Polymer Holdings LLC
Form S-1/A
December 02, 2009
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As filed with the U.S. Securities and Exchange Commission on December 2, 2009

Registration No. 333-162248

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3

to

Form S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Polymer Holdings LLC*

(Exact name of Registrant as specified in its charter)

Delaware	**2821**	**20-0411521**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

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Houston, TX 77032

Telephone: (281) 504-4700

(Address including zip code, telephone number, including area code, of Registrant s Principal Executive Offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date hereof.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered (1)	Amount to be registered (1)	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price	Amount of registration fees (3)
Common stock, $0.01 par value per share	11,838,235	$18.00	$213,088,230	$11,890.32

(1) Includes 1,544,117 shares that the underwriters have an option to purchase from the registrant to cover over-allotments, if any.
(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) promulgated under the Securities Act of 1933, as amended.
(3) Previously paid.

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* Polymer Holdings LLC, a limited liability company organized under the laws of Delaware, is the registrant filing this Registration Statement with the Securities and Exchange Commission. Prior to the closing of this offering, Polymer Holdings LLC will be converted into a corporation organized under the laws of Delaware, pursuant to the Delaware Limited Liability Company Act Section 18-216 and the Delaware General Corporation Law Section 265. The securities issued to investors in connection with this offering will be shares of common stock in that corporation, which will be named Kraton Performance Polymers, Inc.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 2, 2009

Prospectus

10,294,118 Shares

Kraton Performance Polymers, Inc.

Common Stock

This is our initial public offering, and no public market currently exists for our common stock. Kraton Performance Polymers, Inc. is offering 10,294,118 shares of common stock.

Prior to this offering, there has been no public market for our common stock. The initial public offering price of the common stock is expected to be between $16.00 and $18.00 per share. We will apply to list our common stock on the New York Stock Exchange under the symbol KRA .

We have granted the underwriters the right to purchase up to 1,544,117 shares of common stock at the offering price less the underwriting discount if the underwriters sell more than 10,294,118 shares of common stock in this offering. The underwriters can exercise this right at any time and from time to time, in whole or in part, within 30 days after the offering.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 15.

	Price to Public	Underwriting Discounts and Commissions	Proceeds, Before Expenses, to Issuer
Per Share	$	$	$
Total	$	$	$

Delivery of the shares of common stock will be made on or about , 2009.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse

BofA Merrill Lynch

Morgan Stanley

Oppenheimer & Co.

Goldman, Sachs & Co. **KeyBanc Capital Markets**

The date of this prospectus is 2009.

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Information contained in our web site does not constitute part of this prospectus.

The KRATON name, our logo and other trademarks mentioned in this prospectus are the property of their respective owners.

We obtained the industry and market data used throughout this prospectus from our own internal estimates and research as well as from industry and general publications and research, surveys and studies conducted by third parties.

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SUMMARY

The following summary includes basic information about our company and this offering. It may not contain all of the information that is important to you. For a more comprehensive understanding of our company and this offering, you should read this entire prospectus.

On or prior to the completion of the offering, we will convert our company from a Delaware limited liability company (Polymer Holdings LLC) into a Delaware corporation (Kraton Performance Polymers, Inc.).

In this prospectus, unless we indicate otherwise or the context requires:

- *Polymer Holdings, our company, we, our, ours and us refer to Polymer Holdings LLC and its consolidated subsidiaries prior to the conversion, and to Kraton Performance Polymers, Inc. and its consolidated subsidiaries after the conversion;*
- *Kraton refers to Kraton Polymers LLC; and*
- *the SBC industry refers to the elastomeric styrenic block copolymers industry and does not include the high styrene or rigid SBC business.*

Our Company

General

We believe we are the world s leading producer of styrenic block copolymers (SBCs) as measured by 2008 sales and volumes. We market our products under the widely recognized KRATON® brand. Our estimates indicate that sales of our products, in the end-use markets we target, constituted 34% of global SBC revenue in 2008, approximately 3.1 times larger than our nearest competitor. SBCs are highly-engineered synthetic elastomers that we invented and commercialized over 40 years ago, which enhance the performance of numerous end-use products, imparting greater flexibility, resilience, strength, durability and processability. We focus on the end-use markets we believe offer the highest growth potential and greatest opportunity to differentiate our products from competing products. Within these end-use markets, we believe that we provide our customers with a broad portfolio of highly-engineered and value-enhancing polymers that are critical to the performance of our customers products. We seek to maximize the value of our product portfolio by introducing innovations that command premium pricing and by consistently upgrading from lower margin products. As the industry leader, we maintain significant competitive advantages, including a 40-year proven track record of innovation; world-class technical expertise; customer, geographical and end-use market diversity; and industry-leading customer service capabilities. These advantages are supported by a global infrastructure and a long history of successful capital investments and operational excellence.

Our SBC products are found in many everyday applications, including disposable baby diapers, the rubberized grips of toothbrushes, razor blades, power tools and in asphalt formulations used to pave roads. We believe that there are many untapped uses for our products, and we will continue to develop new applications for SBCs. Since January 1, 2008, we have been awarded 161 patents for new products or applications, which we believe will allow us to drive volume and revenue growth and expand our margins. We also develop, manufacture and market niche, non-SBC products that we believe have high growth potential, such as isoprene rubber latex, or IRL. IRL is a highly-engineered, reliable synthetic substitute for natural rubber latex. We believe the versatility of IRL offers significant opportunities for new, high-margin applications. Our IRL products, which are used in applications such as surgical gloves, have not been found to contain the proteins present in natural latex and are, therefore, not known to cause allergies. We believe we produce the highest purity IRL globally and that we are the only significant third-party supplier of the product. Our IRL business has grown at a compound annual growth rate of approximately 23% by volume from 2005 to 2008.

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We currently offer approximately 800 products to more than 700 customers in over 60 countries worldwide, and we manufacture our polymers on four continents (North America, Europe, South America and Asia). Our products are typically developed using our proprietary, and in many cases patent-protected, technology and require significant engineering, testing and certification. We are widely regarded as the industry s leading innovator and cost-efficient manufacturer in our end-use markets. We work closely with our customers to design products that meet application-specific performance and quality requirements. We expect these innovations to drive our organic growth, sustain our leadership position, expand our market share, improve our margins and produce a high return on invested capital. For example, in 2008, we developed a family of environmentally-friendly products to replace materials like polyvinyl chloride, or PVC, for medical packaging applications and wire and cable applications in electronics and automobiles.

Over the past several years, we have implemented a range of strategic initiatives designed to enhance our profitability and end-use market position. These include fixed asset investments to expand our capacity in high value products, enhance productivity at our existing facilities and significantly reduce our fixed cost structure through head count reductions, production line closures at our Pernis, the Netherlands, facility and system upgrades. During this period, we have shifted our portfolio to higher-margin products, substantially exited low-margin businesses such as footwear and implemented smart pricing strategies that have improved our overall margins and return on invested capital. We believe these initiatives provide us with a strong platform to drive growth, create significant operating leverage and position us to benefit from volume recovery in our end-use markets.

We believe that starting in late 2008 the global economic downturn, and associated reduction in customer and end-user inventory levels, caused an unprecedented slowdown across the industry. We experienced sales volume decline across all of our end-use markets, including the traditionally more stable consumer and medical applications. We believe that a significant factor in this decline was inventory de-stocking. The trend began to reverse itself in June 2009, as demand patterns began to shift towards recovery.

We generated total operating revenue of $1.2 billion and $717.3 million for the twelve and nine months ended December 31, 2008 and September 30, 2009, respectively, on volume of 313 kilotons and 199 kilotons, respectively. For the same periods, we generated net income of $28.4 million and $1.2 million and Adjusted EBITDA of $152.0 million and $56.3 million, respectively. We define Adjusted EBITDA and reconcile it to net income in footnote 3 under Summary Summary of Consolidated Financial Information and Other Data. We report under one operating segment.

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Our Industry Focus

The global demand for SBCs in 2008 exceeded 1,400 kilotons, resulting in sales of approximately $4.0 billion. According to management estimates, between 2001 and 2007, SBC demand for non-footwear applications grew at a compound annual growth rate of approximately 9.0%, or approximately 2.7 times global real GDP. In 2008, the SBC market contracted along with the global economy, reducing the 2001 to 2008 growth rate to 6.8%.

2008 Global SBC Consumption by Volume

SBCs are primarily sold into four end-uses: (1) Advanced Materials (compounding, personal care and polymer systems); (2) Adhesives, Sealants and Coatings; (3) Paving and Roofing; and (4) Footwear. Due to the higher selling prices in the Advanced Materials, Adhesives, Sealants and Coatings and Paving and Roofing end-uses relative to the Footwear end-use, the market share by end-use on a revenue basis is meaningfully different than on a volume basis.

2008 Global SBC Consumption by End-Use Market[(1)]

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Kraton focuses on the high-value end-use markets.

2008 Global SBC Consumption by End-Use Market Kraton vs. Industry[1]

There are two major types of SBCs: hydrogenated styrenic block copolymers, or HSBCs, and unhydrogenated styrenic block copolymers, or USBCs.

HSBCs. HSBC products are significantly more complex to produce than USBC products and, consequently, generate higher margins and generally command selling prices between two and three times those for USBCs. We believe our 47% end-use market share of 2008 HSBC sales leads the industry and is more than twice the size of our closest competitor. The HSBC class of products, which is typically more durable than USBC products, is primarily used in higher value-added Advanced Materials and Adhesives, Sealants and Coatings applications. We estimate that HSBCs accounted for approximately 12% of worldwide SBC industry sales in 2008.

HSBCs are primarily used in our Advanced Materials and Adhesives, Sealants and Coatings end-use markets, to impart improved performance characteristics such as:

- stretch properties in disposable diapers and adult incontinence products;
- soft feel in numerous consumer products such as the handles for razor blades, power tools and automobile interiors;
- impact resistance for demanding engineering plastic applications;
- flexibility for wire and cable plastic outer layers; and
- improved flow characteristics for many industrial and consumer sealants and lubricating fluids.

USBCs. We believe that our 30% market share of 2008 USBC sales, excluding Footwear, leads the industry, and is approximately 2.2 times that of our closest competitor in terms of 2008 sales. In 2008, we estimate that USBCs represented approximately 88% of worldwide SBC industry sales volumes and were used primarily in Footwear, Paving and Roofing and Adhesives, Sealants and Coatings end-use.

USBCs are used in all our end-use markets in a range of products to impart desirable characteristics, such as:

- resistance to temperature and weather extremes in roads and roofing;
- resistance to cracking, reduced sound transmission and better drainage in porous road surfaces;

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impact resistance for consumer plastics; and

increased processing flexibility in materials used in disposable diapers and adhesive applications, such as packaging tapes and labels.

Our End-Use Markets

We believe we hold the number one market position, based on 2008 sales and volume, in each of our targeted end-use markets. We have aligned our commercial activities to serve three core end-use markets that we believe have the highest growth and profitability potential: (1) Advanced Materials; (2) Adhesives, Sealants and Coatings; and (3) Paving and Roofing. We also serve a fourth end-use market, an Emerging Businesses category, which primarily includes our high-growth IRL business.

