UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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

Commission File Number

Kraton Performance Polymers, Inc.	**001-34581**
Kraton Polymers LLC	**333-123747**

KRATON PERFORMANCE POLYMERS, INC.

KRATON POLYMERS LLC

(Exact Name of Registrant as Specified in its Charter)

Kraton Performance Polymers, Inc.	**Delaware**	**20-0411521**
Kraton Polymers LLC	**Delaware**	**26-3739386**
	(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

15710 John F. Kennedy Blvd.

Suite 300

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Kraton Performance Polymers, Inc.	YES x NO ¨
Kraton Polymers LLC	YES x NO ¨

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

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

Large accelerated filer:	¨	Accelerated filer:	¨
Non-accelerated filer:	x	Smaller reporting company:	¨

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

Number of shares of Kraton Performance Polymers, Inc. Common Stock, $0.01 par value, outstanding as of October 29, 2010: 31,252,979.

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on Form 10-Q for

Quarter Ended September 30, 2010

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Some of the statements in this Quarterly Report on Form 10-Q under the headings Condensed Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written or oral forward-looking statements in our periodic reports on Forms 10-K, 10-Q and 8-K, in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements are often characterized by the use of words such as believes,   estimates,   expects,   projects,   may,   intends,   plans or anticipates, or by discussions of strategy, plans or intentions. Such forward-looking statements involve know and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or our achievements, or industry results, to differ materially from historical results, any future results, or performance or achievements expressed or implied by such forward-looking statements. There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Further description of these risks and uncertainties and other important factors are set forth in our latest Annual Report on Form 10-K, as amended, including but not limited to Part 1, Item 1A. Risk Factors and Part 1, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations therein, and in our other filings with the Securities and Exchange Commission, and include, but are not limited to, risks related to:

- conditions in the global economy and capital markets;
- our reliance on LyondellBasell Industries for the provision of significant operating and other services;
- the failure of our raw materials suppliers to perform their obligations under long-term supply agreements, or our inability to replace or renew these agreements when they expire;
- limitations in the availability of raw materials we need to produce our products in the amounts or at the prices necessary for us to effectively and profitably operate our business;
- competition in our end-use markets, by other producers of styrenic block copolymers and by producers of products that can be substituted for our products;
- our ability to produce and commercialize technological innovations;
- our ability to protect our intellectual property, on which our business is substantially dependent;
- infringement of our products on the intellectual property rights of others;
- seasonality in our Paving and Roofing business;
- financial and operating constraints related to our substantial level of indebtedness;

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

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

the inherently hazardous nature of chemical manufacturing;

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

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

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

our relationship with our employees;

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- loss of key personnel or our inability to attract and retain new qualified personnel;
- fluctuations in currency exchange rates;
- the fact that we do not enter into long-term contracts with our customers;
- a decrease in the fair value of our pension assets, which could require us to materially increase future funding of the pension plan; and
- concentration of ownership among our principal stockholders, which may prevent new investors from influencing significant corporate decisions.

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

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

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PRESENTATION OF FINANCIAL STATEMENTS

The terms Kraton Performance Polymers, our company, we, our, ours and us as used in this report refer collectively to Kraton Performance Polymers, Inc. and its consolidated subsidiaries; Kraton refers to Kraton Polymers LLC, unless we indicate or the context suggests otherwise. This combined Form 10-Q is separately filed by Kraton Performance Polymers and Kraton. Information contained herein relating to Kraton is filed by Kraton Performance Polymers and separately by Kraton on its own behalf.

This Form 10-Q includes financial statements and related notes that present the condensed consolidated financial position, results of operations and cash flows of Kraton Performance Polymers and its subsidiaries and the condensed consolidated financial position, results of operations and cash flows of Kraton and its subsidiaries. Kraton Performance Polymers is a holding company whose only material asset is its investment in Kraton, which is its wholly-owned subsidiary. Kraton and its subsidiaries own all of the consolidated operating assets of our company.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KRATON PERFORMANCE POLYMERS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value)

	September 30, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 78,285	$ 69,291
Receivables, net of allowances of $977 and $1,335	153,905	115,329
Inventories of products, net	337,655	284,258
Inventories of materials and supplies, net	9,636	10,862
Deferred income taxes		3,107
Other current assets	14,932	16,770
Total current assets	594,413	499,617
Property, plant and equipment, less accumulated depreciation of $231,559 and $236,558	351,990	354,860
Identifiable intangible assets, less accumulated amortization of $48,885 and $42,741	71,740	75,801
Investment in unconsolidated joint venture	12,641	12,078
Deferred financing costs	5,755	7,318
Other long-term assets	30,303	24,825
Total Assets	$ 1,066,842	$ 974,499
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 2,304	$ 2,304
Accounts payable-trade	93,009	93,494
Deferred income taxes	640	
Other payables and accruals	52,167	68,271
Due to related party	19,541	19,006
Insurance note payable	1,490	
Total current liabilities	169,151	183,075
Long-term debt, net of current portion	380,947	382,675
Deferred income taxes	15,408	13,488
Other long-term liabilities	47,443	46,477
Total Liabilities	612,949	625,715
Commitments and contingencies (note 11)		
Stockholders equity		

Preferred stock, $0.01 par value; 100,000 shares authorized; none issued		
Common stock, $0.01 par value; 500,000 shares authorized; 31,204 shares issued and outstanding	312	297
Additional paid in capital	330,976	311,665
Retained earnings	86,412	(14)
Accumulated other comprehensive income	36,193	36,836
Total stockholders equity	453,893	348,784
Total Liabilities and Stockholders Equity	$ 1,066,842	$ 974,499

