, communications and technology. As a result of this service, he has a broad understanding of the operational, financial and strategic issues facing large companies and provides our Board with valuable perspective with respect to these matters that come before the Board.

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Class B Director Nominees For Election

Ralph Lauren Age 74

Mr. R. Lauren has been our Chairman, Chief Executive Officer and director since prior to our initial public offering in 1997, and was a member of our Advisory Board or the Board of Directors of our predecessors since their organization. He founded our business in 1967. For over four decades, Mr. R. Lauren has cultivated the iconography of America into a global lifestyle brand.

Experience, Qualifications, Attributes and Skills

Mr. R. Lauren is an internationally recognized fashion designer. His unique role as our founder and Chief Executive Officer provides our Board with valuable leadership, including in the areas of design, brand management and marketing. Mr. R. Lauren s contributions to us since the founding of our business have been instrumental in defining our image and direction. As one of the world s most innovative design leaders and a fashion icon, his career has spanned four decades that have resulted in numerous unique tributes for his role within the fashion industry. He is uniquely qualified to bring strategic insight, experience and in-depth knowledge of our business and the fashion industry to the Board.

Jackwyn L. Nemerov Age 62

Ms. Nemerov has been our President & Chief Operating Officer since November 2013 and a director of the Company since February 2007. She served as Executive Vice President of the Company from September 2004 through October 2013. She was President & Chief Operating Officer of Jones Apparel Group, Inc. from January 1998 until March 2002. Prior to that, Ms. Nemerov was affiliated with Allied Stores, Bernard Chaus and Gloria Vanderbilt for Murjani. Ms. Nemerov currently serves as a member of the Board of Governors of The New School University s Parsons School of Design.

Experience, Qualifications, Attributes and Skills

Ms. Nemerov brings strong leadership and business experience to our Board. She has over 30 years of retail, brand management and operations experience. Her position as our President and Chief Operating Officer provides our Board with valuable insight and perspective into our operations, retail, wholesale and licensing businesses, and global supply chain, manufacturing and merchandising. Ms. Nemerov brings to our Board extensive management experience in the apparel and retail industry and her in-depth knowledge of this industry provides our Board with critical insights into key aspects of our core business.

David Lauren	Age 42	Mr. D. Lauren has been with the Company since 2000 and serves as our Executive Vice President of Global Advertising, Marketing and Corporate Communications. He serves as a member of the Board of Trustees for the Ralph Lauren Center for Cancer Care and Prevention. Mr. D. Lauren is the son of Ralph Lauren. **Experience, Qualifications, Attributes and Skills** Mr. D. Lauren brings strong leadership and business experience to our Board. He has been instrumental in the development of the Company s global communications, marketing and advertising campaigns, and brand awareness, and was responsible for growing the Company s e-commerce business. Mr. D. Lauren has been recognized as a leader on the use of new technologies in retail marketing and on using digital platforms to market luxury brands. His in-depth knowledge of these areas and his current position as our Executive Vice President of Global Advertising, Marketing and Corporate Communications provides our Board with valuable insight and perspective into our global brand, marketing, communication and media initiatives.
John R. Alchin	Age 66	Mr. Alchin has been a director of the Company since February 2007. He served as Executive Vice President and Co-Chief Financial Officer and Treasurer of Comcast Corporation, a broadband cable provider offering a variety of consumer entertainment and communication products and services, from November 2002 to December 2007. Prior to that, he served as Executive Vice President and Treasurer of Comcast Corporation from January 2000 to November 2002. Mr. Alchin joined Comcast Corporation in 1990 as Senior Vice President and Treasurer. He is currently a member of the board of trustees of BNY Mellon Funds Trust, a member of the board of trustees of the Philadelphia Museum of Art and Chairman of PMA Finance Committee. Mr. Alchin also serves on the audit committee of BNY Mellon Funds Trust. Prior to serving on the board of trustees of BNY Mellon Funds Trust, he served as a member of the board of directors and on the audit committee of BNY Hamilton Funds, Inc. The Board has determined that Mr. Alchin is an audit committee financial expert.

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Experience, Qualifications, Attributes and Skills

Mr. Alchin brings to the Board substantial business and financial experience. His experience as a Co-Chief Financial Officer and Treasurer of Comcast Corporation, a major broadband cable operator and content and programming supplier, provides our Board with valuable insight in the areas of corporate finance and capital formation, financial reporting, investor relations and treasury functions. Mr. Alchin s financial expertise offers our Board a deep understanding of accounting and audit-related matters. In addition, his service as a member of the board of various financial institutions provides our Board with perspective in the areas of corporate finance and governance matters.

Arnold H. Aronson Age 79

Mr. Aronson has been a director of the Company since November 2001. He has been a Managing Director, Retail Strategies at Kurt Salmon, a global management consulting firm specializing in services to retail and consumer products companies, since 1997. In his career, he served as Chairman and Chief Executive Officer of Saks Fifth Avenue, Inc., The Batus Retail Group (the then parent entity of, among others, Saks Fifth Avenue, Marshall Fields and Kohl s) and subsequently, Woodward & Lothrop/John Wanamaker. Mr. Aronson currently serves as a member of the Board of Trustees and its Executive Committee of The New School University and is a member of the Board of Governors and former Chairman of its Parsons School of Design.

Experience, Qualifications, Attributes and Skills

Mr. Aronson has substantial business and retail industry experience. His experiences as a consultant in a global management consulting firm specializing in retail and consumer products companies and as a chief executive officer of major retail companies provides our Board with valuable insight into operational and strategic issues related to the retail industry. As a former chief executive officer of several major retail entities, including Saks Fifth Avenue, Inc., Mr. Aronson has intimate knowledge in the areas of marketing, financial reporting and merchandising. In addition, his service on the boards of academic institutions provides our Board with valuable understanding of governance matters.

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Dr. Joyce F. Brown	Age 67	Dr. Brown has been a director of the Company since May 2001. She has been the President of the Fashion Institute of Technology (FIT) and Chief Executive Officer of the FIT Foundation since 1998. From 1983 to 1992, Dr. Brown served as Vice Chancellor, as well as the University Dean of the City University of New York and Acting President of Baruch College. From 1993 to 1994, she served as the Deputy Mayor of Public and Community Affairs for the City of New York. From 1994 to 1998, she was a Professor of Clinical Psychology at the Graduate School and University Center of the City University of New York, where she is now Professor Emerita. Dr. Brown has served on the boards of USEC Inc., PAXAR Corporation and Linens n Things, Inc. **Experience, Qualifications, Attributes and Skills** Dr. Brown brings to our Board extensive leadership and insight into the fashion industry through her roles as President of FIT, a complex, multi-faceted college that focuses on educating and preparing the next generation of leaders in the fashion industry, and Chief Executive Officer of the FIT Foundation. Dr. Brown s professional training as a psychologist allows her to assist in examining complex interpersonal behaviors that impact the business environment. In addition, Dr. Brown s prior government service provides our Board with unique perspectives into regulatory issues and processes. She also possesses public company experience as demonstrated by her past service on the boards of Linens n Things, Inc. and USEC Inc.
Judith A. McHale	Age 67	Ms. McHale was appointed a director of the Company in November 2011 and served as a director of the Company from 2001 to 2009. She served as the Under Secretary of State for Public Diplomacy and Public Affairs for the U.S. Department of State from 2009 to 2011. In 2006, Ms. McHale worked in partnership with the Global Environment Fund, a private equity firm, to launch the GEF/Africa Growth Fund, an investment vehicle intending to focus on supplying expansion capital to small and medium-sized enterprises that provide consumer goods and services in emerging African markets. From June 2004 to December 2006, Ms. McHale served as the President and Chief Executive Officer of Discovery Communications, Inc., the parent company of Discovery Channel and served as its President and Chief Operating Officer from 1995 to 2004. She currently serves on the boards of SeaWorld Entertainment, Inc., Hilton Worldwide Holdings Inc. and Yellow Media Ltd. and has served on the boards of directors of Host Hotel & Resorts, Inc., DigitalGlobe Inc., John Hancock Financial Services, Inc. and Potomac Electric Power Company.

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Experience, Qualifications, Attributes and Skills

Ms. McHale brings to the Board extensive business and management experience. Through her roles as President and Chief Executive Officer and as Chief Operating Officer of Discovery Communications, Inc., Ms. McHale had broad-based responsibilities with respect to financial reporting, marketing, sales and the creation of product development for a public company which provides the Board with valuable insight into operational and strategic issues facing us. She also possesses public company experience as demonstrated by her current experience on the boards of SeaWorld Entertainment, Inc. and Hilton Worldwide Holdings Inc., as well as her prior experience on the boards of Host Hotel & Resorts, Inc., DigitalGlobe Inc., John Hancock Financial Services, Inc. and Potomac Electric Power Company. In addition, Ms. McHale s prior government service provides the Board with unique perspectives on governmental matters, regulatory issues and processes.

Robert C. Wright Age 71

Mr. Wright has been a director of the Company since May 2007. He is a Co-Founder of Autism Speaks and has been a Senior Advisor at Lee Equity Partners, LLC, an investment firm, since May 2008 and Chief Executive Officer of the Palm Beach Civic Association since April 2010. He served as the Vice Chairman of the board of directors of General Electric Company (GE) and as an Executive Officer and a member of the Corporate Executive Office of GE from 2000 to May 2008. Mr. Wright joined NBC as President and Chief Executive Officer in 1986, and was made Chairman and Chief Executive Officer of the network in 2001. He then served as Chairman and Chief Executive Officer of NBC Universal from 2004 to 2007, and continued to serve as Chairman of the NBC Universal board of directors until 2007. Prior to his association with NBC and NBC Universal, Mr. Wright served as President of General Electric Financial Services and, before that, as President of Cox Cable Communications. Mr. Wright has served on the boards of directors of GE, NBC Universal and EMI Group Global Inc. and is currently a member of the board of directors of AMC Networks Inc. and Mission Product, LLC. He also serves as a member of the board of trustees for the New York-Presbyterian Hospital, and has served as a member of the board of trustees for RAND Corporation.

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Experience, Qualifications, Attributes and Skills

Mr. Wright brings to the Board extensive business leadership and management experience. Mr. Wright s roles as Vice Chairman of GE s board of directors and President and Chief Executive Officer of NBC Universal give him knowledge and insight into the complex issues facing us, in particular on the operational, financial, strategic planning and corporate governance fronts. These experiences provide him with a thorough understanding of, and appreciation for, the role of the Board. He also possesses public company experience as demonstrated by his experience on the board of AMC Networks Inc. In addition, Mr. Wright s service as a member of the boards of non-profit organizations provides our Board with an added perspective in the area of social and corporate responsibility.

CORPORATE GOVERNANCE

The Board and management are committed to sound corporate governance. We have in place a comprehensive corporate governance framework which incorporates the corporate governance requirements of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission (the SEC) and the NYSE. Consistent with our commitment to corporate governance, we do not rely on the exceptions from certain of the NYSE s corporate governance listing requirements available to majority controlled companies. The key components of our corporate governance framework are set forth in the following documents:

- our Amended and Restated Certificate of Incorporation;
- our Third Amended and Restated By-Laws;
- our Corporate Governance Policies;
- our Audit Committee Charter;
- our Nominating & Governance Committee Charter;
- our Compensation & Organizational Development Committee (the Compensation Committee) Charter;
- our Code of Business Conduct and Ethics; and
- our Code of Ethics for Principal Executive Officers and Senior Financial Officers.

Each of the above documents is available on our investor relations website at http://investor.ralphlauren.com by clicking on Corporate Governance. Copies of these documents are available to stockholders without charge upon written request to our Investor Relations Department, 625 Madison Avenue, New York, New York 10022. Only the Board may grant a waiver under our codes of ethics to any director or executive officer, and any such waiver will be promptly posted on our website.

In addition, we strive to operate our business in a manner that incorporates our guiding principles and ethics, including having global programs that protect human rights and fair labor practices, instituting supply chain initiatives that protect the environment, and participating in wide ranging community service and philanthropic efforts that assist underserved communities. We issued a Citizenship Report on these matters on our investor relations website in May 2014.

Company Leadership Structure

Mr. Ralph Lauren has been the Chairman of the Board and Chief Executive Officer (CEO) of our Company for over four decades. Mr. Lauren is not only our Chairman and CEO but is also our founder and creator. His name is inextricably linked to our various brands. His aesthetic vision and direction are unique and integral components of our success. Mr. Lauren s career has resulted in numerous tributes for his contributions to the fashion industry, including the Council of Fashion Designers of America s four highest honors: the Lifetime Achievement Award, the Womenswear

Designer of the Year Award, the Menswear Designer of the Year Award and the Retailer of the Year Award. In addition, Mr. Lauren and entities controlled by the Lauren family own approximately 81.5% of the voting power of our outstanding Common Stock.

The Board believes that Mr. Lauren s combined role as the Chairman and CEO fosters effective decision-making and alignment on corporate strategy. The combined role also enables decisive leadership and enhances our ability to communicate our vision and strategy clearly and consistently to stockholders, employees and customers in the fashion and retail industry. Unified leadership for the Board and the Company best allows for focus on the oversight and implementation of our strategic initiatives and business plan. For these reasons and, given the unparalleled mark that Mr. Lauren has on our Company, the Board believes that it is appropriate and in the best interest of our stockholders for Mr. Lauren to serve as both Chairman and CEO.

Director Independence and Non-Management Director Meetings

Our Board believes that a majority of our directors should be independent, and has determined that all of our non-management directors, John R. Alchin, Arnold H. Aronson, Frank A. Bennack, Jr., Dr. Joyce F. Brown, Joel L. Fleishman, Hubert Joly, Judith A. McHale, Steven P. Murphy and Robert C. Wright, are independent. In considering the independence of our non-management directors, we considered, among other factors, commercial transactions made, from time to time, in the ordinary course of business between us and certain entities affiliated with non-management directors. In each case, the transactions have substantially the same terms as are prevailing at the time for comparable businesses and the indirect interest of the non-management director in the transaction was found to be immaterial and in amounts that do not impair the independence of the relevant non-management director under our Corporate Governance Policies and the NYSE s corporate governance listing standards. We also considered charitable contributions to entities affiliated with our non-management directors. The indirect interests of non-management directors in these charitable contributions were found to be immaterial and in amounts that do not impair the independence of the relevant non-management director under the NYSE s corporate governance listing standards. Our guidelines for determining directors independence are set forth as Appendix A to this Proxy Statement.

As stated in our Corporate Governance Policies, the Board believes that appointing a lead independent director is not desirable because the Board s size and composition make interaction among all members and communication with management relatively easy. As a result, we do not have a lead independent director. At each of our regularly scheduled Board and committee meetings, the independent directors participate in an executive session without the Chairman and CEO or any members of the Company s management present. In Fiscal 2014, all of our non-management directors met together as a full Board four times without any management representatives present. During these executive sessions of independent directors, the Chairs of each of the Audit Committee, the Compensation Committee and the Nominating & Governance Committee preside on a rotating basis based on the topics to be discussed. In addition, our non-management directors also meet together in executive session without any management representatives present after each meeting of the Audit Committee, the Compensation Committee and the Nominating & Governance Committee.

Director Attendance at Annual Meetings of Stockholders and

Meetings of the Board of Directors

As provided in our Corporate Governance Policies, directors are expected to attend each Annual Meeting of Stockholders. All of the twelve directors then constituting the entire Board attended the 2013 Annual Meeting of Stockholders.

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The Board held four meetings during Fiscal 2014. All of the members of our Board attended 100% of the meetings held by the Board and the committees of the Board on which he or she served. The Board and its committees also act from time to time by unanimous written consent in lieu of meetings.

Independent Committees of the Board of Directors

Our Board has established three committees consisting solely of independent directors the Audit Committee, the Compensation Committee and the Nominating & Governance Committee. The table below indicates the membership of our committees.

Director	Audit Committee	Compensation Committee	Nominating & Governance Committee
Alchin, John R.	X		
Aronson, Arnold H.	X		X
Bennack, Jr., Frank A.	C	X	
Brown, Dr. Joyce F.	X		C
Fleishman, Joel L.		C	X
Joly, Hubert		X	
McHale, Judith A.			X
Murphy, Steven P.		X	
Wright, Robert C.			X

C = Chair

X = Member

Audit Committee. The Audit Committee appoints our independent registered public accounting firm, and approves in advance all audit and permitted non-audit services performed by them and the scope and cost of their annual audits. The Audit Committee reviews, among other things, (i) the results of the independent registered public accounting firm s annual audits and quarterly reviews, (ii) management s compliance with our major accounting and financial reporting policies, (iii) the adequacy of our financial organization and management s procedures and policies relating to our internal control over financial reporting and (iv) our compliance with applicable laws relating to accounting practice. The Audit Committee met six times in Fiscal 2014. The Board has determined that each member of the Audit Committee is financially literate and that at least two members of the Audit Committee, Mr. Bennack, its Chair, and Mr. Alchin, are audit committee financial experts, as defined by the SEC. The Audit Committee has adopted a formal policy for the approval of the performance of all audit and non-audit services of the independent registered public accounting firm. This policy is described under (PROPOSAL 2) RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

Compensation Committee. The Compensation Committee reviews and approves the compensation of executive officers and certain key members of our senior management, and compensation plans and arrangements with respect to such executive officers and members of senior management. The Compensation Committee also administers the plans in which certain employees may participate, including our Amended and Restated 2010 Long-Term Stock Incentive Plan (the 2010 Stock Incentive Plan), which replaced our 1997 Long-Term Stock Incentive Plan (the 1997

Stock Incentive Plan), and our Amended and Restated Executive Officer Annual Incentive Plan (EOAIP). In addition, the Compensation Committee maintains oversight in the development of succession plans for certain key executive positions within our senior management and may review and provide guidance on certain of our programs relating to our diversity, talent review and leadership development. The Compensation Committee met seven times in Fiscal 2014. None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers who serve on our Board or Compensation Committee. There are no Compensation Committee interlocks.

Nominating & Governance Committee. The Nominating & Governance Committee identifies individuals qualified to become directors, recommends director nominees to the Board, develops and recommends corporate governance policies to the Board, exercises oversight of the evaluation of the members of the Board and committees and recommends to the Board policies and principles for CEO succession, selection and performance reviews. The Nominating & Governance Committee met three times in Fiscal 2014.

Board of Directors Oversight of Risk

Our management is responsible for understanding and managing the risks that we face in our business, and the Board is responsible for overseeing management s overall approach to risk management. The involvement of the full Board in reviewing our strategic objectives and business plans is a significant element of the Board s assessment of management s approach and tolerance for risk. In addition, the committees of the Board, primarily through the Audit Committee and Compensation Committee, report to the full Board at regularly scheduled Board meetings on any identified material risks within that committee s area of responsibilities. The Audit Committee has responsibility for oversight of corporate finance and financial reporting related risks, including those related to our accounting, auditing and financial reporting practices. The Compensation Committee is responsible for the oversight of our compensation policies and practices, including conducting annual risk assessments, and evaluating and approving our executive compensation and benefit plans and programs.

Analysis of Risks Arising from Compensation Policies and Programs

The Compensation Committee has reviewed an assessment by management of our compensation programs and practices for our employees, including our executive and non-executive programs and practices. This assessment focused on program design features and controls to evaluate whether such programs encourage unnecessary or excessive risk taking, and how policies and programs are structured to mitigate any such risks.

Selected key elements of our compensation programs that were reviewed include the following:

Pay Mix and Structure: Our executive compensation programs appropriately balance both short-term and long-term performance through our annual cash incentive bonus program and long-term equity awards. Equity awards generally include a mix of options and restricted performance share units (RPSUs) so that equity awards deliver value to such employees through both stock price appreciation and company performance. In addition, a significant

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portion of variable pay is delivered through equity awards with vesting schedules and performance periods covering multiple years, thus emphasizing long-term company performance.

Incentive Caps: Our executive annual cash incentive bonus plan as well as our non-executive bonus plans do not allow for unlimited payouts. We believe that the range of payouts should be capped to avoid encouraging decisions that maximize short-term gain at the expense of long-term viability. In addition to caps on all cash incentive bonus awards, Pro-Rata RPSUs cannot exceed target levels and Cliff RPSUs cannot exceed a fixed percentage above target levels.

Performance: To strengthen the relationship between pay and both absolute and relative performance, our executive annual cash incentive bonus plan, our non-executive commission and bonus plans and RPSU awards are subject to the achievement of pre-established performance targets, which are established independently of plan participants. We believe that our incentive plan metrics are appropriately balanced between short-term incentives such as net income before taxes and long-term metrics such as a cumulative three-year net income figure for our Cliff RPSUs. Certain of our Cliff RPSUs include a relative long-term performance measure of total shareholder return (TSR).

Change in Control Policy: The change in control arrangements for our named executive officers (NEOs) provide for cash payments only upon actual termination of employment. Most executives with employment agreements are subject to double-trigger vesting so that (with the exception of awards under our prior 1997 Stock Incentive Plan) acceleration of vesting does not occur unless the executive s employment is actually terminated under certain limited circumstances following a change in control. Our 2010 Stock Incentive Plan provides for double-trigger vesting.

Ownership Guidelines: We have stock ownership guidelines for the NEOs and select other members of our senior management group that are intended to align the interests of these individuals with our stockholders. As a result, such individuals may be less likely to take short-term risk if a meaningful portion of their personal financial investment is linked to our long-term holdings.

Clawback Policy: We have adopted a clawback policy applicable to our NEOs. Under our clawback policy, the Compensation Committee may, in its reasonable discretion, require an NEO to reimburse us for the amount of any payment previously received by such officer under our cash incentive bonus plan as well as equity plan if, as a result of such officer s intentional misconduct or gross negligence, we are required to restate our financial statements.

As a result of this review, the Compensation Committee determined that any risks that may result from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on our Company.

Director Nominating Procedures and Diversity

The Nominating & Governance Committee identifies and evaluates candidates for nomination as directors and submits its recommendations to the full Board for its consideration. The Nominating & Governance Committee, guided by the membership criteria established by the Board in our Corporate Governance Policies, seeks highly qualified candidates who combine a broad spectrum of experience and expertise with a reputation for integrity. We maintain a majority of independent directors and the Board considers a number of factors in selecting director candidates. Although we do not have a formal policy concerning diversity considerations, the Nominating & Governance Committee does consider diversity with respect to viewpoint, skills and experience in determining the appropriate composition of the Board and identifying director nominees. In addition, the Board considers the contributions the individual can make to the Board and management as we strive for a body of directors reflecting different genders, ethnic backgrounds and professional experiences and expertise. In the Board s annual self-evaluation, one of the factors that the Board considers is whether the membership of the Board provides an adequate mix of characteristics, experience and skills to serve the Company and its stockholders effectively. The Nominating & Governance Committee solicits and receives suggestions for, as well as comments upon, director candidates from other directors, including the Chairman of the Board, and usually engages third parties either to assist in the search for director candidates or to assist in gathering information regarding director candidates background and experience. If the Nominating & Governance Committee engages a third party to assist it, the Nominating & Governance Committee approves the fees that we pay for these services.

The Nominating & Governance Committee will consider candidates recommended by our directors, members of management and stockholders, and will evaluate candidates recommended by stockholders on the same basis as other candidates. Candidates should have experience in positions with a high degree of responsibility and be leaders in the companies or institutions with which they are affiliated. Upon receiving a stockholder recommendation, the Nominating & Governance Committee will initially determine the need for additional or replacement members of the Board and then evaluate the candidate based on the information it receives with the stockholder recommendation or that it may otherwise acquire, and may, in its discretion, consult with the Chairman and other members of our Board. If the Nominating & Governance Committee determines that a more comprehensive evaluation is warranted, it may obtain additional information about the director candidate s background and experience, including by means of interviews with the candidate.

Our stockholders may recommend candidates at any time, but the Nominating & Governance Committee requires recommendations for election at an annual meeting of stockholders to be submitted to the Nominating & Governance Committee no later than 120 days before the first anniversary of the date of the proxy statement sent to stockholders in connection with the previous year s Annual Meeting of Stockholders in order to be considered for nomination by the Nominating & Governance Committee. The Nominating & Governance Committee believes this deadline is appropriate and in our best interests and those of our stockholders because it ensures that it has sufficient time to evaluate properly all proposed candidates. Therefore, to submit a candidate for consideration for nomination at the 2015 Annual Meeting of Stockholders, a stockholder must submit the recommendation, in writing, by February 20, 2015. The written notice must include:

- all information relating to each potential candidate whom the stockholder is recommending that would be required to be disclosed in a solicitation of proxies for the election of such person as a director pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (Exchange Act), including such person s written consent to being named in the proxy statement as a nominee and to serve as a director if elected;

- the name and address of the stockholder giving the notice, as they appear on the Company s books, and of the beneficial owner of those shares; and

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the class and number of shares which are owned beneficially or of record by the stockholder and the beneficial owner.

Recommendations must be sent to the Nominating & Governance Committee, Office of the Secretary/Legal Department, **Ralph Lauren Corporation, 625 Madison Avenue, New York, New York 10022.**

Our stockholders may directly nominate an individual for election as a director at an annual meeting of stockholders by complying with the nominating procedures set forth in our Third Amended and Restated By-laws, which are described below under the caption Additional Matters Stockholder Proposals for the 2015 Annual Meeting of Stockholders.

Director Communications

Stockholders and interested parties may contact any of our directors, including the Chairman of the Board, the Chairs of the Board s independent committees, any committee of the Board, the Board s non-management directors as a group or the entire Board, by writing to them as follows: [Name(s)/Title(s)], c/o Legal Department and Office of the Corporate Secretary, Ralph Lauren Corporation, 625 Madison Avenue, New York, New York 10022. Communications received in this manner will be handled in accordance with the procedures approved by our independent directors, who have also requested that certain items that are unrelated to the duties and responsibilities of the Board should be excluded, such as spam, junk mail and mass mailings, product complaints, product inquiries, new product suggestions, resumés and other forms of job inquiries, surveys and business solicitations or advertisements. In addition, material that is threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is filtered out will be available to any non-management director upon request.

Audit Committee Communications

Complaints and concerns relating to accounting, internal control over financial reporting or auditing matters may be communicated to the Audit Committee, which consists solely of non-employee directors, through the Office of the Secretary/Legal Department as described above under Director Communications. Any such communication may be anonymous.

All complaints and concerns will be reviewed by the Audit Committee or a designated member of the Audit Committee. If the Audit Committee or its member designee determines that a reasonable basis exists for conducting a formal investigation, the Audit Committee will direct and supervise the investigation, and may retain independent legal counsel, accountants and other advisors as it deems necessary. Confidentiality will be maintained to the fullest extent consistent with the need to conduct an adequate review. Prompt and appropriate corrective action will be taken when and as warranted in the judgment of the Audit Committee.

We will not discharge, demote, suspend, threaten, harass or in any manner discriminate or retaliate against any employee in the terms and conditions of his or her employment or otherwise to the extent prohibited by law based upon any lawful actions of such employee with respect to good faith reporting of complaints regarding accounting, internal controls or auditing matters.

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AUDIT COMMITTEE REPORT

The Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to the Company s consolidated financial statements, the Company s compliance with legal and regulatory requirements, the Company s system of internal control over financial reporting and the qualifications, independence and performance of the Company s internal and independent registered public accounting firm. The Audit Committee has the sole authority and responsibility to select, evaluate and, when appropriate, replace the Company s independent registered public accounting firm. The Audit Committee currently is composed of four independent directors and operates under a written charter adopted by the Audit Committee and ratified by the Board.

Management is responsible for the Company s financial reporting process, including the Company s internal control over financial reporting, and for the preparation of the Company s consolidated financial statements in accordance with generally accepted accounting principles. Ernst & Young, as the Company s independent registered public accounting firm for the fiscal year ending March 29, 2014, was responsible for auditing those financial statements and expressing its opinion as to the fairness of the financial statement presentation in accordance with generally accepted accounting principles, and the effectiveness of the Company s internal control over financial reporting. The Audit Committee s responsibility is to oversee and review these processes. The Audit Committee is not, however, professionally engaged in the practice of accounting or auditing and does not provide any expert or other special assurance as to such financial statements concerning compliance with laws, regulations or generally accepted accounting principles or as to auditor independence. The Audit Committee relies, without independent verification, on the information provided to us and on the representations made by management and the independent registered public accounting firm.

In this context, the Audit Committee has met and held discussions with management and Ernst & Young, the Company s independent registered public accounting firm for the fiscal year ended March 29, 2014. Management represented to the Audit Committee that the Company s consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed with management, the Company s internal auditors and Ernst & Young, the Company s consolidated financial statements for Fiscal 2014 and the Company s internal control over financial reporting. The Audit Committee also discussed with Ernst & Young the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees). Ernst & Young provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1, as amended (Independence Discussions with Audit Committees), and the Audit Committee discussed their independence with them. In determining Ernst & Young s independence, the Audit Committee considered whether their provision of non-audit services to the Company was compatible with maintaining independence. The Audit Committee received regular updates on Ernst & Young s fees and the scope of audit and non-audit services it provided. All such services were provided consistent with applicable rules and the Company s pre-approval policies and procedures.

Based on our discussions with management, the Company s internal auditors and Ernst & Young and our review of the audited financial statements, including the representations of management and Ernst & Young with respect thereto, and subject in all cases to the limitations on our role and responsibilities referred to above and set forth in the Audit Committee Charter, the Audit Committee recommended to the Board that the Company s audited consolidated financial statements for the fiscal year ended March 29, 2014 be included in the Company s Annual Report on Form 10-K.

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The Audit Committee also approved, subject to stockholder ratification, the selection of Ernst & Young as the Company s independent registered public accounting firm for the fiscal year ending March 28, 2015.

Members of the Audit Committee

Frank A. Bennack, Jr. (Chair)

John R. Alchin

Arnold H. Aronson

Dr. Joyce F. Brown

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our Common Stock as of June 9, 2014 by: (i) each of our NEOs, (ii) each director, (iii) each stockholder who is known by us to beneficially own in excess of five percent of any class of our voting securities and (iv) all directors and executive officers as a group. Except as otherwise indicated, each stockholder listed below has sole voting and investment power with respect to the shares beneficially owned by such person. The rules of the SEC consider a person to be the beneficial owner of any securities over which the person has or shares voting power or investment power. In addition, a person is deemed to be the beneficial owner of securities if that person has the right to acquire beneficial ownership of such securities within 60 days, including through conversion or exercise of an option or other right. Unless otherwise indicated below, the address of each stockholder is 650 Madison Avenue, New York, New York 10022. As of June 9, 2014, there were 818 holders of record of our Class A Common Stock.

	Class A Common Stock		Class B Common Stock [1]		Voting Power of Total Common Stock%
	Number	%	Number	%	
Ralph Lauren	1,018,336 [2]	1.7%	26,881,276 [3]	100%	81.5%
Roger N. Farah	39,619 [4]	*			*
Jackwyn L. Nemerov	109,249 [5]	*			*
David Lauren	35,299 [6]	*	[7]		*
Christopher H. Peterson	10,445 [8]	*			*
Mitchell A. Kosh	19,798 [9]	*			*
John R. Alchin	19,650 [10]	*			*
Arnold H. Aronson	20,415 [11]	*			*
Frank A. Bennack, Jr.	23,173 [12]	*			*
Dr. Joyce F. Brown	7,030 [13]	*			*
Joel L. Fleishman	30,984 [14]	*			*
Hubert Joly	10,725 [15]	*			*
Judith A. McHale	2,563 [16]	*			*
Steven P. Murphy	18,448 [17]	*			*
Robert C. Wright	22,711 [18]	*			*
BlackRock, Inc. and related parties	3,126,053 [19]	5.1%			1%
Citadel Advisors LLC and related parties	3,173,392 [20]	5.2%			1%
The Vanguard Group and related parties	4,025,591 [21]	6.5%			1.2%
All directors and executive officers as a group (15 persons)	1,388,455 [22]	2.3%	26,881,276 [3]	100%	81.5%

* Less than 1.0%

(1) Each share of Class B Common Stock is convertible at the option of the holder into one share of Class A Common Stock. Each share of Class B Common Stock will be automatically converted into one share of Class A Common Stock upon transfer to a person who is not a member of the Lauren family.

(2) Includes 931,549 options vested as of June 9, 2014 or within 60 days thereafter representing the right to purchase shares of Class A Common Stock.

Does not include (i) unvested options representing the right to purchase 76,374 shares of Class A Common Stock, (ii) 178,832 unvested performance based restricted stock units (RPSUs) which are subject to upward or downward adjustment, and (iii) 419,296 vested RSUs (the underlying shares of our

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Class A Common Stock for these RSUs will not be delivered until Mr. R. Lauren s separation of service from the Company or, if earlier, upon a change of control (as defined in Mr. R. Lauren s employment agreement)).

(3) Includes (i) 10,749,906 shares of Class B Common Stock held by a revocable trust of which Mr. R. Lauren is the sole trustee and sole beneficiary, (ii) 1,629,044 shares of Class B Common Stock held by a revocable trust of which Mrs. R. Lauren is the sole trustee and sole beneficiary, (iii) an aggregate of 4,289,028 shares of Class B Common Stock held by trusts established for the benefit of Mr. R. Lauren s issue and of which Mrs. R. Lauren is a trustee with sole voting power and of which Mr. R. Lauren has the power to remove and replace the trustees, provided that Mr. R. Lauren may not serve as the replacement trustee and the replacement trustee is not related or subordinate to Mr. R. Lauren, (iv) 2,370,956 shares of Class B Common Stock held by a trust established for the benefit of Mrs. R. Lauren s issue and of which Mr. R. Lauren has the power to remove and replace the trustees, provided that Mr. R. Lauren and Mrs. R. Lauren may not serve as the replacement trustees, and (v) 7,842,342 shares of Class B Common Stock held by Lauren Family, L.L.C., a limited liability company of which Mr. R. Lauren has the power to remove and replace the managers, provided that any such replacement manager is not related to or subordinate to Mr. R. Lauren and Mr. R. Lauren may not serve as manager. The current managers of Lauren Family, L.L.C. are Mr. R. Lauren s children, Andrew Lauren, David Lauren and Dylan Lauren. Actions by Lauren Family, L.L.C. require the consent of a majority of the managers.

(4) Includes options vested as of June 9, 2014 or within 60 days thereafter representing the right to purchase 39,619 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 60,698 shares of Class A Common Stock or unvested RPSUs with respect to 69,120 shares of Class A Common Stock which are subject to upward or downward adjustment.

Does not include an aggregate of 2,370,956 shares of Class B Common Stock held by a trust established for the benefit of Mrs. R. Lauren s issue and of which Mr. Farah serves as one of the trustees with voting and investment power.

(5) Includes options vested as of June 9, 2014 or within 60 days thereafter representing the right to purchase 69,252 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 73,293 shares of Class A Common Stock or unvested RPSUs with respect to 124,000 shares of Class A Common Stock, a portion of which are subject to upward or downward adjustment.

(6) Includes options vested as of June 9, 2014 or within 60 days thereafter representing the right to purchase 27,329 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 4,738 shares of Class A Common Stock or unvested RPSUs with respect to 5,346 shares of Class A Common Stock which are subject to upward or downward adjustment.

(7) An aggregate amount of 7,842,342 shares of Class B Common Stock are held by Lauren Family, L.L.C., a limited liability company of which Mr. D. Lauren is one of the three current managers. The other two current managers of Lauren Family, L.L.C. are Mr. R. Lauren s other children, Andrew Lauren and Dylan Lauren. Actions by Lauren Family, L.L.C. require the consent of a majority of the managers. Mr. R. Lauren has the

power to remove and replace the managers, provided that any such replacement manager is not related to or subordinate to Mr. R. Lauren and Mr. R. Lauren may not serve as manager.

(8) Includes options vested as of June 9, 2014 or within 60 days thereafter representing the right to purchase 8,937 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 24,666 shares of Class A Common Stock , an aggregate of 14,608 unvested RPSUs which are subject to upward or downward adjustment, and 6,230 unvested RSUs (the underlying shares of our Class A Common Stock for these RSUs will be delivered in three equal annual installments beginning on September 28, 2013).

(9) Includes options vested as of June 9, 2014 or within 60 days thereafter representing the right to purchase 7,686 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 5,160 shares of Class A Common Stock or unvested RPSUs with respect to 14,318 shares of Class A Common Stock, a portion of which are subject to upward or downward adjustment.

(10) Includes 602 restricted shares of Class A Common Stock and vested options representing the right to purchase 7,946 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 1,609 shares of Class A Common Stock.

(11) Includes 2,844 shares owned by Mr. Aronson s spouse, 602 restricted shares of Class A Common Stock and vested options representing the right to purchase 12,946 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 1,609 shares of Class A Common Stock.

(12) Includes 602 restricted shares of Class A Common Stock and vested options representing the right to purchase 13,946 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 1,609 shares of Class A Common Stock.

(13) Includes 602 restricted shares of Class A Common Stock and vested options representing the right to purchase 3,561 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 1,609 shares of Class A Common Stock.

(14) Includes 6,400 shares held indirectly in a retirement account, 602 restricted shares of Class A Common Stock and vested options representing the right to purchase 13,946 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 1,609 shares of Class A Common Stock.

(15) Includes 602 restricted shares of Class A Common Stock and vested options representing the right to purchase 5,098 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 1,609 shares of Class A Common Stock.

(16) Includes 507 restricted shares of Class A Common Stock and vested options representing the right to purchase 267 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 1,368 shares of Class A Common Stock.

(17) Includes 602 restricted shares of Class A Common Stock and vested options representing the right to purchase 15,446 shares of Class A Common Stock. Does not include unvested options representing the right to purchase 1,609 shares of Class A Common Stock.

(18) Includes 602 restricted shares of Class A Common Stock and vested options representing the right to purchase 7,946 shares of Class A Common Stock. Does not include unvested options representing the right to purchase

1,609 shares of Class A Common Stock.

(19) According to a Schedule 13G filed on January 30, 2014, BlackRock, Inc. (BlackRock) may be deemed the beneficial owner of 3,126,053 shares of Class A Common Stock beneficially owned by its subsidiaries, BlackRock (Luxembourg) S.A., BlackRock (Netherlands) B.V., BlackRock Advisors (UK) Limited, BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Fund Management Ireland Limited, BlackRock Fund Managers Ltd., BlackRock Institutional Trust Company, N.A., BlackRock International Limited, BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd., BlackRock Investment Management, LLC, BlackRock Japan Co. Ltd., and BlackRock Life Limited, with the sole power to vote or direct the vote over 2,561,653 shares of Class A Common Stock and sole dispositive power over 3,126,053 shares of Class A Common stock. BlackRock s address is 40 East 52nd Street, New York New York 10022.