The following table describes our three core end-use markets together with our Emerging Businesses and other end-use markets and their approximate relative sizes:

End-Use Markets	Revenue Mix(1)	Our End-Use Market Position(2)	Our End-Use Market Share(2)	Our Relative End-Use Market Share(3)	Industry Compound Annual Growth Rate(4)	Selected Applications/Products
Advanced Materials	30%	#1	37%	2.2X	8.0%	Soft touch for consumer products (tooth brushes and razor blades) and power tools Impact resistant engineering plastics Automotive components Elastic films for disposable diapers and adult incontinence branded products Skin care products and lotions Disposable food packaging Medical packaging films and tubing, often to replace PVC
Adhesives, Sealants and Coatings	32%	#1	41%	2.6X	5.2%	Tapes and labels Non-woven and industrial adhesives Industrial and consumer weather sealants
Paving and Roofing	31%	#1	28%	1.9X	7.1%	Asphalt modification for performance roadways Asphalt modification for roofing felts and shingles
Emerging Businesses(5)	3%	N/A	N/A	N/A	17.7%	Surgical gloves Condoms
Other Markets(6)	4%	N/A	N/A	N/A	N/A	Lubricants and fuel additives High styrenics packaging

	Footwear

(1) Based on 2008 sales of $1,171.3 million (excludes by-product sales which are reported as other revenues).
(2) Management estimates, based on 2008 sales.
(3) Management estimates, versus next largest competitor based on 2008 sales.
(4) Management estimates of volume growth, 2001 to 2008, except for Emerging Businesses, which is 2005 to 2008.

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(5) The Emerging Businesses end-use market primarily includes our IRL business as well as other businesses and products that are under development. We believe that we are the only major third-party supplier of IRL, and therefore end-use market position, end-use market share and relative end-use market share metrics are not meaningful.

(6) Our Other Markets end-use market is not directly comparable to our three core and Emerging Businesses end-use markets because it includes a mix of products ranging from lubricants and fuel additives to high styrenics packaging to footwear products. Therefore, we cannot estimate end-use market position, end-use market share, relative end-use market share or industry compound annual growth rate.

Our Competitive Strengths

The following competitive strengths help us to sustain our market leadership position and contribute to our ability to generate superior margins and strong cash flow. We expect these strengths to support our growth in the future:

The Market Leader in SBCs

We believe we hold the number one global market position based on 2008 sales and volumes, including a 34% market share of revenues in the end-use markets we target. Our Belpre, Ohio facility is the largest in terms of production capacity and the most product-diversified SBC plant in the world, and we believe it is the largest HSBC plant as well in terms of production capacity. We believe our Wesseling, Germany plant is a world scale and cost efficient facility. As the pioneer of SBCs over 40 years ago, we believe our KRATON® brand is widely recognized for our industry leadership, and we are particularly well-regarded for our process technology expertise and long track record of market-driven innovation.

Growth Through Innovation and Technological Know-how

SBC production and product development requires complex and specific expertise, which we believe many of our competitors are unable to replicate. As the industry pioneer, Kraton maintains a constant focus on enhancing the value-added attributes of our products and on developing new applications for SBCs. At December 31, 2008, we had approximately 1,176 granted patents and approximately 447 pending patent applications. Our Vision 20/20 program, introduced earlier this year, targets generating 20% of revenues by 2011 from new products or applications introduced in the prior five years. In 2008, we generated 13.5% of our sales from innovation driven revenue. We believe that our new product innovation will allow us to drive increases in our volume, expand product contribution margins and increase our customers reliance on Kraton s products and technical expertise. For example, for the nine months ended September 30, 2009, IRL represented 3.5% of revenues. Our sales of IRL from 2005 to 2008 grew at 23% by volume and are earning a unit contribution margin in excess of the company as a whole.

Diverse Global Manufacturing Capabilities and End-Use Market Exposures

We operate manufacturing facilities on four continents (North America, Europe, South America and Asia) producing what we believe to be the highest quality grades available of USBC and HSBC and high purity IRL. We believe we are the only SBC producer with this breadth of technical capabilities and global footprint, selling approximately 800 products in over 60 countries. Since 2003, we have successfully completed plant expansions totaling 60 kilotons of capacity, giving us a total capacity of 436 kilotons, at a total cost of less than $50 million. Our manufacturing and product footprint allow revenue diversity, both geographically and by end-use market. We believe our scale and footprint make us an attractive customer for our monomer suppliers which, in turn, allows us to offer a high degree of supply security to customers.

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Long-Standing, Strong Customer Relationships Supported by Leading Service Offering

We sell our products to over 700 customers, many of which we have had relationships with for 15 years or more. Our customers are broad-based, with no single customer accounting for more than 5% of our sales in 2008 (our top 10 customers represented 26% of sales in 2008). Our customers manufacturing processes are typically calibrated to the performance specifications of our products. Given the technical expertise and investment required to develop these formulations and the lead times required to replace them, we believe our customers face high switching costs. We believe our customers view our products as being high value-added, even though our products generally represent a small proportion of the overall cost of the finished product. Leveraging our global infrastructure, we believe we offer our customers a best-in-class service level that aligns us to their respective business models, through on demand order delivery and product development specifically designed for each customer s needs.

Experienced Management Team with a Track Record of Growth and Productivity Improvements

Our senior management team has an average industry experience of over 25 years, most of which is with some of the world s leading companies, including General Electric, Koch Industries and Chevron Phillips Chemical. Since early 2008, when the current executive team was put in place, we have instituted a number of strategic initiatives designed to enhance productivity, reduce costs and capital intensity, expand margins and drive innovation-led growth.

Our Business Strategy

Building on these competitive strengths, we are focused on achieving profitable top-line growth and improving margins through the introduction of highly-engineered, high value-added products to drive strong and sustainable cash flow.

Driving Growth and Margin Expansion Through Innovation

We have a 40-year track record of innovation dating back to our development of the first SBCs. Our research and development effort is focused on end-use markets and new product developments that we believe offer higher growth as well as opportunities to develop highly-differentiated products for our customers, thus yielding higher margin potential. We work very closely with our longstanding customer base to produce products that solve their specific technical requirements. For example, to address an industry trend to eliminate PVC from applications such as medical packaging and wire and cable, we have developed and commercialized a series of

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custom-designed polymers and compounds. In addition to this innovation-led growth, we believe that there are a number of end-use market dynamics that drive growth in our business such as: (1) the effect of the American Recovery and Reinvestment Act of 2009 on our paving business; (2) the general demand by customers for higher value-added products with better performance characteristics; and (3) the effect of an economic recovery on roofing applications.

Pursue Smart Pricing

In late 2007, we undertook a comprehensive review of our entire product portfolio, including both product-specific and customer-specific profitability analysis. As a result, we took a variety of actions including reducing or eliminating our exposure to lower margin business and increasing our prices to reflect the significant value-added benefits of our products to our customers products. For example, since the end of 2007, we have increased our unit contribution margins (the excess of the sale price of a unit of product over the variable cost to produce that unit) by more than 50%. We will continue to pursue pricing strategies that reflect the contribution to the end product of our high value and complex product offerings for which limited substitutes exist.

Invest in Key Growth Initiatives

As part of this offering, we plan to use some proceeds to fund high priority, high return strategic projects that will continue to allow us to more effectively and more efficiently serve our customers needs. One such project is the development of additional capacity in our IRL business to serve the rapid growth and to better capture the high margins that exist in this product line.

Continue to Pursue Operational Efficiencies

We have a history of implementing continuous process and cost improvement plans that have resulted in a significant reduction in our cost position and an improvement in the way we run our business. Since the beginning of 2007, we have implemented cost saving initiatives that have reduced costs by over $55 million, on an annual basis. In addition, on December 31, 2009, we will be exiting our Pernis facility in its entirety, which we expect will result in an additional $12 million in annual cost savings. Through these actions, we have created substantial operating leverage in our business model. We believe this demonstrates our management team s ability to successfully manage the business in a downturn and position us for significant growth and margin expansion in a global economic recovery. For a discussion of the costs associated with the Pernis exit, see Management s Discussion and Analysis Recent Developments.

Corporate and Other Information

We currently conduct our business through a Delaware limited liability company, Polymer Holdings LLC, and its consolidated subsidiaries. Prior to the closing of this offering, we will convert into a Delaware corporation to be named Kraton Performance Polymers, Inc.

Our principal executive offices are located at 15710 John F. Kennedy Boulevard, Suite 300, Houston, Texas 77032, and our telephone number is (281) 504-4700. Our corporate website address is *www.kraton.com*. We do not incorporate the information contained on, or accessible through, our corporate website into this prospectus, and you should not consider it part of this prospectus.

On or prior to the closing of this offering, TJ Chemical Holdings LLC, or TJ Chemical, will be merged into (and not survive the merger with) Kraton (for further details on this transaction, see Certain Relationships and Related Transactions Reorganization Transactions), at which time we will be owned directly by affiliates of TPG Capital, L.P. and J.P. Morgan Partners, LLC, a private equity division of JPMorgan Chase & Co. On December 23, 2003, Polymer Holdings acquired all the outstanding equity interests of Kraton from Ripplewood Chemical Holding LLC. The acquisition was funded, including transaction fees and expenses, in part through proceeds from the issuance of senior subordinated notes and borrowings under the term loan portion of the senior secured credit facility.

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Principal Stockholders

Following this offering and after giving effect to the merger of TJ Chemical into Kraton (see Certain Relationships and Related Transactions Reorganization Transactions), certain affiliates of TPG Capital, L.P., which we refer to collectively as TPG, will own approximately 38.9% of our common stock (approximately 36.9% pursuant to a full exercise of the underwriters over-allotment option) and certain affiliates of J.P. Morgan Partners, LLC, which we refer to collectively as JPMP, will own approximately 25.9% of our common stock (approximately 24.6% pursuant to a full exercise of the underwriters over-allotment option). Together TPG and JPMP will own, in the aggregate, approximately 64.8% of our common stock (approximately 61.6% if the underwriters over-allotment option is exercised in full).

TPG Capital, L.P.

TPG is a leading private investment firm with approximately $45 billion of assets under management as of September 30, 2009. The firm was founded in 1992 and is led by David Bonderman and James G. Coulter. Through its global buyout platform, TPG Capital, the firm generally makes significant investments in companies through acquisitions and restructurings across a broad range of industries throughout North America, Europe, Asia and Australia. Notable investments include Alltel Corp., Avaya, Inc., Burger King Holdings, Inc., Continental Airlines, Inc., Energy Future Holdings Corp. (formerly, TXU Corp.), Graphic Packaging International Corp., Grohe AG, Harrah s Entertainment, Inc., J Crew Group, Inc., Neiman Marcus Group, Inc., ON Semiconductor Corp., Seagate Technology, Shenzhen Development Bank Co., Ltd. and Texas Genco, LLC.

