PEOPLES BANCORP OF NORTH CAROLINA INC
Form 8-K
June 23, 2015

UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): June 18, 2015

Peoples Bancorp of North Carolina, Inc.
(Exact Name of Registrant as Specified in Its Charter)

North Carolina
(State or Other Jurisdiction of Incorporation)

000-27205	56-2132396
(Commission File No.)	(IRS Employer Identification No.)

518 West C Street, Newton, North Carolina	28658
(Address of Principal Executive Offices)	(Zip Code)

(828) 464-5620
(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Peoples Bancorp of North Carolina, Inc.

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Item 4.01. Changes in Registrant's Certifying Accountant

The Audit Committee (the “Committee”) of the Board of Directors of Peoples Bancorp of North Carolina, Inc. (the “Company”) recently completed a competitive review of independent registered public accounting firms to serve as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2015. As a result of this review and careful deliberation, on June 18, 2015, the Committee approved the engagement of Elliott Davis Decosimo, PLLC (“Elliott Davis”) as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2015. On June 19, 2015, the Company informed Elliott Davis of the Committee’s decision effective as of that date. On June 19, 2015 the Company informed Porter Keadle Moore, LLC ("PKM"), the Company's independent registered public accounting firm for the fiscal years ended December 31, 2014 and 2013 and from January 1, 2015 through June 19, 2015, that it was dismissed as the Company’s independent registered public accounting firm effective as of that date.

The audit report on the financial statements of the Company as of and for the fiscal years ended December 31, 2014 and 2013 issued by PKM did not contain any adverse opinion or disclaimer of opinion, nor were the reports qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company’s fiscal years ended December 31, 2014 and 2013, and from January 1, 2015 through June 19, 2015, (1) there were no disagreements (as defined in Item 304(a)(1)(iv) of Regulation S-K) between the Company and PKM on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of PKM, would have caused PKM to make reference thereto in its report on the Company’s financial statements for such periods, and (2) there were no “reportable events” (as described in Item 304(a)(1)(v) of Regulation S-K).

In accordance with Item 304(a)(3) of Regulation S-K, the Company provided PKM with a copy of this Current Report on Form 8-K before it was filed and requested that PKM furnish it with a letter addressed to the Securities Exchange Commission stating whether PKM agrees with the above statements. A copy of PKM’s letter, dated June 23, 2015, is filed as Exhibit 16.1 hereto.

During the Company’s two most recent fiscal years ended December 31, 2014 and 2013, the Company did not consult Elliott Davis in regards to the Company’s financial statements, which were audited by PKM as its independent registered public accounting firm, with respect to (1) the application of accounting principles to a specified transaction, either completed or proposed, (2) the type of audit opinion that might be rendered on the Company’s financial statements or (3) any matter that was the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

16.1 Letter, dated June 23, 2015, from Porter Keadle Moore, LLC to the Securities and Exchange Commission

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Date: June 23, 2015

By: /s/ A. Joseph Lampron, Jr.
A. Joseph Lampron, Jr.
Executive Vice President and Chief Financial Officer

;padding-bottom:2px;">
541

628

332

Spread between FIFO and ECRC
50,658

9,255

30,737

Adjusted gross profit
$
279,540

$
257,936

$
260,625

(a) Employee severance costs and other restructuring related charges.
(b) In 2015, the reduction in costs was due to insurance recoveries related to the Belpre production downtime. In 2014, weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility. In 2013, production downtime at our Belpre, Ohio facility, in preparation for the installation of natural gas boilers to replace the coal-burning boilers required by the MACT legislation.
(c) Impairment of spare parts inventory associated with the coal-burning boilers which were decommissioned in 2015.
(d) Represents non-cash expense related to equity compensation plans.

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We reconcile consolidated net income (loss) to EBITDA, and Adjusted EBITDA as follows:

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Net income (loss) attributable to Kraton	$(10,535)	$2,419	$(618)
Net loss attributable to noncontrolling interest	(1,994)	(1,209)	(357)
Consolidated net income (loss)	(12,529)	1,210	(975)
Add (deduct):			
Interest expense, net	24,223	24,594	30,470
Income tax expense (benefit)	6,943	5,118	(3,887)
Depreciation and amortization	62,093	66,242	63,182
EBITDA	80,730	97,164	88,790
Add (deduct):			
Retirement plan charges (a)	792	399	—
Restructuring and other charges (b)	1,729	2,953	815
Transaction and acquisition related costs (c)	20,846	9,585	9,164
Impairment of long-lived assets (d)	—	4,731	—
Impairment of spare parts inventory (e)	—	430	—
Production downtime (f)	(593)	10,291	3,506
KFPC startup costs (g)	3,640	1,911	—
Non-cash compensation expense (h)	9,015	10,475	7,894
Spread between FIFO and ECRC	50,658	9,255	30,737
Adjusted EBITDA	$166,817	$147,194	$140,906

(a) Charges associated with the termination of the defined benefit restoration pension plan, which are primarily recorded in selling, general, and administrative expenses.

(b) Employee severance, professional fees, and other restructuring related charges which are primarily recorded in selling, general, and administrative expenses.

(c) Charges related to the evaluation of acquisition transactions which are recorded in selling, general, and administrative expenses. In 2015, charges are primarily related to the Arizona Chemical Acquisition. In 2014 and 2013, charges are primarily related to the terminated Combination Agreement with LCY.

(d) The charge recognized in 2014 includes $2.4 million related to engineering and design assets for projects we determined were no longer economically viable, $1.4 million related to information technology and office assets associated with restructuring activities, and $0.9 million related to other long-lived assets.

(e) Impairment of spare parts inventory associated with the coal-burning boilers which were decommissioned in 2015 which is recorded in cost of goods sold.

(f) In 2015, the reduction in costs is due to insurance recoveries related to the Belpre production downtime, which are primarily recorded in cost of goods sold. In 2014, weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility, of which $9.9 million is recorded in cost of goods sold and $0.4 million is recorded in selling, general, and administrative expenses. In 2013, production downtime at our Belpre, Ohio, facility, in preparation for the installation of natural gas boilers to replace the coal-burning boilers required by the MACT legislation, which is recorded in cost of goods sold.

(g) Startup costs related to the joint venture company, KFPC, which are recorded in selling, general, and administrative expenses.

(h) Represents non-cash expense related to equity compensation plans. We historically recorded these costs in selling, general and administrative expenses; however, beginning in the second quarter of 2013, a portion of these costs were recorded in cost of goods sold and research and development expenses. In 2015, $7.8 million, $0.7 million and $0.5 million, in 2014, $9.0 million, $0.9 million and $0.6 million, and in 2013, $7.1 million, $0.5 million, and $0.3 million were recorded in selling, general, and administrative expenses, research and development expenses, and cost of goods sold, respectively.

We reconcile GAAP Diluted Earnings (Loss) Per Share to Adjusted Diluted Earnings Per Share as follows:

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
GAAP earnings (loss)	$(0.34)	$0.07	$(0.02)
Retirement plan charges (a)	0.03	0.01	—
Restructuring and other charges (b)	0.05	0.08	0.02
Transaction and acquisition related costs (c)	0.67	0.29	0.28
Impairment of long-lived assets (d)	—	0.14	—
Impairment of spare parts inventory (e)	—	0.01	—
Production downtime (f)	(0.02)	0.31	0.11
KFPC startup costs (g)	0.05	0.02	—
Change in valuation allowance (h)	—	(0.05)	(0.31)
Settlement of interest rate swap (i)	—	—	0.02
Write-off of debt issuance cost (j)	—	—	0.16
Spread between FIFO and ECRC	1.58	0.28	0.94
Adjusted Earnings	$2.02	$1.16	$1.20

(a) Charges associated with the termination of the defined benefit restoration pension plan, which are primarily recorded in selling, general and administrative expenses.

(b) Employee severance, professional fees and other restructuring related charges which are primarily recorded in selling, general and administrative expenses.

(c) Charges related to the evaluation of acquisition transactions which are recorded in selling, general and administrative expenses. In 2015, charges are primarily related to the Arizona Chemical Acquisition. In 2014 and 2013, charges are primarily related to the terminated Combination Agreement with LCY.

(d) The charge recognized in 2014 includes $2.4 million related to engineering and design assets for projects we determined were no longer economically viable, $1.4 million related to information technology and office assets associated with fourth quarter restructuring activities, and $0.9 million related to other long-lived assets.

(e) Impairment of spare parts inventory associated with the coal-burning boilers which were decommissioned in 2015 which is recorded in cost of goods sold.

(f) In 2015, the reduction in costs is due to insurance recoveries related to the Belpre production downtime, which are primarily recorded in cost of goods sold. In 2014, weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility, of which $9.9 million is recorded in cost of goods sold and $0.4 million is recorded in selling, general and administrative expenses. In 2013, production downtime at our Belpre, Ohio, facility, in preparation for the installation of natural gas boilers to replace the coal-burning boilers required by the MACT legislation, which is recorded in cost of goods sold.

(g) Startup costs related to the joint venture company, KFPC, which are recorded in selling, general and administrative expenses.

(h) Income tax benefit related to a portion of the change in our valuation allowance for deferred tax assets.

(i) Interest expense related to the termination and settlement of an interest rate swap agreement in connection with the refinancing of our credit facility.

(j) Interest expense related to the write-off of unamortized debt issuance costs in connection with the refinancing of our credit facility.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Item 8. Financial Statements and Supplementary Data. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to those described in Item 1A. Risk Factors and below under the caption "Factors Affecting Our Results of Operations." Actual results may differ materially from those contained in any forward-looking statements.

OVERVIEW

We are a leading global specialty chemicals company that manufactures SBCs and other engineered polymers. SBCs are highly-engineered synthetic elastomers, which we invented and commercialized over 50 years ago. We developed the first USBCs in 1964 and the first HSBCs in the late 1960s. Our SBCs enhance the performance of numerous products by imparting greater flexibility, resilience, strength, durability and processability, and are used in a wide range of applications, including adhesives, coatings, consumer and personal care products, sealants, lubricants, medical, packaging, automotive, paving, roofing and footwear products.

The majority of worldwide SBC production is dedicated to USBCs, which are primarily used in paving, roofing, adhesives, sealants, coatings, and footwear applications. HSBC, which are significantly more complex and capital-intensive to manufacture than USBCs, are used in applications such as soft touch and flexible materials, personal hygiene products, medical products, automotive components, and certain adhesives and sealant applications. IR and IRL are non-SBC products which are primarily used in applications such as medical products, personal care, adhesives, tackifiers, paints, and coatings.

Our products are manufactured and our commercial activities are organized in the following product groups based upon polymer chemistry and process technologies:

Product Group Revenue Percentage:	2015		2014		2013	
Performance Products	52.3	%	55.2	%	59.0	%
Specialty Polymers	33.9	%	33.5	%	31.9	%
Cariflex	13.8	%	11.3	%	9.0	%
Other	—	%	—	%	0.1	%

2015 Financial Overview

- Sales volume was 306.5 kilotons in 2015 compared to 305.6 kilotons in 2014.
- Revenue was $1,034.6 million in 2015 compared to $1,230.4 million in 2014.
- Gross profit was $228.7 million in 2015 compared to $237.1 million in 2014. Adjusted gross profit (non-GAAP) was $279.5 million in 2015 compared to $257.9 million in 2014.
- Adjusted EBITDA (non-GAAP) was $166.8 million in 2015 compared to $147.2 million in 2014.
- Net loss attributable to Kraton was $10.5 million or $0.34 per diluted share in 2015 compared to a net income of $2.4 million or $0.07 per diluted share in 2014.
- Adjusted diluted earnings per share (non-GAAP) was $2.02 in 2015 compared to $1.16 in 2014.
- For the year ended December 31, 2015 compared to the year ended December 31, 2014, foreign currency fluctuations had a negative impact on adjusted gross profit and adjusted EBITDA of $16.5 million and $11.0 million, respectively.