See Notes to Condensed Consolidated Financial Statements

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KRATON PERFORMANCE POLYMERS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Operating Revenues				
Sales	$ 335,442	$ 270,454	$ 940,260	$ 682,061
Other		18,064		35,235
Total operating revenues	335,442	288,518	940,260	717,296
Cost of Goods Sold	252,561	218,549	699,139	602,633
Gross Profit	82,881	69,969	241,121	114,663
Operating Expenses				
Research and development	6,125	5,075	17,681	15,115
Selling, general and administrative	24,819	20,282	68,653	56,585
Depreciation and amortization of identifiable intangibles	13,027	16,477	36,042	41,582
Total operating expenses	43,971	41,834	122,376	113,282
Gain on Extinguishment of Debt				23,831
Earnings of Unconsolidated Joint Venture	81	129	317	305
Interest Expense, net	6,127	8,044	18,463	24,783
Income Before Income Taxes	32,864	20,220	100,599	734
Income Tax Expense (Benefit)	4,828	(1,645)	14,173	(485)
Net Income	$ 28,036	$ 21,865	$ 86,426	$ 1,219
Earnings per common share (note 7)				
Basic	$ 0.90	$ 1.13	$ 2.80	$ 0.06
Diluted	$ 0.88	$ 1.12	$ 2.76	$ 0.06
Weighted average common shares outstanding				
Basic	30,916	19,386	30,716	19,385
Diluted	31,590	19,449	31,145	19,466

See Notes to Condensed Consolidated Financial Statements

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KRATON PERFORMANCE POLYMERS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 86,426	$ 1,219
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of identifiable intangibles	36,042	41,582
Accretion of debt discount		5
Inventory impairment		669
Amortization of deferred financing costs	1,553	2,038
Loss on disposal of fixed assets	3	411
Gain on extinguishment of debt		(23,831)
Change in fair value of interest rate swaps	(450)	(1,263)
Distributed earnings in unconsolidated joint venture	86	128
Deferred income tax expense	7,168	(8,309)
Non-cash compensation related to equity awards	2,836	1,714
Decrease (increase) in		
Accounts receivable	(38,713)	(32,417)
Inventories of products, materials and supplies	(55,917)	94,010
Other assets	(4,561)	(13,808)
(Decrease) in		
Accounts payable-trade, other payables and accruals, and other long-term liabilities	(12,431)	(8,708)
Due to related party	(1,304)	(12,291)
Net cash provided by operating activities	20,738	41,149
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(30,251)	(23,768)
Purchase of software	(2,081)	(12,378)
Proceeds from sale of property, plant and equipment		3,853
Net cash used in investing activities	(32,332)	(32,293)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt	69,000	124,000
Repayment of debt	(70,728)	(187,177)
Proceeds from issuance of common stock	11,197	
Costs associated with the issuance of common stock	(534)	
Proceeds from stock based compensation	5,852	
Proceeds from insurance note payable	3,336	3,706
Repayment of insurance note payable	(1,846)	(3,706)
Net cash provided by (used in) financing activities	16,277	(63,177)

Effect of exchange rate differences on cash	4,311	(24,710)
Net increase (decrease) in cash and cash equivalents	8,994	(79,031)
Cash and cash equivalents, beginning of period	69,291	101,396
Cash and cash equivalents, end of period	$ 78,285	$ 22,365
Supplemental Disclosures		
Cash paid during the period for income taxes, net of refunds received	$ 3,444	$ 8,379
Cash paid during the period for interest	$ 21,252	$ 27,652

See Notes to Condensed Consolidated Financial Statements

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KRATON PERFORMANCE POLYMERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

Description of Business. We believe we are the world s leading producer in terms of sales revenues of styrenic block copolymers, or SBCs, a family of performance polymer products whose chemistry we pioneered almost 50 years ago. SBCs are highly-engineered synthetic elastomers that enhance the performance of numerous products by delivering a variety of performance-enhancing characteristics, including greater flexibility, resilience, strength, durability and processability. SBCs 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 most diversified SBC plant in the world, as well as plants in Germany, France, Brazil and Japan. The plant in Japan is operated by an unconsolidated manufacturing joint venture. 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, ours, us, our company and/or the Company.

Secondary Public Offering. On September 29, 2010, two of our affiliates, TPG Capital, L.P. or TPG and J.P. Morgan Partners, LLC or JPMP, completed a public offering of 8,000,000 shares of our common stock. Including 1,200,000 shares of common stock sold on October 4, 2010, following the full exercise of the underwriters option to purchase additional shares to cover over-allotments, the aggregate shares sold by the affiliates of TPG and JPMP in the secondary public offering was 9,200,000 shares, at a price of $26.50 per share. We did not receive any proceeds from the offering, and the total number of shares of common stock outstanding did not change as a result of this offering.

Basis of Presentation. The accompanying Condensed Consolidated Financial Statements presented herein are for Kraton Performance Polymers, Inc. (formerly Polymer Holdings LLC) and its consolidated subsidiaries, each of which is a wholly-owned subsidiary. These interim financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009, as amended, and reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present our results of operations and financial position. Amounts reported in the Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods, in particular due to the effect of seasonal changes and weather conditions that typically affect our polymer product sales into our Paving and Roofing end use market.

Our significant accounting policies have been disclosed in Note 1 Summary of Operations and Significant Accounting Policies in our most recent Annual Report on Form 10-K, as amended. There have been no changes to the policies disclosed therein. The accompanying Condensed Consolidated Financial Statements presented herein have been prepared in accordance with those policies.