JPMorgan Partners

J.P. Morgan Partners, LLC is a private equity division of JPMorgan Chase & Co. (NYSE: JPM), one of the largest financial institutions in the United States. JPMP has invested over $15 billion worldwide in industrial, consumer, media, energy, financial services, healthcare and technology companies since its inception in 1984. In August 2006, the buyout and growth equity investment professionals of JPMP separated from JPMorgan Chase & Co. and formed CCMP Capital Advisors, LLC, or CCMP Capital, a global private equity firm specializing in buyout and growth equity investments. CCMP Capital has offices in New York, Texas and London. CCMP Capital advises JPMP on its portfolio of private equity investments, including the investment in our company; other notable investments include AMC Entertainment, Inc., Aramark Holdings Corporation, Grupo Corporative Ono, S.A., Jetro JMDH Holdings, Inc., Noble Environmental Power, LLC, QCE Holdings, LLC (Quiznos Sub), Warner Chilcott Holdings Co. and PQ Corporation.

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The Offering

Common stock we are offering	10,294,118 shares (based on an assumed share price of $17.00, the midpoint of the price range on the cover of this prospectus).
Common stock to be outstanding after this offering	29,619,429 shares.
Use of proceeds	We estimate that our net proceeds from this offering will be approximately $160.0 million at an assumed initial public offering price of $17.00 per share (the midpoint of the price range on the cover of this prospectus), after deducting estimated underwriting discounts and commissions and offering expenses.

We expect to use the net proceeds of this offering to repay a portion of the senior secured credit facility. We expect to use the remaining net proceeds for general corporate purposes, including to fund strategic capital projects such as alternative production capabilities for Isoprene Rubber, the development of additional capacity in our Isoprene Rubber Latex business, and/or the continuation of our upgrade of certain systems and operating controls at our Belpre, Ohio facility. See Use of Proceeds.

Underwriters option to purchase additional shares	We may sell up to 1,544,117 additional shares (based on an assumed share price of $17.00, the midpoint of the price range on the cover of this prospectus) if the underwriters exercise their over-allotment option.
Dividend policy	We have not previously declared or paid any dividends or distributions on our common stock. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. We are currently prohibited from paying cash dividends on our common stock by the covenants in the senior secured credit facility and may be further restricted by the terms of future debt or preferred securities. See Dividend Policy.
Risk factors	Investing in our common stock involves a high degree of risk. See Risk Factors for a discussion of factors you should carefully consider before deciding to invest in our common stock.
Proposed New York Stock Exchange symbol	KRA

The number of shares of common stock to be outstanding after the offering is based on 19,325,311 shares of common stock outstanding after our conversion to a corporation and 10,294,118 shares to be sold in the offering (based on an assumed share price of $17.00, the midpoint of the price range on the cover of this prospectus).

The number of shares of common stock to be outstanding after this offering does not take into account an aggregate of 4,350,000 shares of common stock reserved for future issuance under the Polymer Holdings LLC

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Equity Incentive Plan and 1,594,962 shares of common stock reserved for future issuance under the TJ Chemical Option Plan in connection with the settlement of options outstanding as of the closing of this offering, based on an assumed Conversion Ratio (as defined in the Compensation Discussion and Analysis) of 1:13.5120.

In addition, except as otherwise noted, all information in this prospectus:

assumes the underwriters do not exercise their over-allotment option; and

gives effect to our conversion from a Delaware limited liability company to a Delaware corporation prior to the closing of this offering.

Summary of Consolidated Financial Information and Other Data

The table below sets forth our selected consolidated historical financial data for the periods indicated. The summary consolidated historical financial data presented below for the years ended December 31, 2008, 2007 and 2006 and as of December 31, 2008 and 2007 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The summary financial data for the nine months ended September 30, 2009 and 2008 and as of September 30, 2009, have been derived from our unaudited consolidated financial statements, which are included elsewhere in this prospectus. The unaudited consolidated financial statements include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, that management considers necessary for the fair presentation of the consolidated financial information set forth in those statements. Results of operations for the interim periods are not necessarily indicative of the results that might be expected for any other interim period or for an entire year.

The selected financial information and other data presented below should be read in conjunction with the information contained in Use of Proceeds, Management s Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and the notes thereto, which are included elsewhere in this prospectus.

	Year ended December 31,			Nine months ended September 30,	
	2008	2007	2006	2009 (unaudited)	2008 (unaudited)
			(in thousands)		
Consolidated Statements of Operations Data:					
Operating Revenues					
Sales	$ 1,171,253	$ 1,066,044	$ 1,015,766	$ 682,061	$ 947,925
Other(1)	54,780	23,543	32,355	35,235	46,472
Total operating revenues	1,226,033	1,089,587	1,048,121	717,296	994,397
Cost of Goods Sold	971,283	938,556	843,726	602,633	788,618
Gross Profit	254,750	151,031	204,395	114,663	205,779
Operating Expenses					
Research and development expenses	27,049	24,865	24,598	15,115	21,129
Selling, general and administrative	101,431	69,020	73,776	56,585	73,578
Depreciation and amortization of identifiable intangibles	53,162	51,917	43,574	41,582	40,880
Total operating expenses	181,642	145,802	141,948	113,282	135,587
Gain on Extinguishment of Debt				23,831	
Equity in Earnings in Unconsolidated Joint Ventures(2)	437	626	168	305	314
Interest Expense, Net	36,695	43,484	66,637	24,783	27,696

Income (Loss) Before Income Taxes	36,850	(37,629)	(4,022)	734	42,810
Income Tax Expense (Benefit)	8,431	6,120	29,814	(485)	7,396
Net Income (Loss)	$ 28,419	$ (43,749)	$ (33,836)	$ 1,219	$ 35,414

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(1) Other revenues include the sale of by-products generated in the production of polyisoprene rubber, or IR, and styrene-isoprene-styrene, or SIS.
(2) Represents our 50% joint venture interest in Kraton JSR Elastomers K.K., which is accounted for using the equity method of accounting.

	Year ended December 31, 2008	Nine months ended September 30, 2009
Pro forma income per common share(1)		
Basic	$ 1.47	$ 0.06
Diluted	$ 1.42	$ 0.06
Shares used to compute basic pro forma income per share(2)	19,325,311	19,325,311
Shares used to compute diluted pro forma income per share(2)	19,959,583	19,959,583

(1) Pro forma to reflect the conversion of our company from a limited liability company to a corporation prior to the closing of this offering.
(2) Calculated based on number of common shares that would have been outstanding as of December 31, 2008 and September 30, 2009, assuming our conversion into a corporation.

	Year ended December 31, 2008	Year ended December 31, 2007 (in thousands)	Nine months ended September 30, 2009 (unaudited)
Balance Sheet Data			
Cash and cash equivalents	$ 101,396	$ 48,277	$ 22,365
Total assets	1,031,874	984,894	939,880
Total debt	$ 575,316	$ 538,686	$ 485,815

	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006 (in thousands)	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Other Data					
EBITDA(1)(3)	$ 126,707	$ 57,772	$ 106,189	$ 67,099	$ 111,386
Adjusted EBITDA(2)(3)	152,048	68,310	121,908	56,314	123,497

(1) EBITDA represents net income before interest, taxes, depreciation and amortization. We present EBITDA because it is used by management to evaluate operating performance. We consider EBITDA an important supplemental measure of our performance and believe it is frequently used by investors and other interested parties in the evaluation of companies in our industry.

We also use EBITDA for the following purposes: our executive compensation plan bases incentive compensation payments on our EBITDA performance; and the senior secured credit facilities and the senior subordinated notes use EBITDA (with additional adjustments) to measure our compliance with covenants such as leverage and interest coverage.

EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;

EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

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EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and

other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure. Because of these and other limitations, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA only supplementally. See the Consolidated Statements of Cash Flows included in our financial statements included elsewhere in this prospectus.

(2) We present Adjusted EBITDA as a further supplemental measure of our performance and because we believe these additional adjustments provide additional and helpful information to securities analysts, investors and other interested parties evaluating our performance. We prepare Adjusted EBITDA by adjusting EBITDA to eliminate the impact of a number of items we do not consider indicative of our ongoing operating performance. We explain how each adjustment is derived and why we believe it is helpful and appropriate in the subsequent footnote. You are encouraged to evaluate each adjustment and the reasons we consider it appropriate for supplemental analysis. As an analytical tool, Adjusted EBITDA is subject to all the limitations applicable to EBITDA. In addition, in evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

(3) We reconcile Net Income/(Net Loss) to EBITDA and Adjusted EBITDA as follows:

	Fiscal Year			Nine months ended	
	2008	2007	2006	September 30, 2009	September 30, 2008
			(in thousands)		
Net Income/(Net Loss)	$ 28,419	$ (43,749)	$ (33,836)	$ 1,219	$ 35,414
Plus					
Interest expense, net	36,695	43,484	66,637	24,783	27,696
Income tax expense	8,431	6,120	29,814	(485)	7,396
Depreciation and amortization expenses	53,162	51,917	43,574	41,582	40,880
EBITDA(a)	$ 126,707	$ 57,772	$ 106,189	$ 67,099	$ 111,386

	Fiscal Year			Nine months ended	
	2008	2007	2006	September 30, 2009	September 30, 2008
			(in thousands)		
EBITDA(a)	$ 126,707	$ 57,772	$ 106,189	$ 67,099	$ 111,386
Add (deduct):					
Sponsor fees and expenses	2,000	2,000	2,000	1,500	1,500
Restructuring and related charges(b)	13,671	5,633	11,142	7,533	9,482
Other non-cash expenses(c)	9,670	2,905	2,577	4,013	1,129
Gain on extinguishment of debt(d)				(23,831)	

Adjusted EBITDA(a)	$ 152,048	$ 68,310	$ 121,908	$ 56,314	$ 123,497

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(a) EBITDA and Adjusted EBITDA in the first nine months of 2009 were negatively impacted by approximately $30.9 million due to the sale of inventory produced when raw material costs were higher than the then current replacement cost. This large effect in the first nine months of 2009, which is included in EBITDA and Adjusted EBITDA amounts reflected above, was a result of the dramatic and swift decline in raw material costs from record high levels in the fourth quarter of 2008 (where the negative impact was approximately $2.3 million). Conversely, in the first nine months of 2008, EBITDA and Adjusted EBITDA, as reflected above, were positively impacted by approximately $39.5 million due to the sale of inventory produced when raw material costs were lower than the then current replacement cost.

(b) 2008 costs consist primarily of severance and retention costs associated with the restructuring of our Westhollow Technical Center and our research and technical services organizations, senior management changes in the first quarter and workforce reductions in the fourth quarter; 2007 costs are primarily costs in connection with the shutdown of our SIS plant in Pernis; and 2006 costs consist primarily of severance and other costs in connection with the rationalization of our facility in Belpre, Ohio and our U.S. headquarters, and charges related to a reorganization of our activities in Asia-Pacific and Belgium. All periods also reflect costs associated with evaluating merger and acquisition transactions and potential debt refinancing.

Restructuring and related charges discussed above were recorded in the Consolidated Statements of Operations, as follows.