See "Part II, Item 6. Selected Financial Data" for reconciliation of adjusted gross profit, EBITDA, adjusted EBITDA and adjusted diluted earnings per share.

RESULTS OF OPERATIONS

Factors Affecting Our Results of Operations

Raw Materials. We use butadiene, styrene, and isoprene as our primary raw materials in manufacturing our products and our results of operations are directly affected by the cost of these raw materials. On a FIFO basis, these monomers together represented approximately $385.2 million, $512.8 million and $609.5 million or 47.8%, 51.6% and 57.2% of our total cost of goods sold for the years ended December 31, 2015, 2014, and 2013, respectively. Since the cost of our three primary raw materials comprise a significant amount of our total cost of goods sold, our selling prices for our products and therefore our total revenue is impacted by movements in our raw material costs, as well as the cost of other inputs.

The cost of these monomers has generally correlated with changes in energy prices and is generally influenced by supply and demand factors and prices for natural and synthetic rubber. In aggregate, average purchase prices for butadiene, isoprene and styrene were lower during 2015 compared to 2014, and lower in 2014 compared to 2013.

We use the FIFO basis of accounting for inventory and cost of goods sold, and therefore gross profit. In periods of raw material price volatility, reported results under FIFO will differ from what the results would have been if cost of goods sold were based on ECRC. Specifically, in periods of rising raw material costs, reported gross profit will be higher under FIFO than under ECRC. Conversely, in periods of declining raw material costs, reported gross profit will be lower under FIFO than under ECRC. In recognition of the fact that the cost of raw materials affects our results of operations and the comparability of our results of operations, we provide the difference, or spread, between FIFO and ECRC. For the years ended December 31, 2015, 2014, and 2013, reported results under FIFO were lower than results would have been on an ECRC basis by $50.7 million, $9.3 million, and $30.7 million, respectively.

International Operations and Currency Fluctuations. We operate a geographically diverse business, serving customers in over 70 countries from five manufacturing facilities on four continents. Our sales and production costs are mainly denominated in U.S. dollars, Euro, Japanese Yen, and Brazilian Real. From time to time, we use hedging strategies to reduce our exposure to currency fluctuations.

We generated our revenue from customers located in the following regions:

Revenue by Geography:	2015		2014		2013	
Americas	38.4	%	38.9	%	39.3	%
Europe, Middle East and Africa	33.1	%	36.4	%	38.7	%
Asia Pacific	28.5	%	24.7	%	22.0	%

Our financial results are subject to gains and losses on currency translations, which occur when the financial statements of foreign operations are translated into U.S. dollars. The financial statements of operations outside the United States where the local currency is considered to be the functional currency are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and the average exchange rate for each period for revenue, expenses, gains and losses, and cash flows. The effect of translating the balance sheet into U.S. dollars is included as a component of accumulated other comprehensive income (loss). Any appreciation of the functional currencies against the U.S. dollar will increase the U.S. dollar equivalent of amounts of revenue, expenses, gains and losses, cash flows, and any depreciation of the functional currencies will decrease the U.S. dollar amounts reported. Our results of operations are also subject to currency transaction risk. We incur currency transaction risk when we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. The estimated impact from currency fluctuations amounted to a pre-tax loss of $9.8 million, a pre-tax income of $0.4 million and a pre-tax loss of $4.8 million for the years ended December 31, 2015, 2014, and 2013, respectively. The primary driver for the pre-tax loss in 2015 and the pre-tax income in 2014 was the change in foreign currency exchange rates between the Euro and U.S. dollar. The primary driver for our pre-tax loss in 2013 was the change in foreign currency exchange rates between the Japanese Yen and U.S. dollar.

Seasonality. Seasonal changes and weather conditions typically affect our Performance Products sales into paving and roofing applications, which generally results in higher sales volumes in the second and third quarters of the calendar year compared to the first and fourth quarters of the calendar year. Our other markets tend to show relatively little seasonality.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Revenue

Revenue was $1,034.6 million for the year ended December 31, 2015 compared to $1,230.4 million for the year ended December 31, 2014, a decrease of $195.8 million or 15.9%. The negative effect of currency movements accounted for $89.1 million of the decline. The remaining decline was due to lower average selling prices amounting to $112.2 million primarily driven by lower average raw material costs, partially offset by $5.5 million due to higher sales volumes. Sales volumes were 306.5 kilotons for the year ended December 31, 2015 compared to 305.6 kilotons for the year ended December 31, 2014.

With respect to revenue for each of our product groups:

- Cariflex™ revenue was $142.9 million for the year ended December 31, 2015 compared to $138.6 million for the year ended December 31, 2014, an increase of $4.3 million or 3.1%. Cariflex sales volumes increased 10.2% compared to the year ended December 31, 2014, driven primarily by higher sales into surgical glove applications. Higher sales volume, amounting to $14.5 million, was partially offset by a $7.7 million negative effect from currency fluctuations and $2.5 million associated with lower selling prices primarily resulting from lower raw material costs.
- Specialty Polymers revenue was $350.7 million for the year ended December 31, 2015 compared to $412.4 million for the year ended December 31, 2014, a decline of $61.7 million, or 15.0%. The negative effect of currency fluctuations accounted for $19.6 million of the decline. The remaining decline reflects a $27.4 million impact from lower average selling prices primarily related to lower raw material costs and $14.8 million due to a 3.4% decline in sales volumes. The decline in sales volume was largely due to lower sales into lubricant additive applications associated with inventory reduction measures by a significant customer, and, to a lesser extent, lower sales into personal care applications. Partially offsetting these declines were higher sales into medical, cable gel and consumer applications.
- Performance Products revenue was $540.6 million for the year ended December 31, 2015 compared to $678.9 million for the year ended December 31, 2014, a decline of $138.3 million, or 20.4%. The decline includes a $61.8 million negative effect of currency fluctuations. The remaining decline was due to lower average selling prices primarily resulting from lower raw material costs. Sales volume increased modestly, despite the previously disclosed seven kilotons of lost production at our Wesseling and Berre facilities in the second quarter 2015. The increase in sales volume was driven by higher sales into North American paving applications and personal care applications, largely offset by lower sales into adhesives and roofing applications.

Cost of Goods Sold

Cost of goods sold was $806.0 million for the year ended December 31, 2015, a decline of $187.4 million, or 18.9%, compared to $993.4 million for the year ended December 31, 2014. The decline was due to lower raw material costs of $96.0 million, changes in foreign currency exchange rates of $74.0 million, and $12.4 million from the implementation of our previously announced cost reduction initiatives. In addition, cost of goods sold in 2014 included $10.4 million of costs associated with production downtime at two of our facilities. These decreases were partially offset by $5.4 million of higher other manufacturing costs.

Gross Profit

Gross profit was $228.7 million for the year ended December 31, 2015 compared to $237.1 million for the year ended December 31, 2014. Gross profit as a percentage of revenue was 22.1% and 19.3% for the years ended December 31, 2015 and 2014, respectively.

Operating Expenses

Research and development expenses were $31.0 million for the year ended December 31, 2015 compared to $31.4 million for the year ended December 31, 2014. The $0.4 million decrease includes $2.8 million of savings from the implementation of our previously announced cost reduction initiatives, largely offset by higher variable employee compensation and other operating costs.

Selling, general and administrative expenses were $117.3 million for the year ended December 31, 2015 compared to $104.2 million for the year ended December 31, 2014, an increase of $13.1 million, or 12.6%. This increase was primarily due to an $11.3 million increase in transaction and acquisition related costs, a $7.2 million increase in employee related expenses, primarily variable compensation expense, and a $2.3 million increase in other professional fees. These increases were partially offset by a $3.9 million positive effect from currency fluctuations and a $4.1

million reduction from the implementation of our previously announced cost reduction initiatives.
Depreciation and amortization was $62.1 million for the year ended December 31, 2015 compared to $66.2 million for the year ended December 31, 2014, a decrease of $4.1 million, of which $2.6 million was due to changes in foreign currency.

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The $4.7 million impairment of long-lived assets in 2014 included $2.4 million related to engineering and design assets for projects we determined were no longer economically viable, $1.4 million related to information technology and office assets arising from restructuring activities, and $0.9 million related to other long-lived assets. We did not incur any impairment charges for the year ended December 31, 2015.

Interest expense, net

Interest expense, net was $24.2 million for the year ended December 31, 2015 compared to $24.6 million for the year ended December 31, 2014, a decrease of $0.4 million or 1.5%.

Income tax expense (benefit)

Income tax expense was $6.9 million and $5.1 million for the years ended December 31, 2015 and 2014, respectively. Our effective tax rate was 124.3% and 80.9% for the years ended December 31, 2015 and 2014, respectively. Our effective tax rates differed from the U.S. corporate statutory tax rate of 35.0%, primarily due to the mix of pre-tax income or loss earned in foreign jurisdictions and losses generated in the U.S. tax jurisdiction for which a full valuation allowance has been provided, as well as uncertain tax positions. See Note 11 Income Taxes, for further information.

We record a valuation allowance when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. As of December 31, 2015 and December 31, 2014, a valuation allowance of $100.1 million and $90.4 million, respectively, has been provided for net operating loss carryforwards and other deferred tax assets. We increased our valuation allowance by $9.7 million in 2015, which includes $13.9 million related to current period net operating losses in the U.S. jurisdiction, partially offset by a $2.7 million decrease related to the tax effect of unrealized pension gains, and a $1.5 million decrease related to changes in other comprehensive income (loss). We increased our valuation allowance by $0.4 million in 2014, which includes a $9.8 million increase related to changes in other comprehensive income (loss), partially offset by a $7.6 million decrease related to current year operating income and a $1.8 million decrease related to the assessment of our ability to utilize net operating loss carryforwards in future periods. We consider the reversal of deferred tax liabilities within the net operating loss carryforward period, projected future taxable income and tax planning strategies in making this assessment. Excluding the change in our valuation allowance, our effective tax rates would have been a 75.4% benefit and a 229.0% expense for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, $87.9 million of the $100.1 million valuation allowance is associated with net deferred tax assets in the U.S. jurisdiction.

Following the Arizona Chemical Acquisition, we project that we will have sufficient combined pre-tax earnings in the U.S. to fully utilize net operating loss carryforwards within a reasonable projection period. Under ASC 805-740-30-3, the release of an acquirer's existing valuation allowance resulting from an acquisition is recognized as an adjustment to the financial statements as of the acquisition date. As a result, we expect to release the valuation allowance related to the U.S. net deferred tax assets in 2016.