Use of Estimates. The preparation of Condensed 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 Condensed 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.

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Income Tax in Interim Periods. Our business operations are global in nature, and we are subject to taxes in numerous jurisdictions. Tax laws and tax rates vary substantially in these jurisdictions and are subject to change given the political and economic climate in those countries. We file our tax returns in accordance with our interpretations of each jurisdiction s tax laws. We record our tax provision or benefit on an interim basis using the estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated to the interim period. Losses from jurisdictions for which no benefit can be realized and the income tax effects of unusual and infrequent items are excluded from the estimated annual effective tax rate. Valuation allowances are provided against the future tax benefits that arise from the losses in jurisdictions for which no benefit can be realized. In addition, the effects of unusual and infrequent items are recognized in the impacted interim period as discrete items. The estimated annual effective tax rate may be significantly impacted by nondeductible expenses and our projected earnings mix by tax jurisdiction. Adjustments to the estimated annual effective income tax rate are recognized in the period when such estimates are revised. Additionally, we have established valuation allowances against a variety of deferred tax assets, including net operating loss carry-forwards, foreign tax credits and other income tax credits. Valuation allowances take into consideration our ability to use these deferred tax assets and reduce the value of such items to the amount that is deemed more likely than not to be recoverable. Our ability to utilize these deferred tax assets is dependent on achieving our forecast of future taxable operating income over an extended period of time. We review our forecast in relation to actual results and expected trends on a quarterly basis. Failure to achieve our operating income targets may change our assessment regarding the recoverability of our net deferred tax assets and such change could result in a valuation allowance being recorded against some or all of our net deferred tax assets. An increase in a valuation allowance would result in additional income tax expense and lower stockholders equity and could have a significant impact on our earnings in future periods. The release of valuation allowances in periods when these tax attributes become realizable would reduce our effective tax rate.

2. New Accounting Pronouncements

Adoption of Accounting Standards

We have implemented all new accounting pronouncements that are in effect and that may impact our financial statements and do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on our financial position or results of operations.

Future Adoption of Accounting Standards

The following new accounting pronouncement has been issued, but has not yet been adopted as of September 30, 2010:

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

3. Share-Based Compensation

We account for share-based awards under the provisions of ASC 718, *Stock Compensation*, 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 value stock options issued using the Black-Scholes Merton option-pricing

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model and there have been no changes to our methodology disclosed in our most recently filed Annual Report on Form 10-K, as amended.

We record non-cash compensation expense for the restricted stock awards, notional units and stock options over the vesting period using the straight-line method. We awarded 22,202 shares of restricted stock during the nine months ended September 30, 2010. See Note 7 Common Stock and Earnings per Common Share for further discussion.

Information pertaining to option activity for the nine months ended September 30, 2010 is as follows:

	Options (in thousands)	Weighted-Average Exercise Price
Outstanding at December 31, 2009	1,585	$ 13.51
Granted	642	15.93
Exercised	(433)	13.51
Cancelled	(3)	13.51
Outstanding at September 30, 2010	1,791	$ 14.38
Exercisable at September 30, 2010	837	$ 13.51

4. 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.

Pernis Restructuring. We ceased production at our Pernis, the Netherlands, facility on December 31, 2009, where, prior to the exit, we manufactured isoprene rubber. In connection with the exit, in 2009 we incurred $3.9 million in asset retirement obligations (ARO), $6.0 million in restructuring costs and a $1.1 million non-cash charge to write-down our inventory of spare parts.

For the nine months ended September 30, 2010, the original estimated ARO of $3.9 million was reduced to $2.6 million as a result of our completing the exit of the facility two months earlier than originally anticipated. The $1.3 million reduction in the ARO is reflected as a reduction in depreciation and amortization of intangible assets in the nine months ended September 30, 2010. The following is a summary of the 2010 activity associated with the exit of the Pernis facility:

	Pernis Restructuring (in thousands)
Accrued Pernis restructuring at December 31, 2009	$ 9,989
Payments	(8,698)
Change in estimate for ARO	(1,291)
Accrued Pernis restructuring at September 30, 2010	$

European Office Consolidation Restructuring. We consolidated our transactional functions as well as much of our European management in a new European central office in Amsterdam, the Netherlands, which we believe will result in greater operating efficiency and improved service to our global customers while ultimately lowering operating costs by an estimated $2.0 million per annum.

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We expect to incur $5.0 million to $6.0 million of costs in connection with our restructuring plan, largely in the second half of 2010. For the nine months ended September 30, 2010, we have incurred $1.9 million of restructuring charges, primarily comprised of severance and consulting expenses. The following is a summary of the 2010 activity associated with our European office consolidation:

	Europe Restructuring (in thousands)
Accrued European office consolidation restructuring at December 31, 2009	$
Restructuring costs	1,926
Payments	(1,240)
Accrued European office consolidation restructuring at September 30, 2010	$ 686

5. Detail of Certain Balance Sheet Accounts

The components of inventories of products and other payables and accruals are as follows:

	September 30, 2010	December 31, 2009
	(in thousands)	
Inventories of products, net:		
Finished products	$ 254,072	$ 223,500
Work in progress	3,082	3,254
Raw materials	80,501	57,504
	$ 337,655	$ 284,258
Other payables and accruals:		
Employee related	$ 15,409	$ 5,783
Interest	3,487	7,366
Property and other taxes	714	4,255
Customer rebates	3,439	2,960
Income taxes payable	7,525	4,000
Derivative liabilities	2,381	2,926
Restructuring	686	9,874
Other	18,526	31,107
	$ 52,167	$ 68,271