	Fiscal Year			Nine months ended	
	2008	2007	2006	September 30, 2009	September 30, 2008
Cost of goods sold	$	$ 2,438	$ 5,495	$ 6,307	$
Research and development	$ 2,301	$ 345	$ 1,341	$	$ 2,301
Selling, general and administrative	$ 11,370	$ 2,850	$ 4,306	$ 1,226	$ 7,181
Total restructuring and related charges	$ 13,671	$ 5,633	$ 11,142	$ 7,533	$ 9,482

(c) For all periods, consists primarily of non-cash compensation, asset impairment charges and losses on the sale of fixed assets. For 2008 and 2009, also reflects the non-cash adjustment to lower inventory from first in first out cost to market value.

(d) 2009 reflects the non-recurring cash gain related to bond repurchases.

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RISK FACTORS

Buying shares of our common stock involves risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this prospectus, including the financial statements and the related notes appearing at the end of this prospectus, before deciding to purchase shares of our common stock.

Risk Factors Relating to our Business

Conditions in the global economy and capital markets may adversely affect the company s results of operations, financial condition and cash flows.

Our products are sold in markets that are sensitive to changes in general economic conditions, such as automotive and construction products. Downturns in general economic conditions can cause fluctuations in demand for our products, product prices, volumes and margins. A decline in the demand for our products or a shift to lower-margin products due to deteriorating economic conditions could adversely affect sales of our products and our profitability and could also result in impairments of certain of our assets.

Our business and operating results have been and will continue to be affected by the global recession, including the turbulence in the credit markets, dislocations in the housing and commercial real estate markets, fluctuating commodity prices, volatile exchange rates and other challenges currently affecting the global economy and our customers. Although the effects of the global recession on our business appear to be easing, there can be no assurance that this trend will continue. If the global recession continues for significant future periods or deteriorates significantly, our results of operations, financial condition and cash flows could be materially adversely affected.

LyondellBasell Industries and Shell Chemicals provide significant operating and other services under agreements that are important to our business. The failure of LyondellBasell or Shell Chemicals to perform their obligations, or the termination of these agreements, could adversely affect our operations.

Prior to February 28, 2001, we were operated by Shell Chemicals, the chemicals operations unit of the Royal Dutch/Shell Group. Shell Chemicals continues to provide services that are important to our business. In addition, we have service agreements with LyondellBasell Industries, or LyondellBasell, the successor to another Shell Chemicals business. We are a party to:

- operating agreements pursuant to which LyondellBasell (in Berre, France and Wesseling, Germany) and Shell Chemicals (in Pernis, the Netherlands) operate and maintain our European manufacturing facilities and employ and provide almost all of the staff for those facilities;
- site services, utilities, materials and facilities agreements pursuant to which LyondellBasell and/or Shell Chemicals provide utilities and site services to our European manufacturing facilities and to one research and development facility; and
- lease agreements pursuant to which we lease our European manufacturing facilities from LyondellBasell and Shell Chemicals.

In January 2009, the U.S. operations of LyondellBasell along with one of its European holding companies, Basell Germany Holdings GmbH, filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. LyondellBasell is one of our major suppliers of raw materials and also operates our plants at Berre, France and Wesseling, Germany. The bankruptcy of LyondellBasell and any resulting restructuring of LyondellBasell s operations may adversely affect LyondellBasell s ability to provide services to us. To date, our operations have not been negatively impacted. However, we cannot predict the effect, if any, that LyondellBasell s bankruptcy will ultimately have upon our business in general, or our relationship with LyondellBasell in particular.

Under the terms of the above agreements, either party is permitted to terminate the applicable agreement in a variety of situations. Should Shell Chemicals or LyondellBasell fail to provide these services or should any operating agreement be terminated, we would be forced to obtain these services from third parties or provide them ourselves. Similarly, if in connection with or independent from the termination of an operating agreement, Shell Chemicals or LyondellBasell terminates a facility lease, we would be forced to relocate our manufacturing facility. From time to time, as part of our ongoing business operations, we discuss potential changes in the terms of our various agreements with Shell Chemicals and/or LyondellBasell, based upon changes in market conditions or other factors. Any agreed changes to any of these contractual arrangements are not binding until the execution of formal documentation. The failure of Shell Chemicals or LyondellBasell to perform their obligations under, or the termination of, any of these contracts could adversely affect our operations and, depending on market conditions at the time of any such termination, we may not be able to enter into substitute arrangements in a timely manner, or on terms as favorable to us.

Under certain of these agreements, we are required to indemnify Shell Chemicals or LyondellBasell in certain circumstances, including in certain circumstances for loss and damages resulting from Shell Chemicals or LyondellBasell s negligence in performing their obligations.

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, could increase our cost for these materials, interrupt production or otherwise adversely affect our results of operations.

Our manufacturing processes use three primary raw materials: styrene, butadiene and isoprene. We use styrene in the production of almost all of our polymer products. We use butadiene in the production of SBS (styrene-butadiene-styrene) grades of USBCs and SEBS (styrene-ethylene-butylene-styrene) grades of HSBCs. We use isoprene in the production of SIS (styrene-isoprene-styrene) grades of USBCs, SEPS (styrene-ethylene-propylene-styrene) grades of HSBCs and polyisoprene rubber, or IR. We have entered into long-term supply agreements with Shell Chemicals, LyondellBasell and others to supply our raw material needs in the United States and Europe. As these contracts expire, we may be unable to renew these contracts or obtain new long-term supply agreements on terms favorable to us, which may significantly impact our operations.

On December 13, 2007, we received a termination notice from Shell Chemicals for isoprene supply to our Pernis facility effective December 31, 2009. We recently amended the contract governing our U.S. supply of isoprene with Shell Chemicals to terminate on or after December 31, 2009 on one month prior notice by either party. Isoprene is primarily produced and consumed, by manufacturers, captively for the production of isoprene rubber, which is primarily used in the manufacture of rubber tires. As a result, there is limited non-captive isoprene available for purchase in the markets in which we operate. Future isoprene requirements for our IR products will be met by our overall isoprene sourcing strategies. We may not be able to obtain isoprene required for our operations at our Pernis facility or alternate locations on terms favorable to us or at all. Our U.S. butadiene supply agreement with Shell Chemicals expired as of April 30, 2009. We currently access butadiene at competitive rates, recently entered into a butadiene supply contract with a new supplier for 2010 and are engaged in efforts with several other suppliers to purchase ongoing and continuing supplies of butadiene. If we are unable to enter into agreements with alternative suppliers, we may not be able to meet our U.S. butadiene supply requirements in a timely manner or on favorable terms.

In addition, most of our long-term contracts contain provisions that allow our suppliers to limit the amount of raw materials shipped to us below the contracted amount in certain circumstances. During 2009, Shell Chemicals and other butadiene producers have limited supply at times due to raw material shortages and operational problems, and we have satisfied our butadiene needs by supplementing with spot market purchases. If we are required to obtain alternate sources for raw materials because Shell Chemicals or any other supplier is

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unwilling or unable to perform under raw material supply agreements or if a supplier terminates its agreements with us, we may not be able to obtain these raw materials from alternative suppliers in a timely manner or be able to enter into long-term supply agreements on terms as favorable to us. A lack of availability of raw materials could have an adverse effect on our results of operations.

If the availability of isoprene is limited, we may be unable to produce some of our products in quantities demanded by our customers, which could have an adverse effect on our sales of products requiring isoprene.

Isoprene is not widely available, and the few isoprene producers tend to use their production for captive manufacturing purposes or sell only limited quantities into the world chemicals market. The major producers of isoprene are Goodyear, Shell Chemicals, Nippon Zeon, Braskem, several Chinese producers and various Russian manufacturers. Currently, Shell Chemicals is our major supplier of isoprene in the United States and Europe. In Japan, we obtain the majority of our isoprene requirements from JSR Corporation, or JSR, on a commercial supply basis and from alternative suppliers as needed. In Brazil, isoprene is obtained from a local third party supplier. These suppliers may not be able to meet our isoprene requirements, and we may not be able to obtain substitute supplies of isoprene from alternative suppliers in a timely manner or on favorable terms.

Because there is limited non-captive isoprene availability, the market for isoprene is thin and prices are particularly volatile. Prices for isoprene are determined by the supply and prices of natural and synthetic rubber, crude oil and natural gas prices and existing supply and demand in the market. Market prices for isoprene increased significantly during the second half of 2008 as energy prices peaked in the third quarter. Following the collapse of energy pricing in late 2008, isoprene prices receded in the first half of 2009 due to lower costs and weaker demand. A significant factor contributing to higher prices was the extreme tightness in the market caused by operational problems of some key producers and reduced availability of crude C5 inputs for the extraction units. Although improved producer operation mitigated this risk in 2008, weak ethylene demand and light (ethane versus naphtha) ethylene inputs have limited isoprene production for some of the suppliers. In addition to this limit due to ethylene inputs, operational problems could return in the future. A lack of availability of isoprene could have an adverse effect on our results of operations if we are unable to produce products containing isoprene.

If the availability of butadiene is limited, we may be unable to produce some of our products in quantities demanded by our customers, which could have an adverse effect on plant utilization and our sales of products requiring butadiene.

The North American market is structurally short of butadiene and has relied on imports of crude C4 and/or butadiene to balance demand. Historically, the European market has been better balanced and provided exports to North America. Currently, Shell Chemicals is our major supplier of butadiene in the United States, and LyondellBasell is our major butadiene supplier in Europe. In January 2009, the U.S. operations of LyondellBasell along with one of its European holding companies, Basell Germany Holdings GmbH, filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code. To date the U.S. bankruptcy has not negatively impacted our supply of butadiene in Europe. The quantity of butadiene available in any one region is dependent on the cracking inputs of olefins plants, ethylene demand, inter-regional demand for butadiene and demand for other oil derivatives. Suppliers may not be able to meet our butadiene requirements, and we may not be able to obtain substitute supplies of butadiene from alternative suppliers in a timely manner or on favorable terms.

Increases in the costs of our raw materials could have an adverse effect on our financial condition and results of operations if those costs cannot be passed onto our customers.

Our results of operations are directly affected by the cost of our raw materials. Our three principal raw materials (styrene, butadiene and isoprene) together represented approximately 52% of our total cost of goods sold in 2008. As a result of the significant portion of our cost of goods sold represented by these three monomers, our gross profit and margins could be adversely affected by changes in the cost of these raw materials if we are unable to pass the increases on to our customers.

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Our end-use markets are highly competitive, and we may lose market share to other producers of styrenic block copolymers or to producers of other products that can be substituted for our products.

Our industry is highly competitive and we face significant competition from large international producers, as well as from smaller regional competitors. Our competitors may improve their competitive position in our core end-use markets by successfully introducing new products, improving their manufacturing processes or expanding their capacity or manufacturing facilities. If we are unable to keep pace with our competitors product and manufacturing process innovations, our financial condition and results of operations could be materially adversely affected.

Our most significant competitors are Asahi Chemical, Chi Mei, Dexco Polymers, Dynasol Elastomers, Korea Kumho P.C., Kuraray Company, Lee Chang Yung, LG Chemical, Polimeri Europa, Sinopec, Taiwan Synthetic Rubber Corporation and Zeon Corporation. Kuraray Company, Dynasol Elastomers, Korea Kumho P.C. and Sinopec have all expanded HSBC capacity over the last 3 years. Several competitors, including Dynasol, Lee Chang Yung and Sinopec, have expanded USBC capacity over the last 3 years.