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(20) According to a Schedule 13G filed on February 7, 2014: (i) Citadel Advisors LLC (Citadel Advisors) may be deemed the beneficial owner of 2,941,900 Shares of Class A Common Stock with shared power to vote or direct the vote of 2,941,900 shares of Class A Common Stock and shared dispositive power over 2,941,900 shares of Class A Common Stock; (ii) Citadel Advisors Holdings LP (CAH) may be deemed the beneficial owner of 2,996,694 shares of Class A Common Stock with shared power to vote or direct the vote of 2,996,694 shares of Class A Common Stock and shared dispositive power over 2,996,694 shares of Class A Common Stock and (iii) Citadel GP LLC (CGP) and Mr. Kenneth Griffin may be deemed to beneficially own 3,173,392 shares of Class A Common Stock with shared power to vote or direct the vote of 3,173,392 shares of Class A Common Stock and shared dispositive power over 3,173,392 shares of Class A Common Stock. Citadel Global Equities Master Fund Ltd. (CG), Surveyor Capital Ltd. (SC), Citadel Quantitative Strategies Master Fund Ltd. (CQ), Citadel Equity Fund Ltd. (CEF), and Citadel Securities LLC (Citadel Securities) own the Class A Common Stock. Citadel Advisors is the portfolio manager for CG, SC and CEF. Citadel Advisors II LLC, a Delaware limited liability company (CA2), is the portfolio manager of CQ. CAH is the general partner of Citadel Advisors Holdings II LP, a Delaware limited partnership, which is the managing member of Citadel Advisors and CA2. CALC III LP, a Delaware limited partnership (CALC3), is the non-member manager of Citadel Securities. CGP is the general partner of CALC3 and CAH. Mr. Griffin is the President and Chief Executive Officer of, and owns a controlling interest in, CGP. The address for each of Citadel Advisors, CAH, CGP and Mr. Griffin is c/o Citadel LLC, 131 S. Dearborn Street, 32nd Street, Chicago, Illinois 60603.

(21) According to a Schedule 13G filed on February 12, 2014, The Vanguard Group (Vanguard), may be deemed the beneficial owner of 4,025,591 shares of Class A Common Stock with the sole power to vote or direct the vote over 97,318 shares of Class A Common Stock, sole dispositive power over 3,934,873 shares of Class A Common Stock and shared dispositive power over 90,718 shares of Class A Common Stock. Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 76,108 shares of the Class A Common Stock as a result of its serving as investment manager of collective trust accounts. Vanguard Investments, Australia, Ltd., a wholly-owned subsidiary of The Vanguard Group, Inc. is the beneficial owner of 35,820 shares of Class A Common Stock as a result of its serving as investment manager of Australian investment offerings. The address for Vanguard is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.

(22) Includes (i) options vested, as of June 9, 2014 or within 60 days thereafter, granted under our 1997 Stock Incentive Plan, our 2010 Stock Incentive Plan and our prior 1997 Non-Employee Director Stock Option Plan (such plan expired on December 31, 2006) representing the right to purchase 1,165,474 shares of Class A Common Stock and (ii) 5,323 unvested restricted shares of Class A Common Stock granted under our 2010 Stock Incentive Plan. Does not include (i) unvested options granted under the 2010 Stock Incentive Plan, representing the right to purchase 259,169 shares of Class A Common Stock, (ii) 406,224 unvested RPSUs (a portion of which are subject to upward or downward adjustment), (iii) 6,230 unvested RSUs, and (iv) 419,296 vested RSUs (the underlying shares of our Class A Common Stock for these RSUs will not be delivered to Mr. R. Lauren until his separation of service from the Company or if earlier, upon a change of control), granted under the 1997 Stock Incentive Plan.

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers to file initial reports of ownership and reports of changes in ownership of our Class A Common Stock with the SEC and to provide copies of these reports to us. These filing requirements also apply to certain beneficial owners of more than ten percent of our Class A Common Stock. To our knowledge, based solely on our review of the copies of Section 16(a) reports furnished to us during and with respect to Fiscal 2014 and on written representations from certain reporting persons that no Form 5s were required to be filed by such persons, all reportable transactions during that fiscal year were reported on a timely basis except that the withholding of shares for taxes upon the vesting of RSUs for each of Ralph Lauren and Christopher Peterson were reported on Form 5s.

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DIRECTOR COMPENSATION

The compensation for non-employee directors is as follows:

- an annual retainer fee for each non-employee director of $60,000;

- an annual retainer fee for the Chairs of the Audit Committee and the Compensation Committee of $20,000, and an annual retainer fee for the Chair of the Nominating & Governance Committee of $15,000; and

- an annual equity award for each non-employee director with a target equity value of $100,000. One-half of the target equity value is delivered in the form of options to purchase shares of our Class A Common Stock and one-half is delivered in the form of restricted shares of Class A Common Stock. The options and the restricted shares of Class A Common Stock will vest over three years in equal annual installments.

The fee paid to non-employee directors for each meeting of a committee of the Board that a director attends is $2,000 per committee meeting. The annual retainer and attendance fees are paid to the non-employee directors in quarterly installments in arrears.

A non-employee director also receives a grant of options to purchase 7,500 shares of our Class A Common Stock at the time that the director initially joins our Board. These options will vest over three years in equal annual installments and the term is seven years. The annual equity award to non-employee directors is awarded on April 1 of each year to those non-employee directors who have served as directors for at least half of the preceding fiscal year.

Our Board and Compensation Committee believe it is important for key members of our senior management team and our non-employee directors to build and maintain a long-term ownership position in the Company, to further align their financial interests with those of our stockholders and to encourage the creation of long-term value. As a result, the Compensation Committee has established stock ownership guidelines for our non-employee directors, our NEOs and select other members of our senior management group, to further link their interests with those of stockholders. These guidelines provide that non-employee directors and such employees must attain ownership of a specific number of shares by June 2015, which is approximately five years from the implementation of the guidelines. Non-employee directors and employees subject to these guidelines who join us (or become subject to the guidelines) after the implementation of the guidelines will have five years from June 30th in the year most closely following the date they joined us (or were included) to attain the requisite numbers of shares specified in the guidelines. For directors, the guideline is based on a fixed share target of 2,400 shares. Further details on the guidelines for these employees are provided in Compensation Discussion and Analysis Stock Ownership Guidelines.

We reimburse our non-employee directors for reasonable travel and other related expenses to attend Board and committee meetings and for director education courses. Non-employee directors are also provided with a merchandise discount on most of our products.

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Director Compensation Table

The following table provides information concerning the compensation of our non-employee directors in Fiscal 2014. Directors who are our employees receive no compensation for their services as directors and do not serve on any committees of the Board.

Name	Fees Earned or Paid in Cash[1] ($)	Option Awards[2] ($)	Stock Awards[2] ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation[3] ($)	Total ($)
John R. Alchin	$72,000	$49,957	$48,933			$977	$171,867
Arnold H. Aronson	$78,000	$49,957	$48,933			$977	$177,867
Frank A. Bennack, Jr.	$106,000	$49,957	$48,933			$977	$205,867
Dr. Joyce F. Brown	$93,000	$49,957	$48,933			$977	$192,867
Joel L. Fleishman	$100,000	$49,957	$48,933			$977	$199,867
Hubert Joly	$74,000	$49,957	$48,933			$977	$173,867
Judith A. McHale	$66,000	$49,957	$48,933			$0[4]	$164,890
Steven P. Murphy	$74,000	$49,957	$48,933			$977	$173,867
Robert C. Wright	$66,000	$49,957	$48,933			$977	$165,867

(1) The annual retainer for each non-employee director is $60,000. The annual retainer for the Chair of each of the Audit Committee and Compensation Committee is $20,000 and the Chair of the Nominating & Governance Committee is $15,000. The fee paid to non-employee directors for each meeting of a committee of the Board that such non-employee director attends is $2,000 per committee meeting. In Fiscal 2014, the Audit Committee met six times, the Compensation Committee met seven times and the Nominating & Governance Committee met three times.

(2) We grant annual stock-based awards to non-employee directors on April 1 of each year. The grants awarded for our non-employee directors service during Fiscal 2014 were made on April 1, 2013 and included the following for each non-employee director:

$49,957 representing the aggregate grant date fair value of the annual grant of options to purchase 801 shares of the Company s Class A Common Stock, calculated in accordance with FASB Accounting Standards Codification topic 718, Stock Compensation (ASC 718); and

$48,933 representing the aggregate grant date fair value of the annual grant of 297 restricted shares of the Company s Class A Common Stock, calculated in accordance with ASC 718.

The grants made to our non-employee directors on April 1, 2014 were made during Fiscal 2015 and will be disclosed in next year s Proxy Statement.

(3) This amount represents deferred cash dividends paid during Fiscal 2014 in connection with the vesting of restricted shares of our Class A Common Stock.

(4) Judith A. McHale rejoined the Board during Fiscal 2012 on November 8, 2011 and thus, she did not receive any deferred cash dividend payments in connection with the vesting of restricted shares of our Class A Common Stock during Fiscal 2014.

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Director Equity Table

At the end of Fiscal 2014, each non-employee director held options to purchase shares of our Class A Common Stock and restricted shares of our Class A Common Stock as follows:

	Options	Restricted Stock
John R. Alchin	8,271	611
Arnold H. Aronson	13,721	611
Frank A. Bennack, Jr.	14,721	611
Dr. Joyce F. Brown	4,336	611
Joel L. Fleishman	14,721	611
Hubert Joly	5,873	611
Judith A. McHale[1]	801	297
Steven P. Murphy	16,221	611
Robert C. Wright	8,721	611

(1) Judith A. McHale rejoined the Board during Fiscal 2012 on November 8, 2011 and thus, she did not receive any equity awards until Fiscal 2014.

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COMPENSATION DISCUSSION AND ANALYSIS

Our executive compensation programs are designed to align the interests of our executive officers with those of our shareholders by tying a significant portion of their compensation to the Company s performance. This Compensation Discussion and Analysis explains these programs as it pertains to each of our NEOs during Fiscal 2014. Effective May 31, 2014, Roger N. Farah resigned from the Company as Executive Vice Chairman. In Fiscal 2014, our NEOs were:

Name	Title
Ralph Lauren	Chairman and Chief Executive Officer
Roger N. Farah	Executive Vice Chairman
Jackwyn L. Nemerov	President and Chief Operating Officer
Christopher H. Peterson	Executive Vice President, Chief Administrative Officer and Chief Financial Officer
Mitchell A. Kosh	Executive Vice President, Human Resources

Executive Summary

Our Fiscal 2014 Performance and Impact on Compensation

Fiscal 2014 was a year of record financial results and substantial progress on several strategic growth objectives. Select achievements for Fiscal 2014 include:

Delivered High Single Digit Revenue Growth. For Fiscal 2014, we reported revenue of approximately $7,450 million, representing an approximate 7.3% increase compared to Fiscal 2013. Our revenue growth was a result of strong momentum in core North American wholesale merchandise categories, the contribution from the newly transitioned Chaps menswear operations, growth at our global e-commerce operations and improved trends in Europe.

Delivered Record Operating Income of $1.1 Billion and Record Diluted Earnings Per Share of $8.43. Our strong sales growth and disciplined operational management enabled the Company to achieve record profit levels in Fiscal 2014. Operating income rose 0.3% to $1.1 billion and diluted earnings per share increased 5.4% to $8.43. Growth in operating income and earnings per share was achieved despite considerable net negative foreign currency effects and substantial incremental investment in our long term strategic growth objectives, particularly in our global store network, e-commerce operations and infrastructure.

Delivered on Our Commitment to Return Capital to Stockholders. Our record profits, coupled with our strong balance sheet and overall financial condition, enabled the Company to continue to return capital to shareholders.

Ø **Dividends.** On November 6, 2013, we announced a 12.5% increase in our quarterly dividend payments from $0.40 per share to $0.45 per share, the fourth time that we raised our dividend since November 2009. During Fiscal 2014, we returned approximately $149 million of cash to our stockholders through the payment of dividends.

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Fiscal Year

- Ø **Stock Repurchases.** During Fiscal 2014, we repurchased approximately 3.2 million shares of our Class A Common Stock utilizing approximately $548 million of our aggregate stock repurchase authorizations. Over the last three years, the Company has returned approximately $1.4 billion of capital to shareholders through share repurchases.

Sustained Investment in Our Key Strategic Growth Objectives. Fiscal 2014 was another year of making prudent investments in emerging regions and categories, e-commerce platforms, infrastructure and talent to support our long-term growth objectives. We believe these investments will enable us to maximize the enduring appeal of our brands and products on a growing global scale.

- Ø **International Market Development.** We continued to expand our global reach by opening 28 new stores in international markets during Fiscal 2014. In addition, we successfully integrated our formerly licensed operations in Australia and New Zealand as directly operated businesses.

- Ø **Extending our Direct-to-Customer Reach.** We continue to focus on expanding our direct-to-customer reach through existing and new channels, and have, as a result, made significant investments in our stores, concession shops and e-commerce operations. In Fiscal 2014, we opened 16 directly operated stores around the world and established greater clarity around our retail growth objectives, with Polo stores being an exciting new evolution in our direct-to-customer efforts and a compelling complement to our Ralph Lauren luxury stores. We also expanded our e-commerce business by successfully launching a South Korean site and enhancing our capabilities in Europe.

- Ø **Innovating with New Products and Merchandise Categories.** We invested in broadening our Polo product portfolio, creating a Polo line for women and developing an expanded men s tailored clothing line. We also made excellent progress with accessories based on the successful introduction of the Soft Ricky handbag, which has helped to bolster the Ricky s status as our first iconic handbag design. In addition, we successfully transitioned the men s Chaps sportswear license to a directly controlled operation and are investing in efforts to leverage the Chaps brand on a global scale.

- Ø **Investment in Operational Infrastructure.** In Fiscal 2014, we doubled the size of the distribution center for our North American e-commerce operations, an investment we expect will support a doubling of the business over the next several years. We also have made great progress with our SAP implementation during the year, successfully completing a major conversion of our North American operations from legacy systems to SAP. We expect the global implementation process to continue over the next several years and anticipate the long-term benefits to include improved productivity and procurement savings, in addition to providing the Company with a robust platform for future growth.

- Ø **Development of Worldwide Talent.** We continue to enhance and develop our global talent and management structure to support the growth of our business. In Fiscal 2014, we introduced changes to our leadership team by creating an Office of the Chairman led by Ralph Lauren, our Chairman and Chief Executive Officer (CEO), to effectively address our future plans for growth and performance. In connection with the Office of the Chairman:

    Jackwyn Nemerov, formerly our Executive Vice President, became President and COO;

    Christopher Peterson, formerly our Senior Vice President and Chief Financial Officer (CFO), became Executive Vice President and Chief Administrative Officer in addition to his role as CFO; and

    Roger Farah, formerly our President and Chief Operating Officer (COO), became Executive Vice Chairman.

With this change, Mr. Farah reduced his time commitment to the business and focused more specifically on business development and strategic initiatives, while Ms. Nemerov and Mr. Peterson focus on managing our day-to-day operations. As a result of the creation of the Office of the Chairman, compensation packages were revised for each of Mr. Farah, Ms. Nemerov and Mr. Peterson to align with their newly defined roles. The changes are discussed in more detail in the Changes in NEO Compensation Arrangements section.

In addition, we have made other structural changes to our broader senior management group to position our Company for continued growth and success. These changes include expanding certain roles to have more global oversight; consolidating oversight of the Americas under one leader, which is consistent with how we manage our operations in Europe and Asia; and combining our sourcing and manufacturing operations with our distribution and logistics team to create a fully integrated end-to-end supply chain organization.

Pay for-Performance

Our compensation programs are designed to link our executives compensation with the Company s performance, with incentive-based compensation representing a substantial portion of our executives compensation. In Fiscal 2014, net income increased 3% from the prior year s level. Despite the improved profitability in Fiscal 2014, our net income before taxes (NIBT), a key performance measure in our short-term cash incentive awards, was slightly below the target established by the

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Compensation Committee at the beginning of Fiscal 2014. As a result, and consistent with our pay-for-performance philosophy, in Fiscal 2014, annual incentive awards for our NEOs were paid out at a range of 90% to 99% of target compared to a payout range of 120% to 178% of target for Fiscal 2013. Please see the Performance-based Compensation Programs and Summary Compensation Table sections below for details.

Executive Compensation Governance Highlights

The Company seeks to maintain best practice standards with respect to the oversight of executive compensation. The following policies and practices were in effect during Fiscal 2014:

- Compensation Committee composed solely of independent directors;
- Use of an independent compensation consultant retained directly by the Compensation Committee, in its sole discretion, who performs no consulting or other services for the Company s management;
- Grants of equity awards that incorporate relative total shareholder return (TSR) as a modifier to long-term incentive awards;
- Meaningful stock ownership requirements for our NEOs and other select members of our senior management;
- Prohibition of hedging the Company s stock by employees; and
- Double-trigger vesting upon a change-of-control for equity awards granted in Fiscal 2013 and beyond for all equity participants, including our Chairman and CEO.

Fiscal 2013 Say on Pay Vote

In making executive compensation decisions, the Compensation Committee considered the results of the non-binding, advisory proposal on our executive compensation philosophy, policies and practices (Say-on-Pay) set forth in our 2013 Proxy Statement. Our stockholders overwhelmingly approved our executive compensation program with approximately 97% support. In addition, in Fiscal 2014, we continued to engage some of our largest investors and solicit their feedback on a variety of corporate governance topics, including executive compensation practices. After considering our Say-on-Pay voting results, shareholder input, advice from its compensation consultant and other factors addressed in the following discussion, the Compensation Committee determined not to make changes to our executive compensation programs and concluded that the programs continue to achieve their objectives and provide a competitive pay-for-performance package that effectively incentivizes our NEOs. The Compensation Committee will continue to consider the results from this year s and future advisory stockholder votes regarding our executive compensation programs.

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Executive Compensation Programs

Overview

We maintain executive compensation programs designed to reward sustained business growth and results. These programs, taken together, are designed to drive stockholder value through the following principles:

- attract, motivate and retain highly qualified employees;
- establish challenging goals balanced between short-term and long-term objectives;
- award a meaningful portion of compensation in variable (versus fixed) pay, with a significant portion of variable compensation in the form of long-term equity awards;
- promote collaborative leadership behavior designed to achieve goals in a complex global organization; and
- avoid unnecessary or excessive risk-taking that could reward employees at the expense of stockholders.

Determination of Compensation for Executives

Market Data. We operate in three distinct but integrated business segments: wholesale, retail and licensing, and our primary products include apparel for men, women and children, accessories, home furnishings and fragrance. As a result, we believe our product breadth, multi-channel distribution and global reach are unique among luxury and apparel companies. Accordingly, while the Compensation Committee considers, among other things, competitive market compensation paid by other companies in our industries in establishing our executive compensation programs, it does not use a designated peer group as a primary comparative metric. From time to time, the Compensation Committee also reviews compensation levels at various categories of companies such as leading apparel and accessories manufacturers, high-profile, branded retail organizations, family-named companies and other companies in which the chief executive officer of such companies could be perceived as personifying their organizations. However, the Compensation Committee does not set executive compensation at, or near, any particular target percentile within a peer group, but instead, uses compensation market data across multiple peer groups as a consideration in setting our executive compensation levels.

Other Considerations. In addition to market data, the Compensation Committee considers other factors in determining executive compensation levels, including internal pay equity, nature and scope of responsibility, an employee s current performance and expected future contributions, succession planning considerations relative to development and retention, and our performance, financial plans and budget.

In determining the compensation of our CEO, Mr. Ralph Lauren, the Compensation Committee also takes into consideration that Mr. Lauren is not only the CEO of a unique, complex, global organization with highly successful wholesale, retail and licensing divisions in multiple product categories, but he is also the founder, creator and name behind our brands. Mr. Lauren is also our lead designer and brings to us extraordinary and rare talent that is unrivaled by others in our industry. The

Compensation Committee believes that Mr. Lauren s leadership, aesthetic vision, direction and the public s association of his name and likeness with our branded products are unique and integral components of our success, and that his contributions to our longstanding, consistent achievement over nearly five decades have been, and continue to be, instrumental in creating significant stockholder value. These factors were taken into account with respect to setting Mr. Lauren s compensation during Fiscal 2014 and the terms set forth in his employment agreement entered into on June 26, 2012. See the Executive Employment Agreement section for a summary of the terms of Mr. Lauren s employment agreement.

In determining compensation of our other NEOs, the Compensation Committee considered the impact, scope of responsibility and leadership structure required to support the long-term growth of our business in an increasingly complex global environment. Accordingly, the key compensation considerations for Fiscal 2014 have been driven by the need to retain and motivate the senior executive team in light of their changed roles and responsibilities in the new management structure. Please see the Changes in NEOs Compensation Arrangements in Fiscal 2014 section below for details.

Role of the Compensation Committee and Management. In addition to its responsibilities to, among other things, review and administer our compensation plans and to maintain oversight in the development of succession plans for certain key executive positions within our senior management, with respect to executive compensation, the Compensation Committee is responsible for reviewing and approving the employment agreements for each of our NEOs, which include their salary, bonus and certain other compensation components. In determining the long-term incentive component of the compensation for each of our NEOs pursuant to each of their employment agreements, the Compensation Committee considered, among such other factors as it deemed relevant, our performance, shareholder returns, the value of similar incentive awards to executive officers at comparable companies and the awards given to each of our NEOs in past years. As noted above under Determination of Compensation for Executives Market Data, while the Compensation Committee considers market information, the Compensation Committee believes that considerations unique to our Company have a greater impact in setting executive compensation. On an annual basis, the Compensation Committee also reviews and approves the corporate performance goals and objectives relevant to the compensation payable to our NEOs.

Subject to previously approved applicable contractual obligations, the Compensation Committee also reviews and approves, on an annual basis, the compensation of key members of our senior management, and reviews and approves the corporate performance goals and objectives relevant to the compensation payable to each of them. In addition, the Compensation Committee regularly reviews the design and structure of our executive compensation programs to ensure that management s interests are closely aligned with stockholders interests and that the compensation programs are designed to further our strategic priorities.

Role of Compensation Consultants. The Compensation Committee has utilized the services of Exequity LLP (Exequity), an independent advisor, to provide guidance in association with significant executive compensation decisions. Exequity does not provide other services to the Company or the Company s management. In Fiscal 2014, the Compensation Committee continued to engage Exequity to provide these independent advisory services, including in connection with the preparation of Mr. Farah s, Ms. Nemerov s and Mr. Peterson s new employment agreements, which are discussed in more detail below in Changes in NEO s Compensation Arrangements in Fiscal 2014. The Compensation Committee retains sole responsibility for engaging any advisor and meets with its advisor, as needed, in the Compensation Committee s sole discretion.

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Separate from the Compensation Committee s consultant, during Fiscal 2014, our Company s management continued to retain the services of Compensation Advisory Partners, LLC (CAP), as its independent compensation consultant. CAP s role is to assist management in the development and analysis of executive compensation matters.

Employment Agreements

We have a longstanding practice of entering into employment agreements with our corporate officers and select members of our senior management. We believe that employment agreements provide greater assurance of continuity and retention of critical creative and operating talent in a highly competitive industry. Employment agreements for our NEOs are reviewed and approved by the Compensation Committee in consultation with the Compensation Committee s independent compensation and independently retained legal advisors.

The guidelines for salary, bonus and certain other compensation components for each NEO are set forth in his or her respective employment agreement, and, if applicable, in amendments to that employment agreement. The agreements also provide certain benefits, including in the event of various termination or change in control situations. We believe that providing for these benefits in such situations enhances the value of the business by preserving the continuity of management during potential change in control situations and by focusing our senior executives on our long-term priorities. See Executive Employment Agreements, Summary Compensation Table and Potential Payments Upon Termination or Change in Control below for a more detailed description of the payments and benefits provided under each NEO s employment agreement.

Changes in NEOs Compensation Arrangements in Fiscal 2014

On September 18, 2013 we entered into new employment agreements with each of Mr. Farah (the New Farah Employment Agreement), Ms. Nemerov (the New Nemerov Employment Agreement) and Mr. Peterson (the New Peterson Employment Agreement). The terms of each of these agreements commenced on November 1, 2013 (Effective Date), to align with the roles established in connection with the creation of the Office of the Chairman. The Compensation Committee, in consultation with its independent compensation consultant, Exequity, and its independent legal advisors provided new compensation packages along with these new employment agreements, taking into account its desire to provide competitive pay-for-performance packages, drive stockholder value and incentivize for strong long-term financial results.

On the Effective Date, Mr. Farah s role changed from President and COO to Executive Vice Chairman (EVC). As EVC, Mr. Farah was responsible for evaluating strategic projects, executing business development initiatives, and mentoring and counseling the management team. Mr. Farah was no longer responsible for day-to-day management of the organization. Taking into consideration Mr. Farah s reduced time, yet recognizing his critical role and significant leadership value to the Company, the Compensation Committee and Mr. Farah agreed to the following key changes:

- Reduced his base compensation, target bonus opportunity, annual equity award value, and annual deferred compensation payment by 50%;

- Eliminated the payment of any cash severance for terminations without cause or resignations for good reason; and

- Provided for the vesting of all equity awards granted prior to the effective date of the New Farah Employment Agreement upon termination of employment, subject to the achievement of performance goals where applicable.

See a copy of the New Farah Employment Agreement, as amended, as previously filed with the SEC, and Executive Employment Agreements and Potential Payments Upon Termination or Change in Control in this Proxy Statement for a more complete description of the key changes in the New Farah Employment Agreement as compared to Mr. Farah s amended and restated employment agreement dated October 14, 2009, and amended as of March 29, 2010 (the Former Farah Employment Agreement) that was in effect during a portion of Fiscal 2014.

On the Effective Date, Ms. Nemerov was promoted from Executive Vice President to President and COO. In this new role, Ms. Nemerov s duties expanded to include oversight of the following areas: global merchandising, manufacturing and supply chain operations, and our retail, wholesale and licensing businesses worldwide. In recognition of her increased level of responsibility, the Compensation Committee increased Ms. Nemerov s compensation in certain respects, but also reduced her maximum severance entitlement. In particular, the Compensation Committee and Ms. Nemerov agreed to the following key changes:

- Increased her base compensation by $100,000 and her target bonus opportunity from 200% of base salary to 300% of base salary;

- Stabilized the aggregate target grant value of Ms. Nemerov s annual equity awards at $9 million. Under her former employment agreement her target annual equity grants were denominated by a target value plus a fixed number of shares, which resulted in an aggregate grant value of $8,153,349 in Fiscal 2013; and

- Reduced her maximum cash separation payments upon a termination without cause or a resignation for good reason from the continuation of her base salary for the remainder of the term (3.5 years) plus a lump sum equal to her prior fiscal year s bonus (her maximum bonus could be 450% of her base salary), to the continuation of her base salary for two years plus a lump sum equal to 300% of her base salary.

See a copy of the New Nemerov Employment Agreement, as amended, as previously filed with the SEC, and Executive Employment Agreements and Potential Payments Upon Termination or Change in Control in this Proxy Statement for a more complete description of the key changes in the New Nemerov Employment Agreement as compared to Ms. Nemerov s amended and restated employment agreement dated October 14, 2009 (the Former Nemerov Employment Agreement) that was in effect during a portion of Fiscal 2014.

On the Effective Date, Mr. Peterson was promoted from Senior Vice President and CFO to Executive Vice President, Chief Administrative Officer (CAO) and CFO. In this new role, Mr. Peterson s responsibilities increased to include oversight of the legal, corporate facilities, global real estate, and corporate services organizations while still maintaining his role and responsibilities as CFO which included oversight of the following areas: financial planning and analysis, accounting, tax, treasury and investor relations. In recognition of this increased level of responsibility, the Compensation Committee increased Mr. Peterson s base compensation by $100,000, his target bonus opportunity from 150% of base salary to 200% of base salary and the target grant value of his annual equity award from $1 million to $1.8 million. See a copy of the New Peterson Employment

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Agreement, as amended, as previously filed with the SEC, and Executive Employment Agreements and Potential Payments Upon Termination or Change in Control in this Proxy Statement for a more complete description of the key changes in the New Peterson Employment Agreement as compared to Mr. Peterson s employment agreement dated September 24, 2012 (the Former Peterson Employment Agreement) that was in effect during a portion of Fiscal 2014.

In Fiscal 2014, we also entered into a new employment agreement with Mr. Kosh in connection with his promotion from Senior Vice President, Human Resources to Executive Vice President, Human Resources, effective as of March 1, 2014 (the New Kosh Employment Agreement). The terms of the New Kosh Employment Agreement included an increase in base salary by $50,000 and, effective as of Fiscal 2015, a change in annual target bonus from $500,000 to 75% of base salary. The target grant value of Mr. Kosh s annual equity award remained unchanged under the New Kosh Employment Agreement. These new terms provide the appropriate mix and level of compensation in recognition of Mr. Kosh s critical role, responsibilities and historical, current and expected contributions, especially in light of his key role in managing the personnel changes resulting from the establishment of the Office of the Chairman and other organizational changes at the senior management level. See a copy of the New Kosh Employment Agreement, as previously filed with the SEC, and Executive Employment Agreements and Potential Payments Upon Termination or Change in Control in this Proxy Statement for a more complete description of the key changes in the New Kosh Employment Agreement as compared to his amended and restated employment agreement dated as of February 24, 2013 (the Former Kosh Employment Agreement) that was in effect during most of Fiscal 2014.

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Key Components of Executive Compensation

The principal elements of our executive compensation programs are summarized in the following table and described in more detail below.

Compensation Element	Brief Description	Objectives
Base Salary	Fixed compensation	Provide a competitive, fixed level of cash compensation to attract and retain talented and skilled employees
Annual Cash Incentive Bonus	Variable, performance-based cash compensation earned based on achieving pre-established annual goals	Motivate and reward employees to achieve or exceed our current-year financial goals
Long-Term Equity-Based Incentives	Variable equity compensation earned based on achieving pre-established long-term goals	Align an employee s interest with that of our stockholders and encourage executive decision-making that maximizes value creation over the long-term
Stock Options	Stock options are granted at fair market value and generally have pro-rata three-year vesting and a seven-year term	Align compensation with stockholders interests Provide value to the extent the stock price increases above the grant price
Pro-Rata Restricted Performance Share Units (RPSUs)	Earned and eligible for payout ratably over three years based on achievement of a pre-established performance goal for the initial fiscal year and continued employment through the vesting dates	Align compensation with stockholders interests Facilitate and reward achievement of our annual financial goals through a combination of performance goal and time-based payouts Aid in retention of key employees in a highly competitive market for talent
Cliff RPSUs	Earned based on our achievement of a pre-established	Align compensation with stockholders interests

	cumulative net earnings goal over a three-year fiscal performance period and continued employment	Facilitate and reward achievement of our long-term growth plan Aid in retention of key employees in a highly competitive market for talent
Cliff RPSUs with TSR Modifier	Same as Cliff RPSUs but subject to adjustment (a TSR Modifier) based on our relative TSR performance, which measures the performance of our stock price and dividends, as compared to the TSR generated by the S&P 500 during the same three-year fiscal performance period	Align compensation with stockholders interests Facilitate and reward achievement of our long-term growth plan Aid in retention of key employees in a highly competitive market for talent Link level of award with relative performance against other S&P 500 companies
Restricted Stock Units (RSUs)	Earned and eligible for payout over a number of years based on the passage of time and continued employment	Provide in very limited and unique situations Aid in attraction and retention of select key employees in a highly competitive market for talent

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Base Salary

We pay base salaries to attract and retain talented executives and to provide a fixed base of cash compensation. Base salaries for each of our NEOs are determined and approved by the Compensation Committee as set forth in their respective employment agreements. In general, base salaries may be reviewed periodically by the Compensation Committee. In Fiscal 2014, the base salaries for Mr. Farah, Ms. Nemerov and Mr. Peterson were adjusted to recognize the changes in responsibilities as a result of the establishment of the Office of the Chairman. Mr. Kosh received a base salary adjustment in connection with his promotion from Senior Vice President to Executive Vice President.

Performance-based Compensation Programs

The Compensation Committee strongly believes that our compensation practices accomplish the goal of pay-for-performance by rewarding our executives for the achievement of both short-term and long-term superior financial and strategic performance. To align our executives compensation with stockholders interests, the Compensation Committee has concluded that a majority of our executives compensation should be at-risk in the form of annual cash incentive and long-term equity-based awards.

The charts below show the balance of the at-risk elements that comprised the target direct compensation for our NEOs in Fiscal 2014 and correlate to the Summary Compensation Table found on page 56. These charts illustrate the significance of the performance-based portions of our NEO compensation programs relative to total compensation and the alignment with performance and shareholder interests. For Fiscal 2014, 93% of Mr. Lauren s target total direct compensation was at-risk.

Annual Cash Incentive Awards

In Fiscal 2014 all of our NEOs participated in the Amended and Restated Executive Officer Annual Incentive Plan (EOAIP), a stockholder approved, short-term cash incentive bonus plan, in which the Compensation Committee determines the EOAIP participants from among our executive officers. The EOAIP is designed to promote executive decision-making and achievement that supports the realization of key overall Company financial goals.

Key features of the EOAIP are:

- Payouts are based on different levels of achievement, which include Threshold, Target and Maximum levels. The Compensation Committee establishes the Threshold, Target and

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Maximum levels each year. In Fiscal 2014, the Compensation Committee determined that the following performance levels were applicable to corporate participants:

Threshold	The minimum level of performance for which a bonus is paid and set at 80% of the Target level. No bonuses will be earned if the Threshold level of performance is not achieved.
Target	100% achievement of financial goals.
Maximum	Achievement at a superior level of performance of up to 110% of the Target level.

No payouts are made in any year in which we fail to earn a profit.

Participants are eligible for a bonus opportunity based 100% on our overall financial performance without consideration of performance of specific divisions or any discretionary performance factors. Bonus payments are subject to adjustments, if applicable, as described further below.

Participants may have individual payout schedules based upon each such participant s existing employment agreement.

All bonuses under the EOAIP are capped, subject to the respective employment agreements of each participant.

The Compensation Committee has the authority to:

- Ø determine the EOAIP participants from among our executive officers;
- Ø establish the financial performance goals (from the list of performance measures previously approved by stockholders) and payout schedules, including any adjustments;
- Ø to the extent permitted under Section 162(m) of the Internal Revenue Code (the Code), to omit, among other things, the effect of unbudgeted extraordinary items, any gain or loss on the disposal of a business segment, unusual or infrequently occurring events and transactions and

cumulative effects of changes in accounting principles;

- Ø establish the required achievement levels against pre-determined performance goals under the EOAIP; and

- Ø exercise discretion to reduce or eliminate, but not increase, the bonus amounts payable under the EOAIP.

The Compensation Committee believes that maintaining the EOAIP provides the Compensation Committee with the flexibility to maintain an incentive plan for these executive officers that is tightly aligned with their significant roles and broad responsibilities within the Company and reflects their contributions to our overall success.

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Fiscal 2014 Cash Incentive Bonuses Paid Under the EOAIP

Each year, we engage in an extensive and deliberate process to establish our budget, performance measures and performance targets which are then presented to the Compensation Committee for approval. After our independent auditors issue their final audit opinion for the completed fiscal year, the Compensation Committee determines the extent, if at all, to which performance has been achieved against pre-established targets and, based upon the degree of achievement, approves the annual cash incentive bonuses payable to each NEO under the EOAIP. The Compensation Committee believes that the performance of each of our NEOs is represented by the Company s results and thus, individual performance is not considered in determining their bonuses. Each of Mr. Farah, Ms. Nemerov, Mr. Peterson, and Mr. Kosh have their respective bonuses adjusted (from minus 10% to plus 10%) based upon the degree of achievement of a previously established additional strategic financial goal. The bonus payment for Mr. Lauren is based solely on actual performance against the Company s overall performance measures, as selected by the Compensation Committee for the applicable fiscal year, and is not adjusted based on performance against the aforementioned additional strategic financial goal.

The table below sets forth the threshold bonus, target bonus, maximum bonus and actual Fiscal 2014 bonus for each of our NEOs:

Name/Title	Threshold Bonus	Target Bonus	Maximum Bonus[2]	Actual Fiscal 2014 Bonus[3]
Ralph Lauren[1] *Chairman and CEO*	$ 4,500,000	$ 9,000,000	$ 13,500,000	$8,107,759
Roger N. Farah[1,4] *Executive Vice Chairman*	$ 2,375,000	$ 4,750,000	$ 7,125,000	$4,702,500
Jackwyn L. Nemerov[1,5] *President and COO*	$ 1,150,000	$ 2,300,000	$ 3,450,000	$2,271,500
Christopher H. Peterson[1,4] *Executive Vice President, CAO and CFO*	$ 725,000	$ 1,450,000	$ 2,525,000	$1,435,500
Mitchell A. Kosh[1] *Executive Vice President, Human Resources*	$ 250,000	$ 500,000	$ 1,000,000	$495,000

(1) Threshold, target and maximum bonus amounts payable to Mr. Farah, Ms. Nemerov, Mr. Peterson, and Mr. Kosh, and target and maximum bonus amounts payable to Mr. Lauren, are set forth in their respective employment agreements.

(2)

The maximum bonus amount shown for the NEOs other than Mr. Lauren does not reflect a possible adjustment up or down by up to 10% which may be made based on relative achievement of the strategic financial goal.

(3) Except for Mr. Lauren, this amount reflects upward adjustment of 10% to reflect our Fiscal 2014 performance against the strategic financial goal. The strategic financial goal was selling, general and administrative expenses as a percentage of net revenues.

(4) Threshold, target and maximum bonus amounts payable to Mr. Farah and Mr. Peterson in Fiscal 2014 reflect pro-rated amounts based on new salaries and bonus targets per their respective new employment agreements effective November 1, 2013.

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(5) Represents annual threshold, target, and maximum bonus amounts payable to Ms. Nemerov, calculated in each case as the sum of: (1) the Fiscal 2014 full year annual bonus (which is $1.8 million at target and $2.7 million at maximum) based on salary, targets and goals established by the Compensation Committee at the beginning of Fiscal 2014 and (2) an incremental bonus (which is $500,000 at target and $750,000 at maximum) based on the Company s performance between November 1, 2013 and the end of Fiscal 2014 using targets and goals prior established and previously approved by the Compensation Committee.

For Fiscal 2014, under the EOAIP, the performance measure selected was net income before taxes (NIBT). The Compensation Committee believes that NIBT is aligned with stockholders interests and is a comprehensive indicator of our annual performance. Following our achievement of record earnings in Fiscal 2013, the Compensation Committee established Fiscal 2014 financial targets, taking into consideration factors such as; core business growth, the impact of license acquisitions, unfavorable foreign currency exchange rates, investment costs for operating systems and infrastructure to support our global growth objectives and maximize customer relationship management, and an economic recovery that remains uneven in many of the areas in which we operate. As a result, the Compensation Committee established full-year Fiscal 2014 financial goals at a level that would require a sufficiently challenging, higher level of performance relative to the prior fiscal year s results in order to achieve target bonus payouts. The Compensation Committee also believes that managing the Company s selling, general and administrative expenses as a percentage of net revenues is an important part of our ongoing strategic objectives. As a result, the strategic financial goal performance measure selected for Mr. Farah, Ms. Nemerov, Mr. Peterson and Mr. Kosh was selling, general and administrative expenses (excluding expense for cash bonuses and expense for stock awards) as a percentage of net revenues.

Pursuant to the New Nemerov Employment Agreement, effective November 1, 2013, a portion of Ms. Nemerov s annual target bonus opportunity was based on the full-year Fiscal 2014 financial goals and a portion was based on the Company s financial targets that were set for the performance period between November 1, 2013 and the end of Fiscal 2014, as prior established and previously approved by the Compensation Committee.