6. Comprehensive Income

Components of comprehensive income are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	

Net income	$ 28,036	$ 21,865	$ 86,426	$ 1,219
Other comprehensive income				
Foreign currency translation adjustments, net of tax	31,836	6,323	(1,164)	11,721
Reclassification of interest rate swaps into earnings		(421)	(450)	(1,263)
Net unrealized gain (loss) on interest rate swaps	(340)	(226)	179	(584)
Net unrealized gain on net investment hedge	718		792	
Total comprehensive income	$ 60,250	$ 27,541	$ 85,783	$ 11,093

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Accumulated other comprehensive income consists of the following:

	September 30, 2010	December 31, 2009
	(in thousands)	
Foreign currency translation adjustments, net of tax	$ 54,601	$ 55,765
Net unrealized loss on interest rate swaps	(2,051)	(1,780)
Net unrealized gain on net investment hedge	792	
Increase in pension liability, net of tax	(17,149)	(17,149)
Total accumulated other comprehensive income	$ 36,193	$ 36,836

7. Earnings per Common Share

Basic Earnings per share (EPS) is computed by dividing net income by the weighted-average number of common shares outstanding during the period.

Diluted EPS is computed by dividing net income by the diluted weighted-average number of common shares outstanding during the period and, accordingly, 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 and were dilutive. The diluted weighted-average number of common shares used in the diluted EPS calculation is determined using the treasury stock method.

Unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock awards are considered to be participating securities and the two-class method is used for purposes of calculating EPS. Under the two-class method, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands, except per share data)		(in thousands, except per share data)	
Net income as reported	$ 28,036	$ 21,865	$ 86,426	$ 1,219
Less (income) allocated to unvested restricted shares	(107)	(53)	(364)	(2)
Income allocated to common shares for basic and diluted EPS	$ 27,929	$ 21,812	$ 86,062	$ 1,217
Total weighted-average number of common shares for basic EPS	30,916	19,386	30,716	19,385
Incremental effect of dilutive common share equivalents:				
Notional units	35	63	35	81
Stock options	639		394	
Total weighted-average number of shares for diluted EPS	31,590	19,449	31,145	19,466
Total basic earnings per common share	$ 0.90	$ 1.13	$ 2.80	$ 0.06
Total dilutive earnings per common share	$ 0.88	$ 1.12	$ 2.76	$ 0.06

Restricted common shares outstanding totaled 118,413 and 46,699 at September 30, 2010 and 2009, respectively, and are subject to time vesting and restrictions on transfer until vested and have identical voting, income and distribution rights to the unrestricted common shares outstanding. Notional units in the amount of 35,098 and 63,221 and stock options in the amount of 1,790,427 and 1,584,970 were outstanding at September 30, 2010 and 2009, respectively.

The computation of diluted earnings per share excludes the effect of the potential exercise of stock options when the average market price of the common stock is lower than the exercise price of the related stock options during the period because the effect would be antidilutive. The number of stock options excluded from the computation was 25,000 for the quarter and nine months ended September 30, 2010. For the quarter and nine months ended September 30, 2009, the number of stock options excluded from the computation was 1,584,970.

8. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2010	December 31, 2009
	(in thousands)	
Term loans	$ 220,001	$ 221,729
12% discount notes	250	250
8.125% discount notes	170,000	170,000
8.125% discount notes held in treasury	(7,000)	(7,000)
Total debt	383,251	384,979
Less current portion of long-term debt	2,304	2,304
Total long-term debt	$ 380,947	$ 382,675

Term Loans and Revolving Loans. Kraton is the borrower under our senior secured credit agreement dated as of December 23, 2003, as amended, (the Credit Agreement), and Kraton s wholly-owned domestic subsidiaries along with us, as successor to Polymer Holdings, are guarantors under the 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, the capital stock of Kraton s domestic subsidiaries and 65% of the capital stock of the direct foreign subsidiaries of each Loan Party. There have been no material changes to our Credit Agreement since the disclosure made in our most recently filed Annual Report on Form 10-K, as amended. In these notes to the Condensed 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.

Pursuant to Amendment No. 7 to the Credit Agreement, dated November 30, 2009 (the November 2009 Amendment), the maximum available borrowings under the Revolving Loans increased from $75.5 million to $80.0 million and the maturity on $79.8 million of the Revolving Loans was extended from May 2011 to May 2013.

In December 2009, Kraton applied a portion of the proceeds from our initial public offering as a prepayment on the term portion of its senior secured credit facility in the amount of $100.0 million, which resulted in the write off of approximately $1.5 million of deferred financing cost. As of September 30, 2010, Kraton had no outstanding borrowings under the Revolving Loans.

The following is a summary of the material terms of the Credit Agreement.

Maturity. The Revolving Loans extended pursuant to the November 2009 Amendment are payable in a single maturity on May 12, 2013. The $0.2 million portion of the Revolving Loans that were not extended pursuant to November 2009 Amendment are payable on May 12, 2011. The Term Loans are payable in 7 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 Term Loans 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. The average effective interest rates on the Term Loans for the nine months ended September 30, 2010 and 2009 were 3.53% and 4.27%, respectively. The Revolving Loans 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 Loans, an annual commitment fee equal to 0.75% payable quarterly on the daily average undrawn portion of the Revolving Loans extended pursuant to the November 2009 Amendment accrues and is payable quarterly in arrears.

The $0.2 million of the Revolving Loans that were not extended pursuant to the November 2009 Amendment 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 (also depending on Kraton s leverage ratio). The unused commitment fee for the unextended Revolving Loan is 0.5%.