In addition, competition between styrenic block copolymers and other products within the end-use markets in which we compete is intense. Increased competition from existing or newly developed non-SBC products may reduce demand for our products in the future and our customers may decide on alternate sources to meet their requirements.

- In the Advanced Materials end-use market, our products compete against a wide variety of chemical and non-chemical alternatives, including thermoplastic vulcanizates, ethylene propylene diene monomer rubber, known as EPDM, thermoplastic polyolefin elastomers and thermoplastic polyurethanes, known as TPUs. The choice between these materials is influenced by performance characteristics, ease of use, desired aesthetics and total end-product cost. In addition, competing materials include spandex, natural rubber, polyvinyl chloride polymers and compounds, polyolefins, polyethylene terephthalate, known as PET, nylon and polycarbonate, based on performance, ease of use, desired aesthetics and total end-product cost.

- In the Adhesives, Sealants and Coatings end-use market, SBC products primarily compete with acrylics, silicones, solvent-based rubber systems and thermoplastic polyolefin elastomers. The choice between these materials is influenced by bond strength, specific adhesion, consistent performance to specification, processing speed, hot-melt application, resistance to water and total end-product cost.

- In the Paving and Roofing end-use market, our products primarily compete with atactic polypropylene, styrene butadiene rubber and unmodified asphalts. The choice between these materials is influenced by total end-product performance, cost and ease of use.

If we are unable to successfully compete with other producers of styrenic block copolymers or if other products can be successfully substituted for our products, our sales may decline.

If we are not able to continue the technological innovation and successful commercial introduction of new products, our customers may turn to other producers to meet their requirements.

Our industry and the end-use markets into which we sell our products experience periodic technological change and ongoing product improvements.

In addition, our customers may introduce new generations of their own products or require new technological and increased performance specifications that would require us to develop customized products. Innovation or other changes in our customers product performance requirements may also adversely affect the demand for our products. Our future growth will depend on our ability to gauge the direction of the commercial and technological progress in all key end-use markets, and upon our ability to successfully develop, manufacture and market products in such changing end-use markets. We need to continue to identify, develop and market

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innovative products on a timely basis to replace existing products in order to maintain our profit margins and our competitive position. We may not be successful in developing new products and technology that successfully compete with such materials and our customers may not accept any of our new products. If we fail to keep pace with evolving technological innovations or fail to modify our products in response to our customers needs, then our business, financial condition and results of operations could be adversely affected as a result of reduced sales of our products.

Our business relies on intellectual property and other proprietary information and our failure to protect our rights could harm our competitive advantages with respect to the manufacturing of some of our products.

Our success depends to a significant degree upon our ability to protect and preserve our intellectual property and other proprietary information of our business. However, we may be unable to prevent third parties from using our intellectual property and other proprietary information without our authorization or independently developing intellectual property and other proprietary information that is similar to ours, particularly in those countries where the laws do not protect our proprietary rights to the same degree as in the United States. The use of our intellectual property and other proprietary information by others could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our business. If it becomes necessary for us to litigate to protect these rights, any proceedings could be burdensome and costly, and we may not prevail. In addition, we acquired a significant number of patents from Shell Chemicals. Pursuant to the agreements with Shell Chemicals relating to their contribution of these patents to us and our ownership of these patents, Shell Chemicals retained for itself fully-transferable and exclusive licenses to their use outside of the elastomers business, as well as fully-transferable non-exclusive licenses within the field of elastomers for certain limited uses in non-competing activities. Shell Chemicals is permitted to sublicense these rights. Shell Chemicals also retains the right to enforce these patents outside the elastomers field and recover any damages resulting from these actions.

Any patents, issued or applied for, may not provide us with any competitive advantage and may be challenged by third parties. Our competitors also may attempt to design around our patents or copy or otherwise obtain and use our intellectual property and other proprietary information. Moreover, our competitors may already hold or have applied for patents in the United States or abroad that, if enforced or issued, could possibly prevail over our patent rights or otherwise limit our ability to manufacture or sell one or more of our products in the United States or abroad. From time to time, we oppose the issuance of patent applications in the United States and other jurisdictions that we consider overbroad or otherwise invalid in order to maintain the necessary freedom to operate fully in our various business lines without the risk of being sued for patent infringement. In general, competitors or other parties may, from time to time, assert issued patents or other intellectual property rights against us. If we are legally determined, at some future date, to infringe or violate the intellectual property rights of another party, we may have to pay damages, stop the infringing use, or attempt to obtain a license agreement with the owner of such intellectual property. With respect to our pending patent applications, we may not be successful in securing patents for these claims. Our failure to secure these patents may limit our ability to protect inventions that these applications were intended to cover. In addition, the expiration of a patent can result in increased competition with consequent erosion of profit margins.

It is our policy to enter into confidentiality agreements with our employees and third parties to protect our unpatented proprietary manufacturing expertise, continuing technological innovation and other trade secrets, but our confidentiality agreements could be breached or may not provide meaningful protection for our trade secrets or proprietary manufacturing expertise. Adequate remedies may not be available in the event of an unauthorized use or disclosure of our trade secrets and manufacturing expertise. Violations by others of our confidentiality agreements and the loss of employees who have specialized knowledge and expertise could harm our competitive position and cause our sales and operating results to decline as a result of increased competition. In addition, others may obtain knowledge of our trade secrets through independent development or other access by legal means.

We have registered and applied for certain service marks and trademarks, and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. The applicable governmental authorities

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may not approve our pending applications. A failure to obtain trademark registrations in the United States and in other countries could limit our ability to obtain and retain our trademarks and impede our marketing efforts in those jurisdictions. Moreover, third parties may seek to oppose our applications or otherwise challenge the resulting registrations. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition and could require us to devote resources to advertising and marketing new brands.

The failure of our patents, trademarks or confidentiality agreements to protect our intellectual property and other proprietary information, including our processes, apparatuses, technology, trade secrets, trade names and proprietary manufacturing expertise, methods and compounds, could have a material adverse effect on our competitive advantages over other producers.

Our products may infringe the intellectual property rights of others, which may cause us to incur unexpected costs or prevent us from selling our products.

We continually seek to improve our business processes and develop new products and applications. Many of our competitors have a substantial amount of intellectual property that we must continually monitor to avoid infringement. Although it is our policy and intention not to infringe valid patents, we cannot guarantee that our processes and products do not and will not infringe issued patents (whether present or future) or other intellectual property rights belonging to others, including, without limitation, situations in which our products, processes or technologies may be covered by patent applications filed by other parties in the United States or abroad. From time to time, we oppose patent applications that we consider overbroad or otherwise invalid in order to maintain the necessary freedom to operate fully in our various business lines without the risk of being sued for patent infringement. If, however, patents are subsequently issued on any such applications by other parties, or if patents belonging to others already exist that cover our products, processes or technologies, we could, possibly, be liable for infringement or have to take other remedial or curative actions to continue our manufacturing and sales activities with respect to one or more products. We may also be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the patents, trademarks and other intellectual property rights of third parties by us or our licensees in connection with their use of our products. Intellectual property litigation is expensive and time-consuming, regardless of the merits of any claim, and could divert our management s attention from operating our business. If we were to discover that our processes, technologies or products infringe the valid intellectual property rights of others, we might need to obtain licenses from these parties or substantially re-engineer our products in order to avoid infringement. We may not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer our products successfully. Moreover, if we are sued for infringement and lose, we could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. Any of the foregoing could cause us to incur significant costs and prevent us from selling our products.

Our business is subject to seasonality that may affect our quarterly operating results and impact the market price of our common stock.

Seasonal changes and weather conditions typically affect the Paving and Roofing end-use market. In particular, sales volumes for paving products generally rise in the warmer months and generally decline during the colder months of fall and winter. Roofing product sales volumes tend to be more consistent throughout the year. Abnormally cold or wet seasons may cause reduced purchases from our Paving and Roofing customers. However, because seasonal weather patterns are difficult to predict, we cannot accurately estimate fluctuations in our quarterly Paving and Roofing sales in any given year. If Paving and Roofing results cause our operating results to fall below the periodic expectations of financial analysts or investors, the market price of our common stock may decline.

Our substantial level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the senior secured credit facility and the senior subordinated notes.

We have substantial indebtedness. As of September 30, 2009, after giving effect to this offering and the use of proceeds therefrom, our total indebtedness would have been $375.9 million. Our indebtedness consists principally of the senior secured credit facility, which had $322.6 million outstanding as of September 30, 2009,

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and the 8.125% Senior Subordinated Notes due 2014, or the senior subordinated notes, which had $163.0 million outstanding as of September 30, 2009. The senior secured credit facility is payable in consecutive equal quarterly installments in an aggregate annual amount equal to 1.0% of the original principal amount and with the remaining balance payable in four equal quarterly installments commencing on September 30, 2012 and ending on May 12, 2013. The senior subordinated notes mature on January 14, 2014. In addition, subject to restrictions in the senior secured credit facility and the indenture governing the senior subordinated notes, Kraton and its subsidiaries may incur additional indebtedness.

As a result of our substantial indebtedness:

- our ability to obtain additional financing for working capital, capital expenditures, debt service requirements or other general corporate purposes may be impaired;
- we must use a substantial portion of our cash flow to pay principal of and interest on our indebtedness which will reduce the funds available to us for other purposes;
- we are more vulnerable to economic downturns and adverse industry conditions;
- our ability to capitalize on business opportunities and to react to competitive pressures, as compared to our competitors, may be compromised; and
- our ability to borrow additional funds or to refinance indebtedness may be limited.

The ability for us to pay principal of and interest on 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. 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 revolving credit facility to fund liquidity needs in an amount sufficient to enable us to service indebtedness. Furthermore, if we decide to undertake additional investments in existing or new facilities, this will likely require additional capital, and there can be no assurance that this capital will be available.

Our debt instruments, including the senior secured credit facility and the indenture governing the senior subordinated notes, impose significant operating and financial restrictions on us.

The senior secured credit facility and the indenture governing the senior subordinated notes impose significant operating and financial restrictions on us. These restrictions limit our ability, the ability of Kraton and the ability of its subsidiaries to, among other things:

- incur additional indebtedness;
- pay dividends or make certain other restricted payments and investments;
- create liens or other encumbrances; and
- transfer or sell certain assets or merge or consolidate with another entity.

These restrictions could limit our ability to plan for or react to market conditions or meet extraordinary capital needs or otherwise restrict corporate activities. Our ability to comply with these covenants may be affected by events beyond our control, and any material deviations from our forecasts could require us to seek waivers or amendments of covenants, alternative sources of financing or reductions in expenditures. We may not be able to obtain such waivers, amendments or alternative financings, or if we obtain them, they may not be on terms acceptable to us.