Each of our NEOs was eligible for a bonus in Fiscal 2014 when we reached 80% of the full year NIBT target. In Fiscal 2014 we reached 96% of the NIBT target which resulted in payment of bonuses less than target. The Compensation Committee believes this level of payout represents strong pay for performance alignment. The following table sets forth our Fiscal 2014 EOAIP target NIBT goals compared to Fiscal 2013 and actual performance as measured against those goals.

Performance Period	Target Goal (millions)	Actual Performance[1] (millions)	Adjustment for Strategic Financial Goal (expense management)	Actual Compensation Awarded as a % of Target[2]
Full- Year Fiscal 2013	$1,085.3	$1,128.3	+10%	120% - 178%
Full-Year Fiscal 2014	$1,159.8	$1,114.4	+10%	90% - 99%
November 1, 2013 Fiscal Year End 2014 [3]	$538.2	$487.8	+10%	98%

(1) Represents actual NIBT performance results after giving effect to various adjustments, approved by the Compensation Committee.

(2) The 10% increase in annual bonus attributable to the adjustment for the strategic financial goal is not applicable to Mr. Lauren.

(3) Applicable to the determination of a portion of Ms. Nemerov s bonus payout pursuant to the New Nemerov Employment Agreement as described above.

Long-Term Equity-Based Incentives

Long-term equity-based incentives are intended to align executive and stockholder interests and encourage executive decision-making that maximizes stockholder value creation over the long term. The values, mix, and type of annual grants for each senior executive are discussed by management and the Compensation Committee and ultimately approved by the Compensation Committee, unless the terms have been previously approved and set forth in an employment agreement. For Mr. Lauren, Mr. Peterson and Mr. Kosh, the determination of their Fiscal 2014 annual grants is provided for under their respective employment agreements. We also require, through stock ownership guidelines, that our directors, our NEOs and select other members of our senior management team hold a certain amount of equity in order to build and maintain a long-term ownership position in our company. See Stock Ownership Guidelines below. In addition, certain shares underlying vested restricted stock units (RSUs) held by Mr. Lauren must continue to be held and are not distributable to him until his employment is terminated.

All equity awards to our NEOs in Fiscal 2014 were granted under our 2010 Amended and Restated Long-Term Stock Incentive Plan (the 2010 Stock Incentive Plan). During Fiscal 2014, these awards consisted of stock options, RPSUs and RSUs. For a complete description of these awards, see Fiscal 2014 Long-Term Equity-Based Incentive Awards below.

Stock Options

Non-qualified stock options generally vest ratably over a three-year period, subject to continued employment through the applicable vesting date. Stock options are granted at an exercise price equal to the fair market value (calculated as the average of the high and low stock prices on the NYSE) of our Class A Common Stock on the grant date. In addition, we have not re-priced or re-issued any stock options. The 2010 Stock Incentive Plan, and our predecessor plan, the 1997 Long-Term Stock Incentive Plan (the 1997 Stock Incentive Plan), both prohibit the re-pricing or re-issuing of stock options.

The vast majority of stock options are granted to our eligible employees, including our NEOs, during the annual award process. Typically, the Compensation Committee sets the grant date for the annual award of stock options approximately three weeks before our first fiscal quarter earnings release date, making the grants effective in mid-July. In addition to these annual equity awards, grants may be made to certain newly hired or promoted employees at the end of each fiscal quarter. Such awards are typically granted and priced as of the last business day for the fiscal quarter following the hiring or promotion of an employee, but may also be granted effective on another date such as the date of a previously scheduled Compensation Committee meeting.

Restricted Performance Share Units (RPSUs)

We grant three types of RPSUs: Cliff RPSUs, Cliff RPSUs with TSR Modifier and Pro-Rata RPSUs, all of which provide the recipient with the opportunity to receive shares of our Class A Common Stock based on our achievement of performance goals over a specified period. Our

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achievement of our performance goals is subject to adjustment to exclude the effect of certain unbudgeted events and transactions, as permitted under the 2010 Stock Incentive Plan, in accordance with the rules established by the Compensation Committee at the beginning of each fiscal year.

The performance measures for each kind of RPSU are set by the Compensation Committee at the time of grant and may include one or more of the following factors:

- net earnings or net income (before or after taxes);
- basic or diluted earnings per share;
- net operating profit;
- net revenue or net revenue growth;
- gross profit or gross profit growth; or
- return on assets.

Cliff RPSUs. Cliff RPSUs typically vest based on our cumulative net earnings over a three-year performance period. The Compensation Committee believes that cumulative net earnings is an appropriate performance measure since it is a comprehensive measure that assesses our overall performance over a significant period of time, including the effects of our strategic and capital plans, and is aligned with measures often used by the investment community.

The Cliff RPSU grant provides for a target number of shares that will vest and be paid out subject to achievement of pre-established financial goals. The performance and payout levels are summarized as follows:

Performance Level	**% of Goal Achieved**	**% of Target Cliff RPSUs Vested**
Threshold	70%	75%
Target	100%	100%
Maximum	110%	150%

No payout is earned for performance below Threshold. Vesting is interpolated for performance between 70% and 100% of Target, and for performance between 100% and 110% of Target.

The Compensation Committee believes the payout percentages provide an appropriate balance between the performance levels required relative to the level of payout, based on targets that require significant effort for achievement over a multi-year period. Once an award is granted in any fiscal year, the pre-established performance measures, performance goals, vesting schedule or payout schedule cannot be modified for that grant, unless otherwise approved by the Compensation Committee, during the applicable performance term.

In June 2014, Cliff RPSU awards that were granted in Fiscal 2012 vested based upon our achievement of pre-established financial goals for the three-year performance period (Fiscal 2012-2014). Our cumulative net earnings performance target for this three-year fiscal period from Fiscal 2012 through Fiscal 2014 was approximately $1,921.0 million. The target for the Fiscal 2012 Cliff RPSUs was based on the three-year plan established during the fall of 2010, as our Fiscal 2012 began on April 3, 2011. In establishing the targets for the Fiscal 2012 Cliff RPSUs, we required ongoing performance improvement based on the three-year plan. The Compensation Committee established the Fiscal 2012 Cliff RPSU financial targets for the three-year performance period to require a higher level

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of performance relative to Fiscal 2011 s strong results and taking into consideration various other factors, including negative foreign exchange impacts, additional investment costs for new product development and the acquisition of certain licenses. Actual performance for the three-year period was approximately $2,262.5 million, or approximately 118% of target, after giving effect to various adjustments, approved by the Compensation Committee in accordance with the terms of the awards. Based on this performance, the Cliff RPSUs that vested in June 2014 were paid out at maximum, or 150% of target, except for certain Cliff RPSUs awarded to Ms. Nemerov as set forth below.

Cliff RPSUs with TSR Modifier. Cliff RPSUs with TSR Modifier, granted for the first time in Fiscal 2013, vest based on the same cumulative net earnings goal over three fiscal years, in accordance with the vesting percentages described above for Cliff RPSUs and include a performance modifier based on TSR. The Compensation Committee believes that cumulative net earnings is an appropriate performance measure since it is a comprehensive measure that assesses our overall performance over a significant period of time, including the effects of our strategic and capital plans, and is aligned with measures often used by the investment community. The Compensation Committee also believes that, in tying a portion of the NEOs compensation to this additional performance metric, we better align our NEOs compensation with stockholders interests.

The TSR Modifier is based on relative TSR that compares our TSR (which measures the performance of our stock price and dividends) to the TSR generated by the S&P 500 during the applicable three-year performance period. At the end of the performance period, the Compensation Committee will adjust the final Cliff RPSU with TSR Modifier award by the amount of the TSR Modifier as set forth below:

Relative TSR Performance Range	TSR Adjustment
³80th Percentile	125%
³60th but <80th Percentile	112.5%
³40th but <60th Percentile	100%
³30th but <40th Percentile	87.5%
< 30th Percentile	75%

There shall be no interpolation for performance between identified Relative TSR performance ranges.

Pro-Rata RPSUs. Pro-Rata RPSUs vest one-third each year over three years, provided the performance goal is achieved in the first fiscal year. All three tranches of the Fiscal 2014 Pro-Rata RPSUs were earned and available for vesting based on our achievement of the Fiscal 2014 performance goal. The Compensation Committee believes that the use of NIBT as a measure for the award of Pro-Rata RPSUs is, like the performance measure utilized under the EOAIP, a comprehensive indicator of our annual performance. Unlike Cliff RPSUs, the Pro-Rata RPSUs do not provide for payouts above or below the target shares awarded. If the performance goal had not been achieved in Fiscal 2014, all three tranches of the Fiscal 2014 Pro-Rata RPSU awards would have been forfeited.

The performance level that had to be achieved in order for the Fiscal 2014 Pro-Rata RPSUs to be earned and available for vesting was the Threshold level of approximately $927.9 million, which, in this case, was approximately 80% of the target NIBT of approximately $1,159.8 million (the same target level established under our EOAIP). We exceeded the Threshold NIBT performance level, after giving effect to various adjustments approved by the Compensation Committee in accordance with the terms of the awards. As a result, in June 2014, 100% of the target shares for the first tranche of the

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Fiscal 2014 Pro-Rata RPSUs vested and were paid out. The second and third tranches of the Fiscal 2014 Pro-Rata RPSUs will vest based solely on continuous service from the grant date to the respective vesting dates for the second and third tranches.

Restricted Stock Units (RSUs)

In very limited situations such as in connection with new hires and critical retention needs, we may grant time-based vesting RSUs to certain employees.

Fiscal 2014 Long-Term Equity-Based Incentive Awards

The Compensation Committee establishes guidelines annually for determining long-term equity-based incentive grants to certain of our employees under the 2010 Stock Incentive Plan. These guidelines generally provide that the type of awards and the number of shares to be granted to employees are based on their position levels within our Company. In Fiscal 2014, Mr. Lauren, Mr. Peterson and Mr. Kosh received long-term equity-based incentive awards as provided under their respective employment agreements.

In Fiscal 2014, each of our NEOs received an annual long-term equity award consisting of stock options, Cliff RPSUs and Cliff RPSUs with TSR Modifier. In addition, as a result of their expanded roles and responsibilities, Ms. Nemerov and Mr. Peterson each received special equity awards consisting of stock options, Cliff RPSUs, and Cliff RPSUs with TSR Modifier. Mr. Kosh also received a special equity award pursuant to the Former Kosh Employment Agreement dated February 24, 2013 in the form of Pro-Rata RPSUs. This award was made pursuant to his employment agreement and took into consideration his critical role and responsibilities, and historical, current, and expected contributions.

In Fiscal 2014, each of our NEOs received the following long-term equity grants:

Name	Stock Options[1]	Cliff RPSUs	Cliff RPSUs with TSR Modifier	Pro-Rata RPSUs
Ralph Lauren *Chairman and CEO*	71,199	27,603	27,603	
Roger N. Farah *Executive Vice Chairman*	63,237	15,773	15,773	
Jackwyn L. Nemerov[2] *President and COO*	74,388	18,028	18,028	
Christopher H. Peterson[2] *Executive Vice President, CAO and CFO*	14,697	3,590	3,590	
Mitchell A. Kosh *Executive Vice President, Human Resources*	5,532	1,380	1,380	8,640

(1) The stock options granted to each of our NEOs have a term of seven years. All options shall vest ratably on the first three anniversaries of the date of grant with the exception of the special grant of stock options to Ms. Nemerov made on November 4, 2013. The stock options for that award will vest one-third on the first anniversary of the grant date, and one-third on each of July 15, 2015 and July 15, 2016, (which are the second and third anniversaries of the date on which stock options were granted to other senior executive of the Company in Fiscal 2014).

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(2) Includes special equity awards in accordance with the New Nemerov Employment Agreement and the New Peterson Employment Agreement which became effective as of November 1, 2013. For Ms. Nemerov, her special equity award was granted on November 4, 2013 and consisted of 47,118 stock options, 11,226 Cliff RPSUs and 11,226 Cliff RPSUs with TSR Modifier. For Mr. Peterson, his special equity award was granted on November 4, 2013 and consisted of 6,792 stock options, 1,618 Cliff RPSUs, and 1,618 Cliff RPSUs with TSR Modifier.

Stock Ownership Guidelines

Our Board and Compensation Committee believe it is important for key members of our senior management team and directors to build and maintain a long-term ownership position in our Company, to further align their financial interests with those of our stockholders and to encourage the creation of long-term value. Our compensation structure for these individuals provides for a significant percentage of compensation to be equity-based, which places a substantial portion of compensation at-risk over a long-term period. In June 2010, the Compensation Committee established stock ownership guidelines for our non-employee directors, our NEOs and select other members of our senior management group to further link the interests of these individuals with those of our stockholders.

The guidelines provide that non-employee directors and such employees who were covered by the guidelines at the time of implementation must attain ownership of a specific number of shares by June 2015, which is approximately five years from the implementation of the guidelines.

Non-employee directors who become members of the Board, and employees who join us or otherwise become subject to the guidelines after implementation of the guidelines, will have five years from June 30th in the year following the date they joined us or become subject to the guidelines to attain the requisite numbers of shares specified in the guidelines. These shares must be held by such employees until they leave us or until they are no longer covered by the guidelines, as the case may be. Directors must hold the shares until they no longer serve as a member of our Board. The guidelines for executives and other senior members of management were based on competitive multiples of salary converted to fixed numbers of shares based on the 200-day average stock price. For these employees, the guidelines are based on fixed share targets that vary depending on such employee s position and level within our company. In November 2013, the Compensation Committee reassessed Ms. Nemerov s and Mr. Peterson s ownership guideline targets based on their expanded roles, their increases in base salary and the 200-day average stock price in late 2013. Based on these considerations, Ms. Nemerov s target was increased from 35,000 shares to 40,000 shares and Mr. Peterson s target was increased from 15,000 shares to 18,000 shares. Further details on the guidelines for non-employee directors are provided in the Director Compensation section. If an employee who is subject to the guidelines or a director does not meet his or her ownership requirement within the applicable five-year period, such executive or director will not be permitted to dispose of any shares acquired upon the exercise of stock options or upon the vesting of RPSUs, RSUs or restricted stock, as the case may be, until he or she satisfies the requirements of the guidelines.

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Stock ownership targets for our NEOs are:

Name [1]	Share Ownership Target
Ralph Lauren, *Chairman and CEO*	80,000 shares
Roger N. Farah, *Executive Vice Chairman* [2]	45,000 shares
Jackwyn L. Nemerov, *President and COO*	40,000 shares
Christopher H. Peterson, *Executive Vice President, CAO and CFO*	18,000 shares
Mitchell A. Kosh, *Executive Vice President, Human Resources*	18,000 shares

(1) Mr. Lauren, Mr. Farah, and Mr. Kosh have until June 2015 to fulfill their ownership guidelines. Ms. Nemerov has until June 2015 to meet her original 35,000-share target and until June 2019 to meet her additional 5,000-share target. Mr. Peterson has until June 2018 to meet his original 15,000-share target and until June 2019 to meet his additional 3,000-share target.

(2) Effective May 31, 2014, Mr. Farah resigned from our Company as Executive Vice Chairman. As a result, he is no longer subject to our stock ownership guidelines.

Shares directly or beneficially owned by an employee subject to the guidelines count toward the achievement of ownership guidelines, including certain shares underlying vested RSUs that may not be distributed to Mr. Lauren and Mr. Farah until their employment is terminated. The Compensation Committee believes that this is the most consistent method of determining ownership, as unvested RPSUs, unvested RSUs and vested but unexercised stock options may not determine the actual number of shares that an individual owns until a future date.

All Other Compensation

Employee Benefits. We provide a number of benefit plans to all eligible employees, including our NEOs. These benefits include programs such as medical, dental, life insurance, business travel accident insurance, short and long-term disability coverage and a 401(k) plan. Our NEOs are also eligible for financial counseling and an annual car allowance (except for those NEOs who receive the use of an automobile and driver as provided below), and in the case of Mr. Lauren, Mr. Farah, Ms. Nemerov, and Mr. Kosh, an annual executive physical.

Other Benefits. We provide our NEOs with other benefits that we believe are reasonable, competitive and consistent with our overall executive compensation programs. We believe that these benefits generally allow our executives to work more efficiently, promote our brand and are legitimate business expenses. The costs of these benefits constitute only a small percentage of each NEO s total compensation. We provide the use of an automobile and driver to Mr. Lauren and to Ms. Nemerov. In addition, pursuant to his employment agreement and for security purposes, Mr. Lauren is required to use private aircraft for any travel and is reimbursed for the expense of such business travel. Furthermore, under Mr. Lauren s current employment agreement, we will reimburse him up to a maximum aggregate amount of $200,000 for any expense incurred as a result of his use of his private aircraft, or other acceptable private aircraft, for personal travel. Under their respective employment agreements, and for security purposes, Ms. Nemerov may use the Company s aircraft for any travel, and Mr. Farah must use the Company s aircraft or other private aircraft for any travel. Our other NEOs are permitted to use our aircraft for personal travel on a limited basis. We also provide a merchandise discount on most of our products to all of our employees, including our NEOs. See the All Other Compensation column of the Summary Compensation Table and related footnotes for a discussion of all perquisites and other personal benefits provided to our NEOs.

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Deferred Compensation. We maintain a Supplemental Executive Retirement Plan (SERP) for certain of our employees, generally for those who had a title of Vice President and above when they were admitted to such plan. In October 2004, we ceased admitting new participants under the SERP. During Fiscal 2009, we suspended annual contributions to the SERP, and participants were allowed to withdraw their balances in early Fiscal 2010 if they no longer wished to remain a participant in the SERP. Participants who remain in the SERP continue to receive interest on SERP balances based on the mid-term Applicable Federal Rate. All participants in the SERP are 100% vested. Of the three NEOs who were participants in the SERP, only Mr. Kosh remains a participant.

In addition, Mr. Farah was entitled to receive deferred compensation pursuant to the provisions of his employment agreement. See the Nonqualified Deferred Compensation table for a detailed description of these arrangements.

Related Considerations

Certain Tax Matters. Although Section 162(m) of the Code generally disallows a tax deduction to public companies for compensation over $1,000,000 paid to covered employees (which are defined as our NEOs, other than the CFO), qualifying performance-based compensation is not subject to the deduction limit if certain requirements are met. In assessing compensation proposals with respect to our NEOs, the Compensation Committee considers, among other things, the tax deductibility of such compensation, but reserves the right in all events to compensate our NEOs in a manner commensurate with performance and the competitive environment for executive and creative talent. As a result, some or all portions of the compensation paid to an NEO whose compensation is subject to the deduction limits described above may not be deductible by us.

Our EOAIP, 1997 Stock Incentive Plan and 2010 Stock Incentive Plan are designed to permit the deductibility of awards payable to our NEOs for federal income tax purposes even if the compensation paid to any such officer exceeds $1,000,000. However, a portion of Mr. Lauren s annual base salary will not be deductible since it exceeds $1,000,000. In addition, the compensation attributable to the Cliff RPSUs awarded to Mr. Lauren which vested during Fiscal 2014, and the time-based vesting RSUs awarded to Mr. Farah which vested in Fiscal 2013 and were distributed to Mr. Farah after the end of Fiscal 2014, will also not be deductible because such awards are not considered performance-based for purposes of Section 162(m). See Executive Employment Agreements.

Accounting Matters. Each element of the compensation paid to our executives is expensed in our financial statements as required by U.S. generally accepted accounting principles. The financial statement impact of various compensation awards is an important factor that the Compensation Committee considers in determining the amount, form, and design of each pay component for our executives.

Adjustment or Recovery of Awards. The EOAIP includes a formal policy regarding the recovery of awards granted under the EOAIP in connection with a restatement of our financial statements. Under this policy, if, as a result of a NEO s intentional misconduct or gross negligence, we are required to prepare an accounting restatement due to our material noncompliance with any financial reporting requirement under the securities laws, the Compensation Committee may, in its reasonable discretion, require such executive to promptly reimburse us for the amount of any payment previously received by the executive pursuant to the EOAIP that was earned or accrued during the twelve month

period following the earlier of the first public issuance or filing with the SEC of any financial document embodying such financial reporting requirement that required such accounting restatement.

We have also adopted this policy with regard to awards granted to our NEOs under the 1997 Stock Incentive Plan and the 2010 Stock Incentive Plan. We have not experienced any situations or occasions that could have resulted in a recovery of an award or payment under such policy. If we do experience a situation or occasion that could result in such a recovery in the future, the Compensation Committee would assess the circumstances relating to the potential recovery and take such legally permissible actions as it believes to be appropriate in its discretion at such time. We may also seek repayment in our sole and absolute discretion, or, if applicable, in the reasonable discretion of the Compensation Committee, of bonus payments or awards provided to executives based upon the occurrence of various events including, but not limited to, termination of employment for cause, a material violation of our material written policies, a breach of a fiduciary duty or duty of loyalty to us, or a breach of any restrictive covenants.

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COMPENSATION COMMITTEE REPORT

The Compensation Committee, composed entirely of independent directors, reviewed and discussed the above Compensation Discussion and Analysis (CD&A) with management and with the other members of the Board. Based on these reviews and discussions, the Compensation Committee recommended to the Board that the CD&A be included in our Annual Report on Form 10-K and this Proxy Statement.

Members of the Compensation Committee:

Joel L. Fleishman (Chair)

Frank A. Bennack, Jr.

Hubert Joly

Steven P. Murphy

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EXECUTIVE COMPENSATION MATTERS

Summary Compensation Table

The following table sets forth a summary of all compensation awarded or paid to or earned by our NEOs serving as of March 29, 2014, the end of Fiscal 2014, for services rendered in all capacities to us (including our subsidiaries) for Fiscal 2014, Fiscal 2013 and Fiscal 2012.

and Principal Position	Fiscal Year	Salary[1] ($)	Bonus[2] ($)	Stock Awards[3] ($)	Option Awards[4] ($)	Non Equity Incentive Plan Compensation[5] ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings[6] ($)	All Other Compensation[7] ($)	Tota ($)
Lauren	2014	1,750,000		9,440,416	4,977,166	8,107,759		262,595	24,537
man & CEO	2013	1,632,692	-	8,963,573	4,511,278	10,775,229	-	274,406	26,157
	2012	1,250,000	-	10,089,750	5,222,000	19,500,000	-	264,032	36,325
N. Farah	2014	716,538		5,237,433	2,803,132	4,702,500		333,128	13,792
tive Vice Chairman	2013	900,000	-	4,958,849	2,893,286	8,646,000	-	442,653	17,840
	2012	900,000	-	4,455,883	3,850,703	9,900,000	-	443,575	19,550
yn L. Nemerov	2014	940,769		5,897,707	3,069,526	2,271,500		140,829	12,320
ent & COO	2013	900,000	-	6,905,678	1,247,671	2,593,800	-	145,136	11,792
	2012	900,000	-	7,265,086	825,128	2,970,000	-	130,915	12,091
opher H. Peterson	2014	840,769		1,179,306	618,628	1,435,500		251,871	4,326
CAO & CFO	2013	415,385	50,000	1,373,537	915,393	1,104,484	-	243,835	4,102
ell A. Kosh	2014	803,846		2,002,640	245,219	495,000		46,012	3,592
Human Resources	2013	744,231	-	393,667	204,108	712,800	-	65,787	2,120
	2012	694,231	-	484,107	137,278	880,000	-	51,181	2,246

(1) The amounts reported in this column represent base salaries paid to each of the NEOs for the applicable fiscal year as provided for in each of their respective employment agreements. See Executive Employment Agreements.

(2)

With the exception of Mr. Peterson who received a $50,000 one-time sign-on bonus in connection with his initial hire in Fiscal 2013, the NEOs did not receive any discretionary bonuses, sign-on bonuses, or other annual bonus payments that are not contingent on the achievement of stipulated performance goals. Cash bonus payments that are contingent on achieving pre-established and communicated goals, including payments under the EOAIP, appear in the column headed, Non-Equity Incentive Plan Compensation.

(3) The stock-based compensation amounts shown in this column reflect the aggregate grant date fair value, assuming no risk of forfeiture, of RSU and RPSU (Pro-Rata RPSU, Cliff RPSU and Cliff RPSU with TSR Modifier) awards granted during Fiscal 2014, Fiscal 2013 and Fiscal 2012, calculated in accordance with Accounting Standards Codification topic 718, Stock Compensation (ASC 718). The increased amount for Mr. Kosh s Stock Award is attributable to a One-Time Pro-Rata RPSU award with target value of $1,500,000 granted in Fiscal 2014 pursuant to the Former Kosh Employment Agreement. For Cliff RPSU awards that include a market condition in the form of a TSR Modifier, a Monte Carlo simulation model is used to determine the fair value on the date of grant. We determine the fair value of RSU awards and RPSU awards (without TSR Modifier) using the average of the high and low stock prices on the date of grant, as adjusted to reflect the absence of dividends for those awards that are not entitled to dividend equivalents. For RPSUs, the amounts shown in the table reflect the aggregate grant date fair value at the Target achievement level.

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If Performance were assumed to be at the Maximum level for Cliff RPSUs and Cliff RPSUs with TSR Modifier, the aggregate grant date fair value would increase as follows:

	Fiscal 2014		Fiscal 2013		Fiscal 2012
	Cliff RPSUs	Cliff RPSUs with TSR Modifier	Cliff RPSUs	Cliff RPSUs with TSR Modifier	Cliff RPSUs
Ralph Lauren	$2,317,893	$4,204,052	$2,260,816	$3,886,698	$5,044,875
Roger N. Farah[a]	$1,286,914	$2,330,653	$1,248,179	$2,154,680	N/A
Jackwyn L. Nemerov	$1,480,047	$2,570,412	$538,281	$929,212	$949,306
Christopher H. Peterson[b]	$294,226	$516,998	N/A	N/A	N/A
Mitchell A. Kosh	$112,594	$203,912	$99,089	$171,053	$174,055

[a] Mr. Farah s Fiscal 2012 stock award of RSUs can only by paid out at Target.

[b] Mr. Peterson joined the Company on September 24, 2012 and received his initial equity award on September 28, 2012. His Fiscal 2013 stock award of RSUs can only be paid out at Target.

(4) The stock-based compensation amounts shown reflect the aggregate grant date fair value, assuming no risk of forfeiture, of stock option awards granted during Fiscal 2014, Fiscal 2013 and Fiscal 2012 calculated in accordance with ASC 718. We use the Black-Scholes option pricing model to estimate the fair value of stock options granted, which requires the input of both subjective and objective assumptions. The assumptions used in the valuation of stock-based awards are discussed in Note 20 to our Audited Consolidated Financial Statements included in our Annual Report on Form 10-K for Fiscal 2014.

(5) The amounts reported in this column represent payments made under the EOAIP in May, following the expiration of the fiscal year to which the payments relate.

(6) The NEOs did not receive any above-market or preferential earnings on compensation deferred on a basis that is not tax qualified. See Non-Qualified Deferred Compensation.

(7) The amounts reported in this column represent the aggregate dollar amount for each NEO of all other compensation for the year, including perquisites and other personal benefits. Under SEC rules, we are required to identify by type all perquisites and other personal benefits for an NEO if the total value for that individual equals or exceeds $10,000, and to report and quantify each perquisite or personal benefit that exceeds the greater of $25,000 or 10% of the total amount for that individual.

In Fiscal 2014, Mr. Lauren received perquisites and other personal benefits, including personal use of an automobile and driver ($61,091), enhanced amount of business travel accident coverage, security personal use of the Company s aircraft and reimbursement for personal travel on private aircraft ($200,000). In Fiscal

2014, Mr. Farah received perquisites and other personal benefits including personal use of the Company s aircraft ($94,433), contribution to a non-qualified deferred compensation arrangement ($197,917) an automobile allowance, enhanced amount of business travel accident coverage and financial planning services. The calculation of incremental cost to the Company for any executive s personal use of the Company s aircraft includes the variable costs incurred by the Company as a result thereof consisting of a portion of aircraft fuel, any flight-related fees and any travel expenses for the flight crew. In Fiscal 2014, Mr. Farah and each of Ms. Nemerov, Mr. Peterson, and Mr. Kosh had joint personal flights on the Company s aircraft. The incremental cost for this flight is divided equally between Mr. Farah and each of Ms. Nemerov, Mr. Peterson and Mr. Kosh. In Fiscal 2014, Ms. Nemerov received perquisites and other personal benefits, including personal use of an automobile and driver ($29,877), personal use of the Company s aircraft ($82,548), enhanced amount of business travel accident coverage and financial planning services. In Fiscal 2014, Mr. Peterson received perquisites and other personal benefits including relocation allowances and expenses ($145,755), tax gross-up related to relocation expenses ($57,016), an automobile allowance, personal use of the Company s aircraft, enhanced amount of business travel accident coverage and financial planning services. In Fiscal 2014, Mr. Kosh received perquisites and other personal benefits including personal use of the Company s aircraft, an automobile allowance, enhanced amount of business travel accident coverage and financial planning services. In addition to the perquisites and other benefits described above, our NEOs receive a merchandise discount on most of our products which is also provided to all of our employees. In addition, Ms. Nemerov and Mr. Kosh participate in an executive long-term disability insurance plan, for which the Company incurs no incremental cost.

(8) The amounts reported in this column are the sum of columns 1 through 7 for each of the NEOs. All compensation amounts reported in this column include amounts paid and amounts deferred.

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Grants of Plan-Based Awards Table

The following table provides information concerning the annual performance bonus and long-term incentive awards made to each of the NEOs in Fiscal 2014.

ble Payouts Under entive Plan Awards		Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	A Ot Op Awa Numl Secu Unde Opti
rget[1] ($)	Maximum[1] ($)	Threshold[2] (#)	Target[2] (#)	Maximum[2] (#)	(#)	(#
00,000	$13,500,000					
						71
		20,702	27,603	41,405		

15,5TYLE="margin-top:0px;margin-bottom:0px; text-indent:4%">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 IR; however the increase is offset by a corresponding increase in cost of goods sold.

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:

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

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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. Earnings and loss per share amounted to $1.46 and $(2.26) in 2008 and 2007, respectively.

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.

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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. 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

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 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.

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 generally represent approximately 45% to 50% of our cost of goods sold, 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

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capital. We had lower levels of working capital in 2009 than in 2008. 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 December 31, 2009, we had $69.3 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 December 31, 2009, we had available to us, upon compliance with customary conditions, $80.0 million under the revolving portion of the senior secured credit facility. 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 each of the counterparties would meet their funding requirements. 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 4.00 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 December 31, 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 global economic environment worsens in 2010 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 recorded a gain of approximately $4.3 million on the extinguishment of debt in the Consolidated Statements of Operations in the quarter ended June 30, 2009.

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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, 2009 valuations, we expect to make contributions of $3.9 million to the plans in 2010 versus $6.2 million in 2009. If the market value of these assets does not improve during 2010, higher levels of contributions could be required in 2011 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 Part I, Item A. Risk Factors for further discussion.

On December 29, 2009 we used proceeds from the IPO to repay $100 million under the term loan portion of the senior secured credit facility. As of December 31, 2009 our total indebtedness was $385.0 million. We anticipate that, subsequent to the 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 $32.6 million to $72.8 million in 2009 compared to $40.2 million provided by operating activities during the same period in 2008. This change was driven primarily by:

a $130.8 million decrease in inventories of products, materials and supplies, largely due to decreases in the cost of raw material feedstocks and volume,

a $1.1 million decrease in other assets largely due to the timing of certain payments,

a $3.8 increase in accounts payable primarily due to the timing of payments, partially offset by

a $59.5 million increase in accounts receivable due to the increase in sales volume in the fourth quarter of 2009 versus the fourth quarter of 2008,

a $23.8 million gain on the extinguishment of debt, and

a $28.7 million in lower earnings.

Cash and cash equivalents decreased from $101.4 million at December 31, 2008 to $69.3 million at December 31, 2009. Including amounts undrawn on our revolving loans, which amounted to $80.0 million at December 31, 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 $149.3 million at December 31, 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:

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

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

- a $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

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

- a $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.

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Investing Cash Flows

Net cash flows used in investing activities totaled $49.6 million in 2009 compared to net cash flows used in investing activities of $24.1 million during the same period in 2008. This $25.5 million increase was primarily driven by timing of capital expenditures. 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 of $9.1 million. We also incurred approximately $15.3 million for an ERP software system upgrade, which we began implementing in January 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.

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.

Expected Capital Expenditures. We expect 2010 capital expenditures will be approximately $50.0 million to $55.0 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 $12.0 million to $16.0 million. Included in our 2010 capital expenditure estimate is approximately $8.0 million for the second phase of the Belpre systems and control upgrades, approximately $9.0 million to replace IR production from our Pernis facility, approximately $6.0 for the IRL expansion and approximately $5.0 million for building upgrades at our Belpre facility.

Financing Cash Flows and Liquidity

Our consolidated capital structure as of December 31, 2009, was 52.5% debt and 47.5% stockholders / member s equity compared to 75.3% debt and 24.7% member s equity for the same period in 2008.

Net cash used in financing activities totaled $40.6 million in 2009 compared to $46.1 million net cash provided by financing activities in 2008. This change was driven primarily by:

a pre-payment of $100 million on the term loan portion of the senior secured credit facility in December 2009,

a $50.0 million repayment on the revolving portion of the senior secured credit facility in 2009,

$10.8 million to purchase and extinguish $30.7 million face value of our 8.125% Notes in 2009,

- $3.2 million of fees in connection with the amendment to our Term Loan and Revolving loan in 2009,

- a $50 million draw on the revolving portion of the senior secured credit facility in September 2008, partially offset by

- $126.7 million in proceeds from the issuance of common stock in December 2009.

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.

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Description of Certain Indebtedness

Senior Secured Credit Facility

Kraton entered into a senior secured credit agreement, or Credit Agreement, dated as of December 23, 2003, which was subsequently amended as of March 4, 2004, October 21, 2004, February 16, 2006, May 12, 2006, December 15, 2006, October 20, 2009 and November 30, 2009.

The amendment as of May 12, 2006, or the 2006 Amendment, provided for, among other things, a term facility of $385 million, representing a $25 million increase over the original term facility and extended the maturity of the term facility from December 23, 2010 to May 12, 2013. In addition, the 2006 Amendment extended the maturity of the revolving facility from December 23, 2008 to May 12, 2011 and provided for the possibility of increasing the existing revolving facility from $60 million to $80 million, subject to new revolving lenders becoming parties to the Credit Agreement. On June 7, 2006, Kraton entered into a joinder agreement with a new revolving lender that increased the revolving facility to $75.5 million from $60.0 million. The 2006 Amendment also reduced the interest rate margin on the term facility, eliminated or amended certain affirmative and negative covenants, including a covenant that limited Kraton s ability to make capital expenditures and modified the financial ratios Kraton is required to maintain. On the effective date of the 2006 Amendment, Kraton borrowed the full $385 million available under the new term facility and used the proceeds to prepay in full existing borrowings under the original term facility, to make a distribution to us to provide a portion of the funds necessary to consummate a tender offer for the 12.0% senior discount notes issued by us and Polymer Holdings Capital Corporation on November 2, 2004 and pay fees and expenses related to the foregoing.

The amendment as of October 20, 2009, or the October 2009 Amendment, permits Kraton to convert all or a portion of existing term loans into separate classes of extended term loans that extend the scheduled amortization and maturity of the existing term loans. The extended term loans are required to be substantially identical to the terms of the existing term facility, with the exception of scheduled installment payments and maturity, fees, interest rates and prepayment rights. There is no limit on the number of classes of term loans outstanding at any one time. The October 2009 Amendment also permits Kraton to establish separate classes (but in no event more than three at any time) of commitments to replace all or a portion of the existing revolving commitments. The terms of replacement revolving commitments are required to be substantially identical to the terms of the existing revolving commitments, with the exception of maturity, fees and interest rates. Finally, the October 2009 Amendment also allows the Borrower to incur indebtedness secured *pari passu* with the collateral securing the existing lenders under the existing Credit Agreement to refinance existing term loans. This refinancing indebtedness may not amortize or mature prior to the maturity of the existing term loans.

A further amendment on November 30, 2009, or the November 2009 Amendment, increased the maximum available borrowings under the revolving commitments from $75.5 million to $80.0 million and extended the maturity on $79.8 million of the revolving commitments from May 2011 to May 2013.

Kraton is the borrower under the amended Credit Agreement and its wholly-owned domestic subsidiaries along with us have guaranteed the amended Credit Agreement. We refer to these guarantors, together with Kraton, as the Loan Parties. The Credit

Agreement is secured by a perfected first priority security interest in substantially all of each Loan Party s tangible and intangible assets, including intellectual property, real property, all of Kraton s capital stock and the capital stock of Kraton s domestic subsidiaries and 65% of the capital stock of the direct foreign subsidiaries of each Loan Party.

For the years ended December 31, 2009, 2008 and 2007, Kraton made prepayments on the term portion of its senior secured credit facility in the amounts of $100.0 million, $10.0 million and $40.0 million, which resulted in the write off of approximately $1.5 million, $0.2 million and $0.6 million of deferred financing cost, respectively.

As of December 31, 2009, Kraton had no outstanding borrowings under the revolving facility.

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The following is a summary of the material terms of the amended Credit Agreement. This description does not purport to be complete and is qualified in its entirety by reference to the provisions of the Credit Agreement.

Maturity. The loans made under the portion of the revolving commitments extended pursuant to the November 2009 Amendment are payable in a single maturity on May 12, 2013. The $200,000 portion of the revolving commitments that were not extended pursuant to November 2009 Amendment are payable on May 12, 2011. The loans made under the existing term facility are payable in 10 remaining consecutive equal quarterly installments, in an aggregate annual amount equal to 1.0% of the original principal amount of such loans. The remaining balance is payable in four equal quarterly installments commencing on September 30, 2012 and ending on May 12, 2013.

Interest. The loans made under the existing term facility bear interest at a rate equal to the adjusted Eurodollar rate plus 2.00% per annum or, at Kraton s option, the base rate plus 1.00% per annum. Interest is payable on the last day of each interest period selected by Kraton under the Credit Agreement, and in any event at least quarterly. The average effective interest rates on the loans made under the existing term facility for the years ended December 31, 2009 and 2008 were 4.5% and 5.0%, respectively. The loans made under the portion of the revolving commitments extended pursuant to the November 2009 Amendment bear interest at a rate equal to the adjusted Eurodollar rate plus a margin of between 3.00% and 3.50% per annum (depending on the Kraton s consolidated leverage ratio) or at Kraton s option, the base rate plus a margin of between 2.00% and 2.50% per annum (also depending on Kraton s consolidated leverage ratio). In addition, with respect to the extended portion of the revolving commitments, an annual commitment fee equal to 0.75% payable quarterly on the daily average undrawn portion of revolving commitments extended pursuant to the November 2009 Amendment accrues and is payable quarterly in arrears.

The terms of the $200,000 portion of the revolving commitments that were not extended pursuant to November 2009 Amendment were not changed. Loans made under the this portion of the revolving commitments bear interest at a rate equal to the adjusted Eurodollar rate plus a margin of between 2.00% and 2.50% per annum, depending on Kraton s leverage ratio, or at Kraton s option, the base rate plus a margin of between 1.00% and 1.50% per annum, depending on Kraton s leverage ratio. The unused commitment fee for the unextended revolving commitments is 0.5%.