Net income (loss) attributable to Kraton

Net loss attributable to Kraton was $10.5 million, or $0.34 per diluted share, for the year ended December 31, 2015, a decrease of $13.0 million, compared to net income of $2.4 million, or $0.07 per diluted share, for the year ended December 31, 2014. Adjusted diluted earnings per share (non-GAAP) was $2.02 in 2015 compared to $1.16 in 2014. See Item 6. Selected Financial Data for a reconciliation of GAAP diluted earnings (loss) per share to adjusted diluted earnings per share.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Revenue

Revenue was $1,230.4 million for the year ended December 31, 2014 compared to $1,292.1 million for the year ended December 31, 2013, a decline of $61.7 million or 4.8% (a decline of $50.3 million or 3.9% excluding an $11.4 million negative effect from currency fluctuations) with $51.3 million of the decline attributable to lower average selling prices associated with lower average raw material costs. Sales volumes declined 7.9 kilotons or 2.5% from 313.5 kilotons for the year ended December 31, 2013 to 305.6 kilotons for the year ended December 31, 2014. The decrease in total sales volume did not have a material impact on the period-over-period change in revenue, as the revenue impact from lower sales volume in our Performance Products business was more than offset by the revenue contribution from increased sales volume in the higher revenue per ton Cariflex™ and Specialty Polymers businesses. With respect to revenue for each of our product groups:

- Cariflex™ revenue was $138.6 million for the year ended December 31, 2014 compared to $116.0 million for the year ended December 31, 2013. The $22.6 million or 19.5% revenue increase (an increase of $25.4 million or 21.9% excluding a $2.8 million negative effect from currency fluctuations) was due to a 24.1% increase in sales volumes led by sales into surgical glove applications, and to a lesser extent, increased sales into condom and medical stopper markets. The revenue contribution from higher sales volume was partially offset by lower average selling prices due to lower isoprene costs.

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- Specialty Polymers revenue was $412.4 million for the year ended December 31, 2014 compared to $412.0 million for the year ended December 31, 2013. The $0.4 million or 0.1% revenue increase (an increase of $1.5 million or 0.4% excluding a $1.1 million negative effect from currency fluctuations) was due to a 4.6% increase in sales volume, which was offset by lower average selling prices reflective of lower raw material costs. The increase in sales volume was primarily due to growth in lubricant additives, cable gels, and polymer modification applications partially offset by lower volume into personal care applications.
- Performance Products revenue was $678.9 million for the year ended December 31, 2014 compared to $762.9 million for the year ended December 31, 2013. The $84.0 million or 11.0% revenue decline (a decline of $76.5 million or 10.0% excluding a $7.5 million negative effect from currency fluctuations) was due to a 6.2% reduction in sales volumes and, to a lesser extent, lower average selling prices driven by lower butadiene and isoprene costs. The decline in sales volume was primarily due to lower paving and roofing volumes in Europe, lower paving volumes in Asia Pacific and lower volumes into packaging & industrial adhesives applications.

Cost of Goods Sold

Cost of goods sold was $993.4 million for the year ended December 31, 2014 compared to $1,066.3 million for the year ended December 31, 2013. The $72.9 million or 6.8% decrease was primarily driven by a $66.0 million reduction in raw material costs (including a period over period benefit of $21.5 million due to the spread between FIFO and ECRC), an $18.6 million decrease from lower sales volumes, and an $11.1 million decrease due to foreign currency fluctuations. Partially offsetting these decreases were $9.9 million of costs associated with the weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility in the first quarter of 2014 and increases in other variable and manufacturing costs.

Gross Profit

Gross profit was $237.1 million for the year ended December 31, 2014 compared to $225.8 million for the year ended December 31, 2013. Gross profit as a percentage of revenue was 19.3% and 17.5% for the years ended December 31, 2014 and 2013, respectively.

Operating Expenses

Research and development expenses were $31.4 million for the year ended December 31, 2014 compared to $32.0 million for the year ended December 31, 2013, a decrease of $0.6 million or 2.0% primarily due to lower professional fees and maintenance costs partially offset by higher employee related costs. Research and development expenses were 2.5% of revenue for both of the years ended December 31, 2014 and 2013.

Selling, general and administrative expenses were $104.2 million for the year ended December 31, 2014 compared to $105.6 million for the year ended December 31, 2013, a decrease of $1.3 million or 1.3%. The decrease was primarily due to a $1.3 million decrease in employee related costs, a $1.0 million decrease in professional fees and a $0.8 million decrease in information technology costs. These decreases were partially offset by a $1.7 million increase in restructuring related costs and a $0.4 million increase in transaction and acquisition related costs. Selling, general and administrative expenses were 8.5% and 8.2% of revenue for the years ended December 31, 2014 and 2013, respectively.

Depreciation and amortization was $66.2 million for the year ended December 31, 2014 compared to $63.2 million for the year ended December 31, 2013, an increase of $3.1 million or 4.8%, largely due to capital expenditures.

We incurred impairments of long-lived assets of $4.7 million for the year ended December 31, 2014 related to engineering and design, information technology, and other long-lived assets. We did not incur any impairment charges for the year ended December 31, 2013.

Interest expense, net

Interest expense, net was $24.6 million for the year ended December 31, 2014 compared to $30.5 million for the year ended December 31, 2013, a decrease of $5.9 million or 19.3%. The decrease was primarily due to charges aggregating $5.8 million incurred in connection with our March 2013 refinancing and to lower outstanding indebtedness in 2014.

Income tax expense (benefit)

Our income tax provision was a $5.1 million expense and a $3.9 million benefit for the years ended December 31, 2014 and 2013, respectively. Our effective tax rate was 80.9% and 79.9% for the years ended December 31, 2014 and 2013, respectively. Our effective tax rates differed from the U.S. corporate statutory tax rate of 35.0%, primarily due to the mix of pre-tax income or loss earned in certain jurisdictions and the change in our valuation allowance.

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We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2014 and December 31, 2013, a valuation allowance of $90.4 million and $90.0 million, respectively, has been provided for net operating loss carryforwards and other deferred tax assets. We increased our valuation allowance by $0.4 million in 2014, which includes a $9.8 million increase related to changes in other comprehensive income (loss), partially offset by a $9.4 million decrease to the income tax provision. The $9.4 million is comprised of $7.6 million related to current year operating income and $1.8 million related to the assessment of our ability to utilize net operating loss carryforwards in future periods. We decreased our valuation allowance by $0.4 million in 2013, which includes a $0.5 million decrease due to changes in other comprehensive income (loss), partially offset by a $0.1 million increase to the income tax provision. The $0.1 million is comprised of $10.2 million related to current year operating losses, offset by a $10.1 million benefit related to the tax effect of unrealized pension gains. We consider the reversal of deferred tax liabilities within the net operating loss carryforward period, projected future taxable income and tax planning strategies in making this assessment. Excluding the change in our valuation allowance, our effective tax rates would have been a 229.0% expense and an 81.4% benefit for the years ended December 31, 2014 and 2013, respectively.

Net income (loss) attributable to Kraton

Net income attributable to Kraton was $2.4 million, or $0.07 per diluted share, for the year ended December 31, 2014, an increase in net income of $3.0 million, compared to a net loss of $0.6 million, or $0.02 per diluted share, for the year ended December 31, 2013. Adjusted diluted earnings per share (non-GAAP) was $1.16 in 2014 compared to $1.20 in 2013. See Item 6. Selected Financial Data for a reconciliation of GAAP diluted earnings (loss) per share to adjusted diluted earnings per share.

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions and estimates that directly affect the amounts reported in the consolidated financial statements. Certain critical accounting policies requiring significant judgments, estimates, and assumptions are described in this section. We consider an accounting estimate to be critical if (1) it requires assumptions to be made that are uncertain at the time the estimate is made and (2) changes to the estimate or different estimates that could have reasonably been used would have materially changed our consolidated financial statements. We believe the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, should our actual experience differ from these assumptions and other considerations used in estimating these amounts, the impact of these differences could have a material impact on our consolidated financial statements.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing receivables and is determined based on our assessment of the credit worthiness of individual customers, historical write-off experience, and global economic data. We review the allowance for doubtful accounts quarterly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance sheet credit exposure related to our customers.

Inventories. Inventory values include all costs directly associated with manufacturing products and are stated at the lower of cost or market, primarily determined on a first-in, first-out basis. We evaluate the carrying cost of our inventory on a quarterly basis for this purpose. If the cost of the inventories exceeds their market value, provisions are made for the difference between the cost and the market value.

Property, Plant, and Equipment. Property, plant, and equipment are recorded at cost, net of accumulated depreciation. Major renewals and improvements that extend the useful lives of equipment are capitalized. Repair and maintenance costs are expensed as incurred. Disposals are removed at carrying cost less accumulated depreciation with any resulting gain or loss reflected in earnings. We capitalize interest costs which are incurred as part of the cost of constructing major facilities and equipment. Depreciation is recognized using the straight-line method over the following estimated useful lives:

Machinery and equipment	20 years
Building and land improvements	20 years

Manufacturing control equipment	10 years
Office equipment	5 years
Research equipment and facilities	5 years
Vehicles	5 years
Computer hardware and information systems	3 years

Impairment of Long-Lived Assets. In accordance with the Impairment or Disposal of Long-Lived Assets Subsections of FASB ASC Subtopic 360-10, Property, Plant, and Equipment—Overall, long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.
Asset Retirement Obligations (“ARO”). Our ARO consists of estimated costs of dismantlement, removal, site reclamation, and similar activities associated with our facilities. We recognize the fair value of a liability for an ARO in the period in which we have an existing legal obligation associated with the retirement of our facilities and the obligation can reasonably be estimated. The associated asset retirement cost is capitalized as part of the carrying cost of the asset. The recognition of an ARO requires that we make numerous estimates, assumptions, and judgments regarding such factors as the existence of a legal obligation for an ARO; estimated probabilities, amounts and timing of settlements; the credit-adjusted risk-free rate to be used; discount rate; and inflation rates. In periods subsequent to initial measurement of the ARO, we recognize changes in the liability resulting from the accretion of the liability to its non-discounted amount and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Revisions also result in increases or decreases in the carrying cost of these assets. Increases in the ARO liability due to accretion is charged to depreciation and amortization expense. The related capitalized cost, including revisions thereto, is charged to depreciation and amortization expense. See Note 12 Commitments and Contingencies (subsection (c)) to the consolidated financial statements.
Contingencies. We are routinely involved in litigation, claims, and disputes incidental to our business. Professional judgment is required to classify the likelihood of these contingencies occurring. A contingency is categorized as probable, reasonably possible, or remote. A contingency is classified as probable if the future event or events are likely to occur. For the probable contingencies, a loss is accrued and disclosed as of the date of the financial statements if it is both probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. A reasonably possible contingency occurs if the chance of the future event or events happening is more than remote but less than likely (reasonably possible but not probable). We disclose the loss contingencies in the footnotes to the financial statements but do not recognize any liability. A remote contingency is one where the chance of the future event or events occurring is slight. We neither accrue for nor disclose the liability in the notes to the financial statements.
Share-Based Compensation. Share-based compensation cost is measured at the grant date based on the fair value of the award. We recognize these costs using the straight-line method over the requisite service period. The Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan (the “Equity Plan”) allows for the grant to key employees, independent contractors, and eligible non-employee directors of incentive stock options, non-qualified stock options (which together with the incentive stock options, are referred to herein as (“Options”)), stock appreciation rights, restricted stock awards, and restricted stock units, in addition to other equity or equity-based awards (including performance-based awards) as our board determines from time to time. We estimate the fair value of stock options using the Black-Scholes valuation model. Since our equity interests were privately held prior to our initial public offering we have limited publicly traded stock history, and as a result our estimated volatility is based on a combination of our historical volatility and similar companies’ stock that are publicly traded. Until such time that we have enough publicly traded stock history to estimate volatility based solely on our stock, we expect to estimate volatility of options granted based on a combination of our historical volatility and similar companies’ stock that are publicly traded. The expected term of options represents the period of time that options granted are expected to be outstanding. For all periods presented, we used the simplified method to calculate the expected term of options. The risk free interest rate for the periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. For all periods presented, the dividend yield is assumed to be zero based on historical and expected dividend activity. Forfeitures are based substantially on the history of cancellations of similar awards granted in prior years. See Note 4 Share-Based Compensation to the consolidated financial statements.