A deterioration in our results of operations may cause us not to be in compliance with the financial covenants in the senior secured credit facility. Under the terms of the senior secured credit facility, as amended, we are subject to certain financial covenants, including maintenance of a minimum interest rate coverage ratio and a maximum leverage ratio. Our ability to continue to comply with the financial ratios is subject to changes in our results of operations and financial position including but not limited to: the prices for raw materials; the sales of products; our ability to successfully implement selected selling price increases; our ability to reduce costs; and our availability of cash to reduce existing indebtedness. We generated net income of $28.4 million for the year ended

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December 31, 2008 and net income of $1.2 million for the nine months ended September 30, 2009 and a net loss of $43.7 million for the year ended December 31, 2007. Furthermore, our earnings were insufficient to cover our fixed charges for the year ended December 31, 2007 by approximately $37.6 million. As of September 30, 2009, we were in compliance with the applicable financial ratios in the senior secured credit facility. We may not be able to maintain these ratios or avail ourselves of the equity cure provisions of the senior secured credit facility in future periods.

A breach of any of the covenants or restrictions contained in any of our existing or future financing agreements and instruments, including our inability to comply with the required financial covenants in the senior secured credit facility, could result in an event of default under those agreements. Such a default could allow the lenders under our financing agreements to discontinue lending, to accelerate the related debt and to declare all borrowings outstanding thereunder to be due and payable. In addition, the lenders could terminate any commitments they had made to supply us with further funds.

We may be liable for damages based on product liability claims brought against our customers in our end-use markets.

Many of our products provide critical performance attributes to our customers products that are sold to consumers who could potentially bring product liability suits in which we could be named as a defendant. The sale of these products involves the risk of product liability claims. If a person were to bring a product liability suit against one of our customers, this customer may attempt to seek contribution from us. A person may also bring a product liability claim directly against us. A successful product liability claim or series of claims against us in excess of our insurance coverage for payments, for which we are not otherwise indemnified, could have a material adverse effect on our financial condition or results of operations. While we endeavor to protect ourselves from such claims and exposures in our contractual negotiations, there can be no assurance that our efforts in this regard will ultimately protect us from any such claims.

As a global business, we are exposed to local business risks in different countries, which could have a material adverse effect on our financial condition or results of operations.

We have significant operations in foreign countries, including manufacturing facilities, research and development facilities, sales personnel and customer support operations. Currently, we operate, or others operate on our behalf, facilities in Brazil, Germany, the Netherlands, France and Japan, in addition to our operations in the United States. Our offshore operations are subject to risks inherent in doing business in foreign countries, including, but not necessarily limited to:

- new and different legal and regulatory requirements in local jurisdictions;
- export duties or import quotas;
- domestic and foreign customs and tariffs or other trade barriers;
- potential staffing difficulties and labor disputes;
- managing and obtaining support and distribution for local operations;
- increased costs of transportation or shipping;
- credit risk and financial conditions of local customers and distributors;

potential difficulties in protecting intellectual property;

risk of nationalization of private enterprises by foreign governments;

potential imposition of restrictions on investments;

potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries;

- foreign currency exchange restrictions and fluctuations; and
- local political and social conditions, including the possibility of hyperinflationary conditions and political instability in certain countries.

We may not be successful in developing and implementing policies and strategies to address the foregoing factors in a timely and effective manner at each location where we do business. Consequently, the occurrence of one or more of the foregoing factors could have a material adverse effect on our international operations or upon our financial condition and results of operations.

Chemical manufacturing is inherently hazardous, which could result in accidents that disrupt our operations or expose us to significant losses or liabilities.

The hazards associated with chemical manufacturing and the related storage and transportation of raw materials, products and wastes exist in our operations and the operations of other occupants with whom we share manufacturing sites. These hazards could lead to an interruption or suspension of operations and have an adverse effect on the productivity and profitability of a particular manufacturing facility or on us as a whole. These potential risks include, but are not necessarily limited to:

- pipeline and storage tank leaks and ruptures;
- explosions and fires;
- inclement weather and natural disasters;
- terrorist attacks;
- mechanical failure; and
- chemical spills and other discharges or releases of toxic or hazardous substances or gases.

These hazards may result in personal injury and loss of life, damage to property and contamination of the environment, which may result in a suspension of operations and the imposition of civil or criminal penalties, including governmental fines, expenses for remediation and claims brought by governmental entities or third parties. The loss or shutdown of operations over an extended period at our Belpre facility, which is our largest manufacturing facility, or any of our other major operating facilities could have a material adverse effect on our financial condition and results of operations. Although we maintain property, business interruption and casualty insurance of the types and in the amounts that we believe are customary for the industry, we are not fully insured against all potential hazards incidental to our business.

Regulation of our employees exposure to butadiene could require material expenditures or changes in our operations.

Butadiene is a known carcinogen in laboratory animals at high doses and is being studied for its potential adverse health effects. The Occupational Safety and Health Administration limits the permissible employee exposure to butadiene. Future studies on the health effects of butadiene may result in additional regulations or new regulations in Europe that further restrict or prohibit the use of, and exposure to, butadiene. Additional regulation of butadiene could require us to change our operations, and these changes could affect the quality of our products and materially increase our costs.

Compliance with extensive environmental, health and safety laws could require material expenditures, changes in our operations or site remediation.

Materials such as styrene, butadiene and isoprene, which are used in the manufacture of our products, can represent potentially significant health and safety concerns. Our products are also used in a variety of end-uses that have specific regulatory requirements such as those relating to products that have contact with food or medical end-uses.

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We use large quantities of hazardous substances and generate hazardous wastes in our manufacturing operations. Consequently, our operations are subject to extensive environmental, health and safety laws and regulations at both the national and local level in multiple jurisdictions. Many of these laws and regulations have become more stringent over time and the costs of compliance with these requirements may increase, including costs associated with any necessary capital investments. In addition, our production facilities require operating permits that are subject to renewal and, in some circumstances, revocation. The necessary permits may not be issued or continue in effect, and any issued permits may contain significant new requirements. The nature of the chemical industry exposes us to risks of liability due to the use, production, management, storage, transportation and sale of materials that are heavily regulated or hazardous and can cause contamination or personal injury or damage if released into the environment.

We operate coal-burning boilers at our facility in the United States that could be subject to legislation and regulation affecting the emissions of greenhouse gases. While the impact of any such legislation or regulation is currently speculative, any such legislation or regulation, if enacted, may have an adverse effect on our operations or financial condition.

We have health and safety management programs in place to help assure compliance with applicable regulatory requirements and with internal policies and procedures, as appropriate. Each facility has developed and implemented specific critical occupational health, safety, environmental and loss control programs. Compliance with environmental laws generally increases the costs of transportation and storage of raw materials and finished products, as well as the costs of storage and disposal of wastes. We may incur substantial costs, including fines, damages, criminal or civil sanctions and remediation costs, or experience interruptions in our operations for violations arising under these laws or permit requirements.

Management at our facility at Belpre, Ohio has identified several occupied buildings that are closer to the manufacturing process than would be consistent with industry guidelines required by the Occupational Safety and Health Administration. A $7.6 million project is underway to relocate these facilities, and this cost is included in our projected future capital expenditures. However, such costs may vary with changes in regulations or risk management strategy. This project is expected to be completed by the end of 2010.

We may be subject to losses due to lawsuits arising out of environmental damage or personal injuries associated with chemical manufacturing.

We face the risk that individuals could, in the future, seek damages for personal injury due to exposure to chemicals at our facilities or to chemicals otherwise owned or controlled by us. We may be subject to future claims with respect to workplace exposure, workers compensation and other matters that are filed after the date of our acquisition of Shell Chemicals elastomers business. While Shell Chemicals has agreed to indemnify us for certain claims brought with respect to matters occurring before our separation from Shell Chemicals in February 2001, those indemnity obligations are subject to limitations, and we cannot be certain that those indemnities will be sufficient to satisfy claims against us. In addition, we face the risk that future claims would fall outside of the scope of the indemnity due either to the limitations on the indemnity or to their arising from events and circumstances occurring after February 2001.

Some environmental laws could impose on us the entire cost of clean-up of contamination present at a facility even though we did not cause the contamination. These laws often identify the site owner as one of the parties that can be jointly and severally liable for on-site remediation, regardless of fault or whether the original activity was legal at the time it occurred. For example, our Belpre, Ohio facility is the subject of a required remediation program to clean up past contamination at the site and at an adjacent creek and we are a party to that site clean-up order. While Shell Chemicals has posted financial assurance of $5.2 million for this program and has taken the lead in implementing the program, we may incur costs and be required to take action under this program. Similarly, the Shell Chemicals indemnity for remediation at the Belpre facility may not cover all claims that might be brought against us.

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Our Paulinia, Brazil facility also has on-site contamination resulting from past operations of Shell Chemicals. The indemnity from Shell Chemicals covers claims related to certain specified areas within the plant, and we may be required to undertake and pay for remediation of these and other areas. The indemnity coverage from Shell Chemicals is limited in time and amount and we cannot rely upon it to cover possible future claims for on-site contamination separate from the areas specified in the indemnity. The Paulinia facility is also adjacent to a former Shell Chemicals site where we believe past manufacturing of hydrocarbons resulted in significant contamination of soil and groundwater and required relocation of nearby residents. It is our understanding that the Shell Chemicals portion of the site has changed ownership several times, which may impact financial responsibility for contamination on the site. While we are not aware of any significant contamination at our Paulinia facility, we could potentially be the subject of claims related to pesticide contamination and effects at some point in the future.

In general, there is always the possibility that a third-party plaintiff or claimant, or governmental or regulatory authority, could seek to include us in an action or claim for damages, clean-up, or remediation pertaining to events or circumstances occurring or existing at one or more of our sites prior to the time of our ownership or occupation of the applicable site. In the event that any of these actions or claims were asserted against us, our results of operations could be adversely affected.

Regulatory and statutory changes applicable to us or our customers could adversely affect our financial condition and results of operations.

We and many of the applications for the products in the end-use markets in which we sell our products are regulated by various national and local rules, laws and regulations. Changes in any of these areas could result in additional compliance costs, seizures, confiscations, recall or monetary fines, any of which could prevent or inhibit the development, distribution and sale of our products. For example, changes in environmental regulations restricting the use of disposable diapers could cause a decline in sales to producers of that product. In addition, we benefit from certain trade protections, including anti-dumping protection. If we were to lose these protections, our results of operations could be adversely affected.

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

We are subject to numerous regulations, including customs and international trade laws, export control, antitrust laws and zoning and occupancy laws that regulate manufacturers generally and/or govern the importation, promotion and sale of our products, the operation of factories and warehouse facilities and our relationship with our customers, suppliers and competitors. If these regulations were to change or were violated by our management, employees, suppliers, buying agents or trading companies, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational harm, which could reduce demand for our products and hurt our business and negatively impact results of operations. In addition, changes in federal and state minimum wage laws and other laws relating to employee benefits could cause us to incur additional wage and benefits costs, which could negatively impact our profitability.

Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effects on our operations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business.

Our relationship with our employees could deteriorate, which could adversely affect our operations.