Mandatory Prepayments. The existing term facility is subject to mandatory prepayment with, in general: (1) 100% of the net cash proceeds of certain asset sales, subject to certain reinvestment rights; (2) 100% of the net cash proceeds of certain insurance and condemnation payments, subject to certain reinvestment rights; (3)100% of the net cash proceeds of debt incurrences (other than debt incurrences permitted under the Credit Agreement); and (4) 50% of Kraton s excess cash flow, as defined in the Credit Agreement (declining to 25%, if a leverage ratio is met and to 0% if a further leverage ratio is met). Any such prepayment is applied first to the term facility and thereafter to the revolving facility.

Covenants. The Credit Agreement contains certain affirmative covenants including, among others, covenants to furnish the Lenders with financial statements and other financial information and to provide the Lenders notice of material events and information regarding collateral.

The Credit Agreement contains certain negative covenants that, among other things, restrict Kraton s ability, subject to certain exceptions, to incur additional indebtedness, grant liens on its assets, undergo fundamental changes, make investments, sell assets, make acquisitions, engage in sale and leaseback transactions, make restricted payments, engage in transactions with its affiliates, amend or modify certain agreements and charter documents and change its fiscal year. The covenants also restrict our activities. Kraton is required to maintain a fiscal quarter end interest coverage ratio of at least 2.75:1.00 through December 31, 2009; and of at least 3.00:1.00 beginning March 31, 2010 and continuing thereafter. In addition, Kraton is required to maintain a fiscal quarter end leverage ratio not to exceed 4.00 beginning December 31, 2009 and continuing thereafter.

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On January 14, 2008, Kraton received an equity investment of $10.0 million, of which $9.6 million was included in the financial covenant calculation for the twelve-month period ending December 31, 2007 and was included in the fiscal quarter covenant calculations through the fiscal quarter ending September 30, 2008 pursuant to the equity cure provisions included in the Credit Agreement. As of December 31, 2009, Kraton was in compliance with all covenants under the Credit Agreement.

8.125% Senior Subordinated Notes due 2014

On December 23, 2003, Kraton and Kraton Polymers Capital Corporation issued $200.0 million aggregate principal amount of Senior Subordinated Notes due 2014, or the senior subordinated notes, that bear interest at a rate of 8.125% per annum. The following is a summary of the material terms of the senior subordinated notes. This description does not purport to be complete and is qualified, in its entirety, by reference to the provisions of the indenture governing the senior subordinated notes.

Maturity. The senior subordinated notes mature on January 15, 2014.

Interest. The 8.125% Notes bear interest at a fixed rate of 8.125% per annum. Interest is payable semi-annually on January 15 and July 15.

Guarantees. The senior subordinated notes are guaranteed on a senior subordinated basis by all of Kraton s existing and future subsidiaries that guarantee the indebtedness under the senior secured credit facility described above.

Security and Ranking. The senior subordinated notes and the guarantees are general unsecured obligations and are subordinated to Kraton s and its guarantor subsidiaries existing and future senior indebtedness, including indebtedness under the senior secured credit facility, and rank equally with Kraton s and its guarantor subsidiaries future senior subordinated indebtedness. The senior subordinated notes and the guarantees effectively rank junior to Kraton s secured indebtedness and to the secured indebtedness of all of Kraton s guarantor subsidiaries to the extent of the value of the assets securing the indebtedness and are structurally subordinated to all liabilities of Kraton s subsidiaries that are not guarantors of the senior subordinated notes.

Optional Redemption. Kraton may redeem all or a part of the senior subordinated notes at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest, if any, on the Notes redeemed to the applicable redemption date.

Year	**Percentage**
2010	102.708%
2011	101.354%
2012	100.000%
2013 and thereafter	100.000%

Purchase of a Portion of the 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 us, 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 equity of each of Kraton Performance 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 quarter ended June 30, 2009.

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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.

Covenants. The senior subordinated notes contain certain affirmative covenants including, among others, covenants to furnish the holders of the senior subordinated notes with financial statements and other financial information and to provide the holders of the senior subordinated notes notice of material events.

The senior subordinated notes contain certain negative covenants including limitations on indebtedness, limitations on restricted payments, limitations on restrictions on distributions from certain subsidiaries, limitations on lines of businesses and mergers and consolidations.

As of December 31, 2009, Kraton was in compliance with all covenants under the senior subordinated notes.

Other Contingencies

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

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

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 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, 2009, 2008 or 2007.

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Off-Balance Sheet Transactions

We are not involved in any off-balance sheet transactions as of December 31, 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, 2009:

	Payments Due by Period						
Dollars in Millions	**Total**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015 and after**
Long-term debt obligations	$ 385.0	$ 2.3	$ 2.3	$ 109.1	$ 108.0	$ 163.3	$ 0.0
Estimated interest payments on debt	89.2	21.0	23.1	22.3	16.2	6.6	0.0
Operating lease obligations	33.2	5.4	5.0	4.9	2.5	2.3	13.1
Purchase obligations(1)(2)	2,681.4	202.1	192.8	170.7	135.1	126.3	1,854.4
Total contractual cash obligations	$ 3,188.8	$ 230.8	$ 223.2	$ 307.0	$ 261.8	$ 298.5	$ 1,867.5

(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, 2009, 2008 and 2007, we incurred costs aggregating $92 million, $70 million and $70 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.

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, the Financial Accounting Standards Board (FASB), issued Accounting Standards Update (ASU), Number 2009-13 Revenue Recognition (Topic 605): Multiple-Deliverable Arrangements consensus of

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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.

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Item 7A. 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 $222.0 million of variable rate debt outstanding under the senior secured credit facility as of December 31, 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 December 31, 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. We settled the swap in December 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%. In December 2009, we made a $100.0 million payment of outstanding indebtedness under the Term Loans reducing the principal amount outstanding from approximately $321.0 million to $222.0 million. As a result, we are required to discontinue hedge accounting prospectively as the hedging relationship fails to meet all of the criteria set forth in ASC 815, specifically the notional amount of the swap and the principal amount of the debt are no longer equal and the forecasted transaction is no longer probable of occurring as documented in the original hedge documentation. We recorded $0.8 million in interest expense related to the ineffective portion and $1.9 million in accumulated other comprehensive income related to the effective portion of the hedge in December 2009. We have elected to dedesignate the initial hedging relationship.

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. We settled the foreign currency option contract in December 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 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.

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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.

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

We have evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of December 31, 2009. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

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

Based on an evaluation under the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management concluded that with respect to Kraton, our internal control over financial reporting was effective as of December 31, 2009. This annual report

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does not include a report of management of Kraton Performance Polymers, Inc s assessment regarding internal control over financial reporting or an attestation report of the company s registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

This annual report does not include an attestation report of the company s registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

Management s report with respect to Kraton was not subject to audit by the company s independent registered public accounting firm pursuant to current rules of the Securities and Exchange Commission that require the company to provide only management s report in this annual report.

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information in response to this item is incorporated by reference from our Proxy Statement relating to our 2010 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 11. Executive Compensation.

Information in response to this item is incorporated by reference from our Proxy Statement relating to our 2010 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

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

Information in response to this item is incorporated by reference from our Proxy Statement relating to our 2010 annual meeting of shareholders.

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

Information in response to this item is incorporated by reference from our Proxy Statement relating to our 2010 annual meeting of shareholders.

Item 14. Principal Accountant Fees and Services.

Information in response to this item is incorporated by reference from our Proxy Statement relating to our 2010 annual meeting of shareholders.

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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.

Kraton Polymers LLC

Consolidated Statements of Changes in 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 report and are on file with us.

(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 15, 2010

Kraton Performance Polymers, Inc.
Kraton Polymers LLC

/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 15, 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*	Director
Nathan H. Wright	
/s/ TIMOTHY J. WALSH*	Director
Timothy J. Walsh	
/s/ KEVIN G. O BRIEN*	Director
Kevin G. O Brien	
/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. TREMBLEY
Stephen E. Trembley

As attorney-in-fact

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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

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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

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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

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KRATON PERFORMANCE POLYMERS, INC.

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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

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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

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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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KRATON PERFORMANCE POLYMERS, INC.

Notes to Consolidated Financial Statements (Continued)

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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KRATON PERFORMANCE POLYMERS, INC.

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

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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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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 ÷ 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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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	
Customer rebates	2,960	4,402
Income taxes payable	4,000	8,538
Derivative liabilities	2,926	5,483
Pernis restructuring	9,874	
Other	31,107	15,192
	$ 68,271	$ 69,349

We recorded lower-of-cost-or-market adjustments for inventories in cost of goods sold of $0.7 million and $8.1 million in 2009 and 2008, respectively.

The 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. Aggregate amortization expense for amortizing intangible assets was approximately $6.6 million, $7.0 million and $7.2 million for the years ended December 31, 2009, 2008 and 2007, respectively. Estimated amortization expense for each of the next five years

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is approximately $6.6 million. Identifiable intangibles were adjusted in 2007 for the realization of certain excess tax basis that had not previously been recognized in the consolidated financial statements.

Accumulated other comprehensive income consists of the following:

	December 31, 2009	December 31, 2008
	(in thousands)	
Foreign currency adjustments	$ 55,765	$ 41,742
Unrealized gain on interest rate swaps, net of tax	(1,780)	(2,111)
Pension adjustment, net of tax	(17,149)	(33,808)
Total accumulated other comprehensive income	$ 36,836	$ 5,823

4. Long-Term Debt

Long-term debt consists of the following:

	December 31, 2009	December 31, 2008
	(in thousands)	
Senior Secured Credit Facilities:		
Revolving loans	$	$ 50,000
Term loans	221,729	325,071
12.00% discount notes	250	245
8.125% discount notes	170,000	200,000
8.125% discount notes held in Treasury	(7,000)	
Total debt	384,979	575,316
Less current portion of long-term debt	2,304	3,343
Total long-term debt	$ 382,675	$ 571,973

(a) Term Loans and Revolving Loans. On May 12, 2006 we entered into an amendment (the Amendment) to our senior secured credit agreement, or the Credit Agreement, dated as of December 23, 2003, as amended as of March 4, 2004, as further amended as of October 21, 2004 and as further amended as of February 16, 2006 in order to provide a portion of the funds required in connection with the cash tender offer and consent solicitation commenced on April 24, 2006 by us and Polymer Holdings Capital Corporation with respect to any and all of our outstanding 12.0% discount notes. On May 12, 2006 all but $250,000 of the $150,000,000 12.0% discount notes validly tendered and not withdrawn in the tender offer (representing approximately 99.8% of the aggregate amount of outstanding 12.0% discount notes) were accepted for payment and purchased for aggregate total consideration equal to $128,785,000.

The Amendment provided for, among other things, a new term facility (the Term Facility) of $385 million, representing a $25 million increase over the original Term Facility, and extending the maturity of the Term Facility from December 23, 2010 to May 12, 2013. The Amendment extended the maturity of the revolving facility (the Revolving Facility), from December 23, 2008 to May 12, 2011 and provided for the possibility of increasing the existing Revolving Facility from $60 million to $80 million, subject to new revolving lenders becoming parties to the Credit Agreement. On June 7, 2006, we entered into a Joinder Agreement with a new revolving lender that increased the Revolving Facility to $75.5 million from $60.0 million. In addition to the foregoing, the Amendment reduced the interest rate margin on the Term Facility, eliminated certain affirmative

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and negative covenants, including a covenant that limited our ability to make capital expenditures, and modified the financial ratios we are required to maintain. On the effective date of the Amendment, we borrowed the full $385 million available under the new Term Facility and used the proceeds to prepay in full existing borrowings under the original Term Facility, provided a portion of the funds necessary to consummate the tender offer for the 12.0% discount notes and pay fees and expenses related to the foregoing.

The amendment as of October 20, 2009, or the October 2009 Amendment, permits Kraton to convert all or a portion of existing term loans into separate classes of extended term loans that extend the scheduled amortization and maturity of the existing term loans. The extended term loans are required to be substantially identical to the terms of the existing term facility, with the exception of scheduled installment payments and maturity, fees, interest rates and prepayment rights. There is no limit on the number of classes of term loans outstanding at any one time. The October 2009 Amendment also permits Kraton to establish separate classes (but in no event more than three at any time) of commitments to replace all or a portion of the existing revolving commitments. The terms of Replacement Revolving Commitments are required to be substantially identical to the terms of the existing revolving commitments, with the exception of maturity, fees and interest rates. Finally, the October 2009 Amendment also allows the Borrower to incur indebtedness secured *pari passu* with the collateral securing the existing lenders under the existing Credit Agreement to refinance existing term loans. This refinancing indebtedness may not amortize or mature prior to the maturity of the existing term loans.

A further amendment on November 30, 2009, or the November 2009 Amendment, increased the maximum available borrowings under the revolving commitments from $75.5 million to $80.0 million and extended the maturity on $79.8 million of the revolving commitments from May 2011 to May 2013.

Kraton is the borrower under the amended Credit Agreement and its wholly-owned domestic subsidiaries along with us have guaranteed the amended Credit Agreement. We refer to these guarantors, together with Kraton, as the Loan Parties. The Credit Agreement is secured by a perfected first priority security interest in substantially all of each Loan Party s tangible and intangible assets, including intellectual property, real property, all of Kraton s capital stock and the capital stock of Kraton s domestic subsidiaries and 65% of the capital stock of the direct foreign subsidiaries of each Loan Party.

For the years ended December 31, 2009, 2008 and 2007, Kraton made prepayments on the term portion of its senior secured credit facility in the amounts of $100.0 million, $10.0 million and $40.0 million, which resulted in the write off of approximately $1.5 million, $0.2 million and $0.6 million of deferred financing cost, respectively.

As of December 31, 2009, Kraton had no outstanding borrowings under the revolving facility.

The following is a summary of the material terms of the amended Credit Agreement. This description does not purport to be complete and is qualified in its entirety by reference to the provisions of the Credit Agreement.

In these notes to the consolidated financial statements, the loans made under the Revolving Facility are referred to as the Revolving Loans, and the loans made under the Term Facility are referred to as the Term Loans.

Maturity. The loans made under the portion of the revolving commitments extended pursuant to the November 2009 Amendment are payable in a single maturity on May 12, 2013. The $200,000 portion of the revolving commitments that were not extended pursuant to November 2009 Amendment are payable on May 12, 2011. The loans made under the existing term facility are payable in 10 remaining consecutive equal quarterly

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installments, in an aggregate annual amount equal to 1.0% of the original principal amount of such loans. The remaining balance is payable in four equal quarterly installments commencing on September 30, 2012 and ending on May 12, 2013.

Interest. The loans made under the existing term facility bear interest at a rate equal to the adjusted Eurodollar rate plus 2.00% per annum or, at Kraton s option, the base rate plus 1.00% per annum. Interest is payable on the last day of each interest period selected by Kraton under the Credit Agreement, and in any event at least quarterly. The average effective interest rates on the loans made under the existing term facility for the years ended December 31, 2009 and 2008 were 4.5% and 5.0%, respectively. The loans made under the portion of the revolving commitments extended pursuant to the November 2009 Amendment bear interest at a rate equal to the adjusted Eurodollar rate plus a margin of between 3.00% and 3.50% per annum (depending on Kraton s consolidated leverage ratio) or at Kraton s option, the base rate plus a margin of between 2.00% and 2.50% per annum (also depending on Kraton s consolidated leverage ratio). In addition, with respect to the extended portion of the revolving commitments, an annual commitment fee equal to 0.75% payable quarterly on the daily average undrawn portion of revolving commitments extended pursuant to the November 2009 Amendment accrues and is payable quarterly in arrears.

The terms of the $200,000 portion of the revolving commitments that were not extended pursuant to November 2009 Amendment were not changed. Loans made under this portion of the revolving commitments bear interest at a rate equal to the adjusted Eurodollar rate plus a margin of between 2.00% and 2.50% per annum, depending on Kraton s leverage ratio, or at Kraton s option, the base rate plus a margin of between 1.00% and 1.50% per annum, depending on Kraton s leverage ratio. The unused commitment fee for the unextended revolving commitments is 0.5%.

Mandatory Prepayments. The existing term facility is subject to mandatory prepayment with, in general: (1) 100% of the net cash proceeds of certain asset sales, subject to certain reinvestment rights; (2) 100% of the net cash proceeds of certain insurance and condemnation payments, subject to certain reinvestment rights; (3) 50% of the net cash proceeds of certain equity offerings of TJ Chemical Holdings LLC or us (declining to 25%, if a leverage ratio is met); (4) 100% of the net cash proceeds of debt incurrences (other than debt incurrences permitted under the Credit Agreement); and (5) 50% of Kraton s excess cash flow, as defined in the Credit Agreement (declining to 25%, if a leverage ratio is met and to 0% if a further leverage ratio is met). Any such prepayment is applied first to the term facility and thereafter to the revolving facility.

Covenants. The Credit Agreement contains certain affirmative covenants including, among others, covenants to furnish the Lenders with financial statements and other financial information and to provide the Lenders notice of material events and information regarding collateral.

The Credit Agreement contains certain negative covenants that, among other things, restrict Kraton s ability, subject to certain exceptions, to incur additional indebtedness, grant liens on its assets, undergo fundamental changes, make investments, sell assets, make acquisitions, engage in sale and leaseback transactions, make restricted payments, engage in transactions with its affiliates, amend or modify certain agreements and charter documents and change its fiscal year. The covenants also restrict our activities. Kraton is required to maintain a fiscal quarter end interest coverage ratio of at least 2.75:1.00 through December 31, 2009; and of at least 3.00:1.00 beginning March 31, 2010 and continuing thereafter. In addition, Kraton is required to maintain a fiscal quarter end leverage ratio not to exceed 4.00 beginning December 31, 2009 and continuing thereafter.

As of December 31, 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.

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On January 14, 2008, we received an equity investment of $10.0 million, of which $9.6 million was included in the financial covenant calculation for the twelve-month period ending December 31, 2007 and was included in the fiscal quarter covenant calculations through the fiscal quarter ending September 30, 2008 pursuant to the equity cure provisions included in the Credit Agreement.

(b) Senior Discount Notes Due July 15, 2014 As part of a refinancing of indebtedness on November 2, 2004, Polymer Holdings issued the 12% discount notes. The following is a summary of the material terms of the 12% discount notes. This description does not purport to be complete and is qualified, in its entirety, by reference to the provisions of the indenture governing the 12% discount notes.

Interest. No cash interest accrued on the 12% discount notes prior to January 15, 2009. Thereafter, cash interest on the 12% discount notes will accrue and be payable semi-annually in arrears on January 15 and July 15 of each year, commencing on July 15, 2009, at a rate of 12.000% per annum.

Accretion. The 12% discount notes were issued at a substantial discount to their principal amount at maturity and generated gross proceeds of approximately $91.9 million. The accreted value of each 12% discount note increased on a daily basis from the date of issuance until January 15, 2009, at a rate of 12% per annum, reflecting the accrual of non-cash interest, such that the accreted value on January 15, 2009, equals the principal amount at maturity.

Guarantees. None of Polymer Holdings subsidiaries guarantee the 12% discount notes.

Holding Company Structure and Ranking. Kraton Performance Polymers is a holding company and does not have any material assets or operations other than ownership of Kraton s capital stock. All of its operations are conducted through Kraton and Kraton s subsidiaries and, therefore, Kraton Performance Polymers will be dependent upon Kraton s cash flow and the cash flow of our subsidiaries to meet its obligations under the 12% discount notes. As a result of the holding company structure, any right of Kraton Performance Polymers and its creditors, including the holders of the 12% discount notes, to participate in the assets of any of its subsidiaries upon such subsidiary s liquidation or reorganization will be structurally subordinated to the claims of that subsidiary s creditors and holders of preferred stock of such subsidiary, if any. In addition, in the event of the bankruptcy, liquidation, reorganization or other winding up of Kraton Performance Polymers, or upon a default in payment with respect to, or the acceleration of, any indebtedness under the senior secured credit facility or other secured indebtedness of Kraton Performance Polymers, the assets of Kraton Performance Polymers will be available to pay obligations on the 12% discount notes only after all secured indebtedness has been repaid from such assets.

Optional Redemption. Polymer Holdings may elect to redeem the 12% discount notes at certain predetermined redemption prices, plus accrued and unpaid interest.

Covenants. The 12% discount notes contain certain affirmative covenants including, among others, to furnish the holders of 12% discount notes with financial statements and other financial information and to provide the holders of 12% discount notes notice of material events.

The 12% discount notes contain certain negative covenants including limitations on indebtedness, limitations on restricted payments, limitations on restrictions on distributions from certain subsidiaries, limitations on lines of business and merger and consolidations.

As of December 31, 2009, Polymer Holdings was in compliance with all covenants under the 12% discount notes.

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Exchange Offer. On October 20, 2005, Polymer Holdings completed an offer to exchange all of its outstanding 12% discount notes issued under an exemption from the registration requirement of the Securities Act, for notes registered under the Securities Act. In this offer, 100% of the outstanding notes issued under the exemptions from registration were tendered and exchanged for registered notes. The registered notes are identical to the unregistered notes, except that the registered notes do not carry transfer restrictions.

(c) Senior Subordinated Notes Due January 15, 2014. On December 23, 2003, Kraton and Kraton Polymers Capital Corporation issued the 8.125% Notes in an aggregate principal amount of $200.0 million. The 8.125% Notes are subject to the provisions for mandatory and optional prepayment and acceleration and are payable in full on January 15, 2014. Polymer Holdings and each of Kraton Polymers U.S. LLC and Elastomers Holdings LLC, which we refer to collectively as the Subsidiary Guarantors, have guaranteed the 8.125% Notes. The amount of 8.125% Notes outstanding at December 31, 2009 and 2008, was $163 million and $200.0 million.

Interest. The 8.125% Notes bear interest at a fixed rate of 8.125% per annum. Interest is payable semi-annually on January 15 and July 15.

***Optional Redemption*.** Kraton may redeem all or a part of the senior subordinated notes at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest, if any, on the Notes redeemed to the applicable redemption date.

Year	Percentage
2010	102.708%
2011	101.354%
2012	100.000%
2013 and thereafter	100.000%

Purchase of a Portion of the 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 us, 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 equity of each of Kraton Performance 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 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.

Covenants. The 8.125% Notes contain certain affirmative covenants including, among others, covenants to furnish the holders of the 8.125% Notes with financial statements and other financial information and to provide the holders of the 8.125% Notes notice of material events.

The 8.125% Notes contain certain negative covenants including limitations on indebtedness, limitations on restricted payments, limitations on restrictions on distributions from certain subsidiaries, limitations on lines of businesses and mergers and consolidations. As of December 31, 2009, we were in compliance with all covenants under the 8.125% Notes.

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(d) Debt Maturities. The estimated remaining principal payments on our outstanding total debt as of December 31, 2009, are as follows:

	Principal Payments (in thousands)
December 31:	
2010	$ 2,304
2011	$ 2,304
2012	$ 109,137
2013	$ 107,984
2014 and thereafter	$ 163,250
Total debt	$ 384,979

5. 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. We amortized $4.1 million, $2.1 million and $2.7 million in deferred financing costs in the years ended 2009, 2008 and 2007, respectively. In December 2009, we made a $100.0 million pre-payment of outstanding indebtedness under the Term Loans, which resulted in the write off of approximately $1.5 million of deferred financing cost. In June 2008 we made a $10.0 million voluntary prepayment of outstanding indebtedness under the Term Loans, which resulted in the write off of approximately $0.2 million of deferred financing cost. In addition, during the year ended December 31, 2007, we made voluntary prepayments under the Term Loans in the amount of $40.0 million, which resulted in the write off of approximately $0.6 million of deferred financing cost.

We incurred approximately $3.2 million of fees in connection with the amendment to our Term Loan and Revolving loan in 2009, and these fees were recorded as deferred financing costs during the year ended December 31, 2009. In 2008, we incurred fees of approximately $1.2 million associated with preliminary analysis of refinancing options associated with our Credit Agreement and recorded a charge of $1.2 million to selling, general, and administrative expense in the consolidated statements of Operations as we determined our refinancing efforts were not probable due to current market condition.

6. Income Taxes

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

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The provision (benefit) for income taxes on income from continuing operations is comprised of the following:

	December 31, 2009	2008 (in thousands)	2007
Current tax provision:			
U.S.	$ 422	$ 262	$ 12
Foreign	8,239	13,614	4,589
Total	8,661	13,876	4,601
Deferred tax provision:			
U.S.	(285)	(51)	2,491
Foreign	(9,743)	(5,394)	(972)
Total	(10,028)	(5,445)	1,519
Income tax expense (benefit)	$ (1,367)	$ 8,431	$ 6,120

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as operating loss and tax credit carryforwards. In connection with the acquisition, the book basis of foreign assets and liabilities was stepped-up to their estimated fair market value.

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

	December 31, 2009	2008 (in thousands)	2007
Income (loss) before income taxes:			
U.S.	$ 9,656	$ 7,098	$ (29,205)
Foreign	(11,313)	29,752	(8,424)
Total	$ (1,657)	$ 36,850	$ (37,629)

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The tax effects of temporary differences that gave rise to significant components of deferred tax liabilities and assets are as follows:

	December 31, 2009	December 31, 2008
	(in thousands)	
Deferred tax liabilities:		
Property, plant and equipment	$ 96,424	$ 100,104
Identifiable intangibles	2,986	4,921
Total deferred tax liabilities	99,410	105,025
Deferred tax assets:		
Net operating loss carryforward	(116,438)	(113,519)
Inventory	(3,270)	(3,563)
Exchange rate differences	(236)	(1,210)
Interest rate swaps	(1,097)	(2,022)
Pension accrual	(15,971)	(18,716)
Other Accruals and Reserves	(8,976)	(9,465)
Interest		(31)
Total deferred tax assets	(145,988)	(148,526)
Valuation allowance for deferred tax assets	56,956	63,677
Net deferred tax liabilities	$ 10,378	$ 20,176

	December 31 2009	December 31 2008
	(in thousands)	
Net deferred tax liabilities of:		
Current deferred tax assets	$ (14,730)	$ (24,196)
Non-current deferred tax assets	(168,979)	(166,930)
Current deferred tax liabilities	11,624	9,418
Non-current deferred tax liabilities	182,463	201,884
Net deferred tax liabilities	$ 10,378	$ 20,176

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

	December 31,		
	2009	**2008**	**2007**
		(in thousands)	
Income Taxes at the Statutory Rate	$ (580)	$ 12,897	$ (13,171)
Foreign Tax Rate Differential	(97)	(3,294)	3,331
State Taxes	(225)	(86)	(3,012)
Permanent Differences Netherlands Participation Exemption	(784)	(903)	
Permanent Differences Other	(48)	682	(144)
Differences in Foreign Earnings Remitted	4,165	6,354	4,043
Tax Credits	(122)		
Other	(189)		
Tax Benefit Related to Foreign Losses	(2,597)		
Change in Valuation Allowance and Uncertain Tax Positions	(890)	(7,219)	15,073
Income Tax Expense (Benefit)	$ (1,367)	$ 8,431	$ 6,120

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	December 31,		
	2009	2008	2007
Income Taxes at the Statutory Rate	35.0%	35.0%	35.0%
Foreign Tax Rate Differential	5.9%	(8.9)%	(8.9)%
State Taxes	13.6%	(0.2)%	8.0%
Permanent Differences Netherlands Participation Exemption	47.3%	(2.5)%	0.0%
Permanent Differences Other	2.9%	1.9%	0.4%
Differences in Foreign Earnings Remitted	(251.4)%	17.2%	(10.7)%
Tax Credits	7.4%	0.0%	0.0%
Other	11.4%	0.0%	0.0%
Tax Benefit Related to Foreign Losses	156.7%	0.0%	0.0%
Change in Valuation Allowance and Uncertain Tax Positions	53.7%	(19.6)%	(40.1)%
Effective Tax Rate	82.5%	22.9%	(16.3)%

As of December 31, 2009, we had $331.3 million of operating loss carryforwards for income tax purposes, of which $233.8 million relates to the United States and the remaining $97.5 million relates to foreign tax jurisdictions. The United States operating loss carryforwards will expire in 2024, 2025, 2026 and 2027, if not utilized in prior years. We anticipate taxable income in future years that will allow us to utilize the carryforwards that have not had a valuation allowance placed against them.

As of December 31, 2009 and 2008, a valuation allowance of $57.0 million and $63.7 million, respectively, had been recorded related to certain deferred tax assets. We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. We have provided a valuation allowance for operating loss carryforwards and deferred tax assets in certain jurisdictions.

In assessing realizability of deferred tax assets, management considers 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. Based upon management s expectations at December 31, 2009, management believes it is more likely than not, that we will realize the benefit of the deferred tax assets, net of the existing valuation allowances.

We provide for taxes in certain situations where assessments have not been received. In those situations, we consider it probable that the taxes ultimately payable will exceed the amounts reflected in filed tax returns; accordingly, taxes are provided in those situations under the guidance in ASC 740-10-05, Accounting for Uncertainty in Income Taxes, and are included in both income taxes in current liabilities and in deferred income taxes and other liabilities in the consolidated balance sheets.

Effective January 1, 2007, we adopted the principles of ASC 740-10-05, Accounting for Uncertainty in Income Taxes, which prescribes the minimum recognition threshold a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As a result of the implementation of ASC 740-10-05, we recognized no change in the liability for unrecognized tax benefits or accrued interest and penalties. We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. As of December 31, 2009, our 2005 through 2008 U.S. federal income tax returns remain open to examination. In addition, open tax years to state and foreign jurisdictions remain subject to examination.

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As of January 1, 2009, we had total unrecognized tax benefits of approximately $1.1 million. During the year ended December 31, 2009, we had a change in certain tax positions mainly related to prior tax periods. The increase of $0.1 million in these tax positions was primarily due to recognizing additional reserve needs in connection with an ongoing tax audit in Asia. As of December 31, 2009, we estimated $ 1.2 million in unrecognized tax benefits, that if recognized, would impact the effective tax rate. We recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes in our consolidated statement of operations. During the year ended December 31, 2009, we recognized additional interest and penalties charges related to unrecognized tax benefits. As of January 1, 2009, we believe that no current tax positions that have resulted in unrecognized tax benefits will significantly increase or decrease within one year. As of the year ended December 31, 2009, no material changes, other than the tax audit related charges mentioned above, have occurred in our estimates or expected events related to anticipated changes in our unrecognized tax benefits.

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

	Unrecognized Tax Benefits	Interest and Penalties
	(in thousands)	
Balance at January 1, 2009	$ 1,144	$ 83
Increase in prior year tax positions	11	38
Balance at December 31, 2009	$ 1,155	$ 121

7. Employee Benefits

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

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The 2009 measurement date of the plans assets and obligations was December 31, 2009. Based on the funded status of our defined benefit pension plan as of December 31, 2009, we reported an increase in our accumulated other comprehensive income of approximately $12.3 million and a related decrease in accrued pension obligations. Accrued pension obligations are included in long-term liabilities on our consolidated balance sheet. Information concerning the pension obligation, plan assets, amounts recognized in our financial statements and underlying actuarial assumptions are as follows:

	December 31, 2009	December 31, 2008
	(in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 82,163	$ 62,061
Service cost	2,813	2,281
Interest cost	4,690	4,275
Benefits paid	(2,086)	(1,880)
Actuarial (gain) loss	(10,691)	15,268
Plan amendments		158
Benefit obligation at end of year	$ 76,889	$ 82,163
Change in plan assets		
Fair value at beginning of year	$ 39, 111	$ 46,329
Actual return on plan assets	9,106	(14,313)
Employer contributions	4,190	8,974
Benefits paid	(2,086)	(1,880)
Fair value at end of year	$ 50,321	$ 39,110

	December 31, 2009	December 31, 2008
Development of net amount recognized		
Funded status	$ (26,568)	$ (43,052)
Unrecognized net prior service cost		
Unrecognized actuarial loss		
Net amount recognized in long-term liabilities	$ (26,568)	$ (43,052)

The projected benefit obligation, fair value of plan assets and accumulated benefit obligation for the Plan with accumulated benefit obligations in excess of plan assets were $76.9 million, $50.3 million and $67.7 million, respectively, as of December 31, 2009 and $82.2 million, $39.1 million and $70.0 million, respectively, as of December 31, 2008.

Net periodic pension costs consist of the following components:

	2009	December 31, 2008 (in thousands)	2007
Service cost benefits earned during the period	$ 2,813	$ 2,281	$ 2,561
Interest on prior year s projected benefit obligation	4,690	4,275	3,842
Expected return on plan assets	(4,680)	(4,084)	(3,646)
Amortization of net actuarial	514		
Recognized curtailment loss			
Recognized loss due to special term benefits		158	
Net periodic pension costs	$ 3,337	$ 2,630	$ 2,757

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

	December 31, 2009	2008
Weighted average assumptions used to determine benefit obligations		
Measure date	12/31/2009	12/31/2008
Discount rate	6.38%	5.73%
Rates of increase in salary compensation level	3.00%	3.70%
Weighted average assumptions used to determine periodic benefit cost		
Discount rate	5.73%	6.64%
Rates of increase in salary compensation level	3.70%	3.50%
Expected long-term rate of return on plan assets	8.50%	8.50%

The expected long-term rate of return on assets assumption is derived from a study conducted by our actuaries. The study includes a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the study gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. Based on our most recent study, the expected long-term return assumption for our U.S. plan effective for the current year will remain at 8.5%.

Plan Assets. We maintain target allocation percentages among various asset classes based on an investment policy established for the pension plan. The target allocation is designed to achieve long term objectives of return, while mitigating against downside risk and considering expected cash flows. The current weighted-average target asset allocation is as follows: equity securities 64.0%, debt securities 35.5%, real estate 0.0%, and other 0.5%. Our investment policy is reviewed from time to time to ensure consistency with our long term objective.

Our pension plan asset allocations at December 31, 2009, and 2008, by asset category are as follows:

Asset Category	Percentage of Plan Assets at December 31 2009	2008
Equity securities	64.6%	62.5%
Debt securities	34.9%	37.0%
Real estate	0.0%	0.0%

Other	0.5%	0.5%
Total	100.0%	100.0%

Equity securities include our common stock in the amounts of $0 (0 percent of total assets) and $0 (0 percent of total assets) at December 31, 2009, and 2008, respectively.

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The fair value of the Company s pension plan assets at December 31, 2009, by asset category are as follows:

	Pension Plan Assets Fair Value Measurements at December 31, 2009			
	Total	**Quoted Prices In Active Markets Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	(In thousands)			
Money Market Mutual Fund	$ 244	$ 244	$	$
Commingled Pool Equity				
FMTC US Equity Index Pool(d)	6,224		6,224	
Pyramis Intl Growth Com Pool(e)	3,015		3,015	
Pyramis Quant LG Cap Cor Com Pool(f)	2,547		2,547	
Pyramis Select Intl Equity(g)	5,486		5,486	
Pyramis Small Company Com Pool(h)	5,008		5,008	
Pyramis US Total Market Equity(i)	10,230		10,230	
Total	32,510		32,510	
Commingled Pool Debt				
Pyramis EMG MKT Debt Com Pool(a)	1,022		1,022	
Pyramis High Yield Bond Com Pool(b)	2,095		2,095	
Pyramis Long Duration(c)	14,451		14,451	
Total	17,568		17,568	
Total	$ 50,322	$ 244	$ 50,078	$

(a) Portfolio with the primary objective to achieve superior total returns primarily through investments in debt securities of emerging countries.
(b) Portfolio with the primary objective to achieve superior total returns through investments in a universe of lower-rated and non-rated debt securities providing high current income.
(c)

Portfolio with the primary objective to generate returns that exceed the Barclays Capital® US Long Government/Credit Bond Index through investments in investment-grade fixed-income securities and commingled vehicles.

(d) Portfolio with the primary objective to provide investment results that correspond to the total return performance of common stocks publicly traded in the United States.

(e) Portfolio with the primary objective to seek long-term growth of capital primarily through investments in foreign equity securities.

(f) Portfolio with the primary objective to consistently provide excess return over the S&P 500® Index through active stock selection while maintaining portfolio risk characteristics similar to the benchmark.

(g) Portfolio with the primary objective to seek long-term growth of capital primarily through investments in foreign securities.

(h) Portfolio with the primary objective to achieve long-term growth of capital, principally by investing in the equity securities of smaller, growing companies.

(i) Portfolio with the primary objective to provide excess return over a market cycle relative to the Dow Jones U.S. Total Stock Market Index® (Index), an unmanaged index of all U.S. headquartered companies maintained by Whilshire Associates, while maintaining similar style characteristics and sector weights.

Contributions. We expect to contribute $3.2 million to our pension plan in 2010.

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Estimated Future Benefit Payments.

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

	(in thousands)
2010	2,202
2011	2,382
2012	2,572
2013	2,845
2014	3,230
Years 2015-2019	23,120
	$ 36,351

(b) Other Retirement Benefit Plans. Certain employees are eligible to participate in a non-qualified defined benefit restoration plan and/or a non-qualified defined contribution restoration plan (benefit restoration plans) which are intended to restore certain benefits under the noncontributory defined benefit pension plan in the United States and the Kraton Savings Plan in the United States, respectively, which would otherwise be lost due to certain limitations imposed by law on tax-qualified plans. We made $0.9 million in contributions to the benefit restoration plans for the years ended December 31, 2009 and no contribution for the year ended December 31, 2008 and 2007. As of December 31, 2009 and 2008, amounts recognized in the statement of financial position as a component of long-term liabilities for the benefit restoration plans were $0.4 million and $1.0 million, respectively.

We have established a defined benefit plan in Japan designed to be equivalent to the plan previously provided by Shell Chemicals.and covers substantially all Japan employees. Our contributions to the plan for the years ended December 31, 2009, 2008 and 2007 were $0.19 million, $0 million, and $0.02 million, respectively. As of December 31, 2009, 2008, and 2007 amounts recognized in the statement of financial position as a component of long-term liabilities for the defined benefit plan were $1.3 million, $1.3 million and $0.9 million, respectively.

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

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

ASC 715, Compensation-Retirement Benefits, requires that we measure the plans assets and obligations that determine our funded status as of the end of the fiscal year. The 2009 measurement date of the plans assets and obligations was December 31, 2009. We are also required to recognize as a component of accumulated other comprehensive income the changes in funded status that occurred during the year that are not recognized as part of new periodic benefit cost.

Based on the funded status of our postretirement benefit plan as of December 31, 2009, we reported a decrease of approximately $0.8 million in accrued postretirement obligations.

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It has been determined that the plan s retiree prescription plan is actuarially equivalent for the Medicare Part D subsidy. The accumulated postretirement benefit obligation for the year ended December 31, 2009 decreased approximately $3.2 million due to the inclusion of the Medicare Part D subsidy.