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

Income taxes are recorded utilizing an asset and liability approach. This method gives consideration to the future tax consequences associated with the differences between the financial accounting and tax basis of the assets and liabilities as well as the ultimate realization of any deferred tax asset resulting from such differences. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. In determining whether a valuation allowance is required, the company evaluates primarily (a) the impact of cumulative losses in past years and (b) current and/or recent losses. A recent trend in earnings despite cumulative losses is a prerequisite to considering not recording a valuation allowance.

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

Benefit Plan Valuations. We sponsor a noncontributory defined benefit pension plan ("Pension Plan") and an additional post-retirement benefit plan ("Retiree Medical Plan"). We annually evaluate significant assumptions related to the benefits and obligations of these plans. Our estimation of the projected benefit obligations and related benefit expense requires that certain assumptions be made regarding such variables as expected return on plan assets, discount rates, rates of future compensation increases, estimated future employee turnover rates and retirement dates, distribution election rates, mortality rates, retiree utilization rates for health care services, and health care cost trend rates. The determination of the appropriate assumptions requires considerable judgment concerning future events and has a significant impact on the amount of the obligations and expense recorded. We rely in part on actuarial studies when determining the appropriateness of certain of the assumptions used in determining the benefit obligations and the annual expenses for these plans.

The discount rates are determined annually and are based on rates of return of high-quality long-term fixed income securities currently available with maturities consistent with the projected benefit payout period. The expected long-term rate of return on assets is derived from a review of anticipated future long-term performance of individual asset classes and consideration of an appropriate asset allocation strategy, given the anticipated requirements of the Pension Plan, to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. We also consider recent fund performance and historical returns in establishing the expected rate of return. Movements in the capital markets impact the market value of the investment assets used to fund our Pension Plan. Future changes in plan asset returns, assumed discount rates, and various other factors related to our pension and post-retirement plans will impact future pension expenses and liabilities.

The estimated effect of alternate assumptions on the 2016 estimated annual expense for the Pension Plan and Retiree Medical Plan were performed at varying discount rates, expected return on assets, expected salary increase, and, in the case of our Retiree Medical Plan, health care cost increases.

The measurement date of the Pension Plan's assets and obligations was December 31, 2015. We applied a 4.55% discount rate, assumed an 8.5% long term expected rate of return on plan assets and assumed an expected salary rate increase of 3.0%. The percentage of equity securities in our Pension Plan as of December 31, 2015 was approximately 57.1%, down from approximately 61.7% as of December 31, 2014, and the percentage of debt securities as of December 31, 2015 was approximately 33.5%, up from approximately 28.8% as of December 31, 2014. The plan's strategic target asset allocation as of December 31, 2015 was 50% equity, 30% debt and 20% other, with the "other" component consisting of a global market fund and a real estate fund, among others. We have assumed that the funds in the "other" category together would behave similarly to debt and therefore included the 20% "other" as bonds in our assessment.

We estimated a range of returns on the plan assets using a historical stochastic simulation model that determines the compound average annual return (assuming these asset classes—stocks, bonds and cash) over a 20-year historical period (the approximate duration of our liabilities under the Pension Plan). The distribution of results from these simulations is then used to determine a median expected asset return.

Based on the plan's current target asset allocation, the median estimate for future asset returns (before non-investment expenses) was 9.0%. The asset return assumption set for determining the 2015 FASB ASC 715 expense was 8.5%, after non-investment expenses paid by the Trust. For the past three years, non-investment related expenses have averaged 0.5%. Therefore, the 8.5% return after non-investment expenses assumption is equivalent to a gross assumption of 9.0% (8.5% + 0.5%). A 9.0% rate (before non-investment expenses) falls within an acceptable range of simulated asset returns, between the 40th and 60th percentile.

For the Pension Plan, a 100 basis point decrease in the assumed discount rate would result in a corresponding increase of $2.8 million in our estimated Pension Plan expense for 2016. A 100 basis point decrease from 8.5% in the rate of return on plan assets would result in a corresponding increase of $1.0 million and a 100 basis point increase in the expected salary rate would result in a corresponding increase of $1.1 million in expenses for 2016, in each case holding all other assumptions and factors constant.

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For the Retiree Medical Plan, a 100 basis point decrease in the assumed discount rate would result in a corresponding increase of $0.4 million in our estimated expense and a 100 basis point increase in the assumed health care trend rate would result in a corresponding increase of $0.1 million in our estimated expense for 2016, in each case holding all other assumptions and factors constant. For additional information about our benefit plans, See Note 13 Employee Benefits to the consolidated financial statements.

Revenue Recognition. Sales are recognized in accordance with the provisions of ASC 605, Revenue Recognition—Overall, when the revenue is realized or realizable, and has been earned. Revenue for product sales is recognized when risk and title to the product transfer to the customer. Our products are generally sold free on board shipping point or, with respect to countries other than the United States, an equivalent basis. As such, title to the product passes when the product is delivered to the freight carrier. Our standard terms of delivery are included in our contracts of sale, order confirmation documents, and invoices. Shipping and other transportation costs charged to customers are recorded in both revenue and cost of goods sold. We have entered into agreements with some of our customers whereby they earn rebates from us when the volume of their purchases of our product reach certain agreed upon levels. We recognize the rebate obligation ratably, as a reduction of revenue.

LIQUIDITY AND CAPITAL RESOURCES

On January 6, 2016, we completed our acquisition of Arizona Chemical, a leading global producer of specialty chemicals and other products primarily derived from pine wood pulping co-products. We acquired Arizona Chemical for a cash purchase price of $1.37 billion, which is subject to adjustment for cash, indebtedness, working capital and other items. On January 6, 2016, the $1.37 billion cash purchase price, the cash tender offer and redemption of all outstanding 6.75% Senior Notes, and the related acquisition and financing expenses for the Arizona Chemical Acquisition were funded through the following transactions:

- A $1,350.0 million senior secured term loan facility,
- A private offering of $440.0 million in aggregate principal amount of 10.5% senior notes, and
- An amended and restated $250.0 million asset-based revolving credit facility, $37.1 million of which was drawn on the closing date.

Our previously outstanding indebtedness under the 6.75% Senior Notes and the previous Senior Secured Credit Facilities were satisfied and canceled on January 6, 2016. As such, the following discussion focuses on the capital structure subsequent to the January 6, 2016 close of the above financing arrangements in conjunction with the Arizona Chemical Acquisition. For a description of our indebtedness outstanding at December 31, 2015, see Note 7 Long-Term Debt which is incorporated herein by reference.

In total, we incurred approximately $19.0 million of costs related to the close of the Arizona Chemical Acquisition, of which $18.5 million were recorded in selling, general and administrative expenses in the year ended December 31, 2015. Furthermore, we incurred approximately $59.0 million of debt financing costs associated with Arizona Chemical Acquisition, of which $8.8 million were capitalized in debt issuance costs in the December 31, 2015 consolidated balance sheet. In the first quarter of 2016, we also expect to recognize $9.1 million of cost for the early redemption premium on the 6.75% Senior Notes.

Description of the Senior Secured Term Loan Facility

In January 2016, Kraton Polymers LLC entered into a senior secured term loan facility in an aggregate principal amount equal to $1,350.0 million that matures on January 6, 2022 (the “Term Loan Facility”). Subject to compliance with certain covenants and other conditions, we have the option to borrow up to $350.0 million of incremental term loans plus an additional amount subject to a senior secured net leverage ratio.

The Term Loan Facility was issued at a price of 97.000%. Borrowings under the Term Loan Facility bear interest at a rate per annum equal to an applicable margin, plus, at our option, either (a) an adjusted LIBOR rate (subject to a 1.0% floor) determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for statutory reserve requirements or (b) an alternate base rate (subject to a 2.0% floor) determined by reference to the highest of (1) the prime rate of Credit Suisse AG, (2) the federal funds effective rate plus 0.5% and (3) the one month adjusted LIBOR rate plus 1.0% per annum. In addition, we are required to pay customary agency fees. As of the date of this filing, the effective rate on the Term Loan Facility was 6.0% comprised of the 1.0% LIBOR floor plus a 5.0% applicable margin.

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We are required to make scheduled quarterly payments on our term facility of 2.5% of the original principal amount per year through the end of the last quarter of 2016 and 5.0% thereafter, with the balance expected to be due and payable in full on January 6, 2022. Voluntary prepayments on the Term Loan Facility may be made without premium or penalty other than customary “breakage” costs with respect to LIBOR loans and other than a 1.0% premium in connection with certain repricing transactions consummated within a certain period of time after the closing of the Term Loan Facility. In the event we have consolidated excess cash flow for any fiscal year, we are required to prepay an amount of borrowings under the Term Loan Facility equal to at least 50% of such cash flow by the 90th day after the end of the fiscal year. The prepayment percentage is reduced to 25% if our senior secured net leverage ratio is under 2.5:1.0 or 0% if our senior secured net leverage ratio is below 2.0:1.0.

The Term Loan Facility is a senior secured obligation that is guaranteed by Kraton Performance Polymers, Inc. and each of our wholly-owned domestic subsidiaries. The Term Loan Facility contains a number of customary affirmative and negative covenants. These covenants include a senior secured net leverage ratio which shall not exceed, as of the last day of any fiscal quarter, 4.00:1.00 through March 31, 2017, which will decrease to 3.75:1.00 through March 31, 2018, 3.50:1.00 through March 31, 2019, and 3.25:1.00 thereafter. As of the date of this filing, we were in compliance with the covenants under the Term Loan Facility.

Description of the 10.5% Senior Notes due 2023

Kraton Polymers LLC and its wholly-owned financing subsidiary Kraton Polymers Capital Corporation issued $440.0 million aggregate principal amount of 10.5% senior notes that mature on April 15, 2023 (the “10.5% Senior Notes”). The 10.5% Senior Notes were issued at a price of 96.225% on January 6, 2016. The 10.5% Senior Notes are general unsecured, senior obligations and are unconditionally guaranteed on a senior unsecured basis by each of Kraton Performance Polymers, Inc. and each of our wholly-owned domestic subsidiaries. We pay interest on the notes at 10.5% per annum, semi-annually in arrears on April 15 and October 15 of each year, with the first interest payment due on October 15, 2016. Prior to October 15, 2018, we may redeem up to 40.0% of the aggregate principal amount of the notes with the net proceeds of certain equity offerings at a redemption price equal to 110.500% of the principal amount of the 10.5% Senior Notes plus accrued and unpaid interest, if any, to the date of redemption. After October 15, 2018, 2019, 2020, and 20121 and thereafter, we may redeem all or a part of the senior notes for 107.875%, 105.250%, 102.625%, and 100.000% of the principal amount, respectively.

Description of the ABL Facility

In January 2016, we entered into an amended and restated asset-based revolving credit facility which provides financing of up to $250.0 million (the “ABL Facility”). The ABL Facility is primarily secured by receivables and inventory, and borrowing availability under the facility is subject to borrowing base limitations based on the level of receivables and inventory available for security. Revolver commitments under the ABL facility consist of U.S. and Dutch revolving credit facility commitments, and the terms of the facility require the U.S. revolver commitment comprises at least 60.0% of the commitments under the facility.