As a manufacturing company, we rely on our employees and good relations with our employees to produce our products and maintain our production processes and productivity. As of September 30, 2009, we employed

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approximately 805 full-time employees. A significant number of our non-U.S. employees are subject to arrangements similar to collective bargaining arrangements. With respect to these employees, we may not be able to negotiate labor agreements on satisfactory terms, and actions by our employees may disrupt our business. Although we have historically maintained a good relationship with our employees, if these workers were to engage in a strike, work stoppage or other slowdown, our operations could be disrupted or we could experience higher labor costs. In addition, if our other employees were to become unionized, in particular our employees at our Belpre, Ohio facility, we could experience significant operating disruptions and higher ongoing labor costs, which could adversely affect our business and financial condition and results of operations. Because many of the personnel who operate our European facilities are employees of Shell Chemicals or LyondellBasell, relations between Shell Chemicals and its employees or LyondellBasell and its employees may also adversely affect our business and financial condition and results of operations.

Loss of key personnel or our inability to attract and retain new qualified personnel could hurt our business and inhibit our ability to operate and grow successfully.

Our success in the highly competitive markets in which we operate will continue to depend to a significant extent on our key employees. We are dependent on the expertise of our executive officers. Loss of the services of any of our executive officers could have an adverse effect on our prospects. We may not be able to retain our key employees or to recruit qualified individuals to join our company. The loss of key employees could result in high transition costs and could disrupt our operations.

Fluctuations in currency exchange rates may significantly impact our results of operations and may significantly affect the comparability of our results between financial periods.

Our operations are conducted by subsidiaries in many countries. The results of the operations and the financial position of these subsidiaries are reported in the relevant foreign currencies and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements. The main currencies to which we are exposed, besides the U.S. dollar, are the Euro, Japanese Yen and Brazilian Real. The exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly and may continue to do so in the future. A depreciation of these currencies against the U.S. dollar will decrease the U.S. dollar equivalent of the amounts derived from these operations reported in our consolidated financial statements and an appreciation of these currencies will result in a corresponding increase in such amounts. Because many of our raw material costs are determined with respect to the U.S. dollar rather than these currencies, depreciation of these currencies may have an adverse effect on our profit margins or our reported results of operations. Conversely, to the extent that we are required to pay for goods or services in foreign currencies, the appreciation of such currencies against the U.S. dollar will tend to negatively impact our results of operations. In addition, currency fluctuations may affect the comparability of our results of operations between financial periods.

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. Beginning in 2008, we began implementing hedging strategies to minimize our exposure to certain foreign currency fluctuations. Given the volatility of exchange rates, there can be no assurance that we will be able to effectively manage our currency transaction risks or that any volatility in currency exchange rates will not have a material adverse effect on our financial condition or results of operations.

We generally do not have long-term contracts with our customers, and the loss of customers could adversely affect our sales and profitability.

With some exceptions, our business is based primarily upon individual sales orders with our customers. As such, our customers could cease buying our products from us at any time, for any reason, with little or no recourse. If multiple customers elected not to purchase products from us, our business prospects, financial condition and results of operations could be adversely affected.

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A decrease in the fair value of pension assets could materially increase future funding requirements of the pension plan.

We sponsor a defined benefit pension plan. The total projected benefit obligation of our defined benefit pension plan exceeded the fair value of the plan assets by approximately $37.8 million at September 30, 2009. We contributed $9.0 million to the pension plan in 2008 and, based on the actuarial assumptions used in our consolidated financial statements, are forecasting contributions of approximately $4.2 million in calendar years 2009 and 2010, respectively. Among the key assumptions inherent in the actuarially calculated pension plan obligation and pension plan expense are the discount rate and the expected rate of return on plan assets. If interest rates and actual rates of return on invested plan assets were to decrease significantly, the pension plan obligation could increase materially. The size of future required pension contributions could result in us dedicating a substantial portion of our cash flow from operations to making the contributions which could materially adversely affect our business, financial condition and results of operations.

Risk Factors Relating to this Offering

Concentration of ownership among our principal stockholders may prevent new investors from influencing significant corporate decisions.

Upon consummation of this offering, TPG and JPMP together will own approximately 64.8% of our common stock (approximately 61.6% if the underwriters over-allotment option is exercised in full). Pursuant to a registration rights and shareholders agreement to be entered into by TPG, JPMP and the company, TPG and JPMP will each have the right to participate in certain dispositions by the other party. TPG and JPMP will also be restricted from transferring common stock without the consent of the other party. Furthermore, each of TPG and JPMP will have the right to elect two directors to the board of directors of the company so long as it owns 10% or more of the outstanding common stock and one director so long as it owns 2% or more of the common stock. See Certain Relationships and Related Transactions Registration Rights and Shareholders Agreement. TPG and JPMP together will be able to exercise control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of significant corporate transactions and will have significant control over our management and policies. The interests of these stockholders may not be consistent with your interests as a stockholder. This control may also have the effect of deterring hostile takeovers, delaying or preventing changes in control or changes in management, or limiting the ability of our other stockholders to approve transactions that they may deem to be in the best interests of our company. In addition, our certificate of incorporation will provide that the provisions of Section 203 of the Delaware General Corporation Law, which relate to business combinations with interested stockholders, do not apply to us.

There has been no prior public market for our common stock, and we cannot assure you that an active trading market in our stock will develop or be sustained.

Prior to this offering, there has been no public market for our common stock. We cannot assure you that an active trading market will develop or be sustained after this offering. Although we have applied to have our common stock approved for listing on the New York Stock Exchange, we do not know whether third parties will find our common stock to be attractive or whether firms will be interested in making a market in our common stock. Also, if you purchase shares of common stock in this offering, you will pay a price that was not established in public trading markets. The initial public offering price of our common stock will be determined through negotiation between us and the representatives of the underwriters and thus may not be indicative of the market price for our common stock after this offering. Consequently, you may not be able to resell your shares above the initial public offering price and may suffer a loss on your investment.

Through their affiliates, certain underwriters for this offering are also creditors of our outstanding indebtedness, and therefore have interests in this offering beyond customary underwriting discounts and commissions.

Certain affiliates of Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated are lenders under the senior secured credit facility. We expect to use portions of the net proceeds of

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this offering to repay existing indebtedness under the term loan portion of the senior secured credit facility, under which Merrill Lynch, Pierce, Fenner & Smith Incorporated is a lender. As a result, such affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated may receive portions of the proceeds of this offering and have interests beyond customary underwriting discounts and commissions. For more information on the use of the proceeds of this offering, see Use of Proceeds.

The market price of our common stock may fluctuate significantly, and it may trade at prices below the initial public offering price.

The market price of our common stock after this offering may fluctuate significantly from time to time as a result of many factors, including:

- investors perceptions of our prospects;
- differences between our actual financial and operating results and those expected by investors and analysts;
- changes in analysts recommendations or projections;
- fluctuations in quarterly operating results;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- changes or trends in our industry;
- adverse resolution of new or pending litigation against us;
- additions or departures of key personnel;
- changes in general economic conditions; and
- broad market fluctuations.

Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. As a result, our common stock may trade at prices significantly below the initial public offering price.

Future sales of our shares could adversely affect the market price of our common stock.

If our existing stockholders sell substantial amounts of our common stock in the public market following this offering, or if we issue a large number of shares of our common stock in connection with future business activities, the market price of our common stock could decline significantly. Sales by our existing stockholders might also make it more difficult for us to raise equity capital by selling new common stock at a time and price that we deem appropriate.

Upon completion of this offering we will have 29,619,429 shares of common stock outstanding based on 19,325,311 shares outstanding after our conversion to a corporation and 10,294,118 shares to be sold in the offering based on an assumed share price of $17.00, the midpoint of the price range on the cover of this prospectus. Of these outstanding shares, we expect all of the shares sold in this offering will be freely tradable in the public market. We expect 19,188,026 shares will be restricted securities as defined in the SEC s Rule 144 and may be sold by the holders into the public market from time to time in accordance with and subject to limitation on sales by affiliates under Rule 144. All of these restricted shares will be eligible for sale under Rule 144 following expiration of the lockup agreements described below subject to limitation on sales by affiliates.

We, each of our officers, directors and our stockholders, have agreed to a 180-day lockup, meaning that, for a period of 180 days following the date of this prospectus, we and they will not sell shares of our common stock. However, this lockup is subject to several exceptions, and our lead underwriters in their sole discretion may release any of the securities subject to the lockup, at any time without notice.

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

Provisions of our charter and bylaws may have the effect of delaying, deferring or preventing a change in control of our company. A change of control could be proposed in the form of a tender offer or takeover proposal that might result in a premium over the market price for our common stock. In addition, these provisions could make it more difficult to bring about a change in the composition of our board of directors, which could result in entrenchment of current management. For example, our charter and bylaws will:

- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- require that the number of directors be determined, and any vacancy or new board seat be filled, only by the board;
- not permit stockholders to act by written consent (except for TPG and JPMP, as long as they own at least 50% of our outstanding common stock);
- not permit stockholders to call a special meeting (except for TPG and JPMP, as long as they own at least 50% of our outstanding common stock);
- permit the bylaws to be amended by a majority of the board without shareholder approval, and require that a bylaw amendment proposed by stockholders be approved by 66 $^{2}/3$% of all outstanding shares;
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- authorize the issuance of undesignated preferred stock, or blank check preferred stock, by our board of directors without shareholder approval.

Many of our employment agreements, plans and equity arrangements with our executive officers also contain change in control provisions. Under the terms of these arrangements, the executive officers are entitled to receive significant cash payments, immediate vesting of Options, Restricted Units and Notional Units, and continued medical benefits in the event their employment is terminated under certain circumstances within one year following a change in control. Any Supplemental Pension Benefits a participant may have accrued under the Kraton Polymers U.S. LLC Pension Benefit Restoration Plan also vests immediately on a change of control and any amounts accrued under the Kraton Polymers LLC Executive Deferred Compensation Plan are immediately payable upon a change of control. We note that a change in control should not be triggered under these arrangements solely by this offering. See Executive Compensation, for disclosure regarding potential payments to Named Executive Offers following a change in control.

These and other provisions of our organizational documents and Delaware law may have the effect of delaying, deferring or preventing changes of control or changes in management of our company, even if such transactions or changes would have significant benefits for our stockholders. As a result, these provisions could limit the price some investors might be willing to pay in the future for shares of our common stock.

We will be a controlled company within the meaning of the New York Stock Exchange rules, and, as a result, we will rely on exemptions from certain corporate governance requirements that provide protection to stockholders of other companies.

Upon completion of this offering, TPG and JPMP together will own more than 50% of the total voting power of our common stock, and we will be a controlled company under the New York Stock Exchange corporate governance listing standards. As a controlled company, an exception under the New York Stock Exchange listing standards will exempt us from the obligation to comply with certain of the New York Stock Exchange corporate governance requirements, including the requirements:

that a majority of our board of directors consist of independent directors, as defined under the rules of the New York Stock Exchange;

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that we have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities; and

that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities.

Accordingly, for so long as we are a controlled company, holders of our common stock may not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

Your share ownership in our company will be immediately and substantially diluted.