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

	December 31, 2009	December 31, 2008
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of period	$ 16,138	$ 13,341
Service cost	392	332
Interest cost	1,058	871
Benefits paid	(614)	(772)
Actuarial loss	1,499	2,102
Plan amendments		264
Benefit obligation at end of period	$ 18,473	$ 16,138
Reconciliation of plan assets(1):		
Employer contributions	$ 614	$ 772
Benefits paid	(614)	(772)
	$	$

(1) As part of the Ripplewood Transaction, Shell Chemicals has committed to a future cash payment related to retiree medical expenses based on a specified dollar amount per employee, if certain contractual commitments are met. We have recorded an asset of approximately $6.6 million and $6.5 million as our estimate of the present value of this commitment as of December 31, 2009 and 2008, respectively.

	December 31, 2009	December 31, 2008
	(in thousands)	
Development of net amount recognized:		
Funded status	$ (18,474)	$ (16,138)
Unrecognized cost: Actuarial gain		

Amount recognized in long-term liabilities	$ (18,474)	$ (16,138)

Net periodic benefit costs consist of the following components:

	December 31,		
	2009	2008	2007
	(in thousands)		
Service cost	$ 392	$ 332	$ 357
Interest cost	1,058	871	776
Amortization of net actuarial loss	231		
Restructuring costs		264	
Net periodic benefit costs	$ 1,681	$ 1,467	$ 1,133

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	December 31,	
	2009	**2008**
Weighted average assumptions used to determine benefit obligations		
Measurement date	12/31/2009	12/31/2008
Discount rate	6.17%	5.76%
Rates of increase in salary compensation level	N/A	N/A
Weighted average assumptions used to net periodic benefit cost		
Discount rate	5.76%	6.49%
Rates of increase in salary compensation level	N/A	N/A
Expected long-term rate of return on plan assets	N/A	N/A

	December 31,	
	2009	**2008**
Assumed health care cost trend rates		
Health care cost trend rate assumed for next year	8.00%	8.75%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.00%	5.00%
Year that the rate reaches the ultimate trend rate	2014	2014

The discount rate for 2009 was based in part on the average Moody s Aa Corporate Bond Yield and the average Citigroup Pension Liability Index, which were 5.49% and 5.96%, respectively. The Fidelity Investments bond modeler was used to compare the expected future cash outflows to the bonds included in the indices noted above.

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

	1% Increase	**1% Decrease**
Effect on total of service and interest cost components	$ 52	$ (76)
Effect on postretirement benefit obligation	622	(931)

(d) Kraton Savings Plan. The Kraton Savings Plan, as adopted on March 1, 2001, covers substantially all U.S. employees, including executive officers. We amended and restated the Savings Plan in April 2002, to comply with changes in legislation in 2002, and subsequently submitted and received an IRS determination letter.

Through automatic payroll deduction, participants have the option to defer up to 60% of eligible earnings in any combination of pretax and/or post-tax contributions. Contributions are subject to annual dollar limitations set forth in the Internal Revenue Code. Effective January 1, 2006 we modified the Kraton Savings Plan to have three types of employer contributions. After completing one year of service, we will make a matching contribution of 50% of the first 6% contributed by the employee and after completing five years of service we will make a matching contribution of 100% of the first 6% contributed by the employee. For employees who have completed nine or more years of service and elected to remain a participant in the pension plan, we made a transition contribution of 4% during 2006 and reduced transition contribution of 2% in 2007. For employees who elected to lock in their Kraton pension benefits as of December 31, 2005, we make enhanced employer contributions of 3% for employees who have less than five years of service and a 4% contribution for employees who have five or more years of service. For our employees who were employed as of February 28, 2001, and who were previously employed by Shell Chemicals, we recognize their Shell Chemicals years of service for purposes of determining employer contributions under our Plan. Overall, a participant may direct up to a maximum of 100% of eligible

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earnings to this Plan, but cannot exceed the IRS maximum limit for the combined total of employee and employer contributions. Our contributions to the plan for the year ended December 31, 2009, 2008 and 2007, were $2.7 million, $2.2 million, and $2.7 million, respectively.

(e) Membership Units. Prior to the IPO, we provided certain key employees who held interests in us prior to the acquisition the opportunity to roll over their interests into membership units of Management LLC, which owned a corresponding number of membership units in TJ Chemical. Additional employees were also given the opportunity to purchase membership units in TJ Chemical through Management LLC at the original buy-in price. The membership units were subject to customary tag-along and drag-along rights, as well as a company call right in the event of termination of employment. In addition, pursuant to Messrs. Gregory and Fogarty employment agreements, on September 10, 2004 and June 15, 2005, TJ Chemical granted a notional restricted unit award with a fair value at the grant date of $875,000 and $300,000, to Messrs. Gregory and Fogarty, respectively. Each of these awards vested 20% on each of the first five anniversaries of their employment commencement dates, so long as Messrs. Gregory and Fogarty remain employed by us through the applicable vesting date. The actual membership units would not be distributed until the earlier of: (1) a change in control; or (2) the termination of either Messrs. Gregory and Fogarty s employment. TJ Chemical granted two restricted membership unit awards having a fair value at the grant date of $200,000 and $100,000 each to David Bradley. The award for $200,000 vested 20% on each of the first five anniversaries of his employment commencement date (April 1, 2004), so long as Mr. Bradley remained employed by us through the applicable vesting date. The award for $100,000 vests 20% on each of the first five anniversaries and commenced vesting, on February 1, 2006, so long as Mr. Bradley remains employed by us through the applicable vesting date. TJ Chemical granted a restricted membership unit award to Nicholas G. Dekker on October 6, 2006 having a fair value at the grant date of $150,000. This award vested 20% on each of the first five anniversaries of his employment as our Chief Financial Officer and Vice President (October 6, 2006), for so long as Mr. Dekker remained employed by us through the applicable vesting date. In connection with their promotions, Messrs. Fogarty and Bradley were awarded additional restricted membership units in the amount of 600,000 and 300,000, respectively, on June 19, 2008. These restricted Membership Units vest 1/3 on each of the first three anniversaries of the grant date, so long as they remain employed through the applicable vesting date. The amount to Messrs. Gregory, Bradley, Fogarty and Dekker will be recognized in earnings over the vesting period on a straight-line basis.

In connection with his termination of employment, Mr. Gregory retained 151,000 membership units, and was paid out at a price of $1.00 per unit for 149,000 units as part of his Separation Agreement. In connection with his termination of employment, Mr. Dekker was paid out at a price of $1.00 per unit for his total units of $50,000. As of December 31, 2008, there were 1,886,000 membership units of Management LLC issued and outstanding.

Effective as of the IPO, Management LLC transferred all outstanding grants of membership units to Polymer Holdings (now Kraton Performance Polymers, Inc).

The outstanding equity and equity awards of Management LLC held by the employees were cancelled and converted into equity or equity awards of equal value of common shares of Kraton Performance Polymers, Inc. The remaining terms of all outstanding awards remained substantially the same, including with respect to vesting and forfeiture provisions.

(f) TJ Chemical Holdings LLC 2004 Option Plan. On September 9, 2004, TJ Chemical adopted an option plan, or the Option Plan, which allows for the grant to key employees, consultants, members and service providers of TJ Chemical and its affiliates, including us, of non-qualified options to purchase TJ Chemical membership units. The aggregate number of membership units with respect to which options may be granted under the Option Plan shall not exceed an amount representing 8% of the outstanding membership units and profits units of TJ Chemical on March 31, 2004, on a fully diluted basis. As of December 31, 2008 and 2007

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there were 22,101,118 and 14,670,000 options granted and outstanding, respectively. All options granted in fiscal 2008, fiscal 2007 and fiscal 2006 had an exercise price of $1 per membership unit, which is equal to or in excess of the fair value of the membership unit on the date of grant. The options generally vest in 20% annual increments from the date of grant. However, the Compensation Committee determined that a shorter vesting period was appropriate for grants made during the 2008 fiscal year and therefore options granted in 2008 were set to vest in increments of 1/3 over 3 years. With respect to directors, previous to 2008 options were exercisable in 50% increments annually on each of the first two anniversaries of the grant date, so long as the holder of the option is still a director on the vesting date. In 2008, options granted to directors were granted in increments of 1/3 over 3 years, except the Chairman who has a one year vesting period. The exercise price per membership unit shall equal the fair market value of a membership unit on the date of exercised. Upon a change in control, the options will become 100% vested if the participant s employment is terminated without cause or by the participant for good reason (as each term is defined in the Option Plan) within the 2-year period immediately following such change in control.

The Compensation Committee of Kraton Performance Polymers administers the Option Plan on behalf of TJ Chemical, including, without limitation, the determination of the individuals to whom grants will be made, the number of membership units subject to each grant and the various terms of such grants. The Committee will have the right to terminate all of the outstanding options at any time and pay the participants an amount equal to the excess, if any, of the fair market value of a membership unit as of such date over the exercise price with respect to such option, or the spread. Generally, in the event of a merger (except a merger where membership unit holders receive securities of another corporation), the options will pertain to and apply to the securities that the option holder would have received in the merger; and in the event of a dissolution, liquidation, sale of assets or any other merger, the Committee has the discretion to: (1) provide for an exchange of the options for new options on all or some of the property for which the membership units are exchanged (as may be adjusted by the Committee); (2) cancel and cash out the options (whether or not then vested) at the spread; or (3) provide for a combination of both. Generally, the Committee may make appropriate adjustments with respect to the number of membership units covered by outstanding options and the exercise price in the event of any increase or decrease in the number of membership units or any other corporate transaction not described in the preceding sentence.

On a termination of a participant s employment (other than without cause or by the participant for good reason within the 2-year period immediately following a change in control), unvested options automatically expire and vested options expire on the earlier of: (1) the commencement of business on the date the employment is terminated for cause; (2) 90 days after the date employment is terminated for any reason other than cause, death or disability; (3) 1-year after the date employment is terminated by reason of death or disability; or (4) the 10th anniversary of the grant date for such option.

Generally, pursuant to TJ Chemical s operating agreement, membership units acquired pursuant to the Option Plan are subject to customary tag-along and drag-along rights for the 180-day period following the later of a termination of employment and 6 months and 1-day following the date that units were acquired pursuant to the exercise of the option, TJ Chemical has the right to repurchase each membership unit then owned by the participant at fair value, as determined in good faith by the Board of Directors of TJ Chemical.

As of the effective date of the IPO, TJ Chemical transferred all benefits under the Option Plan and all outstanding grants of awards to Kraton Performance Polymers, Inc. In addition, any future awards payable in membership units of TJ Chemical will be adjusted to provide for a distribution of Kraton Performance Polymers, Inc. shares of equal value. The remaining terms of all outstanding awards remain substantially the same, including with respect to vesting and forfeiture provisions.

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Furthermore, effective as of the date of the IPO, the outstanding equity and equity awards of TJ Chemical held by the Named Executive Officers were be cancelled and converted into equity or equity awards, as applicable, of Kraton Performance Polymers, Inc. Each membership unit was exchanged for a number of common shares of Kraton Performance Polymers, Inc. of equal value and each option was converted, in compliance with Section 409A of the Code, into an option to purchase a number of common shares equal in value to the number of membership units underlying the option at the date of the IPO, rounded down to the nearest whole share.

(g) Polymer Holdings 2009 Equity Incentive Plan. On November 30, 2009, the Kraton Performance Polymers, Inc. board of directors and our stockholders approved the Polymer Holdings LLC Equity Incentive Plan (the Equity Plan) The Equity Plan allows for the grant to key employees, independent contractors, and eligible non-employee directors of incentive stock options (ISOs , non-qualified stock options (NSOs and together with the ISOs, Options), stock appreciation rights (SARs), restricted stock awards and restricted stock unit awards, in addition to other equity or equity-based awards as the board determines is necessary from time to time. As of the IPO, there were 4,350,000 shares of common stock reserved for issuance under the Equity Plan. Shares of common stock issued under the Equity Plan may be either authorized and unissued shares or treasury shares, or both, at the sole discretion of the Committee. Subject to the terms of the Equity Plan, we reserved shares, which may be issued pursuant to incentive stock options (ISOs). Any shares covered by an award that are not purchased or are forfeited or otherwise terminated shall be available for future grants under the Equity Plan. Furthermore, no participant may receive awards under the Equity Plan in any calendar year that relate to more than 300,000 shares of common stock.

The Committee will determine which employees and independent contractors are eligible to receive awards under the Equity Plan. In addition, the Committee will interpret the Equity Plan and may adopt any administrative rules, regulations, procedures and guidelines governing the Equity Plan or any awards granted under the Equity Plan as it deems to be appropriate. The Board may grant awards to directors. On or after the date of grant of an award, the Committee may (i) in the event of the Participant s death, disability or retirement, or in the event of a change in control, accelerate the date on which any such award becomes vested or exercisable, as the case may be, (ii) accelerate the date on which any such award becomes transferable, (iii) extend the term of any such award, (iv) waive any conditions to the vesting, exercisability or transferability, as the case may be of such award or (v) provide for the payment of dividends or dividend equivalents with respect to any such award; provided such action would not cause tax to become due under Section 409A of the Code. The Equity Plan may be further amended or terminated by our board of directors at any time, but no amendment may be made without stockholder approval if it would require approval by stockholders in order to comply with any applicable law, regulation or the rules of the New York Stock Exchange.

The Committee may grant other stock-based awards to employees and independent contractors and our board of directors may grant such awards to directors subject to such terms and conditions as the Committee or our board of directors, as appropriate, may determine. Each such award may (i) involve the transfer of actual shares of our common stock to participants, either at the time of grant or thereafter, or payment in cash or otherwise of amounts based on the value of shares of our common stock, (ii) be subject to performance-based and/or service-based conditions, (iii) be in the form of phantom stock, restricted stock, restricted stock units, performance shares, deferred share units or share-denominated performance units, (iv) be designed to comply with applicable laws of jurisdictions other than the United States and (v) be designed to qualify as performance-based compensation.

The amount payable with respect to an award that is intended to qualify as performance-based compensation under the Equity Plan shall be determined in any manner permitted by Section 162(m) of the Code. The

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Committee shall establish performance measures, the level of actual achievement of performance goals and the amount payable with respect to an award intended to qualify under Section 162(m) of the Code. The grant, exercise and/or settlement of such performance or annual incentive award shall be contingent upon achievement of pre-established performance goals which shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria. Performance goals shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code.

We awarded 74,008 shares of restricted stock to our executives on December 22, 2009, the date the IPO closed, as follows: Mr. Fogarty, 37,004; Mr. Bradley, 22,202; and Mr. Tremblay, 14,802.

(h) Other Equity Awards. We provided certain key employees with a grant of profits units of Kraton Management LLC (subject to the 8% pool limitation described above). Profits units are economically equivalent to an option, except that they provide the recipient/employee with an opportunity to recognize capital gains in the appreciation of TJ Chemical and its affiliates and TJ Chemical and its affiliates does not receive any deduction at the time of grant or disposition of the profits unit by the employee. Generally, pursuant to the applicable grant agreements, 50% of such profits units will vest when the fair value of TJ Chemical s assets equals or exceeds two times the Threshold Amount, i.e., the first tranche, and the remaining 50% will vest when the fair value of TJ Chemical s assets equals or exceeds three times the threshold amount, i.e., the second tranche, in each case, as determined by the Board of TJ Chemical, provided that the executive remains employed through the applicable vesting date. Additionally, 100% of the profits units shall vest upon the effective date of a disposition by the initial investors of 51% or more of their aggregate interests in Kraton. If at the time TJ Chemical makes a determination as to whether an individual is entitled to any appreciation with respect to the profits units, the value of the assets is more than two times, but less than three times the Threshold Amount, a pro rata portion of the second tranche will vest based on the appreciation above the two times Threshold Amount. Compensation expense will be recorded in our consolidated financial statements for this difference at the time it becomes probable the profits units will become vested. If an employees employment terminates prior to any applicable vesting date, such employee shall automatically forfeit all rights to any unvested profits units. As of December 31, 2009 and 2008, there were 0 shares and 900,000 profits units granted and not yet vested, respectively.

In connection with the IPO, each award of profits units was converted into a number of shares of restricted shares equal to the quotient of (i) the product of the number of profits units multiplied by the Profits Unit Value (as defined below) divided by (ii) the value of a common share of our company immediately following the closing date of the offering. For these purposes, Profits Unit Value means, with respect to an award of profits units, the difference between the fair value of a membership unit immediately prior to the closing of the offering and $1.00 (which represents the value of a membership unit on the date the profits unit award was granted).

(i) 2009 Incentive Compensation Plan. On February 13, 2009, the Compensation Committee of the Board of Directors of Kraton Performance Polymers, Inc. approved and adopted the 2009 Incentive Compensation Plan, including the performance-based criteria by which potential bonus payouts to participants will be determined.

The bonus pool was based largely on EBITDA performance and as a result of our actual performance against targeted levels of EBITDA there were no incentive compensation awards under this plan in 2009.

8. Commitments and Contingencies

(a) Lease Commitments

We have entered into various long-term non-cancelable operating leases. Future minimum lease commitments at December 31, 2009, are as follows: 2010 $5.4 million; 2011 $5.0 million; 2012 $4.9

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million; 2013 $2.5 million; 2014 $2.3 million and thereafter $13.1 million. We recorded $4.1 million, $8.4 million and $8.5 million in rent expense for the years ended December 31, 2009, 2008 and 2007, respectively.

(b) Environmental and Safety Matters

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

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

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

We had no material operating expenditures for environmental fines, penalties, government imposed remedial or corrective actions in each of the years ended December 31, 2009, 2008 and 2007.

(c) Legal Proceedings

We and certain of our subsidiaries are parties to several legal proceedings that have arisen in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, management does not expect these matters, individually or in the aggregate, to have a material adverse effect upon our financial position, results of operations or cash flows. Furthermore, Shell Chemicals has agreed, subject to certain limitations, to indemnify us for certain claims brought with respect to matters occurring before February 28, 2001.

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9. Fair Value Measurements

Effective January 1, 2008, we adopted ASC 820, Fair Value Measurements and Disclosures. ASC 820 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. ASC 820 requires entities to, among other things, maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. In accordance with ASC 820, these two types of inputs have created the following fair value hierarchy:

Level 1 Quoted unadjusted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable.

From time to time, we enter into derivative financial instruments that are measured at fair value. See Note 15 for further discussion.

10. Significant Contracts

We are party to significant contracts with subsidiaries and affiliates of Shell Chemicals and LyondellBasell. These contracts are for: (1) leases of land and facilities at some of our foreign locations; (2) operating agreements where LyondellBasell operates some of our foreign manufacturing facilities; (3) site services, utilities, material and facilities agreements at some of our foreign manufacturing facilities; (4) raw material supply agreements; and (5) transitional and interim service agreements.

(a) Leases with Shell Chemicals and LyondellBasell. The land on which our manufacturing facility in Berre, France is located was leased to us by Shell Petrochimie Mediterranee (SPM) through April 1, 2008, at which time the site was sold to LyondellBasell, who now operates the site and with whom our tenancy now exists under a long-term lease due to expire in 2030. Our Wesseling, Germany manufacturing facility is located on an industrial site belonging to LyondellBasell. LyondellBasell owns the land and buildings at our Wesseling facility and leases same to us. The lease is for a term of 30 years, beginning from March 31, 2000 and is extended automatically for a successive period of 10 years unless terminated upon one-year prior written notice by either party. These lease agreements, including the financial terms thereof, have all been negotiated at arm s length.

(b) Operating Agreements. LyondellBasell operates our manufacturing facility located in Berre, France. This facility is situated on a major LyondellBasell refinery and petrochemical site at which other third party tenants also own facilities and lease space. LyondellBasell charges us fees based on certain costs incurred in connection with operating and maintaining this facility, including the direct and indirect costs of employees and subcontractors, reasonable insurance costs, certain taxes imposed on LyondellBasell (other than income taxes)

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and depreciation and capital charges on certain assets. Pursuant to the applicable operating agreement, LyondellBasell employs and provides all staff, other than certain plant managers, assistant plant managers and technical personnel whom we may appoint. The agreement has an initial term of 20 years, and thereafter will automatically renew indefinitely for consecutive 5-year periods. Either party may terminate the agreement (totally or partially) under various circumstances, including if the terminating party ceases its operations at the facility and provides 18 (eighteen) months prior written notice; or if any of the services, utilities, materials and facilities agreements have been terminated, and the terminating party provides notice as required by such agreement.

Pursuant to an agreement dated March 31, 2000, LyondellBasell operates and provides certain services, materials and utilities required to operate our manufacturing facility in Wesseling, Germany. We pay LyondellBasell a monthly fee, as well as costs incurred by LyondellBasell in providing the various services, even if the facility fails to produce any output (whether or not due to events within LyondellBasell s control), and even if we reject some or all output. This agreement has an initial term of 40 years and will automatically renew, subject to 5 (five) years prior written notice of non-renewal. This agreement will terminate at any earlier date as of which the facility can no longer be operated in a safe and efficient manner. These operating agreements, including the financial terms thereof, have all been negotiated at arm s length.

(c) Site Services, Utilities, Materials and Facilities Agreements. LyondellBasell, through local operating affiliates, provides various site services, utilities, materials and facilities for the Berre, France manufacturing site. Generally these services, utilities, materials and facilities are provided by LyondellBasell on either a long-term basis, short-term basis or a sole-supplier basis. Items provided on a sole-supplier basis may not be terminated except upon termination of the applicable agreement in its entirety. Items provided on a long-term or short-term basis may be terminated individually under certain circumstances.

(d) Raw Materials Agreements. Styrene, butadiene and isoprene used by our U.S. facilities are primarily supplied by a portfolio of suppliers under long-term supply contracts with various expiration dates. The monomers used by our European facilities are primarily supplied by one or more LyondellBasell entities or affiliates, 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.

We believe our contractual arrangements with our suppliers of styrene, butadiene and isoprene provide an adequate supply of raw materials at competitive, market-based prices.

Under each of the agreements summarized below, reasonably unforeseen circumstances, including, without limitations, plant breakdowns, will excuse performance by either party. In addition, inability to acquire any supplies or components necessary for manufacturing the applicable raw material from usual sources and on terms the supplier deems reasonable will excuse supplier s nonperformance.

Styrene. We satisfy our styrene requirements in the United States pursuant to purchase agreements that run through 2011 subject to renewal conditions.

Our contracts that satisfied our styrene requirements in Europe expired on February 28, 2010 and we have finalized negotiations with two vendors and expect to execute new supply agreements that we anticipate will provide for European Styrene supply through to February 2013. 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 agreements covering 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. We currently source butadiene in the United States pursuant to contract arrangements with several suppliers, supplemented by spot supply as needed. The price we pay for butadiene is scheduled and varies based on the published prices for butadiene in world markets.

We currently source our butadiene in Europe pursuant to contracts with certain LyondellBasell entities. 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 pursuant to its terms on December 31, 2007; provided, however, that on December 12, 2006, we were notified by LyondellBasell of its intention to allow the contract to automatically renew for one year, and to terminate effective December 31, 2008. We are presently acquiring butadiene from an LyondellBasell entity in France under a commercial term sheet, reflecting an agreement in principle that has been reached between the parties. The price we pay for butadiene under our arrangements or 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 Corporation (JSR), on a commercial supply basis.

Isoprene. We source our global isoprene requirements through several contract arrangements. We also purchase some additional supplies of isoprene from various suppliers at prevailing market prices. In Brazil, isoprene is obtained from a local third party supplier. In Kashima, Japan, the majority of our isoprene needs are sourced from JSR on a commercial supply basis and from alternative suppliers as needed.

(e) Infineum

We have entered into several commercial agreements with Infineum, a joint venture between Shell Chemicals and ExxonMobil, related to: (1) the sharing by Infineum of certain production capacity at our Belpre, Ohio manufacturing facility; and (2) our production of certain additives for Infineum at our Belpre, Ohio and our Berre, France manufacturing facilities. The Belpre, Ohio agreements have a 30-year term, and the Berre, France agreement has a term ending in December 2010.

11. Related Party Transactions

We own a 50% equity investment in a manufacturing joint venture with JSR Corporation (JSR) under the name of Kraton JSR Elastomers K.K. (KJE) located in Kashima, Japan. KJE manufactures thermoplastic rubber (TR), which is a wholly or predominantly composed of a block co-polymer comprising styrene blocks with butadiene and/or isoprene polymer blocks. KJE produces TR for sale to third party customers only through Kraton and JSR. We and JSR separately, but with equal rights, participate as distributors in the sales of the TR produced by KJE.

The aggregate amounts of related-party transactions were as follows:

	December 31,		
	2009	**2008**	**2007**
Sales to related party	$	$ 626	$ 1,210
Purchases from related party	$ 27,763	$ 37,894	$ 39,741

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A private investment fund managed by TPG Capital L.P., which advises TPG Partners III and TPG Partners IV, has an ownership share of British Vita PLC, one of our customers. From 2007 to 2009 we have derived revenues averaging $9.2 million annually from sales to British Vita. We do not have any contractual requirements for sales to British Vita.

In October 2009, we entered into a contract with Amyris Biotechnologies, Inc. to explore the development of an alternative source of certain raw materials and, subject to Amyris meeting developmental and manufacturing milestones, to purchase raw materials from Amyris. We have not made any purchases to date. TPG Biotechnology II, L.P., a private investment fund that may be deemed to be an affiliate of TPG III and TPG IV, has an ownership share of Amyris Biotechnologies.

12. Earnings per Common Share

Common stock Kraton Performance Polymers, Inc. has authorized 500.0 million shares of common stock with a par value of $0.01 per share and 100.0 million shares of preferred stock with a par value of $0.01 per share. No preferred stock has been issued.

As of December 31, 2009, there were 29,709,114 common shares issued and outstanding. We held no treasury shares.

Earnings per share Basic earnings per common share (EPS) is computed by dividing net income by the weighted-average number of common shares outstanding during the period. The weighted average number of common shares used in the diluted earnings per share calculation is determined using the treasury stock method. Diluted EPS is computed by dividing net income by the diluted weighted-average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other agreements to issue common stock, such as stock options, stock-based performance awards and preferred stock, were exercised, settled or converted into common stock.

The following table summarizes the effect of the share-based compensation awards on the weighted- average number of shares outstanding used in calculating diluted earnings per share:

	December 31,		
	2009	2008	2007
	(In thousands, except per share data)		
Net income (loss) as reported	$ (290)	$ 28,419	$ (43,749)
Weighted-average number of common shares for basic earnings per share	19,844	19,406	19,375
Incremental effect of dilutive common stock equivalents:			
Restricted and notional units		77	

Weighted-average number of shares for diluted earnings per share		19,844		19,483		19,375
Earnings (loss) per common share basic	$	(0.01)	$	1.46	$	(2.26)
Earnings (loss) per common share dilutive	$	(0.01)	$	1.46	$	(2.26)

Restricted and Notional units of 78 and 118 thousand units at December 31, 2009 and 2007, respectively, were not included in the computation of diluted earnings per share because we incurred net losses in those years. Stock option awards of 1,585, 1,636 and 1,086 thousand shares, respectively, were outstanding at December 31, 2009, 2008 and 2007, respectively, and were not included in the computation of diluted earnings per common share because these options were antidilutive.

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13. Industry Segment and Foreign Operations

We operate in one segment for the manufacture and marketing of styrenic block copolymers. In accordance with the provisions of ASC 280, Segment Reporting, our chief operating decision-maker has been identified as the President and Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire company. Since we operate in one segment and in one group of similar products, all financial segment and product line information required by ASC 280 can be found in the consolidated financial statements.

For geographic reporting, revenues are attributed to the geographic location in which the customers facilities are located. Long-lived assets consist primarily of property, plant, and equipment, which are attributed to the geographic location in which they are located. Total operating revenues and long-lived assets by geographic region were as follows:

	December 31,		
	2009	2008	2007
	(in thousands)		
Total Operating Revenues:			
United States	$ 304,265	$ 395,568	$ 366,048
Germany	121,959	149,011	145,649
Japan	73,055	70,169	53,479
The Netherlands	66,027	80,980	49,334
Brazil	40,438	40,868	36,732
China	37,123	31,421	33,956
Italy	35,934	48,328	51,569
Thailand	28,779	22,877	14,916
United Kingdom	27,425	40,401	38,364
France	27,342	39,757	30,358
Belgium	16,273	30,079	30,751
Canada	16,168	25,361	22,300
Taiwan	15,711	18,527	20,196
Poland	15,537	26,934	22,604
Turkey	12,990	15,979	14,432
Sweden	11,292	13,002	12,418
Mexico	11,029	14,028	9,460
Argentina	10,854	17,174	14,109
Republic of Korea	9,928	11,013	8,877
Australia	9,124	15,939	8,856
Denmark	8,283	9,147	8,795
Austria	8,170	13,062	9,973
Malaysia	6,769	4,396	3,631
Switzerland	4,994	5,348	4,914
India	4,148	4,312	2,001
Czech Republic	4,024	4,273	4,021

Hong Kong	4,000	7,430	8,369
All other countries	36,363	70,649	63,475
	$ 968,004	$ 1,226,033	$ 1,089,587

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During the years ended December 31, 2009, 2008 and 2007, no single customer accounted for 10% or more of our total operating revenues.

	December 31, 2009	2008 (in thousands)	2007
Long-lived Assets:			
United States	$ 317,719	$ 303,278	$ 298,979
Germany	42,724	39,361	40,406
Japan	482	6,699	3,743
France	125,839	108,665	111,441
The Netherlands	36,971	34,018	34,454
Brazil	64,385	48,237	56,721
China	2,334	2,317	2,119
All other countries	964	11,685	12,050
	$ 591,418	$ 554,260	$ 559,913

14. Supplemental Guarantor Information

Kraton and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 8.125% Notes. The Guarantor Subsidiaries include Elastomers Holdings LLC, a U.S. holding company, and Kraton Polymers U.S. LLC, a U.S. operating subsidiary, collectively, the Guarantor Subsidiaries, fully and unconditionally guarantee on a joint and several basis, the Issuers obligations under the 8.125% Notes. Our remaining subsidiaries are not guarantors of the 8.125% Notes. We do not believe that separate financial statements and other disclosures concerning the Guarantor Subsidiaries would provide any additional information that would be material to investors in making an investment decision.

***Correction of immaterial errors*.** During 2009, we identified errors associated with the classification of certain cash inflows and outflows as disclosed within the condensed consolidating financial information of the issuer, guarantor and non-guarantor subsidiaries for the years ended December 31, 2008 and 2007. The errors were primarily due to the fact that cash outflows associated with disbursements for certain intercompany loans and receipts from collections on these loans were classified within cash flows from financing activities rather than investing activities. Consequently, we have corrected immaterial errors in the accompanying condensed consolidated Statements of Cash Flows for the year ended December 31, 2008 by increasing issuer cash flows used in investing activities by $38.1 million and increasing issuer cash flows provided by financing activities by the same amount, and for the year ended December 31, 2007 by (i) increasing issuer cash flows provided by investing activities by $69 million and increasing issuer cash flows used in financing activities by the same amount, (ii) reducing guarantor subsidiaries cash flows from operating activities by $7.2 million and reducing guarantor subsidiaries cash flows used in financing activities by the same amount, and (iii) increasing non-guarantor subsidiaries cash flows from operating activities by $7.2 million and increasing non-guarantor subsidiaries cash flows used in financing activities by the same amount. The correction of these errors does not impact the net change in cash and cash equivalents, has no impact on net income and is not material to our previously reported Consolidating Statements of Cash Flows.

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATING BALANCE SHEET

December 31, 2009

(In thousands, except par value)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current Assets						
Cash and cash equivalents	$	$	$ 36,567	$ 32,724	$	$ 69,291
Receivables, net of allowance			41,194	74,135		115,329
Inventories of products, net			124,003	160,255		284,258
Inventories of materials and supplies, net			6,830	4,032		10,862
Deferred income taxes				3,107		3,107
Other current assets		1,086	1,421	14,263		16,770
Total current assets		1,086	210,015	288,516		499,617
Property, plant and equipment, less accumulated depreciation		85,284	171,024	98,552		354,860
Identifiable intangible assets, less accumulated amortization		13,541	15,322	46,938		75,801
Investment in consolidated subsidiaries	312,164	971,995			(1,284,159)	
Investment in unconsolidated joint venture		813		11,265		12,078
Deferred financing costs		7,309		9		7,318
Deferred income taxes	34				(34)	
Other long-term assets		1,142	468,794	95,054	(540,165)	24,825
Total Assets	$ 312,198	$ 1,081,170	$ 865,155	$ 540,334	$ (1,824,358)	$ 974,499
LIABILITIES AND STOCKHOLDERS AND MEMBER S EQUITY						
Current Liabilities						

Current portion of long-term debt	$	$ 2,304	$	$	$	$ 2,304
Accounts payable-trade		2,699	37,732	53,063		93,494
Other payables and accruals		18,251	15,010	35,118	(108)	68,271
Due to related party				19,006		19,006
Total current liabilities		23,254	52,742	107,187	(108)	183,075
Long-term debt, net of current portion	250	382,425				382,675
Deferred income taxes		12,858		630		13,488
Long-term liabilities		351,353	47,494	187,721	(540,091)	46,477
Total liabilities	250	769,890	100,236	295,538	(540,199)	625,715
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					297
Additional paid in capital	311,665					311,665
Member s equity		312,164	775,493	196,502	(1,284,159)	
Retained Earnings	(14)					(14)
Accumulated other comprehensive income		(884)	(10,574)	48,294		36,836
Total stockholders and member s equity	311,948	311,280	764,919	244,796	(1,284,159)	348,784
Total Liabilities and Stockholders and Member s Equity.	$ 312,198	$ 1,081,170	$ 865,155	$ 540,334	$ (1,824,358)	$ 974,499

(1) Kraton Performance Polymers and Polymer Holdings Capital Corporation are the issuers of the 12% Discount Notes. Polymer Holdings Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the issuers would provide information that would be useful.

(2) Kraton and Kraton Polymers Capital Corporation are the issuers of the 8.125% Notes. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATING BALANCE SHEET

December 31, 2008

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current Assets						
Cash and cash equivalents	$	$	$ 65,460	$ 35,936	$	$ 101,396
Receivables, net of allowance		944	45,322	68,148	(18,971)	95,443
Inventories of products, net			145,654	187,396	(8,857)	324,193
Inventories of materials and supplies, net			6,816	4,239		11,055
Deferred income taxes			14,778			14,778
Other current assets		2,905	720	3,144		6,769
Total current assets		3,849	278,750	298,863	(27,828)	553,634
Property, plant and equipment, less accumulated depreciation		93,782	164,396	113,830		372,008
Identifiable intangible assets, less accumulated amortization		20,113		46,938		67,051
Investment in consolidated subsidiaries	182,767	898,565			(1,081,332)	
Investment in unconsolidated joint venture		813		11,558		12,371
Deferred financing costs		8,184				8,184
Deferred income taxes	31	20,131			(20,162)	
Other long-term assets		137,954	411,841	11,739	(542,908)	18,626
Total Assets	$ 182,798	$ 1,183,391	$ 854,987	$ 482,928	$ (1,672,230)	$ 1,031,874

LIABILITIES AND MEMBER S EQUITY						
Current Liabilities						
Current portion of long-term debt	$	$ 3,343	$	$	$	$ 3,343
Accounts payable-trade		2,700	36,806	35,671		75,177
Other payables and accruals		15,815	26,184	27,350		69,349
Due to related party			9,546	35,010	(18,971)	25,585
Total current liabilities		21,858	72,536	98,031	(18,971)	173,454
Long-term debt, net of current portion	245	571,728				571,973
Deferred income taxes			53,435	1,681	(20,162)	34,954
Long-term liabilities		408,416	53,626	143,983	(542,908)	63,117
Total liabilities	245	1,002,002	179,597	243,695	(582,041)	843,498
Commitments and contingencies (note 8)						
Member s equity						
Member s equity	182,553	182,767	694,170	213,252	(1,090,189)	182,553
Accumulated other comprehensive income		(1,378)	(18,780)	25,981		5,823
Total member s equity	182,553	181,389	675,390	239,233	(1,090,189)	188,376
Total Liabilities and Member s Equity.	$ 182,798	$ 1,183,391	$ 854,987	$ 482,928	$ (1,672,230)	$ 1,031,874

(1) Kraton Performance Polymers and Polymer Holdings Capital Corporation are the issuers of the 12% Discount Notes. Polymer Holdings Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the issuers would provide information that would be useful.

(2) Kraton and Kraton Polymers Capital Corporation are the issuers of the 8.125% Notes. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2009

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Sales	$	$	$ 480,438	$ 591,309	$ (151,385)	$ 920,362
Other			74	47,568		47,642
Total operating revenues			480,512	638,877	(151,385)	968,004
Cost of Goods Sold		(15,654)	376,543	582,968	(151,385)	792,472
Gross Profit		15,654	103,969	55,909		175,532
Operating Expenses						
Research and development expenses			13,150	8,062		21,212
Selling, general and administrative expenses		(1,430)	45,497	35,437		79,504
Depreciation		22,039	21,598	23,114		66,751
Total operating expenses		20,609	80,245	66,613		167,467
Gain on Extinguishment of Debt		23,831				23,831
Earnings in consolidated subsidiaries	(288)	29,893			(29,605)	
Equity in Earnings of Unconsolidated Joint Venture				403		403
Interest Expense (Income), net	5	40,818	(11,156)	4,289		33,956
Income (Loss) Before Income Taxes	(293)	7,951	34,880	(14,590)	(29,605)	(1,657)
Income Tax Expense (Benefit)	(3)	8,239	(876)	(8,727)		(1,367)

Net Income (Loss)	$ (290)	$ (288)	$ 35,756	$ (5,863)	$ (29,605)	$ (290)

(1) Kraton Performance Polymers and Polymer Holdings Capital Corporation are the issuers of the 12% Discount Notes. Polymer Holdings Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the issuers would provide information that would be useful.

(2) Kraton and Kraton Polymers Capital Corporation are the issuers of the 8.125% Notes. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2008

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Sales	$	$	$ 607,428	$ 750,165	$ (186,340)	$ 1,171,253
Other				54,780		54,780
Total operating revenues			607,428	804,945	(186,340)	1,226,033
Cost of Goods Sold		2,356	467,079	688,188	(186,340)	971,283
Gross Profit		(2,356)	140,349	116,757		254,750
Operating Expenses						
Research and development expenses			15,829	11,220		27,049
Selling, general and administrative expenses		902	52,729	47,800		101,431
Depreciation		18,127	21,676	13,359		53,162
Total operating expenses		19,029	90,234	72,379		181,642
Earnings in consolidated subsidiaries	28,434	85,848			(114,282)	
Equity in Earnings of Unconsolidated Joint Venture				437		437
Interest Expense (Income), net	24	39,394	(10,576)	7,853		36,695
Income (Loss) Before Income Taxes	28,410	25,069	60,691	36,962	(114,282)	36,850
Income Tax Expense (Benefit)	(9)	(3,365)	220	11,585		8,431
Net Income (Loss)	$ 28,419	$ 28,434	$ 60,471	$ 25,377	$ (114,282)	$ 28,419

(1) Kraton Performance Polymers and Polymer Holdings Capital Corporation are the issuers of the 12% Discount Notes. Polymer Holdings Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the issuers would provide information that would be useful.