The ABL Facility provides that we have the right at any time to request up to $100.0 million of additional commitments under this facility, provided that we satisfy additional conditions described in the credit agreement and provided further that the U.S. revolver commitment comprises at least 60.0% of the commitments after giving effect to such increase. We cannot guarantee that all of the lending counterparties contractually committed to fund a revolving credit draw request will actually fund future requests, although we currently believe that each of the counterparties would meet their funding requirements. The ABL Facility terminates on January 6, 2021; however, we may, from time to time, request that the lenders extend the maturity of their commitments; provided that at no time shall there be more than four different maturity dates under the ABL Facility.

Borrowings under the ABL Facility bear interest at a rate per annum equal to the applicable margin plus (1) a base rate determined by reference to the prime rate of Bank of America, N.A. in the jurisdiction where the currency is being funded or (2) LIBOR for loans that bear interest based on LIBOR. The initial applicable margin for borrowings under our ABL Facility is 0.5% with respect to U.S. base rate borrowings and 1.5% with respect to LIBOR or borrowings made on a European base rate. The applicable margin ranges from 0.5% to 1.0% with respect to U.S. base rate borrowings and 1.5% to 2.0% for LIBOR or borrowings made on a European base rate per annum based on the average excess availability for the prior fiscal quarter. In addition to paying interest on outstanding principal amounts under the ABL Facility, we are required to pay a commitment fee in respect of the unutilized commitments at an annual rate of 0.375%.

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The ABL Facility contains a financial covenant requiring us to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0 if availability under the facility is below a specified amount. Our failure to comply with this financial maintenance covenant would give rise to a default under the ABL Facility. If factors arise that negatively impact our profitability, we may not be able to satisfy this covenant. In addition, the ABL Facility contains customary events of default, including, without limitation, a failure to make payments under the facility, cross-default with respect to other indebtedness and cross-judgment default, certain bankruptcy events and certain change of control events. If we are unable to satisfy the covenants or other provisions of the ABL Facility at any future time, we would need to seek an amendment or waiver of such covenants or other provisions. The respective lenders under the ABL Facility may elect not to consent to any amendment or waiver requests that we may make in the future, and, if they do consent, they may do so on terms that are not favorable to us. In the event that we are unable to obtain any such waiver or amendment and we are not able to refinance or repay our ABL Facility, our inability to meet the covenants or other provisions of the ABL Facility would constitute an event of default, which would permit the bank lenders to accelerate the ABL Facility. Such acceleration may in turn constitute an event of default under our Term Loan Facility, 10.5% Senior Notes or other indebtedness. As of the date of this filing, we were in compliance with the covenants under the ABL Facility.

Description of the KFPC Loan Agreement

On July 17, 2014, KFPC executed a syndicated loan agreement (the "KFPC Loan Agreement") in the amount of 5.5 billion New Taiwanese Dollars ("NTD"), or $167.5 million (converted at the December 31, 2015 exchange rate), to provide additional funding to construct the HSBC facility in Taiwan and to provide funding for working capital requirements and/or general corporate purposes.

The KFPC Loan Agreement is comprised of a NTD 4.29 billion Tranche A, or $130.6 million (converted at the December 31, 2015 exchange rate), to fund KFPC's capital expenditures, and a NTD 1.21 billion Tranche B, or $36.9 million (converted at the December 31, 2015 exchange rate), to fund working capital requirements and/or general corporate purposes. As of December 31, 2015, NTD 2.53 billion, or $76.9 million (converted at the December 31, 2015 exchange rate) was drawn and outstanding on the KFPC Loan Agreement. The facility period of the KFPC Loan Agreement is five years from January 17, 2015 (the first drawdown date). KFPC may continue to draw on the loan agreement for the first 28 months following the first drawdown date. Subject to certain conditions, KFPC can request a two-year extension of the term of the KFPC Loan Agreement.

The total outstanding principal amount is payable in six semi-annual installments with the first payment due on July 17, 2017 and each subsequent payment due every six months thereafter. The first five installments shall be in an amount equal to 10% of the outstanding principal amount and the final installment shall be in an amount equal to the remaining 50% of the outstanding principal amount. In the event the extension period is granted, the final 50% of the outstanding principal amount shall be repaid in five equal semi-annual installments with the first installment due on the original final maturity date.

The KFPC Loan Agreement is subject to a variable interest rate composed of a fixed 0.8% margin plus the three-month or six-month fixing rate of the Taipei Interbank Offered Rate (depending on the interest period selected by KFPC in the drawdown request or the interest period notice), subject to a floor of 1.7%. Interest is payable on a monthly basis.

The KFPC Loan Agreement contains certain financial covenants which change during the term of the KFPC Loan Agreement. The financial covenants include a maximum debt to equity ratio of 3.0 to 1.0 through 2016, which will decrease to 2.0 to 1.0 in 2017 and 1.2 to 1.0 in 2018; a minimum tangible net worth requirement of $50.0 million through 2018, which will increase to $100.0 million in 2019; and a minimum interest coverage ratio of 2.5 to 1.0 commencing in 2016, which will increase to 5.0 to 1.0 in 2017. In each case, these covenants are calculated and tested on an annual basis. Formosa Petrochemical Corporation and Kraton Polymers LLC are the guarantors of the KFPC Loan Agreement with each guarantor guaranteeing 50% of the indebtedness. At December 31, 2015, KFPC was in compliance with the covenants under the KFPC Loan Agreement. For additional information regarding our KFPC Loan Agreement, see "KFPC Loan Agreement" in Note 7 Long-Term Debt to the consolidated financial statements, which is incorporated herein by reference.

Known Trends and Uncertainties

Kraton Performance Polymers, Inc. is a holding company without any operations or assets other than the operations of its subsidiaries. Cash flows from operations of our subsidiaries, cash on hand, and available borrowings under our ABL Facility are our principal sources of liquidity.

Based upon current and anticipated levels of operations, we believe that cash flows from operations of our subsidiaries, cash on hand, and borrowings available to us will be sufficient to fund our expected financial obligations, planned capital expenditures, and anticipated liquidity requirements, including working capital requirements, our investment in the KFPC joint venture, debt payments, interest payments, benefit plan contributions, and income tax obligations.

Our cash flows are subject to a number of risks and uncertainties, including, but not limited to, earnings, sensitivities to the cost of raw materials, seasonality and fluctuations in foreign currency exchange rates. Because feedstock costs generally represent a substantial portion of our cost of goods sold, in periods of rising feedstock costs, we generally consume cash in operating activities due to increases in accounts receivable and inventory costs, partially offset by increased value of accounts payable. Conversely, during periods in which feedstock costs are declining, we generate cash flow from decreases in working capital.

Going forward, there can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available under the ABL Facility or any new credit facilities or financing arrangements to fund liquidity needs and enable us to service our indebtedness. As of the date of this filing, $37.0 million was drawn on the ABL Facility with a remaining available borrowing capacity of $176.9 million. Our available cash and cash equivalents are held in accounts managed by third-party financial institutions and consist of cash invested in interest bearing funds and operating accounts. To date, we have not experienced any losses or lack of access to our invested cash or cash equivalents; however, we cannot provide any assurance that adverse conditions in the financial markets will not impact access to our invested cash and cash equivalents.

We made contributions of $1.8 million to our pension plan for the year ended December 31, 2015 and $7.2 million for the year ended December 31, 2014. Following the close of the Arizona Chemical Acquisition on January 6, 2016, we assumed responsibility for several additional international pension plans and one additional U.S defined benefit pension plan. As a combined company, we expect our total pension plan contributions for the year ended December 31, 2016 to be approximately $6.9 million. Our pension plan obligations are predicated on a number of factors, the primary ones being the return on our pension plan assets and the discount rate used in deriving our pension obligations. If the investment return on our pension plan assets does not meet or exceed expectations during 2016, and the discount rate decreases from the prior year, higher levels of contributions could be required in 2017 and beyond.

As of December 31, 2015, we had $51.2 million of cash and short-term investments related to foreign operations that management asserts are permanently reinvested. As a result of net operating loss carryforwards, management estimates that no additional cash tax expense would be incurred if this cash were repatriated.

Turbulence in U.S. and international markets and economies may adversely affect our liquidity and financial condition, the liquidity and financial condition of our customers, and our ability to timely replace maturing liabilities and access the capital markets to meet liquidity needs, resulting in adverse effects on our financial condition and results of operations. However, to date we have been able to access borrowings available to us in amounts sufficient to fund liquidity needs.

Our ability to pay principal and interest on our indebtedness, fund working capital, make anticipated capital expenditures, and fund our investment in the KFPC joint venture depends on our future performance, which is subject to general economic conditions and other factors, some of which are beyond our control. “See Part I, Item 1A. Risk Factors” for further discussion.

Operating Cash Flows

Net cash provided by operating activities totaled $103.8 million for the year ended December 31, 2015 and $29.9 million for the year ended December 31, 2014. This represents a net increase of $74.0 million, which was primarily driven by changes in working capital. The net change in working capital provided cash flows of $46.1 million in 2015 compared to a use of cash of $53.2 million in 2014, a period-over-period increase in cash flows of $99.3 million. The period-over-period changes are as follows:

- $63.4 million increase in cash flows associated with inventories of products, materials, and supplies, due to a decrease in inventory volumes for the year ended December 31, 2015 compared to an increase in inventory volumes for the year ended December 31, 2014. In addition, cash flows associated with inventories increased as a result of declining costs of raw material and finished goods inventories for the year ended December 31, 2015;
- $27.5 million increase in cash flows associated with trade accounts payable primarily due to the timing of payments; and
- $8.4 million net increase in cash flows due to the timing of payments of other items, including accounts receivable, related party transactions, taxes and pension costs.

Net cash provided by operating activities totaled $29.9 million for the year ended December 31, 2014 and $105.5 million for the year ended December 31, 2013. This represents a net decrease of $75.6 million, which was primarily driven by changes in working capital. The net change in working capital was a use of cash of $53.2 million in 2014 compared to a source of cash of $43.8 million in 2013; a period-over-period decline in cash flows of $97.0 million. The period-over-period changes are as follows:

- $27.1 million decrease in cash flows associated with inventories of products, materials, and supplies, largely due to increases in quantities of finished goods inventories partially offset by decreases in the cost of raw material and finished goods inventories;
- $50.3 million decrease in cash flows associated with trade accounts payable primarily due to the timing of payments and a decrease in the cost of raw materials; and
- $33.8 million net decrease in cash flows due to the timing of payments of other items, including related party transactions, taxes, and pension costs; partially offset by
- $14.2 million increase in cash flows associated with accounts receivable reflecting improved days sales outstanding and lower sales volumes.

Investing Cash Flows

Net cash used in investing activities totaled $128.7 million, $114.4 million and $88.7 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Capital projects in 2015 included the following:

- $69.1 million of capital expenditures incurred by KFPC in connection with the Taiwan plant construction;
- $23.6 million related to projects to optimize the production capabilities of our manufacturing assets, which includes $9.5 million to comply with the MACT rule; and
- $18.4 million related to health, safety and environmental, including infrastructure and maintenance projects.

Capital projects in 2014 included the following:

- $44.3 million of capital expenditures incurred by KFPC in connection with the Taiwan plant construction;
- $39.0 million related to projects to optimize the production capabilities of our manufacturing assets, which includes $26.8 million to comply with the MACT rule; and
- $20.7 million related to health, safety, and environmental, including infrastructure and maintenance projects.