Mandatory Prepayments. The existing term facility is subject to mandatory prepayments as discussed in our most recently filed Annual Report on Form 10-K, as amended.

Covenants. The Credit Agreement contains certain affirmative and negative covenants, as discussed in our most recently filed Annual Report on Form 10-K, as amended. As of September 30, 2010, we were in compliance with all covenants contained in the Credit Agreement.

Senior 12% Discount Notes Due July 15, 2014. As part of a refinancing of indebtedness on November 2, 2004, Polymer Holdings issued $150.0 million of 12% discount notes. On May 12, 2006, all but $0.25 million of the 12% discount notes were repaid.

Senior Subordinated 8.125% 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. Each of Kraton Polymers U.S. LLC and Elastomers Holdings LLC has guaranteed the 8.125% Notes.

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. We may redeem all or a part of the 8.125% Notes at the redemption prices (expressed as percentages of principal amount) plus accrued and unpaid interest, if any.

On March 16, 2009, Kraton purchased and retired $30.0 million face value of the 8.125% 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 retirement of these 8.125% Notes.

In April 2009, TJ Chemical purchased approximately $6.3 million face value of the 8.125% Notes for cash consideration of $2.5 million, which included accrued interest of $0.1 million. Immediately upon purchasing the 8.125% 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 8.125% Notes, although equity of each of Kraton Performance Polymers and Kraton was increased by an amount equal to the cash consideration paid by TJ Chemical. Kraton holds the 8.125% Notes as treasury notes. Also in April 2009, Kraton purchased approximately $0.7 million face value of the 8.125% Notes for cash consideration of

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$0.3 million, which Kraton is holding as treasury notes. We recorded a gain of approximately $4.3 million on the extinguishment of debt in the quarter ended June 30, 2009.

Covenants. The 8.125% Notes contain certain affirmative and negative covenants, as discussed in our most recently filed Annual Report on Form 10-K, as amended. As of September 30, 2010, we were in compliance with all covenants under the 8.125% Notes.

See Note 9 Financial Instruments and Credit Risk for fair value information related to our long-term debt.

9. Financial Instruments and Credit Risk

Financial Instruments

Interest Rate Swap Agreements. Periodically, we enter into interest rate swap agreements to hedge or otherwise protect against Eurodollar interest rate fluctuations on a portion of our variable rate debt. These interest rate swap agreements are designated as cash flow hedges on the exposure of the variability of future cash flows.

In February 2008, we entered into a $325.0 million notional amount interest rate swap agreement. The agreement had a fixed rate of 2.77%, therefore, including the 2.00% margin on the term loan agreement, our hedged fixed rate was 4.77% through April 1, 2010. We settled the swap early in June 2008 in advance of the scheduled maturity, resulting in a gain on the sale of $4.6 million. The gain was deferred in accumulated other comprehensive income and was being reclassified as a reduction in interest expense through March 31, 2010 using the effective interest method. We reclassified $0.5 million for the three months ended March 31, 2010 and $0.7 million for the nine months ended September 30 2009 into earnings, respectively.

In May 2009, we entered into a $310.0 million notional amount interest rate swap agreement. This agreement was effective on January 4, 2010 and expires on January 3, 2011 and has a fixed rate of 1.53%, therefore, including the 2.00% margin on the term loan agreement, our hedged fixed rate is 3.53%. In December 2009, we made a $100.0 million payment of outstanding indebtedness under the Term Facility, reducing the principal amount outstanding from approximately $323.0 million to approximately $223.0 million. As a result, we were required to discontinue hedge accounting prospectively as the hedging relationship failed to meet all of the criteria set forth in ASC 815, *Derivatives and Hedging* specifically the notional amount of the swap and the principal amount of the debt were no longer equal and the forecasted transaction was no longer probable of occurring based on the original hedge documentation. We have elected to re-designate the cash flow hedge relationship for approximately $218.0 million notional amount out of the total $310.0 million notional amount interest rate swap agreement. We recorded a gain of $0.5 million and $0.0 million in interest expense related to the ineffective portion and a gain of $1.1 million and a loss of $0.9 million in accumulated other comprehensive income related to the effective portion of the hedge for the nine months ended September 30, 2010 and 2009, respectively.

In June 2010, we entered into a $215.0 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 will be effective on January 3, 2011 and expires on January 3, 2012 and has a fixed rate of 0.87%, therefore, including the 2.00% margin on the term loan agreement, our hedged fixed rate will be 2.87%. We recorded an unrealized loss of $1.0 million in accumulated other comprehensive income related to the effective portion of this hedge for the nine months ended September 30, 2010.

Foreign Currency Hedges. 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 expired on December 29, 2009. The option contract did not qualify for hedge accounting. During the nine months ended September 30, 2009, we recorded a gain of $1.7 million, which represented the mark-to-market impact of the purchased option contract. The gain was recorded in selling, general and administrative expense on

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the Condensed Consolidated Statements of Operations. 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.

Net Investment Hedges. In May 2010, we entered into multiple non-deliverable forward contracts to reduce our exposure to fluctuations in the Brazilian Real to the U.S. dollar associated with the funding of the debottleneck and expansion of our isoprene rubber latex capacity at our Paulina, Brazil, plant, for the notional amounts of R$2.7 million, R$7.1 million, and R$7.8 million with expiration dates of June 30, September 30, and December 31, 2010, respectively. The non-deliverable forward contracts qualify for hedge accounting and were designated as net investment hedges in accordance with ASC 815-35 *Net Investment Hedges.* We have recorded a $0.8 million gain in accumulated other comprehensive income related to the effective portion of the hedge for the nine months ended September 30, 2010.