(2) Kraton and Kraton Polymers Capital Corporation are the issuers of the 8.125% Notes. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2007

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Sales	$	$	$ 545,203	$ 669,809	$ (148,968)	$ 1,066,044
Other				23,543		23,543
Total operating revenues			545,203	693,352	(148,968)	1,089,587
Cost of Goods Sold		2,728	458,148	626,648	(148,968)	938,556
Gross Profit		(2,728)	87,055	66,704		151,031
Operating Expenses						
Research and development expenses			7,851	17,014		24,865
Selling, general and administrative expenses		(193)	39,612	29,601		69,020
Depreciation		19,687	20,299	11,931		51,917
Total operating expenses		19,494	67,762	58,546		145,802
Earnings in consolidated subsidiaries	(43,743)	22,273			21,470	
Equity in Earnings of Unconsolidated Joint Venture				626		626
Interest Expense (Income), net	24	45,954	(9,480)	6,986		43,484
Income (Loss) Before Income Taxes	(43,767)	(45,903)	28,773	1,798	21,470	(37,629)
Income Tax Expense (Benefit)	(18)	(2,160)	4,681	3,617		6,120

Net Income (Loss)	$ (43,749)	$ (43,743)	$ 24,092	$ (1,819)	$ 21,470	$ (43,749)

(1) Kraton Performance Polymers and Polymer Holdings Capital Corporation are the issuers of the 12% Discount Notes. Polymer Holdings Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the issuers would provide information that would be useful.

(2) Kraton and Kraton Polymers Capital Corporation are the issuers of the 8.125% Notes. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2009

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$	$ (39,221)	$ 53,247	$ 58,779	$	$ 72,805
Cash flows provided by (used in) investing activities						
Proceeds from (payments on) intercompany loans		79,843			(79,843)	
Purchase of plant and equipment, net of proceeds from sales of equipment			(28,226)	(6,005)		(34,231)
Purchase of software			(15,322)			(15,322)
Net cash provided by (used in) investing activities		79,843	(43,548)	(6,005)	(79,843)	(49,553)
Cash flows provided by (used in) financing activities						
Proceeds from debt		144,000				144,000
Repayment of debt		(308,131)				(308,131)
Cash contribution from member		126,725			(126,725)	
Cash distribution to member	(126,725)				126,725	
Public stock offering	126,725					126,725

Deferred financing costs		(3,216)				(3,216)
Proceeds from (payments on) intercompany loans			(38,592)	(41,251)	79,843	
Net cash provided by (used in) financing activities		(40,622)	(38,592)	(41,251)	79,843	(40,622)
Effect of exchange rate difference on cash				(14,735)		(14,735)
Net increase (decrease) in cash and cash equivalents			(28,893)	(3,212)		(32,105)
Cash and cash equivalents at beginning of period			65,460	35,936		101,396
Cash and cash equivalents at end of period	$	$	$ 36,567	$ 32,724	$	$ 69,291

(1) Kraton Performance Polymers and Polymer Holdings Capital Corporation are the issuers of the 12% Discount Notes. Polymer Holdings Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the issuers would provide information that would be useful.

(2) Kraton and Kraton Polymers Capital Corporation are the issuers of the 8.125% Notes. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2008

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$	$ (7,968)	$ 83,530	$ (35,335)	$	$ 40,227
Cash flows provided by (used in) investing activities						
Purchase of plant and equipment, net of proceeds from sales of equipment			(19,123)	(4,944)		(24,067)
Proceeds from (payments on) intercompany loans		(38,144)			38,144	
Net cash provided by (used in) investing activities		(38,144)	(19,123)	(4,944)	38,144	(24,067)
Cash flows provided by (used in) financing activities						
Proceeds from debt		316,250				316,250
Repayment of debt		(279,644)				(279,644)
Cash contribution from member		10,000				10,000
Proceeds from insurance note payable		(494)				(494)
Proceeds from (payments on) intercompany loans			(10,099)	48,243	(38,144)	
Net cash provided by (used in) financing activities		46,112	(10,099)	48,243	(38,144)	46,112
Effect of exchange rate difference on cash				(9,153)		(9,153)

Net increase (decrease) in cash and cash equivalents			54,308	(1,189)		53,119
Cash and cash equivalents at beginning of period			11,152	37,125		48,277
Cash and cash equivalents at end of period	$	$	$ 65,460	$ 35,936	$	$ 101,396

(1) Kraton Performance Polymers and Polymer Holdings Capital Corporation are the issuers of the 12% Discount Notes. Polymer Holdings Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the issuers would provide information that would be useful.

(2) Kraton and Kraton Polymers Capital Corporation are the issuers of the 8.125% Notes. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON PERFORMANCE POLYMERS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2007

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$	$ (25,177)	$ 77,721	$ 29,193	$	$ 81,737
Cash flows provided by (used in) investing activities						
Proceeds from (payments on) intercompany loans		69,070			(69,070)	
Purchase of plant and equipment, net of proceeds from sales of equipment			(18,584)	(10,086)		(28,670)
Net cash provided by (used in) investing activities		69,070	(18,584)	(10,086)	(69,070)	(28,670)
Cash flows provided by (used in) financing activities						
Proceeds from debt		48,500				48,500
Repayment of debt		(92,148)				(92,148)
Proceeds from insurance note payable		(245)				(245)
Proceeds from (payments on) intercompany loans			(61,835)	(7,235)	69,070	
Net cash provided by (used in) financing activities		(43,893)	(61,835)	(7,235)	69,070	(43,893)
Effect of exchange rate difference on cash				(4,498)		(4,498)
Net increase (decrease) in cash and cash equivalents			(2,698)	7,374		4,676

Cash and cash equivalents at beginning of period			13,850	29,751		43,601
Cash and cash equivalents at end of period	$	$	$ 11,152	$ 37,125	$	$ 48,277

(1) Kraton Performance Polymers and Polymer Holdings Capital Corporation are the issuers of the 12% Discount Notes. Polymer Holdings Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the issuers would provide information that would be useful.

(2) Kraton and Kraton Polymers Capital Corporation are the issuers of the 8.125% Notes. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON PERFORMANCE POLYMERS, INC.

Notes to Consolidated Financial Statements (Continued)

15. Financial Instruments, Hedging Activities and Credit Risk

Financial Instruments

(a) Interest Rate Swap Agreements. 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 Term Facility. We settled the swap early in June 2008 and realized cash proceeds of $4.6 million, resulting in a gain on the settlement of $4.6 million. The gain is deferred in accumulated other comprehensive income at December 31, 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 2009, we reclassified $2.9 million into earnings.

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. 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 $320 million of the term loan portion of the Term Facility. We settled the swap on December 31, 2009 and recorded a loss of $2.2 million.

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. This 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%. The agreement hedges monthly interest payments from January through December 2010 and expires on January 3, 2011. It has a fixed rate of 1.53% and a margin of 2.0%, which results in a total cost of 3.53%. In December 2009, we made a $100.0 million payment of outstanding indebtedness under the Term Loans reducing the principal amount outstanding from approximately $322.6 million to $222.0 million. As a result, we are required to discontinue hedge accounting prospectively as the hedging relationship fails to meet all of the criteria set forth in ASC 815, specifically the notional amount of the swap and the principal amount of the debt are no longer equal and the forecasted transaction is no longer probable of occurring as documented in the original hedge documentation. We recorded $0.8 million in interest expense related to the ineffective portion and $1.9 million in accumulated other comprehensive income related to the effective portion of the hedge. We have elected to dedesignate the initial hedging relationship.

As of January 1, 2008, we adopted the provisions of FASB ASC 820-10, which establishes a three-tier value hierarchy, categorizing the inputs used to measure fair value. The hierarchy can be described as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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KRATON PERFORMANCE POLYMERS, INC.

Notes to Consolidated Financial Statements (Continued)

The financial assets and liabilities measured at fair value on a recurring basis are included below:

		Fair Value Measurements at Reporting Date Using		
	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Derivative liabilities	$ 2,926	$	$ 2,926	$

As of December 31, 2009, the fair market value of the interest rate swap agreement in effect was a liability of approximately $2.9 million.

(b) Fair Value of Financial Instruments.

	December 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
		(in thousands)		
Revolving loans	$	$	$ 50,000	$ 50,000
Term loans	221,729	221,729	325,071	325,071
12.00% Discount notes	250	250	245	245
Bonds Payable 8.125% Notes	163,000	146,089	200,000	79,250
8.125% Notes Held as Treasury Bonds	7,000	6,274		

The following table presents the carrying values and approximate fair values of our long-term debt at December 31, 2009 and December 31, 2008:

The Term Loans and Revolving Loans are variable interest rate securities, and as such, the fair value approximates their carrying value.

Foreign Currency Hedge. On April 3 and July 1, 2008 we entered into two foreign currency option contracts to reduce our exposure to fluctuations in the Euro to U.S. dollar exchange rate for notional amounts of 10 million and 20 million with expiration dates of June 26, and December 29, 2008, respectively. The option contracts do not qualify for hedge accounting. The April, 2008 option contract expired on June 26, 2008 and the July, 2008 option contract expired on December 29, 2008. The impact on our consolidated results of operations, financial position and cash flows was immaterial.

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 which expires on December 29, 2009. The option contract does not qualify for hedge accounting. We settled the hedge on December 31, 2009, with a gain of $1.9 million which represented the mark-to-market impact of the purchased option contract. The gains were recorded in selling, general, and administrative expense on the Consolidated Statements of Operations.

Credit Risk. Our customers are diversified by industry and geography with more than 700 customers in over 60 countries. 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, establishes credit limits

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KRATON PERFORMANCE POLYMERS, INC.

Notes to Consolidated Financial Statements (Continued)

and monitors 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.

16. Restructuring and Restructuring-related Costs

As part of our ongoing efforts to improve efficiencies and increase productivity, we have implemented a number of restructuring initiatives in recent years.

We ceased production at the Pernis facility on December 31, 2009, where, prior to the exit we manufactured IR. In connection with the exit, we incurred $3.9 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 estimated asset retirement obligations and restructuring costs of $5.1 million and $6.0 million were recorded in the third quarter of 2009, respectively. The asset retirement obligations were adjusted pursuant to the settlement agreement in December 2009. The $14.9 million of property and equipment related to Pernis was fully depreciated as of December 31, 2009. The settlement agreement calls for total payments of approximately $10.0 million and will be paid in full on or about May 2010. In January 2010 we made two payments totaling $7.5 million.

In 2008, we restructured our research and technical service organizations to better align our research and product development capabilities with our customers needs and market requirements and to focus on our core capabilities, and incurred $2.2 million of severance and other staffing-related costs which were recorded in research and development expenses in the consolidated statements of operations. Substantially all of the cash expenditures related to these restructurings were paid as of December 31, 2008.

Prior to the 2009 exit from Pernis, on September 20, 2007, we exited the SIS plant at the Pernis facility, and relocated our SIS production to our other production facilities as part of our cost reduction efforts. This resulted in a contractor workforce reduction. The exit plan was completed in the first half of 2008. As a result of exiting the SIS plant, we recorded a liability associated with the plan of approximately $2.1 million, consisting of $1.8 million in contractor workforce reduction and $0.3 million in other associated costs. The entire amount of the charge consisted of cash expenditures in the first and second quarters of 2008.

17. Subsequent Event

We have received a communication from a law firm asserting that approximately $13.5 million in alleged payments to us from SemGroup, L.P. and/or one or more of its affiliates (collectively SemGroup), during the 90-day period preceding SemGroup s Chapter 11 bankruptcy filing on July 22, 2008, appear to constitute preferential payments avoidable and recoverable under sections 547 and 550 of the United States Bankruptcy Code. In this regard, no formal claim has been asserted against us in the bankruptcy court as of this date. However, we intend to vigorously defend any such claim if it is made against us, and although the ultimate outcome of any such matter cannot be determined with certainty, we believe we would have a number of defenses to any such claim, including, without limitation, defenses concerning the ordinary course of business and the timing of certain product deliveries made by Kraton to SemGroup prior to the date of its bankruptcy filing. At this time, we have recorded no provision for losses in connection with this matter. Further we do not believe that any claim, if one is asserted, will have a material adverse impact on our business, financial condition, or results of operations.

On January 18, 2010, consistent with our announcement in the third quarter of 2009 of our intent to exit our Pernis, the Netherlands facility, our indirect, wholly-owned subsidiary Kraton Polymers Nederland BV (Kraton Netherlands) agreed to terminate the following material definitive agreements:

First Amended and Restated Site Services, Utilities, Materials and Facilities Agreement between Kraton Netherlands and Shell Nederland Raffinaderij BV (SNR) dated 28 February 2001; and

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KRATON PERFORMANCE POLYMERS, INC.

Notes to Consolidated Financial Statements (Continued)

First Amended and Restated Site Services, Utilities, Materials and Facilities Agreement between Kraton Netherlands and Shell Nederland Chemie BV (SNC, and together with SNR, the Shell Entities) dated 28 February 2001. Production at the Pernis facility ceased December 31, 2009. However, the actual termination of these agreements remains subject to the satisfaction of various conditions and is anticipated to become effective on or about May 31, 2010. We expect to maintain a presence at the facility through May 2010, as the site is cleared for demolition beginning thereafter. We currently anticipate transferring IR production to our Belpre, Ohio facility. We are in the process of completing project scoping, including associated capital expenditure 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.

On January 7, 2010, the underwriters in our IPO exercised their option to purchase 887,082 additional shares of common stock from our company at the initial public offering price less the underwriting discount to cover over-allotments. Net proceeds from the exercise of the over-allotment option amounted to approximately $11.2 million. After giving effect to the sale of the shares sold pursuant to the over-allotment option, a total of 11,181,200 shares of our company s common stock were sold in the IPO by us at a price to the public of $13.50.

We have evaluated significant events and transactions that have occurred and have determined that there were no other events or transactions other than those disclosed in this report that would require recognition or disclosure in our Consolidated Financial Statements for the period ended December 31, 2009.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Kraton Polymers LLC:

We have audited the accompanying consolidated balance sheets of Kraton Polymers LLC and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in 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 Polymers LLC 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 Polymers LLC 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 POLYMERS LLC

CONSOLIDATED BALANCE SHEETS

(In thousands)

	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 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	68,305	69,349
Due to related party	19,006	25,585
Total current liabilities	183,109	173,454
Long-term debt, net of current portion	382,425	571,728
Deferred income taxes	13,488	34,985
Long-term liabilities	46,477	63,117
Total Liabilities	625,499	843,284
Commitments and contingencies (note 8)		
Member s equity		
Common equity	312,164	182,767
Accumulated other comprehensive income	36,836	5,823
Total member s equity	349,000	188,590

Total Liabilities and Member s Equity	$ 974,499	$ 1,031,874

See Notes to Consolidated Financial Statements

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KRATON POLYMERS LLC

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

	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	33,951	36,671	43,460
Income (Loss) Before Income Taxes	(1,652)	36,874	(37,605)
Income Tax Expense (Benefit)	(1,364)	8,440	6,138
Net Income (Loss)	$ (288)	$ 28,434	$ (43,743)

See Notes to Consolidated Financial Statements

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KRATON POLYMERS LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER S EQUITY AND

COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Common Equity	Accumulated Other Comprehensive Income (Loss)	Total
December 31, 2006	184,111	15,630	199,741
Net loss	(43,743)		(43,743)
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)
Total comprehensive loss			(24,149)
Increase in pension liability, net of deferred tax liability of $1,800		4,337	4,337
Non-cash compensation related to equity awards	2,781		2,781
December 31, 2007	143,149	39,561	182,710
Net income	28,434		28,434
Other comprehensive income			
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)
Total comprehensive income			31,646
Decrease in pension liability, net of tax		(36,950)	(36,950)
Cash contribution from member	10,000		10,000
Non-cash compensation related to equity awards	1,184		1,184
December 31, 2008	182,767	5,823	188,590
Net income	(288)		(288)

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)
Total comprehensive income			14,066
Increase in pension liability, net of tax		16,659	16,659
Cash contribution from member	126,725		126,725
Restructuring of Kraton Polymers Management LLC	(1,760)		(1,760)
Non-cash contribution from member	2,560		2,560
Non-cash compensation related to equity awards	2,160		2,160
December 31, 2009	$ 312,164	$ 36,836	$ 349,000

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KRATON POLYMERS LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years ended December 31, 2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ (288)	$ 28,434	$ (43,743)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization of identifiable intangibles	66,751	53,162	51,917
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	30	604	(520)
Deferred income tax expense (benefit)	(4,620)	(5,436)	1,537
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 liabilities	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	126,725	10,000	
Proceeds from (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

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KRATON POLYMERS LLC

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1. Summary of Operations and Significant Accounting Policies

Organization and Description of Business. Kraton Polymers LLC, together with its direct and indirect subsidiaries, are, unless the context requires otherwise, collectively referred to herein as we, our, ours, us or Kraton. Kraton 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.

Basis of Presentation. The accompanying Consolidated Financial Statements presented herein are for Kraton and its consolidated subsidiaries, each of which is a wholly-owned subsidiary. These financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present Kraton s 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

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KRATON POLYMERS LLC

Notes to Consolidated Financial Statements (Continued)

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 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. Kraton accounts 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, Kraton formally documents the hedging relationship and its 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. Kraton 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

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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.

Kraton discontinues hedge accounting prospectively when it determines 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, Kraton continues to carry the derivative at its fair value on the balance sheet and recognize any subsequent changes in its fair value in earnings. When it is probable that a forecasted transaction will not occur, Kraton discontinues hedge accounting and recognizes 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. Kraton incurs maintenance costs on its 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*

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KRATON POLYMERS LLC

Notes to Consolidated Financial Statements (Continued)

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, Kraton first compares 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 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. Kraton has a noncontributory defined benefit pension plan covering substantially all of its employees upon their retirement. The benefits are based on age, years of service and the level of compensation during the five years before retirement. Kraton also sponsors a defined benefit health care plan for substantially all retirees and full-time employees.

Kraton records annual amounts relating to its 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. Kraton reviews its assumptions on an annual basis and makes 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. Kraton believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its 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.

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KRATON POLYMERS LLC

Notes to Consolidated Financial Statements (Continued)

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.

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. We recognize revenue from sales when 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 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.

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

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

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Notes to Consolidated Financial Statements (Continued)

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* (formerly SFAS No. 165, *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 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

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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, previously referred to as SFAS No. 123(R), 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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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
Purchase of 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	
Customer rebates	2,960	4,402
Income taxes payable	4,034	8,538
Derivative liabilities	2,926	5,483
Pernis restructuring	9,874	
Other	31,107	15,192
	$ 68,305	$ 69,349

We recorded lower-of-cost-or-market adjustments for inventories in cost of goods sold of $0.7 million and $8.1 million in 2009 and 2008, respectively.

The 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. Aggregate amortization expense for amortizing intangible assets was approximately $6.6 million, $7.0 million, and $7.2 million for the years ended December 31, 2009, 2008 and 2007, respectively. Estimated amortization expense for each of the next five years is approximately $6.6 million. Identifiable intangibles were adjusted in 2007 for the realization of certain excess tax basis that had not previously been recognized in the consolidated financial statements.

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Accumulated other comprehensive income consists of the following:

	December 31, 2009	December 31, 2008
	(in thousands)	
Foreign currency adjustments, net of tax	$ 55,765	$ 41,742
Unrealized gain on interest rate swaps, net of tax	(1,780)	(2,111)
Pension adjustment, net of tax	(17,149)	(33,808)
Total accumulated other comprehensive income	$ 36,836	$ 5,823

4. Long-Term Debt

Long-term debt consists of the following:

	December 31, 2009	2008
	(in thousands)	
Senior Secured Credit Facilities:		
Revolving loans	$	$ 50,000
Term loans	221,729	325,071
8.125% Notes	170,000	200,000
Less 8.125% Notes held as Treasury Bonds	(7,000)	
Total debt	384,729	575,071
Less current portion of long-term debt	2,304	3,343
Total long-term debt	$ 382,425	$ 571,728

(a) Term Loans and Revolving Loans. On May 12, 2006 we entered into an amendment (the Amendment) to our senior secured credit agreement, or the Credit Agreement, dated as of December 23, 2003, as amended as of March 4, 2004, as further amended as of October 21, 2004 and as further amended as of February 16, 2006 in order to provide a portion of the funds required in connection with the cash tender offer and consent solicitation commenced on April 24, 2006 by Polymer Holdings and Polymer Holdings Capital Corporation with respect to any and all of their outstanding 12.0% Discount Notes. On May 12, 2006 all but $250,000 of the $150,000,000 12.0% Discount Notes validly tendered and not withdrawn in the tender offer (representing approximately 99.8% of the aggregate amount of outstanding 12.0% Discount Notes) were accepted for payment and purchased for aggregate total consideration equal to $128,785,000.

The amendment as of May 12, 2006, or the 2006 Amendment, provided for, among other things, a term facility of $385 million, representing a $25 million increase over the original term facility and extended the maturity of the term facility from December 23, 2010 to May 12, 2013. In addition, the 2006 Amendment extended the maturity of the revolving facility from December 23, 2008 to May 12, 2011 and provided for the possibility of increasing the existing revolving facility from $60 million to $80 million, subject to new revolving lenders becoming parties to the Credit Agreement. On June 7, 2006, Kraton entered into a joinder agreement with a new revolving lender that increased the revolving facility to $75.5 million from $60.0 million. The 2006 Amendment also reduced the interest rate margin on the term facility, eliminated or amended certain affirmative and negative covenants, including a covenant that limited Kraton s ability to make capital expenditures and modified the financial ratios Kraton is required to maintain. On the effective date of the 2006 Amendment, Kraton borrowed the full $385 million available under the new term facility and used the proceeds to prepay in

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full existing borrowings under the original term facility, to make a distribution to us to provide a portion of the funds necessary to consummate a tender offer for the 12.0% senior discount notes issued by us and Polymer Holdings Capital Corporation on November 2, 2004 and pay fees and expenses related to the foregoing.

The amendment as of October 20, 2009, or the October 2009 Amendment, permits Kraton to convert all or a portion of existing term loans into separate classes of extended term loans that extend the scheduled amortization and maturity of the existing term loans. The extended term loans are required to be substantially identical to the terms of the existing term facility, with the exception of scheduled installment payments and maturity, fees, interest rates and prepayment rights. There is no limit on the number of classes of term loans outstanding at any one time. The October 2009 Amendment also permits Kraton to establish separate classes (but in no event more than three at any time) of commitments to replace all or a portion of the existing revolving commitments. The terms of Replacement Revolving Commitments are required to be substantially identical to the terms of the existing revolving commitments, with the exception of maturity, fees and interest rates. Finally, the October 2009 Amendment also allows the Borrower to incur indebtedness secured *pari passu* with the collateral securing the existing lenders under the existing Credit Agreement to refinance existing term loans. This refinancing indebtedness may not amortize or mature prior to the maturity of the existing term loans.

A further amendment on November 30, 2009, or the November 2009 Amendment, increased the maximum available borrowings under the revolving commitments from $75.5 million to $80.0 million and extended the maturity on $79.8 million of the revolving commitments from May 2011 to May 2013.

Kraton is the borrower under the amended Credit Agreement and its wholly-owned domestic subsidiaries along with us have guaranteed the amended Credit Agreement. We refer to these guarantors, together with Kraton, as the Loan Parties. The Credit Agreement is secured by a perfected first priority security interest in substantially all of each Loan Party s tangible and intangible assets, including intellectual property, real property, all of Kraton s capital stock and the capital stock of Kraton s domestic subsidiaries and 65% of the capital stock of the direct foreign subsidiaries of each Loan Party.

For the years ended December 31, 2009, 2008 and 2007, Kraton made prepayments on the term portion of its senior secured credit facility in the amounts of $100.0 million, $10.0 million and $40.0 million, which resulted in the write off of approximately $1.5 million, $0.2 million and $0.6 million of deferred financing cost, respectively.

As of December 31, 2009, Kraton had no outstanding borrowings under the revolving facility.

The following is a summary of the material terms of the amended Credit Agreement. This description does not purport to be complete and is qualified in its entirety by reference to the provisions of the Credit Agreement.

In these notes to the consolidated financial statements, the loans made under the Revolving Facility are referred to as the Revolving Loans, and the loans made under the Term Facility are referred to as the Term Loans.

Maturity. The loans made under the portion of the revolving commitments extended pursuant to the November 2009 Amendment are payable in a single maturity on May 12, 2013. The $200,000 portion of the revolving commitments that were not extended pursuant to November 2009 Amendment are payable on May 12, 2011. The loans made under the existing term facility are payable in 10 remaining consecutive equal quarterly installments, in an aggregate annual amount equal to 1.0% of the original principal amount of such loans. The remaining balance is payable in four equal quarterly installments commencing on September 30, 2012 and ending on May 12, 2013.

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Interest. The loans made under the existing term facility bear interest at a rate equal to the adjusted Eurodollar rate plus 2.00% per annum or, at Kraton s option, the base rate plus 1.00% per annum. Interest is payable on the last day of each interest period selected by Kraton under the Credit Agreement, and in any event at least quarterly. The average effective interest rates on the loans made under the existing term facility for the years ended December 31, 2009 and 2008 were 4.5% and 5.0%, respectively. The loans made under the portion of the revolving commitments extended pursuant to the November 2009 Amendment bear interest at a rate equal to the adjusted Eurodollar rate plus a margin of between 3.00% and 3.50% per annum (depending on Kraton s consolidated leverage ratio) or at Kraton s option, the base rate plus a margin of between 2.00% and 2.50% per annum (also depending on Kraton s consolidated leverage ratio). In addition, with respect to the extended portion of the revolving commitments, an annual commitment fee equal to 0.75% payable quarterly on the daily average undrawn portion of revolving commitments extended pursuant to the November 2009 Amendment accrues and is payable quarterly in arrears.

The terms of the $200,000 portion of the revolving commitments that were not extended pursuant to November 2009 Amendment were not changed. Loans made under this portion of the revolving commitments bear interest at a rate equal to the adjusted Eurodollar rate plus a margin of between 2.00% and 2.50% per annum, depending on Kraton s leverage ratio, or at Kraton s option, the base rate plus a margin of between 1.00% and 1.50% per annum, depending on Kraton s leverage ratio. The unused commitment fee for the unextended revolving commitments is 0.5%.

Mandatory Prepayments. The existing term facility is subject to mandatory prepayment with, in general: (1) 100% of the net cash proceeds of certain asset sales, subject to certain reinvestment rights; (2) 100% of the net cash proceeds of certain insurance and condemnation payments, subject to certain reinvestment rights; (3) 50% of the net cash proceeds of certain equity offerings of TJ Chemical Holdings LLC or us (declining to 25%, if a leverage ratio is met); (4) 100% of the net cash proceeds of debt incurrences (other than debt incurrences permitted under the Credit Agreement); and (5) 50% of Kraton s excess cash flow, as defined in the Credit Agreement (declining to 25%, if a leverage ratio is met and to 0% if a further leverage ratio is met). Any such prepayment is applied first to the term facility and thereafter to the revolving facility.

Covenants. The Credit Agreement contains certain affirmative covenants including, among others, covenants to furnish the Lenders with financial statements and other financial information and to provide the Lenders notice of material events and information regarding collateral.

The Credit Agreement contains certain negative covenants that, among other things, restrict Kraton s ability, subject to certain exceptions, to incur additional indebtedness, grant liens on its assets, undergo fundamental changes, make investments, sell assets, make acquisitions, engage in sale and leaseback transactions, make restricted payments, engage in transactions with its affiliates, amend or modify certain agreements and charter documents and change its fiscal year. The covenants also restrict our activities. Kraton is required to maintain a fiscal quarter end interest coverage ratio of at least 2.75:1.00 through December 31, 2009; and of at least 3.00:1.00 beginning March 31, 2010 and continuing thereafter. In addition, Kraton is required to maintain a fiscal quarter end leverage ratio not to exceed 4.00 beginning December 31, 2009 and continuing thereafter.

On January 14, 2008, we received an equity investment of $10.0 million, of which $9.6 million was included in the financial covenant calculation for the twelve-month period ending December 31, 2007 and was included in the fiscal quarter covenant calculations through the fiscal quarter ending September 30, 2008 pursuant to the equity cure provisions included in the Credit Agreement.

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(b) Senior Subordinated Notes Due January 15, 2014. On December 23, 2003, Kraton and Kraton Polymers Capital Corporation issued the 8.125% Notes in an aggregate principal amount of $200.0 million. The 8.125% Notes are subject to the provisions for mandatory and optional prepayment and acceleration and are payable in full on January 15, 2014. Polymer Holdings and each of Kraton Polymers U.S. LLC and Elastomers Holdings LLC, which we refer to collectively as the Subsidiary Guarantors, have guaranteed the 8.125% Notes. The amount of 8.125% Notes outstanding at December 31, 2009 and 2008, was $163 million and $200.0 million.

Interest. The 8.125% Notes bear interest at a fixed rate of 8.125% per annum. Interest is payable semi-annually on January 15 and July 15.

***Optional Redemption*.** Kraton may redeem all or a part of the senior subordinated notes at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest, if any, on the Notes redeemed to the applicable redemption date.

Year	Percentage
2010	102.708%
2011	101.354%
2012	100.000%
2013 and thereafter	100.000%

Purchase of a Portion of the 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 us, 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 equity of each of Kraton Performance 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 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.

Covenants. The 8.125% Notes contain certain affirmative covenants including, among others, covenants to furnish the holders of the 8.125% Notes with financial statements and other financial information and to provide the holders of the 8.125% Notes notice of material events.

The 8.125% Notes contain certain negative covenants including limitations on indebtedness, limitations on restricted payments, limitations on restrictions on distributions from certain subsidiaries, limitations on lines of businesses and mergers and consolidations. As of December 31, 2009, we were in compliance with all covenants under the 8.125% Notes.

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***(c) Debt Maturities*.** The estimated remaining principal payments on our outstanding total debt as of December 31, 2009, are as follows:

		Principal Payments (in thousands)
December 31:		
2010	$	2,304
2011	$	2,304
2012	$	109,137
2013	$	107,984
2014 and thereafter	$	163,000
Total debt	$	384,729

5. 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. We amortized $4.1 million, $2.1 million and $2.7 million in deferred financing costs in the years ended 2009, 2008 and 2007, respectively. In December 2009 we made a $100.0 million pre-payment of outstanding indebtedness under the Term Loans, which resulted in the write off of approximately $1.5 million of deferred financing cost. In June 2008 we made a $10.0 million voluntary prepayment of outstanding indebtedness under the Term Loans, which resulted in the write off of approximately $0.2 million of deferred financing cost. In addition, during the year ended December 31, 2007, we made voluntary prepayments under the Term Loans in the amount of $40.0 million, which resulted in the write off of approximately $0.6 million of deferred financing cost.

We incurred approximately $3.2 million of fees in connection with the amendment to our Term Loan and Revolving loan in 2009, and these fees were recorded as deferred financing costs during the year ended December 31, 2009. In 2008, we incurred fees of approximately $1.2 million associated with preliminary analysis of refinancing options associated with our Credit Agreement and recorded a charge of $1.2 million to selling, general, and administrative expense in the consolidated statements of Operations as we determined our refinancing efforts were not probable due to current market condition.

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6. Income Taxes

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

The provision (benefit) for income taxes on income from continuing operations is comprised of the following:

	2009	December 31, 2008 (in thousands)	2007
Current tax provision:			
U.S.	$ 422	$ 262	$ 12
Foreign	8,239	13,614	4,589
Total	8,661	13,876	4,601
Deferred tax provision:			
U.S.	(282)	(42)	2,509
Foreign	(9,743)	(5,394)	(972)
Total	(10,025)	(5,436)	1,537
Income tax expense (benefit)	$ (1,364)	$ 8,440	$ 6,138

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as operating loss and tax credit carryforwards. In connection with the acquisition, the book basis of foreign assets and liabilities was stepped-up to their estimated fair market value.

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

	2009	December 31, 2008 (in thousands)	2007
Income (loss) before income taxes:			
U.S.	$ 9,661	$ 7,122	$ (29,181)
Foreign	(11,313)	29,752	(8,424)
Total	$ (1,652)	$ 36,874	$ (37,605)

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The tax effects of temporary differences that gave rise to significant components of deferred tax liabilities and assets are as follows:

	December 31, 2009	December 31, 2008
	(in thousands)	
Deferred tax liabilities:		
Property, plant and equipment	$ 96,424	$ 100,104
Identifiable intangibles	2,986	4,921
Total deferred tax liabilities	99,410	105,025
Deferred tax assets:		
Net operating loss carryforward	(116,438)	(113,519)
Inventory	(3,270)	(3,563)
Exchange rate differences	(236)	(1,210)
Interest rate swaps	(1,097)	(2,022)
Pension accrual	(15,971)	(18,716)
Other Accruals and Reserves	(8,976)	(9,465)
Total deferred tax assets	(145,988)	(148,495)
Valuation allowance for deferred tax assets	56,956	63,677
Net deferred tax liabilities	$ 10,378	$ 20,207

	December 31 2009	December 31 2008
	(in thousands)	
Net deferred tax liabilities of:		
Current deferred tax assets	$ (14,730)	$ (24,196)
Non-current deferred tax assets	(168,979)	(166,930)
Current deferred tax liabilities	11,624	9,418
Non-current deferred tax liabilities	182,463	201,915
Net deferred tax liabilities	$ 10,378	$ 20,207

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

	December 31, 2009	2008 (in thousands)	2007
Income Taxes at the Statutory Rate	$ (578)	$ 12,906	$ (13,162)
Foreign Tax Rate Differential	(97)	(3,294)	3,331
State Taxes	(225)	(86)	(3,012)
Permanent Differences Netherlands Participation Exemption	(784)	(903)	0
Permanent Differences Other	(48)	682	(135)
Differences in Foreign Earnings Remitted	4,165	6,354	4,043
Tax Credits	(122)		
Other	(189)		
Tax Benefit Related to Foreign Losses	(2,597)		
Change in Valuation Allowance and Uncertain Tax Positions	(889)	(7,219)	15,073
Income Tax Expense (Benefit)	$ (1,364)	$ 8,440	$ 6,138

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	December 31, 2009	2008	2007
Income Taxes at the Statutory Rate	35.0%	35.0%	35.0%
Foreign Tax Rate Differential	5.9%	(8.9)%	(8.9)%
State Taxes	13.6%	(0.2)%	8.0%
Permanent Differences Netherlands Participation Exemption	47.5%	(2.4)%	0.0%
Permanent Differences Other	2.9%	1.8%	0.4%
Difference in Foreign Earnings Remitted	(252.1)%	17.2%	(10.7)%
Tax Credits	7.4%	0.0%	0.0%
Other	11.4%	0.0%	0.0%
Tax Benefit Related to Foreign Losses	157.2%	0.0%	0.0%
Change in Valuation Allowance and Uncertain Tax Positions	53.8%	(19.6)%	(40.1)%
Effective Tax Rate	82.6%	22.9%	(16.3)%

As of December 31, 2009, we had $331.3 million of operating loss carryforwards for income tax purposes, of which $233.8 million relates to the United States and the remaining $97.5 million relates to foreign jurisdictions. The United States operating loss carryforwards will expire in 2024, 2025, 2026 and 2027, if not utilized in prior years. We anticipate taxable income in future years that will allow us to utilize the carryforwards that have not had a valuation allowance placed against them.

As of December 31, 2009 and 2008, a valuation allowance of $57.0 million and $63.7 million, respectively, had been recorded related to certain deferred tax assets. We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. We have provided a valuation allowance for operating loss carryforwards and deferred tax assets in certain jurisdictions.

In assessing realizability of deferred tax assets, management considers 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. Based upon management s expectations at December 31, 2009, management believes it is more likely than not, that we will realize the benefit of the deferred tax assets, net of the existing valuation allowances.

We provide for taxes in certain situations where assessments have not been received. In those situations, we consider it probable that the taxes ultimately payable will exceed the amounts reflected in filed tax returns; accordingly, taxes are provided in those situations under the guidance in ASC 740-10-05, Accounting for Uncertainty in Income Taxes, and are included in both income taxes in current liabilities and in deferred income taxes and other liabilities in the consolidated balance sheets.

Effective January 1, 2007, we adopted the principles of ASC 740-10-05, Accounting for Uncertainty in Income Taxes, which prescribes the minimum recognition threshold a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As a ASC 740-10-05, we recognized no change in the liability for unrecognized tax benefits or accrued interest and penalties. We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. As of December 31, 2009, our 2005 through 2008 U.S. federal income tax returns remain open to examination. In addition, open tax years to state and foreign jurisdictions remain subject to examination.

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As of January 1, 2009, we had total unrecognized tax benefits of approximately $1.1 million. During the year ended December 31, 2009, we had a change in certain tax positions mainly related to prior tax periods. The increase of $0.1 million in these tax positions was primarily due to recognizing additional reserve needs in connection with an ongoing tax audit in Asia. As of December 31, 2009, we estimated $ 1.2 million in unrecognized tax benefits, that if recognized, would impact the effective tax rate. We recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes in our consolidated statement of operations. During the year ended December 31, 2009, we recognized additional interest and penalties charges related to unrecognized tax benefits. As of January 1, 2009, we believe that no current tax positions that have resulted in unrecognized tax benefits will significantly increase or decrease within one year. As of the year ended December 31, 2009, no material changes, other than the tax audit related charges mentioned above, have occurred in our estimates or expected events related to anticipated changes in our unrecognized tax benefits.

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

	Unrecognized Tax Benefits	Interest and Penalties
	(in thousands)	
Balance at January 1, 2009	$ 1,144	$ 83
Increase in prior year tax positions	11	38
Balance at December 31, 2009	$ 1,155	$ 121

7. Employee Benefits

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

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The 2009 measurement date of the plans assets and obligations was December 31, 2009. Based on the funded status of our defined benefit pension plan as of December 31, 2009, we reported an increase in our accumulated other comprehensive income of approximately $12.3 million and a related decrease in accrued pension obligations. Accrued pension obligations are included in long-term liabilities on our consolidated balance sheet. Information concerning the pension obligation, plan assets, amounts recognized in our financial statements and underlying actuarial assumptions are as follows:

	December 31, 2009	December 31, 2008
	(in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 82,163	$ 62,061
Service cost	2,813	2,281
Interest cost	4,690	4,275
Benefits paid	(2,086)	(1,880)
Actuarial (gain) loss	(10,691)	15,268
Plan amendments		158
Benefit obligation at end of year	$ 76,889	$ 82,163
Change in plan assets		
Fair value at beginning of year	$ 39, 111	$ 46,329
Actual return on plan assets	9,106	(14,313)
Employer contributions	4,190	8,974
Benefits paid	(2,086)	(1,880)
Fair value at end of year	$ 50,321	$ 39,110

	December 31, 2009	December 31, 2008
Development of net amount recognized		
Funded status	$ (26,568)	$ (43,052)
Unrecognized net prior service cost		
Unrecognized actuarial loss		
Net amount recognized in long-term liabilities	$ (26,568)	$ (43,052)

The projected benefit obligation, fair value of plan assets and accumulated benefit obligation for the Plan with accumulated benefit obligations in excess of plan assets were $76.9 million, $50.3 million and $67.7 million, respectively, as of December 31, 2009 and $82.2 million, $39.1 million and $70.0 million, respectively, as of December 31, 2008.