Expected Capital Expenditures.

We currently expect 2016 capital expenditures, excluding expenditures by the KFPC joint venture, will be approximately $100.0 million to $110.0 million. Included in this estimate is approximately $27.0 million for projects associated with our cost reset initiative, $7.0 million for projects to achieve operational synergies related to the integration of Arizona Chemical, and $50.0 million to $55.0 million for health, safety and environmental and infrastructure and maintenance projects. The remaining anticipated 2016 capital expenditures are primarily associated with projects to optimize the production capabilities of our manufacturing assets and to support our innovation platform.

We currently anticipate the total KFPC joint venture project construction cost will be approximately $200.0 million to $210.0 million; of which, 2015 capital expenditures were $69.1 million and 2016 capital expenditures will be approximately $70.0 million. The project has been funded with a combination of equity and debt financing. From the inception of the project to December 31, 2015, we and FPCC have each made equity investments of $41.6 million to KFPC. On July 17, 2014, KFPC executed the KFPC Loan Agreement in the amount of NTD 5.5 billion, or $167.5 million (converted at the December 31, 2015 exchange rate), to provide the debt portion of the project financing including funding for working capital and/or general corporate purposes. Kraton Polymers LLC and FPCC are guarantors of the KFPC Loan Agreement with each guaranteeing 50.0% of the indebtedness. See Note 7 Long-Term Debt to the consolidated financial statements for further discussion of the KFPC Loan Agreement.

Financing Cash Flows and Liquidity

Our consolidated capital structure as of December 31, 2015 was approximately 43.7% equity, 52.1% debt and 4.2% noncontrolling interest compared to approximately 52.5% equity, 42.9% debt and 4.6% noncontrolling interest as of December 31, 2014.

Net cash provided by financing activities totaled $47.1 million for the year ended December 31, 2015 compared to net cash used in financing activities of $24.4 million and $62.2 million for the years ended December 31, 2014 and 2013, respectively. In 2015, the KFPC joint venture drew $80.1 million on the KFPC Loan Agreement for construction funding partially offset by cash outflows of $31.3 million for repurchases of shares of our common stock as part of our share repurchase program approved in October 2014. In 2014, we repurchased $18.7 million in shares of our common stock as part of our share repurchase program approved in October 2014. In 2013, we repaid the $96.9 million remaining principal amount of term loans and received $41.6 million from FPCC, which represents their portion of the equity investment in the KFPC joint venture.

Other Contingencies

As a chemicals manufacturer, our operations in the United States and abroad are subject to a wide range of environmental laws and regulations at the international, national, state and local levels. These laws and regulations govern, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous materials and wastes, occupational health and safety, including dust and noise control, site remediation programs and chemical registration, use and management.

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

In the context of the separation in February 2001, Shell Chemicals agreed to indemnify us for specific categories of environmental claims brought with respect to matters occurring before the separation. However, the indemnity from Shell Chemicals is subject to dollar and time limitations. Coverage under the indemnity also varies depending upon the nature of the environmental claim, the location giving rise to the claim and the manner in which the claim is triggered. Therefore, if claims arise in the future related to past operations, we cannot give assurances that those claims will be covered by the Shell Chemicals’ indemnity and also cannot be certain that any amounts recoverable will be sufficient to satisfy claims against us.

In connection with International Paper's divestiture of Arizona Chemical in February 2007, International Paper provided an indemnity to the buyer for specific known environmental liabilities and other environmental liabilities pertaining to former properties. At the closing of the Arizona Chemical Acquisition, Kraton was assigned the right to International Paper's indemnity for such environmental liabilities and assumed certain related obligatoins. Certain liabilities may fall outside the scope of the indemnity and therefore we cannot be certain that the indemnity will be sufficient to satisfy all environmental liabilities of Arizona Chemical.

In addition, we may in the future be subject to claims that arise solely from events or circumstances occurring after February 2001 for legacy Kraton manufacturing sites or after February 2007 for legacy Arizona Chemical manufacturing sites, which would not, in any event, be covered by the Shell Chemicals or Internatonal Paper indemnities, respectively. While we recognize that we may in the future be held liable for remediation activities beyond those identified to date, at present we are not aware of any circumstances that are reasonably expected to give rise to remediation claims that would have a material adverse effect on our results of operations or cause us to exceed our projected level of anticipated capital expenditures.

Except for the foregoing, we currently estimate that any expenses incurred in maintaining compliance with environmental laws and regulations will not materially affect our results of operations or cause us to exceed our level of anticipated capital expenditures. However, we cannot give assurances that regulatory requirements or permit conditions will not change, and we cannot predict the aggregate costs of additional measures that may be required to maintain compliance as a result of such changes or expenses.

We had no material operating expenditures for environmental fines, penalties, government imposed remedial or corrective actions during the years ended December 31, 2015, 2014, or 2013.

Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements as of December 31, 2015, other than operating leases.

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Contractual Obligations

Our principal outstanding contractual obligations relate to the senior notes and related interest payments, the operating leases of some of our facilities, the minimum purchase obligations required under our KFPC joint venture agreement and other agreements, and the feedstock contracts with LyondellBasell and others to provide us with styrene, butadiene, and isoprene. The following table summarizes our contractual cash obligations as of December 31, 2015 for the periods indicated.

	Payments Due by Period						
Dollars in Millions	Total	2016	2017	2018	2019	2020	2021 and beyond
Long-term debt obligations	$350.0	$—	$—	$—	$350.0	$—	$—
Estimated interest payments on debt	83.7	25.9	25.9	25.2	5.2	1.3	0.2
Operating lease obligations	46.9	16.4	10.9	7.0	6.0	4.7	1.9
Capital lease obligation	1.6	0.1	0.2	0.2	0.2	0.2	0.8
Purchase obligations (1) (2)	2,353.5	214.2	139.7	139.4	135.0	134.5	1,590.7
Deferred income tax liabilities - noncurrent (3)	9.1	—	—	—	—	—	9.1
Uncertain tax positions, including interest and penalties (4)	4.3	—	—	—	—	—	4.3
Estimated pension obligations (5)	45.3	1.1	2.5	3.9	5.1	6.2	26.5
Total contractual cash obligations	$2,894.4	$257.7	$179.2	$175.7	$501.5	$146.9	$1,633.5

(1) Included in this line are our estimated minimum purchases required under our KFPC joint venture agreement. Due to the indefinite term of this joint venture, we have based our minimum purchases on an assumed 20 year useful life of the facility.

(2) Pursuant to operating agreements with LyondellBasell, we are currently paying the costs incurred by them in connection with the operation and maintenance of, and other services related to, our Berre, France, and Wesseling, Germany, facilities. These obligation are not included in this table.

(3) Deferred income tax liabilities may vary according to changes in tax laws, tax rates and the operating results. As a result, it is impractical to determine whether there will be a cash impact to an individual year. All noncurrent deferred income tax liabilities have been reflected in “2021 and beyond.”

(4) Due to uncertainties in the timing of the effective settlement of tax positions with the respective taxing authorities, we are unable to determine the timing of payments related to uncertain tax positions, including interest and penalties. Amounts beyond the current year are therefore reflected in “2021 and beyond.”

(5) This represents our future pension contributions utilizing the following assumptions:

- The plan was “frozen” at December 31, 2015;
- All assets at December 31, 2015 were moved into a portfolio of high quality bonds whose cash flow matches the expected cash flow of the “frozen” plan. The yield on the portfolio of bonds as of December 31, 2015 is equal to the estimated PPA effective rate at January 1, 2016. Assets were assumed to remain in such portfolio until all obligations of the plan were paid out;
- An estimated Pension Protection Act effective rate as of January 1, 2016 of 4.50%;
- All contributions are made at the latest date allowable by law; and
- All other assumptions as used in the 2015 funding actuarial valuation of the plan are met.

Impact of Inflation. Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to certain market risks, including risks from changes in interest rates, foreign currency exchange rates, and commodity prices that could impact our financial condition, results of operations, and cash flows. We selectively manage our exposure to these and other market risks through regular operating and financing activities as well as through the use of market risk sensitive instruments. We use such financial instruments as risk management tools and not for trading purposes. The market risk sensitive instruments that we have entered into as of December 31, 2015 consist of a series of non-deliverable forward contracts.

Interest rate risk. On January 6, 2016, we entered into a new Term Loan Facility and a new ABL Facility which bear interest at variable rates, thereby exposing us to interest rate risk. Subsequent to the close of our Term Loan Facility, we entered into a series of interest rate swaps for a portion of the forecasted Term Loan Facility balance effective in January 2017 whereby we exchanged floating for fixed rate interest payments in order to reduce exposure to interest rate volatility. However, interest rate swaps we entered may not fully mitigate our interest rate risk.

Foreign currency exchange risk. We conduct operations in many countries around the world. Our results of operations are subject to both currency transaction and currency translation risk. We incur currency transaction risk when we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. We are subject to currency translation risk because our financial condition and results of operations are measured and recorded in the relevant domestic currency and then translated into U.S. dollars for inclusion in our historical consolidated financial statements. We attempt to selectively manage significant exposures to potential foreign currency exchange losses based on current market conditions, future operating activities, and the associated cost in relation to the perceived risk of loss. The purpose of our foreign currency risk management activities is to minimize the risk that our cash flows from the sale and/or purchase of services and products in foreign currencies will be adversely affected by changes in exchange rates.

Periodically, we enter into foreign currency agreements to hedge or otherwise protect against fluctuations in foreign currency exchange rates. These agreements typically do not qualify for hedge accounting and gains/losses resulting from both the up-front premiums and/or settlement of the hedges at expiration of the agreements are recognized in the period in which they are incurred. In 2015, we entered into a series of foreign currency forward contracts to reduce our exposure to exchange rate volatility. These contracts were structured such that the underlying foreign currency exchange gains/losses would be offset by the mark-to-market impact of the hedging instruments and reduce the impact of foreign currency exchange movements throughout the year. The notional amounts of open foreign currency forward contracts were $24.1 million at December 31, 2015 and $46.9 million at December 31, 2014. The notional amounts of our forward contracts do not generally represent amounts exchanged by the parties, and thus are not a measure of our exposure or of the cash requirements related to these contracts. As such, cash flows related to these contracts are typically not material. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the contracts, such as exchange rates.

In addition, in 2013 we entered into a series of non-deliverable forward and foreign currency option contracts to protect our net investment in various foreign subsidiaries against adverse changes in exchange rates by fixing the U.S. dollar/Euro exchange rate and the New Taiwan Dollar/Euro exchange rate. These contracts qualified for hedge accounting in accordance with ASC 815-35 “Net Investment Hedges” and typically settled weekly or monthly and all were settled at December 31, 2013. See Note 8 Fair Value Measurements, Financial Instruments and Credit Risk to the consolidated financial statements for further discussion.

We use sensitivity analysis models to measure the impact of a hypothetical 10% adverse movement of foreign currency exchange rates against the U.S. dollar. For our foreign currency transaction risk, a hypothetical 10% adverse change in the foreign currency exchange rates for all our foreign currency positions would result in a $1.7 million pre-tax loss for our net monetary assets denominated in currencies other than the respective entity's functional currency at December 31, 2015. For our foreign currency translation risk, a hypothetical 10% adverse change in the applicable average foreign currency exchange rates relative to the U.S. dollar in 2016 would negatively impact our pre-tax income by $10.5 million.