Fair Value of Financial Instruments. 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.

The following table presents the carrying values and approximate fair values of our long-term debt at September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)		(in thousands)	
Term loans	$ 220,001	$ 220,001	$ 221,729	$ 221,729
12% discount notes	250	321	250	250
8.125% discount notes	163,000	164,630	163,000	146,089
8.125% discount notes held in treasury	7,000	7,070	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.

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

	Balance Sheet Location	September 30, 2010	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 2009 Interest rate swap	Other payables and accruals	$ 1,339	$	$ 1,339	$
Derivative liabilities 2010 Interest rate swap	Other payables and accruals	$ 1,042	$	$ 1,042	$
Derivative asset 2010 Net Investment hedge	Other current assets	$ 455	$	$ 455	$

	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 2009 Interest rate swap	Other payables and accruals	$ 2,926	$	$ 2,926	$

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. We minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings and monitoring positions with individual counterparties. In the event of a default by one of our counterparties, we may not receive payments provided for under the terms of our derivatives. We do not anticipate any defaults by our derivative instrument contract counterparties.

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. 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.

10. Income Taxes

Income tax expense for the nine months ended September 30, 2010 was $14.2 million compared to an income tax benefit of $0.5 million for the nine months ended September 30, 2009. The effective tax rate for the nine months ended September 30, 2010 was 14.1% compared to (66.1)% for the nine months ended September 30, 2009. Our effective tax rate for the nine months ended September 30, 2010 was lower than the statutory rate of 35.0% primarily due to the mix of pre-tax income earned in foreign jurisdictions and the recognition of the tax benefit for certain net operating loss carryforwards.

We are required to provide a valuation allowance for certain deferred tax assets in excess of deferred tax liabilities because we have concluded that it is more likely than not that such deferred tax assets ultimately will not be realized.

As of September 30, 2010, we had unrecognized tax benefits related to foreign tax positions, all of which, if recognized, would impact the effective tax rate. We had no substantial change in uncertain tax positions and have recorded $1.3 million of unrecognized tax benefits, including interest and penalties, as a long-term liability.

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Our tax jurisdictions include the United States and various state and foreign jurisdictions. For our U.S. federal income tax returns, the statute of limitations has expired through the tax year December 31, 2006; all years subsequent to 2006 remain subject to examination. In addition, open tax years to state and foreign jurisdictions remain subject to examination.

11. Commitments and Contingencies

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. There have been no material changes to our Commitments and Contingencies disclosed in our most recently filed Annual Report on Form 10-K, as amended.

12. Employee Benefits

Retirement Plans. The components of net periodic benefit cost related to pension benefits and other post-retirement benefits for the three and nine months ended September 30, 2010 and September 30, 2009 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Defined Benefit Pension Plan				
Components of net period benefit cost:				
Service cost	$ 580	$ 709	$ 1,783	$ 2,126
Interest cost	1,230	1,186	3,676	3,557
Expected return on plan assets	(1,213)	(1,170)	(3,639)	(3,510)
Amortization of prior service cost	17	135	38	406
Net periodic benefit cost	$ 614	$ 860	$ 1,858	$ 2,579

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Other Post-retirement Benefit Plan				
Components of net period benefit cost:				
Service cost	$ 91	$ 98	$ 287	$ 293
Interest cost	303	265	863	795
Amortization of prior service cost	63	58	141	173
Net periodic benefit cost	$ 457	$ 421	$ 1,291	$ 1,261

Contributions. We expect to make contributions of $3.3 million to our employee benefit plans in 2010, of which $2.5 million were made in the nine months ended September 30, 2010. See Note 7 Employee Benefits in our most recent Annual Report on Form 10-K, as amended, for further discussion.

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 regularly reviews financial information 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 Condensed 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:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Total Operating Revenues:				
United States	$ 113,839	$ 92,932	$ 339,246	$ 232,120
Germany	50,661	39,638	123,177	90,280
Japan	21,105	17,673	58,570	44,642
Brazil	12,913	11,217	37,110	25,552
Italy	11,022	9,614	33,669	25,663
China	10,729	11,720	38,080	24,163
France	10,392	7,019	28,305	21,323
Turkey	9,133	5,778	20,998	11,458
The Netherlands	8,893	11,677	23,596	36,379
Thailand	8,887	7,513	25,280	20,026
United Kingdom	8,077	7,080	23,818	21,607
Belgium	7,062	1,385	12,854	16,044
Canada	5,377	4,595	16,273	12,423
Austria	4,629	3,109	11,358	6,047
Sweden	4,387	3,101	11,859	9,282
Taiwan	4,084	4,840	16,021	12,495
Poland	3,934	6,964	7,545	12,566
Malaysia	3,086	1,925	7,758	4,325
Australia	2,952	3,950	11,325	7,152
Mexico	2,951	2,865	8,844	8,671
Argentina	2,882	3,299	8,694	8,602
South Korea	2,830	2,829	10,099	7,429
Russian Federation	2,694	449	4,256	1,162
Denmark	2,092	1,248	6,348	7,327
Switzerland	1,952	1,312	4,409	4,264
Spain	1,926	1,020	5,442	2,471
Ukraine	1,668	288	2,813	592
India	1,542	586	4,226	2,849
All other countries	13,743	22,892	38,287	40,382
	$ 335,442	$ 288,518	$ 940,260	$ 717,296

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	September 30, 2010	December 31, 2009
	(in thousands)	
Long Lived Assets:		
United States	$ 330,474	$ 317,719
France	123,928	125,839
Brazil	70,543	64,385
Germany	41,931	42,724
The Netherlands	12,245	36,971
China	3,016	2,334
All other countries	1,412	1,446
	$ 583,549	$ 591,418

14. Related Party Transactions

We own a 50% equity investment in a manufacturing joint venture with JSR Corporation (JSR) in Kashima, Japan under the name of Kraton JSR Elastomers K.K. (KJE). We and JSR separately, but with equal rights, participate as distributors in the sales of the thermoplastic rubber produced by KJE.