Net periodic pension costs consist of the following components:

	2009	December 31, 2008 (in thousands)	2007
Service cost benefits earned during the period	$ 2,813	$ 2,281	$ 2,561
Interest on prior year s projected benefit obligation	4,690	4,275	3,842
Expected return on plan assets	(4,680)	(4,084)	(3,646)
Amortization of net actuarial	514		
Recognized curtailment loss			
Recognized loss due to special term benefits		158	
Net periodic pension costs	$ 3,337	$ 2,630	$ 2,757

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

	December 31, 2009	December 31, 2008
Weighted average assumptions used to determine benefit obligations		
Measure date	12/31/2009	12/31/2008
Discount rate	6.38%	5.73%
Rates of increase in salary compensation level	3.00%	3.70%
Weighted average assumptions used to determine periodic benefit cost		
Discount rate	5.73%	6.64%
Rates of increase in salary compensation level	3.70%	3.50%
Expected long-term rate of return on plan assets	8.50%	8.50%

The expected long-term rate of return on assets assumption is derived from a study conducted by our actuaries. The study includes a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the study gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. Based on our most recent study, the expected long-term return assumption for our U.S. plan effective for the current year will remain at 8.5%.

Plan Assets. We maintain target allocation percentages among various asset classes based on an investment policy established for the pension plan. The target allocation is designed to achieve long term objectives of return, while mitigating against downside risk and considering expected cash flows. The current weighted-average target asset allocation is as follows: equity securities 64.0%, debt securities 35.5%, real estate 0.0%, and other 0.5%. Our investment policy is reviewed from time to time to ensure consistency with our long term objective.

Kraton s pension plan asset allocations at December 31, 2009, and 2008, by asset category are as follows:

Asset Category	**Percentage of Plan Assets at December 31 2009**	**2008**
Equity securities	64.6%	62.5%
Debt securities	34.9%	37.0%
Real estate	0.0%	0.0%

Other	0.5%	0.5%
Total	100.0%	100.0%

Equity securities include Kraton Performance Polymers common stock in the amounts of $0 (0 percent of total assets) and $0 (0 percent of total assets) at December 31, 2009, and 2008, respectively.

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The fair value of the Company s pension plan assets at December 31, 2009, by asset category are as follows:

	Pension Plan Assets Fair Value Measurements at December 31, 2009			
	Total	**Quoted Prices In Active Markets Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In thousands)		
Money Market Mutual Fund	$ 244	$ 244	$	$
Commingled Pool Equity				
FMTC US Equity Index Pool(d)	6,224		6,224	
Pyramis Intl Growth Com Pool(e)	3,015		3,015	
Pyramis Quant LG Cap Cor Com Pool(f)	2,547		2,547	
Pyramis Select Intl Equity(g)	5,486		5,486	
Pyramis Small Company Com Pool(h)	5,008		5,008	
Pyramis US Total Market Equity(i)	10,230		10,230	
Total	32,510		32,510	
Commingled Pool Debt				
Pyramis EMG MKT Debt Com Pool(a)	1,022		1,022	
Pyramis High Yield Bond Com Pool(b)	2,095		2,095	
Pyramis Long Duration(c)	14,451		14,451	
Total	17,568		17,568	
Total	$ 50,322	$ 244	$ 50,078	$

(a) Portfolio with the primary objective to achieve superior total returns primarily through investments in debt securities of emerging countries.
(b) Portfolio with the primary objective to achieve superior total returns through investments in a universe of lower-rated and non-rated debt securities providing high current income.
(c)

Portfolio with the primary objective to generate returns that exceed the Barclays Capital® US Long Government/Credit Bond Index through investments in investment-grade fixed-income securities and commingled vehicles.

(d) Portfolio with the primary objective to provide investment results that correspond to the total return performance of common stocks publicly traded in the United States.

(e) Portfolio with the primary objective to seek long-term growth of capital primarily through investments in foreign equity securities.

(f) Portfolio with the primary objective to consistently provide excess return over the S&P 500® Index through active stock selection while maintaining portfolio risk characteristics similar to the benchmark.

(g) Portfolio with the primary objective to seek long-term growth of capital primarily through investments in foreign securities.

(h) Portfolio with the primary objective to achieve long-term growth of capital, principally by investing in the equity securities of smaller, growing companies.

(i) Portfolio with the primary objective to provide excess return over a market cycle relative to the Dow Jones U.S. Total Stock Market Index® (Index), an unmanaged index of all U.S. headquartered companies maintained by Whilshire Associates, while maintaining similar style characteristics and sector weights.

Contributions. We expect to contribute $3.2 million to our pension plan in 2010.

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Estimated Future Benefit Payments.

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

	(in thousands)
2010	2,202
2011	2,382
2012	2,572
2013	2,845
2014	3,230
Years 2015-2019	23,120
	$ 36,351

(b) Other Retirement Benefit Plans. Certain employees are eligible to participate in a non-qualified defined benefit restoration plan and/or a non-qualified defined contribution restoration plan (benefit restoration plans) which are intended to restore certain benefits under the noncontributory defined benefit pension plan in the United States and the Kraton Savings Plan in the United States, respectively, which would otherwise be lost due to certain limitations imposed by law on tax-qualified plans. We made $0.9 million in contributions to the benefit restoration plans for the years ended December 31, 2009 and no contribution for the year ended December 31, 2008 and 2007. As of December 31, 2009 and 2008, amounts recognized in the statement of financial position as a component of long-term liabilities for the benefit restoration plans were $0.4 million and $1.0 million, respectively.

We have established a defined benefit plan in Japan designed to be equivalent to the plan previously provided by Shell Chemicals and covers substantially all Japan employees. Our contributions to the plan for the years ended December 31, 2009, 2008 and 2007 were $0.19 million, $0 million, and $0.02 million, respectively. As of December 31, 2009, 2008, and 2007 amounts recognized in the statement of financial position as a component of long-term liabilities for the defined benefit plan were $1.3 million, $1.3 million and $0.9 million, respectively.

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

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

ASC 715, Compensation-Retirement Benefits, requires that we measure the plans assets and obligations that determine our funded status as of the end of the fiscal year. The 2009 measurement date of the plans assets and obligations was December 31, 2009. We are also required to recognize as a component of accumulated other comprehensive income the changes in funded status that occurred during the year that are not recognized as part of new periodic benefit cost.

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Based on the funded status of our postretirement benefit plan as of December 31, 2009, we reported a decrease of approximately $0.8 million in accrued postretirement obligations.

It has been determined that the plan s retiree prescription plan is actuarially equivalent for the Medicare Part D subsidy. The accumulated postretirement benefit obligation for the year ended December 31, 2009 decreased approximately $3.2 million due to the inclusion of the Medicare Part D subsidy.

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

	December 31, 2009	December 31, 2008
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of period	$ 16,138	$ 13,341
Service cost	392	332
Interest cost	1,058	871
Benefits paid	(614)	(772)
Actuarial loss	1,499	2,102
Plan amendments		264
Benefit obligation at end of period	$ 18,473	$ 16,138
Reconciliation of plan assets(1):		
Employer contributions	$ 614	$ 772
Benefits paid	(614)	(772)
	$	$

(1) As part of the Ripplewood Transaction, Shell Chemicals has committed to a future cash payment related to retiree medical expenses based on a specified dollar amount per employee, if certain contractual commitments are met. We have recorded an asset of approximately $6.6 million and $6.5 million as our estimate of the present value of this commitment as of December 31, 2009 and 2008, respectively.

	December 31, 2009	December 31, 2008
	(in thousands)	

Development of net amount recognized:		
Funded status	$ (18,474)	$ (16,138)
Unrecognized cost: Actuarial gain		
Amount recognized in long-term liabilities	$ (18,474)	$ (16,138)

Net periodic benefit costs consist of the following components:

	December 31,		
	2009	**2008**	**2007**
	(in thousands)		
Service cost	$ 392	$ 332	$ 357
Interest cost	1,058	871	776
Amortization of net actuarial loss	231		
Restructuring costs		264	
Net periodic benefit costs	$ 1,681	$ 1,467	$ 1,133

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	December 31, 2009	December 31, 2008
Weighted average assumptions used to determine benefit obligations		
Measurement date	12/31/2009	12/31/2008
Discount rate	6.17%	5.76%
Rates of increase in salary compensation level	N/A	N/A
Weighted average assumptions used to net periodic benefit cost		
Discount rate	5.76%	6.49%
Rates of increase in salary compensation level	N/A	N/A
Expected long-term rate of return on plan assets	N/A	N/A

	December 31, 2009	December 31, 2008
Assumed health care cost trend rates		
Health care cost trend rate assumed for next year	8.00%	8.75%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.00%	5.00%
Year that the rate reaches the ultimate trend rate	2014	2014

The discount rate for 2009 was based in part on the average Moody s Aa Corporate Bond Yield and the average Citigroup Pension Liability Index, which were 5.49% and 5.96%, respectively. The Fidelity Investments bond modeler was used to compare the expected future cash outflows to the bonds included in the indices noted above.

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

	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 52	$ (76)
Effect on postretirement benefit obligation	622	(931)

(d) Kraton Savings Plan. The Kraton Savings Plan, as adopted on March 1, 2001, covers substantially all U.S. employees, including executive officers. We amended and restated the Savings Plan in April 2002, to comply with changes in legislation in 2002, and subsequently submitted and received an IRS determination letter.

Through automatic payroll deduction, participants have the option to defer up to 60% of eligible earnings in any combination of pretax and/or post-tax contributions. Contributions are subject to annual dollar limitations set forth in the Internal

Revenue Code. Effective January 1, 2006 we modified the Kraton Savings Plan to have three types of employer contributions. After completing one year of service, we will make a matching contribution of 50% of the first 6% contributed by the employee and after completing five years of service we will make a matching contribution of 100% of the first 6% contributed by the employee. For employees who have completed nine or more years of service and elected to remain a participant in the pension plan, we made a transition contribution of 4% during 2006 and reduced transition contribution of 2% in 2007. For employees who elected to lock in their Kraton pension benefits as of December 31, 2005, we make enhanced employer contributions of 3% for employees who have less than five years of service and a 4% contribution for employees who have five or more years of service. For our employees who were employed as of February 28, 2001, and who were previously employed by Shell Chemicals, we recognize their Shell Chemicals years of service for purposes of determining employer contributions under our Plan. Overall, a participant may direct up to a maximum of 100% of eligible earnings to this Plan, but cannot exceed the IRS maximum limit for the combined total of employee and employer contributions. Our contributions to the plan for the year ended December 31, 2009, 2008 and 2007, were \$2.7 million, \$2.2 million, and \$2.7 million, respectively.

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(e) Membership Units. We provided certain key employees who held interests in us prior to the acquisition the opportunity to roll over their interests into membership units of Management LLC, which owns a corresponding number of membership units in TJ Chemical. Additional employees have also been given the opportunity to purchase membership units in TJ Chemical through Management LLC at the original buy-in price. The membership units are subject to customary tag-along and drag-along rights, as well as a company call right in the event of termination of employment. In addition, pursuant to Messrs. Gregory and Fogarty employment agreements, on September 10, 2004 and June 15, 2005, TJ Chemical granted a notional restricted unit award with a fair value at the grant date of $875,000 and $300,000, to Messrs. Gregory and Fogarty, respectively. Each of these awards were vest 20% on each of the first five anniversaries of their employment commencement dates, so long as Messrs. Gregory and Fogarty remain employed by us through the applicable vesting date. The actual membership units would not be distributed until the earlier of: (1) a change in control; or (2) the termination of either Messrs. Gregory and Fogarty s employment. TJ Chemical granted two restricted membership unit awards having a fair value at the grant date of $200,000 and $100,000 each to David Bradley. The award for $200,000 will vested 20% on each of the first five anniversaries of his employment commencement date (April 1, 2004), so long as Mr. Bradley remained employed by us through the applicable vesting date. The award for $100,000 vests 20% on each of the first five anniversaries, and commenced vesting, on February 1, 2006, so long as Mr. Bradley remains employed by us through the applicable vesting date. TJ Chemical granted a restricted membership unit award to Nicholas G. Dekker on October 6, 2006 having a fair value at the grant date of $150,000. This award vests 20% on each of the first five anniversaries of his employment as our Chief Financial Officer and Vice President (October 6, 2006), so long as Mr. Dekker remains employed by us through the applicable vesting date. In connection with their promotions, Messrs. Fogarty and Bradley were awarded additional restricted membership units in the amount of 600,000 and 300,000, respectively, on June 19, 2008. These restricted membership Units vest 1/3 on each of the first three anniversaries of the grant date, so long as they remain employed through the applicable vesting date. The amount to Messrs. Gregory, Bradley, Fogarty and Dekker will be recognized in earnings over the vesting period on a straight-line basis.

In connection with his termination of employment, Mr. Gregory retained 151,000 membership units, and was paid out at a price of $1.00 per unit for 149,000 units as part of his Separation Agreement. In connection with his termination of employment, Mr. Dekker was paid out at a price of $1.00 per unit for his total units of $50,000. As of December 31, 2008, there were 1,886,000 membership units of Management LLC issued and outstanding.

Effective as of the Initial Public Offering (IPO), Management LLC transferred all outstanding grants of membership units to Polymer Holdings (now Kraton Performance Polymers, Inc). The outstanding equity and equity awards of Management LLC held by the Named Executive Officers was cancelled and converted into equity or equity awards of equal value of common shares of Kraton Performance Polymers, Inc. The remaining terms of all outstanding awards remained substantially the same, including with respect to vesting and forfeiture provisions.

(f) TJ Chemical Holdings LLC 2004 Option Plan. On September 9, 2004, TJ Chemical adopted an option plan, or the Option Plan, which allows for the grant to key employees, consultants, members and service providers of TJ Chemical and its affiliates, including us, of non-qualified options to purchase TJ Chemical membership units. The aggregate number of membership units with respect to which options may be granted under the Option Plan shall not exceed an amount representing 8% of the outstanding membership units and profits units of TJ Chemical on March 31, 2004, on a fully diluted basis. As of December 31, 2008 and 2007 there were 22,101,118 and 14,670,000 options granted and outstanding, respectively. All options granted in fiscal 2008, fiscal 2007 and fiscal 2006 had an exercise price of $1 per membership unit, which is equal to or in excess of the fair value of the membership unit on the date of grant. The options generally vest in 20% annual increments from the date of grant. However, the Compensation Committee determined that a shorter vesting period was appropriate for grants made during the 2008 fiscal year and therefore options granted in 2008 were set

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to vest in increments of 1/3 over 3 years. With respect to directors, previous to 2008 options were exercisable in 50% increments annually on each of the first two anniversaries of the grant date, so long as the holder of the option is still a director on the vesting date. In 2008, options granted to directors were granted in increments of 1/3 over 3 years, except the Chairman who has a one year vesting period. The exercise price per membership unit shall equal the fair market value of a membership unit on the date of exercised. Upon a change in control, the options will become 100% vested if the participant s employment is terminated without cause or by the participant for good reason (as each term is defined in the Option Plan) within the 2-year period immediately following such change in control.

The Compensation Committee of Kraton Polymers administers the Option Plan on behalf of TJ Chemical, including, without limitation, the determination of the individuals to whom grants will be made, the number of membership units subject to each grant and the various terms of such grants. The Committee will have the right to terminate all of the outstanding options at any time and pay the participants an amount equal to the excess, if any, of the fair market value of a membership unit as of such date over the exercise price with respect to such option, or the spread. Generally, in the event of a merger (except a merger where membership unit holders receive securities of another corporation), the options will pertain to and apply to the securities that the option holder would have received in the merger; and in the event of a dissolution, liquidation, sale of assets or any other merger, the Committee has the discretion to: (1) provide for an exchange of the options for new options on all or some of the property for which the membership units are exchanged (as may be adjusted by the Committee); (2) cancel and cash out the options (whether or not then vested) at the spread; or (3) provide for a combination of both. Generally, the Committee may make appropriate adjustments with respect to the number of membership units covered by outstanding options and the exercise price in the event of any increase or decrease in the number of membership units or any other corporate transaction not described in the preceding sentence.

On a termination of a participant s employment (other than without cause or by the participant for good reason within the 2-year period immediately following a change in control), unvested options automatically expire and vested options expire on the earlier of: (1) the commencement of business on the date the employment is terminated for cause; (2) 90 days after the date employment is terminated for any reason other than cause, death or disability; (3) 1-year after the date employment is terminated by reason of death or disability; or (4) the 10th anniversary of the grant date for such option.

Generally, pursuant to TJ Chemical s operating agreement, membership units acquired pursuant to the Option Plan are subject to customary tag-along and drag-along rights for the 180-day period following the later of a termination of employment and 6 months and 1-day following the date that units were acquired pursuant to the exercise of the option, TJ Chemical has the right to repurchase each membership unit then owned by the participant at fair value, as determined in good faith by the Board of Directors of TJ Chemical.

As of the effective date of the IPO, TJ Chemical transferred all benefits under the Option Plan and all outstanding grants of awards to Kraton Performance Polymers, Inc. In addition, any future awards payable in membership units of TJ Chemical will be adjusted to provide for a distribution of Kraton Performance Polymers, Inc. shares of equal value. The remaining terms of all outstanding awards remain substantially the same, including with respect to vesting and forfeiture provisions.

Furthermore, effective as of the date of the IPO, the outstanding equity and equity awards of TJ Chemical held by the Named Executive Officers were cancelled and converted into equity or equity awards, as applicable, of Kraton Performance Polymers, Inc. Each membership unit was exchanged for a number of common shares of Kraton Performance Polymers, Inc. of equal value and each option was converted, in compliance with Section 409A of the Code, into an option to purchase a number of common shares equal in value to the number of membership units underlying the option at the date of the IPO, rounded down to the nearest whole share.

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Notes to Consolidated Financial Statements (Continued)

(g) Polymer Holdings 2009 Equity Incentive Plan. On November 30, 2009, the Kraton Performance Polymers, Inc. board of directors and our stockholders approved the Polymer Holdings LLC Equity Incentive Plan (the Equity Plan) The Equity Plan allows for the grant to key employees, independent contractors, and eligible non-employee directors of incentive stock options (ISOs , non-qualified stock options (NSOs and together with the ISOs, Options), stock appreciation rights (SARs), restricted stock awards and restricted stock unit awards, in addition to other equity or equity-based awards as the board determines is necessary from time to time. As of the IPO, there were 4,350,000 shares of common stock reserved for issuance under the Equity Plan. Shares of common stock issued under the Equity Plan may be either authorized and unissued shares or treasury shares, or both, at the sole discretion of the Committee. Subject to the terms of the Equity Plan, we reserved shares, which may be issued pursuant to incentive stock options (ISOs). Any shares covered by an award that are not purchased or are forfeited or otherwise terminated shall be available for future grants under the Equity Plan. Furthermore, no participant may receive awards under the Equity Plan in any calendar year that relate to more than 300,000 shares of common stock.

The Committee will determine which employees and independent contractors are eligible to receive awards under the Equity Plan. In addition, the Committee will interpret the Equity Plan and may adopt any administrative rules, regulations, procedures and guidelines governing the Equity Plan or any awards granted under the Equity Plan as it deems to be appropriate. The Board may grant awards to directors. On or after the date of grant of an award, the Committee may (i) in the event of the Participant s death, disability or retirement, or in the event of a change in control, accelerate the date on which any such award becomes vested or exercisable, as the case may be, (ii) accelerate the date on which any such award becomes transferable, (iii) extend the term of any such award, (iv) waive any conditions to the vesting, exercisability or transferability, as the case may be of such award or (v) provide for the payment of dividends or dividend equivalents with respect to any such award; provided such action would not cause tax to become due under Section 409A of the Code. The Equity Plan may be further amended or terminated by our board of directors at any time, but no amendment may be made without stockholder approval if it would require approval by stockholders in order to comply with any applicable law, regulation or the rules of the New York Stock Exchange.

The Committee may grant other stock-based awards to employees and independent contractors and our board of directors may grant such awards to directors subject to such terms and conditions as the Committee or our board of directors, as appropriate, may determine. Each such award may (i) involve the transfer of actual shares of our common stock to participants, either at the time of grant or thereafter, or payment in cash or otherwise of amounts based on the value of shares of our common stock, (ii) be subject to performance-based and/or service-based conditions, (iii) be in the form of phantom stock, restricted stock, restricted stock units, performance shares, deferred share units or share-denominated performance units, (iv) be designed to comply with applicable laws of jurisdictions other than the United States and (v) be designed to qualify as performance-based compensation.

The amount payable with respect to an award that is intended to qualify as performance-based compensation under the Equity Plan shall be determined in any manner permitted by Section 162(m) of the Code. The Committee shall establish performance measures, the level of actual achievement of performance goals and the amount payable with respect to an award intended to qualify under Section 162(m) of the Code. The grant, exercise and/or settlement of such performance or annual incentive award shall be contingent upon achievement of pre-established performance goals which shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria. Performance goals shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code.

We awarded 74,008 shares of restricted stock to our executives on December 22, 2009, the date the IPO closed, as follows: Mr. Fogarty, 37,004; Mr. Bradley, 22,202; and Mr. Tremblay, 14,802.

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(h) Other Equity Awards. We provided certain key employees with a grant of profits units of Kraton Management LLC (subject to the 8% pool limitation described above). Profits units are economically equivalent to an option, except that they provide the recipient/employee with an opportunity to recognize capital gains in the appreciation of TJ Chemical and its affiliates and TJ Chemical and its affiliates does not receive any deduction at the time of grant or disposition of the profits unit by the employee. Generally, pursuant to the applicable grant agreements, 50% of such profits units will vest when the fair value of TJ Chemical s assets equals or exceeds two times the Threshold Amount, i.e., the first tranche, and the remaining 50% will vest when the fair value of TJ Chemical s assets equals or exceeds three times the threshold amount, i.e., the second tranche, in each case, as determined by the Board of TJ Chemical, provided that the executive remains employed through the applicable vesting date. Additionally, 100% of the profits units shall vest upon the effective date of a disposition by the initial investors of 51% or more of their aggregate interests in Kraton. If at the time TJ Chemical makes a determination as to whether an individual is entitled to any appreciation with respect to the profits units, the value of the assets is more than two times, but less than three times the Threshold Amount, a pro rata portion of the second tranche will vest based on the appreciation above the two times Threshold Amount. Compensation expense will be recorded in our consolidated financial statements for this difference at the time it becomes probable the profits units will become vested. If an employees employment terminates prior to any applicable vesting date, such employee shall automatically forfeit all rights to any unvested profits units. As of December 31, 2009 and 2008, there were 0 shares and 900,000 profits units granted and not yet vested, respectively.

(i) 2009 Incentive Compensation Plan. On February 13, 2009, the Compensation Committee of the Board of Directors of Kraton Performance Polymers, Inc. approved and adopted the 2009 Incentive Compensation Plan, including the performance-based criteria by which potential bonus payouts to participants will be determined.

The bonus pool was based largely on EBITDA performance and as a result of our actual performance against targeted levels of EBITDA there were no incentive compensation awards under this plan in 2009.

8. Commitments and Contingencies

(a) Lease Commitments

We have entered into various long-term non-cancelable operating leases. Future minimum lease commitments at December 31, 2009, are as follows: 2010 $5.4 million; 2011 $5.0 million; 2012 $4.9 million; 2013 $2.5 million; 2014 $2.3 million and thereafter $13.1 million. We recorded $4.1 million, $8.4 million, and $8.5 million in rent expense for the years ended December 31, 2009, 2008 and 2007, respectively.

(b) Environmental and Safety Matters

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

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

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

We had no material operating expenditures for environmental fines, penalties, government imposed remedial or corrective actions in each of the years ended December 31, 2009, 2008 and 2007.

(c) Legal Proceedings

We and certain of our subsidiaries are parties to several legal proceedings that have arisen in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, management does not expect these matters, individually or in the aggregate, to have a material adverse effect upon our financial position, results of operations or cash flows. Furthermore, Shell Chemicals has agreed, subject to certain limitations, to indemnify us for certain claims brought with respect to matters occurring before February 28, 2001.

9. Fair Value Measurements

Effective January 1, 2008, we adopted ASC 820, Fair Value Measurements and Disclosures, previously referred to as SFAS No. 157. ASC 820 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. ASC 820 requires entities to, among other things, maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent

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sources, while unobservable inputs reflect our market assumptions. In accordance with ASC 820, these two types of inputs have created the following fair value hierarchy:

Level 1 Quoted unadjusted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable.

From time to time, we enter into derivative financial instruments that are measured at fair value. See Note 15 for further discussion.

10. Significant Contracts

We are party to significant contracts with subsidiaries and affiliates of Shell Chemicals and LyondellBasell. These contracts are for: (1) leases of land and facilities at some of our foreign locations; (2) operating agreements where LyondellBasell operates some of our foreign manufacturing facilities; (3) site services, utilities, material and facilities agreements at some of our foreign manufacturing facilities; (4) raw material supply agreements; and (5) transitional and interim service agreements.

(a) Leases with Shell Chemicals and LyondellBasell. The land on which our manufacturing facility in Berre, France is located was leased to us by Shell Petrochimie Mediterranee (SPM) through April 1, 2008, at which time the site was sold to LyondellBasell, who now operates the site and with whom our tenancy now exists under a long-term lease due to expire in 2030. Our Wesseling, Germany manufacturing facility is located on an industrial site belonging to LyondellBasell. LyondellBasell owns the land and buildings at our Wesseling facility and leases same to us. The lease is for a term of 30 years, beginning from March 31, 2000 and is extended automatically for a successive period of 10 years unless terminated upon one-year prior written notice by either party. These lease agreements, including the financial terms thereof, have all been negotiated at arm s length.

(b) Operating Agreements**.** LyondellBasell operates our manufacturing facility located in Berre, France. This facility is situated on a major LyondellBasell refinery and petrochemical site at which other third party tenants also own facilities and lease space. LyondellBasell charges us fees based on certain costs incurred in connection with operating and maintaining this facility, including the direct and indirect costs of employees and subcontractors, reasonable insurance costs, certain taxes imposed on LyondellBasell (other than income taxes) and depreciation and capital charges on certain assets. Pursuant to the applicable operating agreement, LyondellBasell employs and provides all staff, other than certain plant managers, assistant plant managers and technical personnel whom we may appoint. The agreement has an initial term of 20 years, and thereafter will automatically renew indefinitely for consecutive 5-year periods. Either party may terminate the agreement (totally or partially) under various circumstances, including if the terminating party ceases its operations at the facility and provides 18 (eighteen) months prior written notice; or if any of the services, utilities, materials and facilities agreements have been terminated, and the terminating party provides notice as required by such agreement.

Pursuant to an agreement dated March 31, 2000, LyondellBasell operates and provides certain services, materials and utilities required to operate our manufacturing facility in Wesseling, Germany. We pay LyondellBasell a monthly fee, as well as costs incurred by LyondellBasell in providing the various services, even if the facility fails to produce any output (whether or not due to events within LyondellBasell s control), and even

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if we reject some or all output. This agreement has an initial term of 40 years and will automatically renew, subject to 5 (five) years prior written notice of non-renewal. This agreement will terminate at any earlier date as of which the facility can no longer be operated in a safe and efficient manner. These operating agreements, including the financial terms thereof, have all been negotiated at arm s length.

(c) Site Services, Utilities, Materials and Facilities Agreements. LyondellBasell, through local operating affiliates, provides various site services, utilities, materials and facilities for the Berre, France manufacturing site. Generally these services, utilities, materials and facilities are provided by LyondellBasell on either a long-term basis, short-term basis or a sole-supplier basis. Items provided on a sole-supplier basis may not be terminated except upon termination of the applicable agreement in its entirety. Items provided on a long-term or short-term basis may be terminated individually under certain circumstances.

(d) Raw Materials Agreements. Styrene, butadiene and isoprene used by our U.S. facilities are primarily supplied by a portfolio of suppliers under long-term supply contracts with various expiration dates. The monomers used by our European facilities are primarily supplied by one or more LyondellBasell entities or affiliates, 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.

We believe our contractual arrangements with our suppliers of styrene, butadiene and isoprene provide an adequate supply of raw materials at competitive, market-based prices.

Under each of the agreements summarized below, reasonably unforeseen circumstances, including, without limitations, plant breakdowns, will excuse performance by either party. In addition, inability to acquire any supplies or components necessary for manufacturing the applicable raw material from usual sources and on terms the supplier deems reasonable will excuse supplier s nonperformance.

Styrene. We satisfy our styrene requirements in the United States pursuant to purchase agreements that run through 2011 subject to renewal conditions.

Our contracts that satisfied our styrene requirements in Europe expired on February 28, 2010 and we have finalized negotiations with two vendors and expect to execute new supply agreements that we anticipate will provide for European Styrene supply through to February 2013. 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.

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 agreements covering 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. We currently source butadiene in the United States pursuant to contract arrangements with several suppliers, supplemented by spot supply as needed. The price we pay for butadiene is scheduled and varies based on the published prices for butadiene in world markets.

We currently source our butadiene in Europe pursuant to contracts with certain LyondellBasell entities. The contract covering Germany will expire on December 31, 2040, and will be renewed automatically at the

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conclusion of the current term unless terminated with prior written notice by either party. The contract covering France expired pursuant to its terms on December 31, 2007; provided, however, that on December 12, 2006, we were notified by LyondellBasell of its intention to allow the contract to automatically renew for one year, and to terminate effective December 31, 2008. We are presently acquiring butadiene from an LyondellBasell entity in France under a commercial term sheet, reflecting an agreement in principle that has been reached between the parties. The price we pay for butadiene under our arrangements or 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 Corporation (JSR), on a commercial supply basis.

Isoprene. We source our global isoprene requirements through several contract arrangements. We also purchase some additional supplies of isoprene from various suppliers at prevailing market prices. In Brazil, isoprene is obtained from a local third party supplier. In Kashima, Japan, the majority of our isoprene needs are sourced from JSR on a commercial supply basis and from alternative suppliers as needed.

(e) Infineum

We have entered into several commercial agreements with Infineum, a joint venture between Shell Chemicals and ExxonMobil, related to: (1) the sharing by Infineum of certain production capacity at our Belpre, Ohio manufacturing facility; and (2) our production of certain additives for Infineum at our Belpre, Ohio and our Berre, France manufacturing facilities. The Belpre, Ohio agreements have a 30-year term, and the Berre, France agreement has a term ending in December 2010.

11. Related Party Transactions

We own a 50% equity investment in a manufacturing joint venture with JSR Corporation (JSR) under the name of Kraton JSR Elastomers K.K. (KJE) located in Kashima, Japan. KJE manufactures thermoplastic rubber (TR), which is a wholly or predominantly composed of a block co-polymer comprising styrene blocks with butadiene and/or isoprene polymer blocks. KJE produces TR for sale to third party customers only through Kraton and JSR. We and JSR separately, but with equal rights, participate as distributors in the sales of the TR produced by KJE.

The aggregate amounts of related-party transactions were as follows:

	December 31,		
	2009	**2008**	**2007**
Sales to related party	$	$ 626	$ 1,210
Purchases from related party	$ 27,763	$ 37,894	$ 39,741

A private investment fund managed by TPG Capital L.P., which advises TPG Partners III and TPG Partners IV, has an ownership share of British Vita PLC, one of our customers. From 2007 to 2009 we have derived revenues averaging $9.2 million annually from sales to British Vita. We do not have any contractual requirements for sales to British Vita.

In October 2009, we entered into a contract with Amyris Biotechnologies, Inc. to explore the development of an alternative source of certain raw materials and, subject to Amyris meeting developmental and manufacturing milestones, to purchase raw materials from Amyris. We have not made any purchases to date. TPG Biotechnology II, L.P., a private investment fund that may be deemed to be an affiliate of TPG III and TPG IV, has an ownership share of Amyris Biotechnologies.

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12. Member s Equity

Our capitalization is governed by a Second Amended and Restated Limited Liability Company Agreement dated as of March 31, 2004, or the LLC Agreement. As of December 31, 2009, one (1) membership unit was issued and outstanding, with no stated value, and owned by Kraton Performance Polymers, Inc., the sole member of Kraton Polymers LLC.

13. Industry Segment and Foreign Operations

We operate in one segment for the manufacture and marketing of styrenic block copolymers. In accordance with the provisions of ASC 280, Segment Reporting, our chief operating decision-maker has been identified as the President and Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire company. Since we operate in one segment and in one group of similar products, all financial segment and product line information required by ASC 280 can be found in the consolidated financial statements.

For geographic reporting, revenues are attributed to the geographic location in which the customers facilities are located. Long-lived assets consist primarily of property, plant, equipment, and are attributed to the geographic location in which they are located. Net revenues and long-lived assets by geographic region were as follows:

	December 31,		
	2009	2008	2007
	(in thousands)		
Total Operating Revenues:			
United States	$ 304,265	$ 395,568	$ 366,048
Germany	121,959	149,011	145,649
Japan	73,055	70,169	53,479
The Netherlands	66,027	80,980	49,334
Brazil	40,438	40,868	36,732
China	37,123	31,421	33,956
Italy	35,934	48,328	51,569
Thailand	28,779	22,877	14,916
United Kingdom	27,425	40,401	38,364
France	27,342	39,757	30,358
Belgium	16,273	30,079	30,751
Canada	16,168	25,361	22,300
Taiwan	15,711	18,527	20,196
Poland	15,537	26,934	22,604
Turkey	12,990	15,979	14,432
Sweden	11,292	13,002	12,418
Mexico	11,029	14,028	9,460
Argentina	10,854	17,174	14,109

Republic of Korea	9,928	11,013	8,877
Australia	9,124	15,939	8,856
Denmark	8,283	9,147	8,795
Austria	8,170	13,062	9,973
Malaysia	6,769	4,396	3,631
Switzerland	4,994	5,348	4,914
India	4,148	4,312	2,001
Czech Republic	4,024	4,273	4,021
Hong Kong	4,000	7,430	8,369
All other countries	36,363	70,649	63,475
	$ 968,004	$ 1,226,033	$ 1,089,587

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Notes to Consolidated Financial Statements (Continued)

During the years ended December 31, 2009, 2008, and 2007, no single customer accounted for 10% or more of our total operating revenues.

	December 31, 2009	2008 (in thousands)	2007
Long-lived Assets:			
United States	$ 317,719	$ 303,278	$ 298,979
Germany	42,724	39,361	40,406
Japan	482	6,699	3,743
France	125,839	108,665	111,441
The Netherlands	36,971	34,018	34,454
Brazil	64,385	48,237	56,721
China	2,334	2,317	2,119
All other countries	964	11,685	12,050
	$ 591,418	$ 554,260	$ 559,913

14. Supplemental Guarantor Information

Kraton and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 8.125% Notes. The Guarantor Subsidiaries include Elastomers Holdings LLC, a U.S. holding company, and Kraton Polymers U.S. LLC, a U.S. operating subsidiary, collectively, the Guarantor Subsidiaries, fully and unconditionally guarantee on a joint and several basis, the Issuers obligations under the 8.125% Notes. Our remaining subsidiaries are not guarantors of the 8.125% Notes. We do not believe that separate financial statements and other disclosures concerning the Guarantor Subsidiaries would provide any additional information that would be material to investors in making an investment decision.

***Correction of immaterial errors*.** During 2009, we identified errors associated with the classification of certain cash inflows and outflows as disclosed within the condensed consolidating financial information of the issuer, guarantor and non-guarantor subsidiaries for the years ended December 31, 2008 and 2007. The errors were primarily due to the fact that cash outflows associated with disbursements for certain intercompany loans and receipts from collections on these loans were classified within cash flows from financing activities rather than investing activities. Consequently, we have corrected immaterial errors in the accompanying condensed consolidated Statements of Cash Flows for the year ended December 31, 2008 by increasing issuer cash flows used in investing activities by $38.1 million and increasing issuer cash flows provided by financing activities by the same amount, and for the year ended December 31, 2007 by (i) increasing issuer cash flows provided by investing activities by $69 million and increasing issuer cash flows used in financing activities by the same amount, (ii) reducing guarantor subsidiaries cash flows from operating activities by $7.2 million and reducing guarantor subsidiaries cash flows used in financing activities by the same amount, and (iii) increasing non-guarantor subsidiaries cash flows from operating activities by $7.2 million and increasing non-guarantor subsidiaries cash flows used in financing activities by the same amount. The correction of these errors does not impact the net change in cash and cash equivalents, has no impact on net income and is not material to our previously reported Consolidating Statements of Cash Flows.