There are certain limitations inherent in the sensitivity analyses presented, primarily due to the assumption that interest rates and exchange rates change instantaneously in an equally adverse fashion. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled. While this is

our best estimate of the impact of the various scenarios, these estimates should not be viewed as forecasts.
Commodity price risk. We are exposed to commodity price risk due to our forward contractual purchase commitments for raw materials. Styrene, butadiene, and isoprene are primarily supplied by a portfolio of suppliers under long-term supply contracts and arrangements with various expiration dates. We are subject to future purchase commitments for these raw materials under minimum purchase contracts. Based on pricing as of December 31, 2015, a hypothetical 10.0% change in the market price for these raw materials would change our 2016 cost of goods sold by $16.6 million.

Item 8. Financial Statements and Supplementary Data.
The financial statements are set forth herein commencing on page F-5 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
None.

Item 9A. Controls and Procedures.
Evaluation of Disclosure Controls and Procedures
An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934) was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. As of December 31, 2015, based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.
Management's Annual Report on Internal Control over Financial Reporting
See Management's Annual Report on Internal Control over Financial Reporting on page F-2 of the audited consolidated financial statements provided under Item 8 of this Form 10-K.
Attestation Report of the Registered Public Accounting Firm
See Report of Independent Registered Public Accounting Firm on page F-3 of the audited consolidated financial statements provided under Item 8 of this Form 10-K.
Changes in Internal Control over Financial Reporting
There has been no change in our internal control over financial reporting that occurred during the three months ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.
None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.
Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2016 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 11. Executive Compensation.
Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2016 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.
Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2016 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 13. Certain Relationships and Related Transactions, and Director Independence.
Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2016 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 14. Principal Accountant Fees and Services.
Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2016 annual meeting of shareholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) 1. Financial Statements
The following financial statements are included in Item 8:
Kraton Performance Polymers, Inc.
(i) The reports of KPMG LLP, Independent Registered Public Accounting Firm
(ii) Consolidated Balance Sheets as of December 31, 2015 and 2014
(iii) Consolidated Statements of Operations—years ended December 31, 2015, 2014, and 2013
(iv) Consolidated Statements of Comprehensive Income (Loss)—years ended December 31, 2015, 2014, and 2013
(v) Consolidated Statements of Changes in Equity—years ended December 31, 2015, 2014, and 2013
(vi) Consolidated Statements of Cash Flows—years ended December 31, 2015, 2014, and 2013
(vii) Notes to consolidated financial statements
2. Exhibits
The exhibits listed on the accompanying Exhibit Index are filed as part of this report and are on file with us.
(b) Exhibits
See Item 15(a) 2 above.
(c) Financial Statement Schedule
See Schedule II.

SIGNATURES

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

Date: February 24, 2016

Kraton Performance Polymers, Inc.

/S/ KEVIN M. FOGARTY
Kevin M. Fogarty
President and Chief Executive Officer

This report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 24, 2016.

Signature	Title
/S/ KEVIN M. FOGARTY Kevin M. Fogarty	President, Chief Executive Officer and a Director (Principal Executive Officer)
/S/ STEPHEN E. TREMBLAY Stephen E. Tremblay	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ CHRIS H. RUSSELL Chris H. Russell	Chief Accounting Officer (Principal Accounting Officer)
/S/ ANNA C. CATALANO* Anna C. Catalano	Director
/S/ STEVEN J. DEMETRIOU* Steven J. Demetriou	Director
/S/ DOMINIQUE FOURNIER* Dominique Fournier	Director
/S/ JOHN J. GALLAGHER, III* John J. Gallagher	Director
/S/ BARRY J. GOLDSTEIN* Barry J. Goldstein	Director
/S/ FRANCIS S. KALMAN* Francis S. Kalman	Director
/S/ DAN F. SMITH* Dan F. Smith	Director
/S/ KAREN A. TWITCHELL* Karen A. Twitchell	Director

*By: /S/ STEPHEN E. TREMBLAY
Stephen E. Tremblay

As attorney-in-fact

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KRATON PERFORMANCE POLYMERS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation to assess the effectiveness of our internal control over financial reporting as of December 31, 2015 based upon criteria set forth in the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2015, our internal control over financial reporting is effective.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report that is included herein.

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Kraton Performance Polymers, Inc.:

We have audited Kraton Performance Polymers, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Kraton Performance Polymers, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Kraton Performance Polymers, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Kraton Performance Polymers, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 24, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Houston, Texas
February 24, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Kraton Performance Polymers, Inc.:

We have audited the accompanying consolidated balance sheets of Kraton Performance Polymers, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of Kraton Performance Polymers, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kraton Performance Polymers, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, Kraton Performance Polymers, Inc. changed its method of accounting for deferred income taxes effective January 1, 2014 due to the adoption of FASB ASU 2015-17, Balance Sheet Classification of Deferred Taxes.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Kraton Performance Polymers, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 24, 2016 expressed an unqualified opinion on the effectiveness of Kraton Performance Polymers, Inc.'s internal control over financial reporting.

/s/ KPMG LLP
Houston, Texas
February 24, 2016

KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	December 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$70,049	$53,818
Receivables, net of allowances of $244 and $245	105,089	107,432
Inventories of products	264,107	326,992
Inventories of materials and supplies	12,138	10,968
Other current assets	31,278	24,521
Total current assets	482,661	523,731
Property, plant and equipment, less accumulated depreciation of $382,157 and $387,463	517,673	451,765
Intangible assets, less accumulated amortization of $100,093 and $88,939	41,602	49,610
Investment in unconsolidated joint venture	11,628	12,648
Debt issuance costs	13,480	7,153
Deferred income taxes	3,867	3,848
Other long-term assets	21,789	28,122
Total assets	$1,092,700	$1,076,877
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$141	$87
Accounts payable-trade	59,337	72,786
Other payables and accruals	91,011	50,888
Due to related party	14,101	18,121
Total current liabilities	164,590	141,882
Long-term debt, net of current portion	429,056	351,785
Deferred income taxes	9,070	11,320
Other long-term liabilities	96,992	103,739
Total liabilities	699,708	608,726
Commitments and contingencies (note 12)		
Equity:		
Kraton stockholders’ equity:		
Preferred stock, $0.01 par value; 100,000 shares authorized; none issued	—	—
Common stock, $0.01 par value; 500,000 shares authorized; 30,569 shares issued and outstanding at December 31, 2015; 31,831 shares issued and outstanding at December 31, 2014	306	318
Additional paid in capital	349,871	361,342
Retained earnings	147,131	168,041
Accumulated other comprehensive loss	(138,568)	(99,218)
Total Kraton stockholders’ equity	358,740	430,483
Noncontrolling interest	34,252	37,668
Total equity	392,992	468,151
Total liabilities and equity	$1,092,700	$1,076,877

See Notes to Consolidated Financial Statements
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KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years ended December 31,		
	2015	2014	2013
Revenue	$1,034,626	$1,230,433	$1,292,121
Cost of goods sold	805,970	993,366	1,066,289
Gross profit	228,656	237,067	225,832
Operating expenses:			
Research and development	31,024	31,370	32,014
Selling, general, and administrative	117,308	104,209	105,558
Depreciation and amortization	62,093	66,242	63,182
Impairment of long-lived assets	—	4,731	—
Total operating expenses	210,425	206,552	200,754
Earnings of unconsolidated joint venture	406	407	530
Interest expense, net	24,223	24,594	30,470
Income (loss) before income taxes	(5,586)	6,328	(4,862)
Income tax expense (benefit)	6,943	5,118	(3,887)
Consolidated net income (loss)	(12,529)	1,210	(975)
Net loss attributable to noncontrolling interest	(1,994)	(1,209)	(357)
Net income (loss) attributable to Kraton	$(10,535)	$2,419	$(618)
Earnings (loss) per common share:			
Basic	(0.34)	0.07	(0.02)
Diluted	(0.34)	0.07	(0.02)
Weighted average common shares outstanding:			
Basic	30,574	32,163	32,096
Diluted	30,574	32,483	32,096

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KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Years ended December 31,		
	2015	2014	2013
Net income (loss) attributable to Kraton	$(10,535)	$2,419	$(618)
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax of $0	(44,125)	(44,628)	(4,198)
Reclassification of loss on interest rate swap, net of tax of $0	—	—	837
Unrealized loss on net investment hedge, net of tax of $0	—	—	(490)
(Increase) decrease in benefit plans liability, net of tax of $2,683, $0, and $10,065	4,775	(33,338)	17,109
Other comprehensive income (loss), net of tax	(39,350)	(77,966)	13,258
Comprehensive income (loss) attributable to Kraton	(49,885)	(75,547)	12,640
Comprehensive loss attributable to noncontrolling interest	(3,416)	(3,240)	(722)
Consolidated comprehensive income (loss)	$(53,301)	$(78,787)	$11,918

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KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Kraton Equity	Noncontrolling Interest	Total Equity
Balance at January 1, 2013	$ 323	$ 354,957	$ 171,445	$ (34,510)	$ 492,215	$ —	$ 492,215
Net loss	—	—	(618)	—	(618)	(357)	(975)
Other comprehensive income (loss)	—	—	—	13,258	13,258	(365)	12,893
Consolidation of variable interest entity	—	—	—	—	—	41,630	41,630
Exercise of stock options	2	739	—	—	741	—	741
Non-cash compensation related to equity awards	—	7,894	—	—	7,894	—	7,894
Balance at December 31, 2013	$ 325	$ 363,590	$ 170,827	$ (21,252)	$ 513,490	$ 40,908	$ 554,398
Net income (loss)	—	—	2,419	—	2,419	(1,209)	1,210
Other comprehensive loss	—	—	—	(77,966)	(77,966)	(2,031)	(79,997)
Retired treasury stock from employee tax withholdings	—	(704)	—	—	(704)	—	(704)
Retired treasury stock from share repurchases	(10)	(13,464)	(5,205)	—	(18,679)	—	(18,679)
Exercise of stock options	1	1,447	—	—	1,448	—	1,448
Non-cash compensation related to equity awards	2	10,473	—	—	10,475	—	10,475
Balance at December 31, 2014	$ 318	$ 361,342	$ 168,041	$ (99,218)	$ 430,483	$ 37,668	$ 468,151
Net loss	—	—	(10,535)	—	(10,535)	(1,994)	(12,529)
Other comprehensive loss	—	—	—	(39,350)	(39,350)	(1,422)	(40,772)
Retired treasury stock from employee tax withholdings	—	(578)	—	—	(578)	—	(578)
Retired treasury stock from share repurchases	(16)	(20,930)	(10,375)	—	(31,321)	—	(31,321)
Exercise of stock options	1	1,025	—	—	1,026	—	1,026
Non-cash compensation related to equity awards	3	9,012	—	—	9,015	—	9,015
Balance at December 31, 2015	$ 306	$ 349,871	$ 147,131	$ (138,568)	$ 358,740	$ 34,252	$ 392,992