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

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	(in thousands)		(in thousands)	
Purchases from related party	$ 12,247	$ 10,918	$ 28,404	$ 19,241

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 s 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 Partners III and TPG Partners IV, has an ownership interest in Amyris.

15. Supplemental Guarantor Information

Kraton and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 8.125% Notes. 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.

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KRATON PERFORMANCE POLYMERS, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

September 30, 2010

(Unaudited)

(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	$	$	$ 19,147	$ 59,138	$	$ 78,285
Receivables, net of allowance			63,431	90,474		153,905
Inventories of products, net			161,819	175,836		337,655
Inventories of materials and supplies, net			6,962	2,674		9,636
Deferred income taxes						
Other current assets		2,371	1,823	10,738		14,932
Total current assets		2,371	253,182	338,860		594,413
Property, plant and equipment, less accumulated depreciation		78,485	177,200	96,305		351,990
Identifiable intangible assets, less accumulated amortization		8,612	16,197	46,931		71,740
Investment in consolidated subsidiaries	417,950	1,094,143			(1,512,093)	
Investment in unconsolidated joint venture		200		12,441		12,641
Deferred financing costs		5,755				5,755
Deferred income taxes				1,984	(1,984)	
Other long-term assets		243	492,952	193,026	(655,918)	30,303
Total Assets	$ 417,950	$ 1,189,809	$ 939,531	$ 689,547	$ (2,169,995)	$ 1,066,842
LIABILITIES AND STOCKHOLDERS AND MEMBER S EQUITY						
Current Liabilities						
Current portion of long-term debt	$	$ 2,304	$	$	$	$ 2,304
Accounts payable-trade		2,025	41,838	49,146		93,009
Deferred income taxes				640		640
Other payables and accruals		6,077	20,359	25,731		52,167
Due to related party				19,541		19,541
Insurance note payable		1,490				1,490
Total current liabilities		11,896	62,197	95,058		169,151
Long-term debt, net of current portion	250	380,697				380,947
Deferred income taxes		17,392			(1,984)	15,408
Other long-term liabilities		362,932	42,811	297,618	(655,918)	47,443
Total Liabilities	250	772,917	105,008	392,676	(657,902)	612,949
Commitments and contingencies (note 11)						
Stockholders and Member s equity						
Preferred stock, $0.01 par value; 100,000 shares authorized; none issued						
	312					312

Common stock, $0.01 par value; 500,000 shares authorized; 30,851 shares issued and outstanding						
Additional paid in capital	330,976					330,976
Member s equity		417,273	845,251	249,569	(1,512,093)	
Retained Earnings	86,412					86,412
Accumulated other comprehensive income		(381)	(10,728)	47,302		36,193
Total stockholders and member s equity	417,700	416,892	834,523	296,871	(1,512,093)	453,893
Total Liabilities and Stockholders and Member s Equity	$ 417,950	$ 1,189,809	$ 939,531	$ 689,547	$ (2,169,995)	$ 1,066,842

(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 additional 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.

CONDENSED 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
Other 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 11)						
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 additional 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.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three months ended September 30, 2010

(Unaudited)

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Sales	$	$	$ 166,302	$ 201,025	$ (31,885)	$ 335,442
Total operating revenues			166,302	201,025	(31,885)	335,442
Cost of Goods Sold			131,898	152,548	(31,885)	252,561
Gross Profit			34,404	48,477		82,881
Operating Expenses						
Research and development expenses			4,033	2,092		6,125
Selling, general and administrative expenses		270	17,533	7,016		24,819
Depreciation and amortization of identifiable intangibles		3,910	6,449	2,668		13,027
Total operating expenses		4,180	28,015	11,776		43,971
Earnings in Consolidated Subsidiaries	28,036	40,254			(68,290)	
Earnings of Unconsolidated Joint Venture				81		81
Interest Expense (Income), net		8,305	(3,007)	829		6,127
Income Before Income Taxes	28,036	27,769	9,396	35,953	(68,290)	32,864
Income Tax Expense (Benefit)		(267)		5,095		4,828
Net Income	$ 28,036	$ 28,036	$ 9,396	$ 30,858	$ (68,290)	$ 28,036

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KRATON PERFORMANCE POLYMERS, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three months ended September 30, 2009

(Unaudited)

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Sales	$	$	$ 141,653	$ 169,737	$ (40,936)	$ 270,454
Other			14	18,050		18,064
Total operating revenues			141,667	187,787	(40,936)	288,518
Cost of Goods Sold		1,277	100,191	158,017	(40,936)	218,549
Gross Profit (Loss)		(1,277)	41,476	29,770		69,969
Operating Expenses						
Research and development expenses			3,327	1,748		5,075
Selling, general and administrative expenses		(757)	10,743	10,296		20,282
Depreciation and amortization of identifiable intangibles		5,098	5,217	6,162		16,477
Total operating expenses		4,341	19,287	18,206		41,834
Earnings of Consolidated Subsidiaries	21,865	35,317			(57,182)	
Earnings of Unconsolidated Joint Venture				129		129
Interest Expense (Income), net		9,693	(2,729)	1,080		8,044
Income Before Income Taxes	21,865	20,006	24,918	10,613	(57,182)	20,220
Income Tax Expense (Benefit)		(1,859)	34	180		(1,645)
Net Income	$ 21,865	$ 21,865	$ 24,884	$ 10,433	$ (57,182)	$ 21,865