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KRATON POLYMERS LLC

CONSOLIDATING BALANCE SHEET

December 31, 2009

(In thousands)

	Issuers(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	$	$ 36,567	$ 32,724	$	$ 69,291
Receivables, net of allowance		41,194	74,135		115,329
Inventories of products, net		124,003	160,255		284,258
Inventories of materials and supplies, net		6,830	4,032		10,862
Deferred income taxes			3,107		3,107
Other current assets	1,086	1,421	14,263		16,770
Total current assets	1,086	210,015	288,516		499,617
Property, plant and equipment, less accumulated depreciation	85,284	171,024	98,552		354,860
Identifiable intangible assets, less accumulated amortization	13,541	15,322	46,938		75,801
Investment in consolidated subsidiaries	971,995			(971,995)	
Investment in unconsolidated joint venture	813		11,265		12,078
Deferred financing costs	7,309		9		7,318
Deferred income taxes					
Other long-term assets	1,142	468,794	95,054	(540,165)	24,825
Total Assets	$ 1,081,170	$ 865,155	$ 540,334	$ (1,512,160)	$ 974,499

LIABILITIES AND MEMBER S EQUITY					
Current Liabilities					
Current portion of long-term debt	$ 2,304	$	$	$	$ 2,304
Accounts payable-trade	2,699	37,732	53,063		93,494
Other payables and accruals	18,251	15,010	35,118	(74)	68,305
Due to related party			19,006		19,006
Total current liabilities	23,254	52,742	107,187	(74)	183,109
Long-term debt, net of current portion	382,425				382,425
Deferred income taxes	12,858		630		13,488
Long-term liabilities	351,353	47,494	187,721	(540,091)	46,477
Total liabilities	769,890	100,236	295,538	(540,165)	625,499
Commitments and contingencies (note 8)					
Member s equity					
Common equity	312,164	775,493	196,502	(971,995)	312,164
Accumulated other comprehensive income	(884)	(10,574)	48,294		36,836
Total member s equity	311,280	764,919	244,796	(971,995)	349,000
Total Liabilities and Member s Equity.	$ 1,081,170	$ 865,155	$ 540,334	$ (1,512,160)	$ 974,499

(1) Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON POLYMERS LLC

CONSOLIDATING BALANCE SHEET

December 31, 2008

(In thousands)

	Issuers(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	$	$ 65,460	$ 35,936	$	$ 101,396
Receivables, net of allowance	944	45,322	68,148	(18,971)	95,443
Inventories of products, net		145,654	187,396	(8,857)	324,193
Inventories of materials and supplies, net		6,816	4,239		11,055
Deferred income taxes		14,778			14,778
Other current assets	2,905	720	3,144		6,769
Total current assets	3,849	278,750	298,863	(27,828)	553,634
Property, plant and equipment, less accumulated depreciation	93,782	164,396	113,830		372,008
Identifiable intangible assets, less accumulated amortization	20,113		46,938		67,051
Investment in consolidated subsidiaries	898,565			(898,565)	
Investment in unconsolidated joint venture	813		11,558		12,371
Deferred financing costs	8,184				8,184
Deferred income taxes	20,131			(20,131)	
Other long-term assets	137,954	411,841	11,739	(542,908)	18,626
Total Assets	$ 1,183,391	$ 854,987	$ 482,928	$ (1,489,432)	$ 1,031,874

LIABILITIES AND MEMBER S EQUITY					
Current Liabilities					
Current portion of long-term debt	$ 3,343	$	$	$	$ 3,343
Accounts payable-trade	2,700	36,806	35,671		75,177
Other payables and accruals	15,815	26,184	27,350		69,349
Due to related party		9,546	35,010	(18,971)	25,585
Total current liabilities	21,858	72,536	98,031	(18,971)	173,454
Long-term debt, net of current portion	571,728				571,728
Deferred income taxes		53,435	1,681	(20,131)	34,985
Long-term liabilities	408,416	53,626	143,983	(542,908)	63,117
Total liabilities	1,002,002	179,597	243,695	(582,010)	843,284
Commitments and contingencies (note 8)					
Member s equity					
Common equity	182,767	694,170	213,252	(907,422)	182,767
Accumulated other comprehensive income	(1,378)	(18,780)	25,981		5,823
Total member s equity	181,389	675,390	239,233	(907,422)	188,590
Total Liabilities and Member s Equity.	$ 1,183,391	$ 854,987	$ 482,928	$ (1,489,432)	$ 1,031,874

(1) Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON POLYMERS LLC

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2009

(In thousands)

	Issuers(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues					
Sales	$	$ 480,438	$ 591,309	$ (151,385)	$ 920,362
Other		74	47,568		47,642
Total operating revenues		480,512	638,877	(151,385)	968,004
Cost of Goods Sold	(15,654)	376,543	582,968	(151,385)	792,472
Gross Profit	15,654	103,969	55,909		175,532
Operating Expenses					
Research and development expenses		13,150	8,062		21,212
Selling, general and administrative expenses	(1,430)	45,497	35,437		79,504
Depreciation	22,039	21,598	23,114		66,751
Total operating expenses	20,609	80,245	66,613		167,467
Gain on Extinguishment of Debt	23,831				23,831
Earnings in Consolidated Subsidiaries	29,893			(29,893)	
Equity in Earnings of Unconsolidated Joint Venture			403		403
Interest Expense (Income), net	40,818	(11,156)	4,289		33,951
Income (Loss) Before Income Taxes	7,951	34,880	(14,590)	(29,893)	(1,652)
Income Tax Expense (Benefit)	8,239	(876)	(8,727)		(1,364)
Net Income (Loss)	$ (288)	$ 35,756	$ (5,863)	$ (29,893)	$ (288)

(1) Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON POLYMERS LLC

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2008

(In thousands)

	Issuers(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues					
Sales	$	$ 607,428	$ 750,165	$ (186,340)	$ 1,171,253
Other			54,780		54,780
Total operating revenues		607,428	804,945	(186,340)	1,226,033
Cost of Goods Sold	2,356	467,079	688,188	(186,340)	971,283
Gross Profit	(2,356)	140,349	116,757		254,750
Operating Expenses					
Research and development expenses		15,829	11,220		27,049
Selling, general and administrative expenses	902	52,729	47,800		101,431
Depreciation	18,127	21,676	13,359		53,162
Total operating expenses	19,029	90,234	72,379		181,642
Earnings in consolidated subsidiaries	(85,848)			85,848	
Equity in Earnings of Unconsolidated Joint Venture			437		437
Interest Expense (Income), net	39,394	(10,576)	7,853		36,671
Income (Loss) Before Income Taxes	25,069	60,691	36,962	(85,848)	36,874
Income Tax Expense (Benefit)	(3,365)	220	11,585		8,440
Net Income (Loss)	$ 28,434	$ 60,471	$ 25,377	$ (85,848)	$ 28,434

(1) Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON POLYMERS LLC

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2007

(In thousands)

	Issuers(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues					
Sales	$	$ 545,203	$ 669,809	$ (148,968)	$ 1,066,044
Other			23,543		23,543
Total operating revenues		545,203	693,352	(148,968)	1,089,587
Cost of Goods Sold	2,728	458,148	626,648	(148,968)	938,556
Gross Profit	(2,728)	87,055	66,704		151,031
Operating Expenses					
Research and development expenses		7,851	17,014		24,865
Selling, general and administrative expenses	(193)	39,612	29,601		69,020
Depreciation	19,687	20,299	11,931		51,917
Total operating expenses	19,494	67,762	58,546		145,802
Earnings in consolidated subsidiaries	(22,273)			22,273	
Equity in Earnings of Unconsolidated Joint Venture			626		626
Interest Expense (Income), net	45,954	(9,480)	6,986		43,460
Income (Loss) Before Income Taxes	(45,903)	28,773	1,798	(22,273)	(37,605)
Income Tax Expense (Benefit)	(2,160)	4,681	3,617		6,138
Net Income (Loss)	$ (43,743)	$ 24,092	$ (1,819)	$ (22,273)	$ (43,743)

(1) Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON POLYMERS LLC

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2009

(In thousands)

	Issuers(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ (39,221)	$ 53,247	$ 58,779	$	$ 72,805
Cash flows used in investing activities					
Proceeds from (payments on) intercompany loans	79,843			(79,843)	
Purchase of plant and equipment, net of proceeds from sales of equipment		(28,226)	(6,005)		(34,231)
Purchase of software		(15,322)			(15,322)
Net cash used in investing activities	79,843	(43,548)	(6,005)	(79,843)	(49,553)
Cash flows provided by (used in) financing activities					
Proceeds from debt	144,000				144,000
Repayment of debt	(308,131)				(308,131)
Cash contribution from member	126,725				126,725
Deferred financing costs	(3,216)				(3,216)
Proceeds from (payments on) intercompany loans		(38,592)	(41,251)	79,843	
Net cash provided by (used in) financing activities	(40,622)	(38,592)	(41,251)	79,843	(40,622)
Effect of exchange rate difference on cash			(14,735)		(14,735)
Net increase (decrease) in cash and cash equivalents		(28,893)	(3,212)		(32,105)
Cash and cash equivalents at beginning of period		65,460	35,936		101,396
Cash and cash equivalents at end of	$	$ 36,567	$ 32,724	$	$ 69,291

period

(1) Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON POLYMERS LLC

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2008

(In thousands)

	Issuers(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ (7,968)	$ 83,530	$ (35,335)	$	$ 40,227
Cash flows used in investing activities					
Proceeds from (payments on) intercompany loans	(38,144)			38,144	
Purchase of plant and equipment, net of proceeds from sales of equipment		(19,123)	(4,944)		(24,067)
Net cash used in investing activities	(38,144)	(19,123)	(4,944)	38,144	(24,067)
Cash flows provided by (used in) financing activities					
Proceeds from debt	316,250				316,250
Repayment of debt	(279,644)				(279,644)
Cash contribution from member	10,000				10,000
Proceeds from insurance note payable	(494)				(494)
Proceeds from (payments on) intercompany loans		(10,099)	48,243	(38,144)	
Net cash provided by (used in) financing activities	46,112	(10,099)	48,243	(38,144)	46,112
Effect of exchange rate difference on cash			(9,153)		(9,153)
Net increase (decrease) in cash and cash equivalents		54,308	(1,189)		53,119
Cash and cash equivalents at beginning of period		11,152	37,125		48,277
Cash and cash equivalents at end of period	$	$ 65,460	$ 35,936	$	$ 101,396

(1) Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON POLYMERS LLC

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2007

(In thousands)

	Issuers(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ (25,177)	$ 77,721	$ 29,193	$	$ 81,737
Cash flows used in investing activities					
Proceeds from (payments on) intercompany loans	69,070			(69,070)	
Purchase of plant and equipment, net of proceeds from sales of equipment		(18,584)	(10,086)		(28,670)
Net cash used in investing activities	69,070	(18,584)	(10,086)	(69,070)	(28,670)
Cash flows provided by (used in) financing activities					
Proceeds from debt	48,500				48,500
Repayment of debt	(92,148)				(92,148)
Proceeds from insurance note payable	(245)				(245)
Proceeds from (payments on) intercompany loans		(61,835)	(7,235)	69,070	
Net cash provided by (used in) financing activities	(43,893)	(61,835)	(7,235)	69,070	(43,893)
Effect of exchange rate difference on cash			(4,498)		(4,498)
Net increase (decrease) in cash and cash equivalents		(2,698)	7,374		4,676
Cash and cash equivalents at beginning of period		13,850	29,751		43,601
Cash and cash equivalents at end of period	$	$ 11,152	$ 37,125	$	$ 48,277

(1) Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be useful.

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KRATON POLYMERS LLC

Notes to Consolidated Financial Statements (Continued)

15. Financial Instruments, Hedging Activities and Credit Risk

Financial Instruments

(a) Interest Rate Swap Agreements. 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 Term 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 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 remaining portion of the gain would then be reclassified immediately to interest expense. In 2009, we reclassified $2.9 million into earnings.

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. 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 $320 million of the term loan portion of the Term Facility. We settled the swap on December 31, 2009 and recorded a loss of $2.2 million.

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. This 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%. The agreement hedges monthly interest payments from January through December 2010 and expires on January 3, 2011. It has a fixed rate of 1.53% and a margin of 2.0%, which results in a total cost of 3.53%. In December 2009, we made a $100.0 million payment of outstanding indebtedness under the Term Loans reducing the principal amount outstanding from approximately $322.6 million to $222.0 million. As a result, we are required to discontinue hedge accounting prospectively as the hedging relationship fails to meet all of the criteria set forth in ASC 815, specifically the notional amount of the swap and the principal amount of the debt are no longer equal and the forecasted transaction is no longer probable of occurring as documented in the original hedge documentation. We recorded $0.8 million in interest expense related to the ineffective portion and $1.9 million in accumulated other comprehensive income related to the effective portion of the hedge. We have elected to dedesignate the initial hedging relationship.

As of January 1, 2008, we adopted the provisions of FASB ASC 820-10, which establishes a three-tier value hierarchy, categorizing the inputs used to measure fair value. The hierarchy can be described as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The financial assets and liabilities measured at fair value on a recurring basis are included below:

	Balance Sheet Location	**December 31, 2009**	**Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(in thousands)			
Derivative liabilities Interest rate swap	Other payables and accruals	$ 2,926	$	$ 2,926	$

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KRATON POLYMERS LLC

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2009, the fair market value of the interest rate swap agreement in effect was a liability of approximately $2.9 million.

(b) Fair Value of Financial Instruments

The following table presents the carrying values and approximate fair values of our long-term debt at September 30, 2009 and December 31, 2008:

	December 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Revolving Loans	$	$	$ 50,000	$ 50,000
Term Loans	221,729	221,729	325,071	325,071
Bonds Payable 8.125% Notes	163,000	146,089	200,000	79,250
8.125% Notes Held as Treasury Bonds	7,000	6,274		

The Term Loans and Revolving Loans are variable interest rate securities, and as such, the fair value approximates their carrying value.

Foreign Currency Hedge. On April 3 and July 1, 2008 we entered into two foreign currency option contracts to reduce our exposure to fluctuations in the Euro to U.S. dollar exchange rate for notional amounts of 10 million and 20 million with expiration dates of June 26, and December 29, 2008, respectively. The option contracts do not qualify for hedge accounting. The April, 2008 option contract expired on June 26, 2008 and the July, 2008 option contract expired on December 29, 2008. The impact on our consolidated results of operations, financial position and cash flows was immaterial.

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 which expires on December 29, 2009. The option contract does not qualify for hedge accounting. We settled the hedge on December 31, 2009, with a gain of $1.9 million which represented the mark-to-market impact of the purchased option contract. The gains were recorded in selling, general, and administrative expense on the Consolidated Statements of Operations.

Credit Risk. Our customers are diversified by industry and geography with more than 700 customers in over 60 countries. 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 monitors 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.

16. Restructuring and Restructuring-related Costs

As part of our ongoing efforts to improve efficiencies and increase productivity, we have implemented a number of restructuring initiatives in recent years.

We ceased production at the Pernis facility on December 31, 2009, where, prior to the exit we manufactured IR. In connection with the exit, we incurred $3.9 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 estimated asset retirement obligations and restructuring costs of $5.1 million and $6.0 million were recorded in the third quarter of 2009, respectively. The asset retirement obligations were adjusted pursuant to the settlement

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KRATON POLYMERS LLC

Notes to Consolidated Financial Statements (Continued)

agreement in December 2009. The $14.9 million of property and equipment related to Pernis was fully depreciated as of December 31, 2009. The settlement agreement calls for total payments of approximately $10.0 million and will be paid in full on or about May 2010. In January 2010 we made two payments totaling $7.5 million.

In 2008, we restructured our research and technical service organizations to better align our research and product development capabilities with our customers needs and market requirements and to focus on our core capabilities, and incurred $2.2 million of severance and other staffing-related costs which were recorded in research and development expenses in the consolidated statements of operations. Substantially all of the cash expenditures related to these restructurings were paid as of December 31, 2008.

Prior to the 2009 exit from Pernis, on September 20, 2007, we exited the SIS plant at the Pernis facility, and relocated our SIS production to our other production facilities as part of our cost reduction efforts. This resulted in a contractor workforce reduction. The exit plan was completed in the first half of 2008. As a result of exiting the SIS plant, we recorded a liability associated with the plan of approximately $2.1 million, consisting of $1.8 million in contractor workforce reduction and $0.3 million in other associated costs. The entire amount of the charge consisted of cash expenditures in the first and second quarters of 2008.

17. Subsequent Event

We have received a communication from a law firm asserting that approximately $13.5 million in alleged payments to us from SemGroup, L.P. and/or one or more of its affiliates (collectively SemGroup), during the 90-day period preceding SemGroup s Chapter 11 bankruptcy filing on July 22, 2008, appear to constitute preferential payments avoidable and recoverable under sections 547 and 550 of the United States Bankruptcy Code. In this regard, no formal claim has been asserted against us in the bankruptcy court as of this date. However, we intend to vigorously defend any such claim if it is made against us, and although the ultimate outcome of any such matter cannot be determined with certainty, we believe we would have a number of defenses to any such claim, including, without limitation, defenses concerning the ordinary course of business and the timing of certain product deliveries made by Kraton to SemGroup prior to the date of its bankruptcy filing. At this time, we have recorded no provision for losses in connection with this matter. Further we do not believe that any claim, if one is asserted, will have a material adverse impact on our business, financial condition, or results of operations.

On January 18, 2010, consistent with our announcement in the third quarter of 2009 of our intent to exit our Pernis, the Netherlands facility, our indirect, wholly-owned subsidiary Kraton Polymers Nederland BV (Kraton Netherlands) agreed to terminate the following material definitive agreements:

First Amended and Restated Site Services, Utilities, Materials and Facilities Agreement between Kraton Netherlands and Shell Nederland Raffinaderij BV (SNR) dated 28 February 2001; and

First Amended and Restated Site Services, Utilities, Materials and Facilities Agreement between Kraton Netherlands and Shell Nederland Chemie BV (SNC, and together with SNR, the Shell Entities) dated 28 February 2001.

Production at the Pernis facility ceased December 31, 2009. However, the actual termination of these agreements remains subject to the satisfaction of various conditions and is anticipated to become effective on or about May 31, 2010. We expect to maintain a presence at the facility through May 2010, as the site is cleared for demolition beginning thereafter. We currently anticipate transferring IR production to our Belpre, Ohio facility. We are in the process of completing project scoping, including associated capital expenditure 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.

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KRATON POLYMERS LLC

Notes to Consolidated Financial Statements (Continued)

We have evaluated significant events and transactions that have occurred and have determined that there were no other events or transactions other than those disclosed in this report that would require recognition or disclosure in our Consolidated Financial Statements for the period ended December 31, 2009.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Kraton Performance Polymers, Inc.:

Under date of March 15, 2010, we reported on the 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, which are included in Kraton Performance Polymers, Inc. s Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule in Kraton Performance Polymers, Inc. s Annual Report on Form 10-K. This financial statement schedule is the responsibility of Kraton Performance Polymers, Inc. s management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Houston, Texas

March 15, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Kraton Polymers LLC:

Under date of March 15, 2010, we reported on the consolidated balance sheets of Kraton Polymers LLC and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in member s equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2009, which are included in Kraton Polymers LLC s Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule included in Kraton Polymers LLC s Annual Report on Form 10-K. This financial statement schedule is the responsibility of Kraton Polymers LLC s management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Houston, Texas

March 15, 2010

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KRATON PERFORMANCE POLYMERS, INC.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Years Ended December 31, 2009, 2008 and 2007

(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowance for Doubtful Accounts				
Year ended December 31, 2009	$ 2,512	$ (857)	$ (320)	$ 1,335
Year ended December 31, 2008	1,542	2,075	(1,105)	2,512
Year ended December 31, 2007	2,157	81	(696)	1,542

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Inventory Reserves				
Year ended December 31, 2009	$ 5,063	$ 1,526	$ (454)	$ 6,135
Year ended December 31, 2008	4,755	768	(460)	5,063
Year ended December 31, 2007	4,215	2,994	(2,454)	4,755

KRATON POLYMERS LLC

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Years Ended December 31, 2009, 2008 and 2007

(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowance for Doubtful Accounts				
Year ended December 31, 2009	$ 2,512	$ (857)	$ (320)	$ 1,335
Year ended December 31, 2008	1,542	2,075	(1,105)	2,512
Year ended December 31, 2007	2,157	81	(696)	1,542

	Balance at Beginning	Charged to Costs	Deductions	Balance at End of

	of Period	and Expenses		Period
Inventory Reserves				
Year ended December 31, 2009	$ 5,063	$ 1,526	$ (454)	$ 6,135
Year ended December 31, 2008	4,755	768	(460)	5,063
Year ended December 31, 2007	4,215	2,994	(2,454)	4,755

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EXHIBIT INDEX

Item 15. Exhibits

The following is a list of all exhibits filed as a part of this annual report on Form 10-K, including those incorporated in this registration statement by reference.

Exhibit No	Description of Exhibits
2.1	Amended and Restated Agreement and Plan of Merger dated November 5, 2003, among Ripplewood Chemical Holding LLC, Kraton Polymers LLC, Polymer Holdings LLC and Polymer Acquisition LLC (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 2.1 to Amendment No. 2 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on July 15, 2005)
3.1	Certificate of Formation of Ripplewood Chemical Acquisition LLC dated August 24, 2000 (incorporated by reference from Exhibit 3.1 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the Commission on April 1, 2005)
3.2	Certificate of Amendment to the Certificate of Formation of Ripplewood Chemical Acquisition LLC dated December 11, 2000, changing the name to RK Polymers LLC (incorporated by reference from Exhibit 3.2 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the Commission on April 1, 2005)
3.3	Certificate of Amendment to the Certificate of Formation of RK Polymers LLC dated February 28, 2001, changing the name to Kraton Polymers LLC (incorporated by reference from Exhibit 3.3 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the Commission on April 1, 2005)
3.4	Second Amended and Restated Limited Liability Company Agreement of Kraton Polymers LLC dated March 31, 2004 (incorporated by reference from Exhibit 3.4 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the Commission on April 1, 2005)
3.5	Form of Certificate of Incorporation of Kraton Performance Polymers, Inc. (incorporated by reference to Exhibit 3.3 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 2, 2009)
3.6	Form of Bylaws of Kraton Performance Polymers, Inc. (Incorporated by reference to Exhibit 3.4 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 2, 2009)
4.1	Specimen Stock Certificate of Kraton Performance Polymers, Inc. s Common Stock, par value $0.01 per share (incorporated by reference to Exhibit 4.1 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)

4.2	Reference is made to Exhibits 3.3 and 3.4
4.3	Indenture dated as of November 2, 2004, among Polymer Holdings LLC, Polymer Holdings Capital Corporation, and Wells Fargo Bank, N.A., as trustee, relating to the 12.000% Senior Discount Notes due 2014 (incorporated by reference to Exhibit 4.1 to Polymer Holdings LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
4.4	First Supplemental Indenture dated May 9, 2006, among Polymer Holdings LLC, Polymer Holdings Capital Corporation and Wells Fargo Bank, N.A., as trustee, relating to the 12.000% Senior Discount Notes due 2014 (incorporated by reference to Exhibit 4.1 to Polymer Holdings LLC s Quarterly Report on Form 10-Q filed with the SEC on May 15, 2006)
4.5	Indenture dated as of December 23, 2003, among Kraton Polymers LLC, Kraton Polymers Capital Corporation, the Guarantors named therein and Wells Fargo Bank Minnesota, N.A., as trustee, relating to the 8.125% Senior Subordinated Notes due 2014 (incorporated by reference to Exhibit 4.1 to Kraton Polymer LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)

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Exhibit No	Description of Exhibits
4.6	Form of 8.125% Senior Subordinated Notes due 2014 of Kraton Polymers LLC and Kraton Polymers Capital Corporation (incorporated by reference to Exhibit A1 to the Indenture filed as Exhibit 4.1 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
4.7	Pledge and Security Agreement dated December 23, 2003, among Kraton Polymers LLC, Polymer Holdings LLC, Kraton Polymers Capital Corporation, Elastomers Holdings LLC, Kraton Polymers U.S. LLC, as Grantors and UBS AG, Stamford Branch, as Collateral Agent (incorporated by reference to Exhibit 4.4 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
4.8	Credit and Guaranty Agreement dated December 23, 2003, among Kraton Polymers LLC, as Borrower, Polymer Holdings LLC, certain subsidiaries of Kraton Polymers LLC, as Guarantors, various lenders, Goldman Sachs Credit Partners L.P. and UBS Securities LLC, as Lead Arrangers, Goldman Sachs Credit Partners L.P., as Syndication Agent, UBS AG, Stamford Branch, as Administrative Agent and Collateral Agent and Morgan Stanley Senior Funding Inc., Credit Suisse First Boston, acting through its Cayman Islands Branch and General Electric Capital Corporation, as Documentation Agents (incorporated by reference to Exhibit 4.5(a) to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
4.9	Amendment No. 1 to the Credit and Guaranty Agreement dated as of March 4, 2004 (incorporated by reference to Exhibit 4.5(b) to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
4.10	Amendment No. 2 to the Credit and Guaranty Agreement dated as of October 21, 2004 (incorporated by reference to Exhibit 4.5(c) to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
4.11	Amendment No. 3 to the Credit and Guaranty Agreement dated as of February 16, 2006 (incorporated by reference to Exhibit 10.1 to Kraton Polymers LLC s Quarterly Report on Form 10-Q filed with the SEC on May 15, 2006)
4.12	Amendment No. 4 to the Credit and Guaranty Agreement dated as of May 12, 2006 (incorporated by reference to Exhibit 10.3 to Kraton Polymers LLC s Quarterly Report on Form 10-Q filed with the SEC on May 15, 2006)
4.13	Amendment No. 5 to the Credit and Guaranty Agreement dated as of December 15, 2006 (incorporated by reference to Exhibit 10.1 to Kraton Polymers LLC s Current Report on Form 8-K filed with the SEC on December 21, 2006)
4.14	Amendment No. 6 to the Credit and Guaranty Agreement dated as of October 20, 2009 (incorporated by reference to Exhibit 99.1 to Kraton Polymers LLC s Current Report on Form 8-K filed with the SEC on October 22, 2009)
4.15	Amendment No. 7 to the Credit and Guaranty Agreement dated as of November 30, 2009 (incorporated by reference to Exhibit 99.1 to

	Kraton Polymers LLC s Current Report on Form 8-K filed with the SEC on November 30, 2009)
4.16	Joinder Agreement dated June 7, 2006, among Amegy Bank National Association as Lender, Kraton Polymers LLC as Borrower, the Guarantors and the UBS AG, Stamford Branch as Administrative Agent (incorporated by reference to Exhibit 10.1 to Kraton Polymers LLC s Current Report on Form 8-K filed with the SEC on June 7, 2006)
4.17	Form of Amended and Restated Registration Rights and Shareholders Agreement (incorporated by reference to Exhibit 4.17 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)

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Exhibit No	Description of Exhibits
10.1+	Employment Agreement dated April 12, 2004, between Richard A. Ott and Kraton Polymers LLC (incorporated by reference to Exhibit 10.20 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.2+	Amendment No. 2 to the Employment Agreement dated April 9, 2007, between Richard A. Ott and Kraton Polymers LLC (incorporated by reference to Exhibit 10.5(a) to Kraton Polymers LLC s Annual Report on Form 10-K filed with the SEC on April 12, 2007)
10.3+	Profits Unit Award Agreement dated September 10, 2004, between Richard A. Ott and Kraton Polymers LLC (incorporated by reference to Exhibit 10.22 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.4+	Employment Agreement dated March 8, 2004, between David A. Bradley and Kraton Polymers LLC (incorporated by reference to Exhibit 10.26 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.5+	Amendment No. 3 to the Employment Agreement dated April 9, 2007, between David A. Bradley and Kraton Polymers LLC (incorporated by reference to Exhibit 10.9(a) to Kraton Polymers LLC s Annual Report on Form 10-K filed with the SEC on April 12, 2007)
10.6+	Employment Agreement dated as of April 1, 2008, between David A. Bradley and Kraton Polymers LLC (incorporated by reference to Exhibit 10.2 to Kraton Polymers LLC s Current Report on Form 8-K filed with the SEC on April 7, 2008)
10.7+	Profits Unit Award Agreement dated September 10, 2004, between David A. Bradley and Kraton Polymers LLC (incorporated by reference to Exhibit 10.28 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.8+	Restricted Unit Award Grant Agreement dated September 10, 2004, between David A. Bradley and Kraton Polymers LLC (incorporated by reference to Exhibit 10.29 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.9+	Restricted Unit Award Grant Agreement dated as of March 17, 2005, between Kraton Polymers LLC and David A. Bradley (incorporated by reference to Exhibit 10.29(a) to Amendment No. 1 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on June 9, 2005)
10.10+	Restricted Unit Award Grant Agreement dated as of June 19, 2008, between Kraton Polymers LLC and David A. Bradley (incorporated by reference to Exhibit 10.18 to the Kraton Performance Polymers Form S-1 filed with the SEC on November 20, 2009)
10.11+	Employment Agreement dated November 9, 2005, between Kraton and Kevin M. Fogarty (incorporated by reference to Exhibit 10.3 to Kraton Polymers LLC s Quarterly Report on Form 10-Q filed with the SEC on November 14, 2005)
10.12+	Amendment No. 2 to the Employment Agreement dated April 9, 2007, between Kevin M. Fogarty and Kraton Polymers LLC

	(incorporated by reference to Exhibit 10.16(a) to Kraton Polymers LLC s Annual Report on Form 10-K filed with the SEC on April 12, 2007)
10.13+	Employment Agreement dated April 1, 2008, between Kevin M. Fogarty and Kraton Polymers LLC (incorporated by reference to Exhibit 10.1 to Kraton Polymers LLC s Current Report on Form 8-K filed with the SEC on April 7, 2008)
10.14+	Notional Unit Award Grant Agreement dated July 15, 2005, between Kevin M. Fogarty and Kraton Polymers LLC (incorporated by reference to Exhibit 10.56 to Amendment No. 3 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on August 30, 2005)
10.15+	Amendment No. 1 dated December 18, 2008 to the Notional Unit Award Grant Agreement, between Kevin M. Fogarty and Kraton Polymers LLC (incorporated by reference to Exhibit 10.23 to the Kraton Performance Polymers Form S-1 filed with the SEC on November 20, 2009)

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Exhibit No	Description of Exhibits
10.16+	Profits Unit Award Agreement dated July 15, 2005, between Kevin M. Fogarty and Kraton Management LLC (incorporated by reference to Exhibit 10.58 to Amendment No. 3 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on August 30, 2005)
10.17+	Restricted Unit Award Grant Agreement dated as of June 19, 2008, between Kraton Polymers LLC and Kevin M. Fogarty (incorporated by reference to Exhibit 10.25 to the Kraton Performance Polymers Form S-1 filed with the SEC on November 20, 2009)
10.18+	Employment Agreement dated April 1, 2008, between Stephen E. Tremblay and Kraton Polymers LLC (incorporated by reference to Exhibit 10.3 to Kraton Polymers LLC s Current Report on Form 8-K filed with the SEC on April 7, 2008)
10.19+	Employment Agreement dated December 31, 2008, between Lothar Fruend and Kraton Polymers LLC (incorporated by reference to Exhibit 10.27 to the Kraton Performance Polymers Form S-1 filed with the SEC on November 20, 2009)
10.20+	Savings Deferred Compensation and Restoration Plan dated December 31, 2008, restated (incorporated by reference to Exhibit 10.28 to the Kraton Performance Polymers Form S-1 filed with the SEC on November 20, 2009)
10.21+	Pension Benefit Restoration Plan dated December 31, 2008, restated (incorporated by reference to Exhibit 10.29 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 2, 2009)
10.22+	Kraton Polymers LLC Executive Deferred Compensation Plan dated December 31, 2008 (incorporated by reference to Exhibit 10.30 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 2, 2009)
10.23+	Summary of the Terms of the 2009 Incentive Compensation Plan (incorporated by reference to Exhibit 10.32 to the Kraton Performance Polymers Form S-1 filed with the SEC on November 20, 2009)
10.24+	TJ Chemical Holdings LLC 2004 Option Plan and Form of Option Grant Agreement (incorporated by reference to Exhibit 10.31 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.25+	Amendment to TJ Chemical Holdings LLC 2004 Option Plan dated August 18, 2008 (incorporated by reference to Exhibit 10.1 to Kraton Polymers LLC s Quarterly Report on Form 10-Q filed with the SEC on November 12, 2008)
10.26+	Form of Amendment No. 2 to the Employment Agreement of Executive Officers (incorporated by reference to Exhibit 10.4 to Kraton Polymers LLC s Current Report on Form 8-K filed with the SEC on December 22, 2006)
10.27+	Form of Amendment No. 3 to the Employment Agreement of Executive Officers effective December 31, 2008 (incorporated by reference to Exhibit 10.43 to the Kraton Performance Polymers Form S-1 filed with the SEC on November 20, 2009)

10.28+	Form of Amendment No. 1 to the Profits Unit Award Agreement (incorporated by reference to Exhibit 10.5 to Kraton Polymers LLC s Current Report on Form 8-K filed with the SEC on December 22, 2006)
10.29+	Form of Base Salary Reduction Agreement effective April 1, 2009 (incorporated by reference to Exhibit 10.46 to the Kraton Performance Polymers Form S-1 filed with the SEC on November 20, 2009)
10.30+	Amendment No. 2 dated December 8, 2009 to the Notional Unit Award Grant Agreement, between Kevin M. Fogarty and Kraton Polymers LLC (incorporated by reference to Exhibit 10.47 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)

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Exhibit No	Description of Exhibits
10.31+	Polymer Holdings Equity Incentive Plan dated November 30, 2009 (incorporated by reference to Exhibit 10.48 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 2, 2009)
10.32+	Polymer Holdings Cash Incentive Plan dated November 30, 2009 (incorporated by reference to Exhibit 10.49 to the Kraton Performance Polymers Form S-1 filed with the SEC on November 20, 2009)
10.33+	Form of Polymer Holdings Restricted Stock Grant Agreement (incorporated by reference to Exhibit 10.50 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 2, 2009)
10.34+	Form of Polymer Holdings Option Grant Agreement (incorporated by reference to Exhibit 10.51 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 2, 2009)
10.35+	Polymer Holdings Executive Deferred Compensation Plan dated November 30, 2009 (incorporated by reference to Exhibit 10.52 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 2, 2009)
10.36+	Amendment to TJ Chemical Option Plan dated November 30, 2009 (incorporated by reference to Exhibit 10.53 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 2, 2009)
10.37+	Amendment No.1 dated December 8, 2009 to the Restricted Unit Award Grant Agreement dated as of June 19, 2008, between Kraton Polymers LLC and Kevin M. Fogarty (incorporated by reference to Exhibit 10.54 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)
10.38+	Amendment No.1 dated December 8, 2009 to the Restricted Unit Award Grant Agreement dated as of March 17, 2005, between Kraton Polymers LLC and David A. Bradley (incorporated by reference to Exhibit 10.55 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)
10.39+	Amendment dated December 8, 2009 to the Restricted Unit Award Grant Agreement dated as of June 19, 2008, between Kraton Polymers LLC and David A. Bradley (incorporated by reference to Exhibit 10.56 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)
10.40+	Amendment dated December 8, 2009 to the Profits Unit Award Agreement dated July 15, 2005, between Kevin M. Fogarty and Kraton Management LLC (incorporated by reference to Exhibit 10.57 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)
10.41+	Amendment dated December 8, 2009 to the Profits Unit Award Agreement dated September 10, 2004, between David A. Bradley and Kraton Management LLC (incorporated by reference to Exhibit 10.58 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)
10.42+	

	Amendment dated December 8, 2009 to the Profits Unit Award Agreement dated September 10, 2004, between Richard A. Ott and Kraton Management LLC (incorporated by reference to Exhibit 10.59 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)
10.43+	Amended Employment Agreement dated December 8, 2009 between Kevin M. Fogarty and Kraton Polymers LLC (incorporated by reference to Exhibit 10.60 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)
10.44+	Amended Employment Agreement dated December 8, 2009, between David A. Bradley and Kraton Polymers LLC (incorporated by reference to Exhibit 10.61 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)

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Exhibit No	Description of Exhibits
10.45+	Amended Employment Agreement dated December 8, 2009, between Richard Ott and Kraton Polymers LLC (incorporated by reference to Exhibit 10.62 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)
10.46+	Amended Employment Agreement dated December 8, 2009, between Lothar Freund and Kraton Polymers LLC (incorporated by reference to Exhibit 10.63 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)
10.47+	Amended Employment Agreement dated December 8, 2009, between Stephen E. Tremblay and Kraton Polymers LLC (incorporated by reference to Exhibit 10.64 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 12, 2009)
10.48+*	Amended and Restated Employment Agreement dated December 8, 2009, by and between Larry R. Frazier, Polymer Holdings, LLC and Kraton Polymers LLC (filed herewith)
10.49+*	Amended and Restated Employment Agreement dated December 8, 2009, by and between Stephen W. Duffy, Polymer Holdings, LLC and Kraton Polymers LLC (filed herewith)
10.50	First Amended and Restated Site Services, Utilities, Materials and Facilities Agreement dated February 28, 2001, between Shell Chimie S.A. and Kraton Polymers France S.A.S. (Berre) (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.34 to Amendment No. 2 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on July 15, 2005)
10.51	Amended and Restated Belpre Facility Sharing and Operating Agreement dated July 1, 1999, among Infineum USA LP, Shell Oil Company and Shell Elastomers LLC (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.38 to Amendment No. 2 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on July 15, 2005)
10.52	Amendment No. 1 dated January 23, 2007 to Amended and Restated Belpre Facility Sharing and Operating Agreement (incorporated by reference to Exhibit 10.69 to the Kraton Performance Polymers Form S-1 filed with the SEC on November 20, 2009)
10.53	Amendment No. 2 dated January 1, 2009 to Amended and Restated Belpre Facility Sharing and Operating Agreement (incorporated by reference to Exhibit 10.70 to the Kraton Performance Polymers Form S-1 filed with the SEC on November 20, 2009)
10.54	First Amended and Restated Operations and Maintenance Services Agreement dated February 28, 2001, between Kraton Polymers Nederland B.V. and Shell Nederland Chemie B.V. (Pernis) (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.35 to Amendment No. 2 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on July 15, 2005)
10.55	First Amended and Restated Operations and Maintenance Services Agreement dated February 28, 2001, between Kraton Polymers

	France S.A.S. and Shell Chimie S.A. (Berre) (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.36 to Amendment No. 2 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on July 15, 2005)
10.56	Production Agreement dated March 31, 2000, between Elenac GmbH and Kraton Polymers GmbH (Wesseling) (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.37 to Amendment No. 2 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on July 15, 2005)

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Exhibit No	Description of Exhibits
10.57	1,3-Butadiene Agreement dated December 1, 1999, between Deutsche Shell Chemie GmbH and MWW Achtundzwanzigste Vermoegensverwaltungs GmbH (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.44 to Amendment No. 2 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on July 15, 2005)
10.58	Agreement dated February 28, 2001, between Shell Nederland Chemie B.V. and Kraton Polymers Nederland B.V. for the supply of Isoprene Monomer (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.46 to Amendment No. 2 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on July 15, 2005)
10.59	Letter Amendment No. 2 (and by reference Amendment No. 1) to the Agreement dated February 28, 2001, between Shell Nederland Chemie B.V. and Kraton Polymers Nederland B.V. for the supply of Isoprene Monomer, dated December 10, 2007, between Shell Chemicals Europe B.V. and Kraton Polymers Nederland P.V. (incorporated by reference to Exhibit 10.39(a) to Kraton Polymers LLC s Annual Report on Form 10-K filed with the SEC on March 31, 2008)
10.60	Manufacturing Facility Lease dated August 24, 2000, between Shell Chemie and Kravis (Berre-Kraton D) (incorporated by reference to Exhibit 10.47 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.61	Manufacturing Facility Lease dated August 24, 2000, between Shell Chimie and Kraton Polymers France SAS (Berre-Kraton G) (incorporated by reference to Exhibit 10.48 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.62	Business Lease dated March 31, 2000, between Elenac GmbH and Kraton Polymers GmbH (Wesseling) (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.49 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.63	Amendment to the Business Lease dated March 31, 2000, between Bassell Polyolefine GmbH (previously Elenac GmbH) and Kraton Polymers GmbH (incorporated by reference to Exhibit 10.49(a) to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.64	Contribution Agreement dated February 28, 2001, between Shell Oil Company and Shell Elastomers (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.50 to Amendment No. 2 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on July 15, 2005)
10.65	Contribution Agreement dated February 28, 2001, between Shell Internationale Research Maatschappij B.V. and Kraton Polymers Research B.V. (portions of this exhibit have been omitted pursuant

	to a request for confidential treatment) (incorporated by reference to Exhibit 10.51 to Amendment No. 2 to Kraton Polymers LLC s Registration Statement on Form S-4 filed with the SEC on July 15, 2005)
10.66	Agreement for Adjustment and Termination of Services under Kraton/SNC SUMFs and OMS Agreements at Pernis dated as of June 28, 2007 by and among Shell Nederland Chemie B.V. and Kraton Polymers Nederland B.V. (incorporated by reference to Exhibit 10.1 to Kraton Polymers LLC s Quarterly Report on Form 10-Q filed with the SEC on November 14, 2007)
10.67+	Amendment to Outstanding Option Grant Agreements (incorporated by reference to Exhibit 10.92 to the Kraton Performance Polymers Form S-1 filed with the SEC on December 2, 2009)
12.1*	Statement of Computation of Ratio of Earnings to Fixed Charges
21.1*	List of Significant Subsidiaries

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Exhibit No	Description of Exhibits
23.1*	Consent of Independent Registered Public Accounting Firm
24.1*	Powers of Attorney
31.1*	Certification by CEO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by CFO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

+ Denotes management contract or compensatory plan or arrangement.
* Filed herewith.