If you purchase shares of our common stock in this offering, you will experience an immediate and substantial dilution of $6.79 per share (assuming the common stock is offered at $17.00 per share, the midpoint of the price range set forth on the cover of this prospectus) because the price that you pay will be substantially greater than the pro forma net tangible book value per share of such stock based on the pro forma net tangible book value per share as of September 30, 2009.

We do not expect to pay any dividends for the foreseeable future.

We do not anticipate paying any dividends to our shareholders for the foreseeable future. The senior secured credit facility precludes us from paying cash dividends, and we may be subject to other restrictions on our ability to pay dividends from time to time. In addition, because we are a holding company, our ability to pay dividends depends on our receipt of cash dividends and distributions from our subsidiaries. The terms of certain of the senior subordinated notes substantially restrict our ability and the ability of our subsidiaries to pay dividends. Accordingly, investors must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our common stock. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend upon our results of operations, financial conditions, contractual restrictions, restrictions imposed by applicable law or the SEC and other factors our board deems relevant.

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

Polymer Holdings is a holding company with nominal net worth. We do not have any assets or conduct any business operations other than our investments in our subsidiaries. As a result, our ability to pay dividends, if any, will be dependent upon cash dividends and distributions or other transfers from our subsidiaries. Payments to us by our subsidiaries will be contingent upon their respective earnings and subject to any limitations on the ability of such entities to make payments or other distributions to us. In addition, our subsidiaries are separate and distinct legal entities and have no obligation to make any funds available to us.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our company, the trading price for our common stock would be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our common stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price and trading volume to decline.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements made under the headings Summary, Business, Management s Discussion and Analysis of Financial Condition and Results of Operations, Financial Statements and elsewhere in this prospectus contain forward-looking statements that reflect our plans, beliefs, expectations and current views with respect to, among other things, future events and financial performance. Forward-looking statements are often characterized by the use of words such as believes, estimates, expects, projects, may, intends, plans or anticipates, or by discu strategy, plans or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from historical results or any future results, performance or achievements expressed, suggested or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to:

conditions in the global economy and capital markets,

our dependence on LyondellBasell, Shell Chemicals and other suppliers to perform their obligations to us,

failure of our suppliers to perform their obligations under long-term supply agreements, or our inability to replace or renew these agreements when they expire, could increase our cost for these materials and interrupt production,

limited availability or increases in prices of raw materials used in our business,

our substantial level of indebtedness and the operating and financial restrictions imposed by our debt instruments and related indentures,

competitive pressures in the specialty chemicals industry,

our ability to continue technological innovation and successful commercial introduction of new products,

our ability to protect intellectual property and other proprietary information,

losses due to lawsuits arising out of intellectual property infringement and product liability claims,

losses due to lawsuits arising out of environmental damage or personal injuries associated with chemical manufacturing,

compliance with extensive environmental, health and safety laws, including regulation of our employees exposure to butadiene, could require material expenditures or changes in our operations,

the risk of accidents that could disrupt our operations or expose us to significant losses or liabilities,

governmental regulations and trade restrictions,

- exposure to interest rate and currency fluctuations,
- acts of war or terrorism in the United States or worldwide, political or financial instability in the countries where our goods are manufactured and sold, and
- other risks and uncertainties described in this report and other reports and documents.

These statements are based on current plans, estimates 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.

You should carefully consider the Risk Factors and subsequent public statements, or reports filed with or furnished to the Securities and Exchange Commission, before making any investment decision with respect to our securities. If any of these trends, risks or uncertainties actually occurs or continues, our business, financial condition or operating results could be materially adversely affected, the trading prices of our securities could decline and you could lose all or part of your investment. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

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USE OF PROCEEDS

We estimate that our net proceeds from the sale of 10,294,118 shares of common stock offered by us (based on an assumed share price of $17.00, the midpoint of the price range on the cover of this prospectus) will be approximately $160.0 million or approximately $184.5 million if the underwriters exercise their over-allotment option in full (in each case, at an assumed initial public offering price of $17.00 per share of common stock, the midpoint of the price range set forth on the cover of this prospectus), after deducting underwriting discounts and estimated offering expenses payable by us of approximately $15.0 million or approximately $16.7 million if the underwriters exercise their over-allotment option in full.

We currently intend to use the net proceeds we receive from this offering to repay a portion of the senior secured credit facility. We expect to use the remaining net proceeds for general corporate purposes, including to fund strategic capital projects such as alternative production capabilities for Isoprene Rubber, the development of additional capacity in our Isoprene Rubber Latex business, and/or the continuation of our upgrade of certain systems and operating controls at our Belpre, Ohio facility.

The senior secured credit facility requires that Kraton prepay outstanding indebtedness in an aggregate amount equal to 50% of the proceeds of an issuance of capital stock by Kraton or us, net of underwriting discounts and commissions and other reasonable costs and expenses associated with this offering. Term loans under the senior secured credit facility are payable in 25 consecutive equal quarterly installments, in an aggregate annual amount equal to 1.0% of the original principal amount of the term loans with the remaining balance payable in four equal quarterly installments commencing on September 30, 2012, and ending on May 12, 2013. The remaining scheduled installments must be reduced on a pro rata basis in connection with the repayment contemplated herein. The term loans bear interest at a rate equal to the adjusted Eurodollar rate plus 2.00% per annum or, at our option, the base rate plus 1.00% per annum. As of September 30, 2009, we had total indebtedness of $485.9 million, consisting principally of $322.6 million of outstanding borrowings under the senior secured credit facility term loan and $163.0 million of outstanding senior subordinated notes.

Pending use of the net proceeds from this offering described above, we intend to invest the net proceeds in short- and intermediate-term AAA rated money market funds, overnight Eurodollar deposits, certificates of deposit or direct or guaranteed obligations of the United States government.

By establishing a public market for our common stock, this offering is also intended to facilitate our future access to public markets.

A $1 change, up or down, in the midpoint of the price range on the cover of this prospectus, would change our estimated net proceeds by $9.6 million. Similarly, a change in the number of shares of common stock we sell would increase or decrease our net proceeds. We believe that our intended use of proceeds would not be affected by changes in either our initial public offering price or the number of shares of common stock we sell.

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DIVIDEND POLICY

Prior to our conversion from a limited liability company to a corporation we did not make any dividend payments to our members. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business, and we do not anticipate paying any cash dividends in the foreseeable future. We are currently prohibited from paying cash dividends on our common stock by the covenants in the senior secured credit facility and may be further restricted by the terms of any of our future debt or preferred securities. In addition, because we are a holding company, our ability to pay dividends depends on our receipt of cash dividends and distributions from our subsidiaries. The terms of certain of the senior subordinated notes substantially restrict our ability and the ability of our subsidiaries to pay dividends. For more information about these restrictions, see Description of Certain Indebtedness. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital expenditure requirements, restrictions contained in current and future financing instruments and other factors that our board of directors deems relevant.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of September 30, 2009:

1. on an actual basis; and

2. on an adjusted basis to reflect:

   our conversion to a corporation in the State of Delaware, which will occur prior to the completion of this offering;

   the sale of 10,294,118 shares of common stock offered by us in this offering at an assumed initial public offering price of $17.00 per share (the midpoint of the price range on the cover of this prospectus), after deducting underwriting discounts and commissions and estimated offering expenses; and

   the application of the net proceeds from this offering (as described under the heading Use of Proceeds).

You should read this information together with our financial statements and the notes to those statements and the information included under the headings Management s Discussion and Analysis of Financial Condition and Results of Operations and Selected Consolidated Financial Data included elsewhere in this prospectus.

	As of September 30, 2009 (in millions)	
	Actual	As Adjusted (unaudited)
Cash and cash equivalents	$ 22.4	$ 72.4
Long-term debt, including current portion:		
Senior secured credit facility(1)	$ 322.6	$ 212.6
Senior subordinated notes (less $7.0 million held as Treasury Bonds)	163.0	163.0
Polymer Holdings LLC 12.00% discount notes	0.3	0.3
Total debt	485.9	375.9
Equity:		
Polymer Holdings LLC members equity	$ 203.7	
Kraton Performance Polymers, Inc. common stock, $0.01 par value per share; no shares authorized or issued and outstanding, actual (500,000,000 shares authorized; 29,619,429 shares issued and outstanding, as adjusted)		0.3
Additional paid in capital		363.4
Retained earnings		
Total equity	$ 203.7	$ 363.7
Total capitalization	$ 689.6	$ 739.6

Numbers in table may not foot, due to rounding.

(1) As of September 30, 2009, we had $322.6 million outstanding under the term loan portion of the senior secured credit facility and $75.5 million available under the revolving portion. On November 30, 2009, we increased the amount available under the revolving portion to $80.0 million. We have no drawings under the revolving portion.

A $1 increase or decrease in the assumed initial public offering price of $17.00 per share of our common stock in this offering would increase cash and cash equivalents and decrease long-term debt by $4.8 million, assuming we use 50% of the additional net proceeds to repay debt and assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses. Similarly, an increase or decrease in the number of shares we sell in the offering will increase or decrease our net proceeds by an amount equal to such number of shares multiplied by the public offering price, less underwriting discounts and commissions and estimated offering expenses.

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DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share and the pro forma as adjusted net tangible book value per share of our common stock after this offering. Our historical net tangible book value as of September 30, 2009 was $142.5 million, or approximately $7.37 per share (assuming 19,325,311 shares outstanding after our conversion to a corporation). Net tangible book value per share represents the amount of stockholders equity less the net book value of intangible assets, divided by the number of shares of common stock outstanding at that date.

Net tangible book value dilution per share to new investors represents the difference between the amount per share paid by purchasers of common stock in this offering and the pro forma as adjusted net tangible book value per share of common stock immediately after completion of this offering. After giving effect to our sale of shares of common stock in this offering at an assumed initial public offering price of $17.00 per share (the midpoint of the price range on the cover of this prospectus) and after deducting the estimated underwriting discounts and commissions and offering expenses, our pro forma as adjusted net tangible book value as of September 30, 2009 would have been $10.21 per share. This amount represents an immediate increase in net tangible book value of $2.84 per share to existing stockholders and an immediate dilution in net tangible book value of $6.79 per share to purchasers of common stock in this offering, as illustrated in the following table. A $1 increase or decrease in the assumed initial public offering price of $17.00 per share would increase or decrease, as applicable, the net proceeds to us from this offering by approximately $9.6 million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses. This pro forma information is illustrative only, and following the completion of this offering, will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing.

Assumed initial public offering price per share		$ 17.00
Historical net tangible book value per share as of September 30, 2009	$ 7.37	
Increase per share attributable to new investors	2.84	
As adjusted net tangible book value per share after giving effect to this offering		10.21
Dilution per share to new investors		$ 6.79

The following table summarizes, as of September 30, 2009, on the pro forma basis described above, the differences between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid, and the average price per share of our common stock paid by existing stockholders, after giving effect to the issuance of 10,294,118 shares of our common stock in this offering at an assumed initial public offering price of $17.00 per share (the midpoint of the price range on the cover of this prospectus), before deducting the estimated underwriting discounts and commissions and offering expenses.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	19,325,311	65.2%	$ 261,124,229	59.9%	