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KRATON PERFORMANCE POLYMERS, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Nine months ended September 30, 2010

(Unaudited)

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Sales	$	$	$ 510,510	$ 534,368	$ (104,618)	$ 940,260
Total operating revenues			510,510	534,368	(104,618)	940,260
Cost of Goods Sold			372,184	431,573	(104,618)	699,139
Gross Profit			138,326	102,795		241,121
Operating Expenses						
Research and development expenses			11,113	6,568		17,681
Selling, general and administrative expenses		188	50,227	18,238		68,653
Depreciation and amortization of identifiable intangibles		11,728	18,161	6,153		36,042
Total operating expenses		11,916	79,501	30,959		122,376
Earnings in Consolidated Subsidiaries	86,460	120,016			(206,476)	
Earnings of Unconsolidated Joint Venture				317		317
Interest Expense (Income), net		24,886	(8,661)	2,238		18,463
Income Before Income Taxes	86,460	83,214	67,486	69,915	(206,476)	100,599
Income Tax Expense (Benefit)	34	(3,246)	566	16,819		14,173
Net Income	$ 86,426	$ 86,460	$ 66,920	$ 53,096	$ (206,476)	$ 86,426

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KRATON PERFORMANCE POLYMERS, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Nine months ended September 30, 2009

(Unaudited)

(In thousands)

	Kraton Performance Polymers[1]	Kraton[2]	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Sales	$	$	$ 360,626	$ 443,162	$ (121,727)	$ 682,061
Other			13	35,222		35,235
Total operating revenues			360,639	478,384	(121,727)	717,296
Cost of Goods Sold		(2,429)	291,742	435,047	(121,727)	602,633
Gross Profit		2,429	68,897	43,337		114,663
Operating Expenses						
Research and development expenses			9,387	5,728		15,115
Selling, general and administrative expenses		(1,382)	30,097	27,870		56,585
Depreciation and amortization of identifiable intangibles		13,239	16,241	12,102		41,582
Total operating expenses		11,857	55,725	45,700		113,282
Gain on Extinguishment of Debt		23,831				23,831
Earnings of Consolidated Subsidiaries	1,221	16,369			(17,590)	
Earnings of Unconsolidated Joint Venture				305		305
Interest Expense (Income), net	5	29,551	(8,199)	3,426		24,783
Income (Loss) Before Income Taxes	1,216	1,221	21,371	(5,484)	(17,590)	734
Income Tax Expense (Benefit)	(3)		101	(583)		(485)
Net Income (Loss)	$ 1,219	$ 1,221	$ 21,270	$ (4,901)	$ (17,590)	$ 1,219

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KRATON PERFORMANCE POLYMERS, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Nine months ended September 30, 2010

(Unaudited)

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$	$ (19,986)	$ 22,064	$ 18,660	$	$ 20,738
Cash flows provided by (used in) investing activities						
Proceeds from intercompany loans		3,709			(3,709)	
Purchase of plant and equipment, net of proceeds from sales of equipment			(23,131)	(7,120)		(30,251)
Purchase of software			(2,081)			(2,081)
Net cash provided by (used in) investing activities		3,709	(25,212)	(7,120)	(3,709)	(32,332)
Cash flows provided by (used in) financing activities						
Proceeds from debt		69,000				69,000
Repayment of debt		(70,728)				(70,728)
Cash contribution from member		16,515			(16,515)	
Cash distribution to member	(16,515)				16,515	
Proceeds from issuance of common stock	11,197					11,197
Proceeds from stock based compensation	5,852					5,852
Costs associated with the issuance of common stock	(534)					(534)
Proceeds from insurance note payable		3,336				3,336
Repayment of insurance note payable		(1,846)				(1,846)
Proceeds from (payments on) intercompany loans			(14,273)	10,564	3,709	
Net cash provided by (used in) financing activities		16,277	(14,273)	10,564	3,709	16,277
Effect of exchange rate differences on cash				4,311		4,311
Net increase (decrease) in cash and cash equivalents			(17,421)	26,415		8,994
Cash and cash equivalents at beginning of period			36,567	32,724		69,291
	$	$	$ 19,146	$ 59,139	$	$ 78,285

Cash and cash equivalents at end of period

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KRATON PERFORMANCE POLYMERS, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Nine months ended September 30, 2009

(Unaudited)

(In thousands)

	Kraton Performance Polymers(1)	Kraton(2)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$	$ (23,396)	$ 25,680	$ 38,865	$	$ 41,149
Cash flows provided by (used in) investing activities						
Proceeds from intercompany loans		86,573			(86,573)	
Purchase of property, plant and equipment, net of proceeds from sales of equipment			(19,737)	(178)		(19,915)
Purchase of Software			(12,378)			(12,378)
Net cash provided by (used in) investing activities		86,573	(32,115)	(178)	(86,573)	(32,293)
Cash flows used in financing activities						
Proceeds from debt		124,000				124,000
Repayment of debt		(187,177)				(187,177)
Proceeds from insurance note payable		3,706				3,706
Repayment of insurance note payable		(3,706)				(3,706)
Payments on intercompany loans			(54,666)	(31,907)	86,573	
Net cash used in financing activities		(63,177)	(54,666)	(31,907)	86,573	(63,177)