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KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended December 31, 2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net income (loss)	$(12,529)	$1,210	$(975)
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	62,093	66,242	63,182
Amortization of debt premium	(174)	(164)	(153)
Amortization of debt issuance costs	2,233	2,223	7,389
(Gain) loss on disposal of property, plant, and equipment	237	314	(52)
Impairment of long-lived assets	—	4,731	—
Impairment of spare parts inventory	—	430	—
Earnings from unconsolidated joint venture, net of dividends received	(43)	80	(108)
Deferred income tax expense (benefit)	(3,114)	(2,523)	(15,546)
Share-based compensation	9,015	10,475	7,894
Decrease (increase) in:			
Accounts receivable	(5,149)	13,005	(1,158)
Inventories of products, materials, and supplies	47,530	(15,883)	11,246
Other assets	(5,466)	(6,437)	179
Increase (decrease) in:			
Accounts payable-trade	(7,910)	(35,368)	14,944
Other payables and accruals	21,232	(30)	934
Other long-term liabilities	(163)	(3,849)	3,384
Due to related party	(3,945)	(4,598)	14,296
Net cash provided by operating activities	103,847	29,858	105,456
CASH FLOWS FROM INVESTING ACTIVITIES			
Kraton purchase of property, plant, and equipment	(57,065)	(66,398)	(69,143)
KFPC purchase of property, plant, and equipment	(69,105)	(44,277)	(11,937)
Purchase of software and other intangibles	(2,572)	(3,710)	(5,125)
Settlement of net investment hedge	—	—	(2,490)
Net cash used in investing activities	(128,742)	(114,385)	(88,695)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt	30,000	39,000	40,000
Repayments of debt	(30,000)	(39,000)	(136,875)
KFPC proceeds from debt	80,094	—	—
Capital lease payments	(133)	(6,007)	(2,950)
Contribution from noncontrolling interest	—	—	41,630
Purchase of treasury stock	(31,899)	(19,383)	—
Proceeds from the exercise of stock options	1,026	1,448	741
Debt issuance costs	(1,957)	(485)	(4,794)
Net cash provided by (used in) financing activities	47,131	(24,427)	(62,248)
Effect of exchange rate differences on cash	(6,005)	(13,100)	(1,807)
Net increase (decrease) in cash and cash equivalents	16,231	(122,054)	(47,294)
Cash and cash equivalents, beginning of period	53,818	175,872	223,166
Cash and cash equivalents, end of period	$70,049	$53,818	$175,872
Supplemental disclosures			
Cash paid during the period for income taxes, net of refunds received	$6,340	$10,724	$8,885

Cash paid during the period for interest, net of capitalized interest	$21,157	$22,396	$23,543
Capitalized interest	$4,185	$3,198	$4,180
Supplemental non-cash disclosures			
Property, plant, and equipment accruals	$16,883	$5,375	$8,757
Asset acquired through capital lease	$681	$7,033	$2,950

See Notes to Consolidated Financial Statements

KRATON PERFORMANCE POLYMERS, INC.
Notes to Consolidated Financial Statements
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1. Description of Business, Basis of Presentation and Significant Accounting Policies

Description of Business. We are a leading global specialty chemicals company that manufactures SBCs and other engineered polymers. SBCs are highly-engineered synthetic elastomers, which we invented and commercialized over 50 years ago. We developed the first USBCs in 1964 and the first HSBCs in the late 1960s. Our SBCs enhance the performance of numerous products by imparting greater flexibility, resilience, strength, durability and processability, and are used in a wide range of applications, including adhesives, coatings, consumer and personal care products, sealants, lubricants, medical, packaging, automotive, paving, roofing and footwear products.

Basis of Presentation. The accompanying consolidated financial statements presented herein are for us and our consolidated subsidiaries, each of which is a wholly-owned subsidiary, except our 50% investment in our joint venture, Kraton Formosa Polymers Corporation (“KFPC”), located in Mailiao, Taiwan. KFPC is a variable interest entity for which we have determined that we are the primary beneficiary and, therefore, have consolidated into our financial statements. Our 50% investment in our joint venture located in Kashima, Japan, is accounted for under the equity method of accounting. All significant intercompany transactions have been eliminated.

Reclassifications. Certain amounts reported in the consolidated financial statements and notes to the consolidated financial statements for the prior periods have been reclassified to conform to the current reporting presentation.

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

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include

- the useful lives of fixed assets;
- allowances for doubtful accounts and sales returns;
- the valuation of derivatives, deferred tax assets, property, plant and equipment, inventory, investments, and share-based compensation; and
- liabilities for employee benefit obligations, environmental matters, asset retirement obligations, income tax uncertainties, and other contingencies.

Cash and Cash Equivalents. It is our policy to invest our excess cash in investment instruments whose value is not subject to market fluctuations, such as bank deposits or certificates of deposit. Other permitted investments include commercial paper of major U.S. corporations with ratings of A1 by Standard & Poor’s Ratings Group or P1 by Moody’s Investor Services, Inc., loan participations of major U.S. corporations with a short term credit rating of A1/P1 and direct obligations of the U.S. government or its agencies. We consider all investments having a remaining maturity, at the time of purchase, of three months or less to be cash equivalents.

Receivables. Receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing receivables and is determined based on our assessment of the credit worthiness of individual customers, historical write-off experience, and global economic data. We review the allowance for doubtful accounts quarterly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have significant off-balance sheet credit exposure related to our customers.

Inventories. Our inventory is principally comprised of finished goods inventory and raw materials. Inventory values include all costs directly associated with manufacturing of our products. Inventories are stated at the lower of cost or market as primarily determined on a first-in, first-out basis. We evaluate the carrying cost of our inventory on a quarterly basis for this purpose. If the cost of the inventories exceeds their market value, provisions are made for the differences between the cost and the market value.

Derivative Instruments and Hedging Activities. We account for derivatives and hedging activities in accordance with ASC 815, “Derivatives and Hedging,” which requires entities to recognize all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values. For derivatives designated in cash flow hedging relationships, changes in the fair value are either offset through earnings against the change in fair value of the hedged item attributable to the risk being hedged or recognized in accumulated other comprehensive income (loss), to the extent the derivative is effective at offsetting the changes in cash flows being hedged until the hedged item affects earnings.

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

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

In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we continue to carry the derivative at its fair value on the balance sheet and recognize any subsequent changes in its fair value in earnings. When it is probable that a forecasted transaction will not occur, we discontinue hedge accounting and recognize immediately in earnings gains and losses that were accumulated in other comprehensive income (loss) related to the hedging relationship.

Property, Plant, and Equipment. Property, plant, and equipment are stated at cost, net of accumulated depreciation. Major renewals and improvements which extend the useful lives of equipment are capitalized. Repair and maintenance costs are expensed as incurred. Disposals are removed at carrying cost less accumulated depreciation with any resulting gain or loss reflected in earnings. We capitalize interest costs which are incurred as part of the cost of constructing major facilities and equipment. Depreciation is recognized using the straight-line method over the following estimated useful lives:

Machinery and equipment	20 years
Building and land improvements	20 years
Manufacturing control equipment	10 years
Office equipment	5 years
Research equipment and facilities	5 years
Vehicles	5 years
Computer hardware and information systems	3 years

Major Maintenance Activities. Major maintenance or turnaround costs are expensed as incurred.

Asset Retirement Obligations ("ARO"). We have determined that we have contractual or regulatory requirements to decommission and perform other remediation for many of our manufacturing and research facilities upon retirement. We account for ARO's pursuant to the provisions of ASC 410-20, "Asset Retirement Obligations." ASC 410-20 requires us to record the fair value of an ARO as a liability in the period in which we have a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The ARO is also capitalized as part of the carrying cost of the asset and is depreciated over the life of the asset. The recognition of an ARO requires us to make numerous estimates, assumptions, and judgments regarding such factors as the existence of a legal obligation for an ARO; estimated probabilities; amounts and timing of settlements; the credit-adjusted risk-free rate to be used; discount rate and inflation rates. Subsequent to the initial measurement of the ARO, the obligation is to be adjusted at the end of each period to reflect accretion of the liability to its non-discounted amount and changes in either the timing or the amount of the original estimated future cash flows underlying the obligation. Revisions also result in increases or decreases in the carrying cost of these assets. Increases in the ARO liability due to accretion is charged to depreciation and amortization expense. The related capitalized cost, including revisions thereto, is charged to depreciation and amortization expense.

Long-Lived Assets. In accordance with the Impairment or Disposal of Long-Lived Assets Subsections of ASC 360-10, "Property, Plant, and Equipment—Overall," long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare the undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Intangible Assets. Intangible assets are stated at cost, net of accumulated amortization. We have intangible assets related to technology, customer relationships, tradenames/trademarks, and software as detailed in Note 5 Detail of Certain Balance Sheet Accounts to the consolidated financial statements. Intangible assets are amortized using the straight-line method over the asset's estimated useful life as follows:

Technology	15 years
Customer relationships	15 years
Tradenames/trademarks	15 years
Software	10 years

Pension and Other Postretirement Plans. We sponsor a noncontributory defined benefit pension plan and an additional post-retirement benefit plan. We annually evaluate significant assumptions related to the benefits and obligations of these plans. Our estimation of the projected benefit obligations and related benefit expense requires that certain assumptions be made regarding such variables as expected return on plan assets, discount rates, rates of future compensation increases, estimated future employee turnover rates and retirement dates, distribution election rates, mortality rates, retiree utilization rates for health care services, and health care cost trend rates. The determination of the appropriate assumptions requires considerable judgment concerning future events and has a significant impact on the amount of the obligations and expense recorded. We rely in part on actuarial studies when determining the appropriateness of certain of the assumptions used in determining the benefit obligations and the annual expenses for these plans.

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

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

Debt Issuance Costs. We capitalize financing fees and other costs related to issuing long-term debt. We amortize these costs using the effective interest method, except for costs related to revolving debt, which are amortized using the straight-line method. The amortization of debt issuance costs are recorded in interest expense.

Contingencies. We are routinely involved in litigation, claims, and disputes incidental to our business. Professional judgment is required to classify the likelihood of these contingencies occurring. All relevant information that can be acquired concerning the uncertain set of circumstances needs to be obtained and used to determine the probability classification. A contingency is categorized as probable, reasonably possible, or remote. A contingency is classified as probable if the future event or events are likely to occur. For the probable contingencies, a loss is accrued and disclosed as of the date of the financial statements if it is both probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. A reasonably possible contingency occurs if the chance of the future event or events happening is more than remote but less than likely (reasonably possible but not probable). We disclose the loss contingencies in the footnotes to the financial statements but do not recognize any liability. A remote contingency is one where the chance of the future event or events occurring is slight. We neither accrue for nor disclose the liability in the notes to the financial statements. For loss contingencies, our accounting policy is to expense legal costs as incurred.

Environmental Costs. Environmental costs are expensed as incurred unless the expenditures extend the economic useful life of the relevant assets. Costs that extend the economic useful life of assets are capitalized and depreciated over the remaining life of those assets. Liabilities are recorded when environmental assessments, or remedial efforts are probable, and the cost can be reasonably estimated.

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

Revenue Recognition. Revenue is recognized in accordance with the provisions of ASC 605, "Revenue Recognition—Overall," when the revenue is realized or realizable, and has been earned. Revenue for product sales is recognized when risk and title to the product transfer to the customer, which usually occurs at the time shipment is made. The majority of our sales are transacted with the shipping term free on board shipping point or, with respect to countries other than the United States, an equivalent basis. As such, title to the product passes when the product is delivered to the freight carrier. Our standard terms of delivery are included in our contracts of sale, order confirmation documents, and invoices. Shipping and other transportation costs charged to customers are recorded in both revenue and cost of goods sold. Revenue is recognized net of value-added taxes.

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

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

Share-Based Compensation. Share-based compensation cost is measured at the grant date based on the fair value of the award. We recognize these costs using the straight-line method over the requisite service period. The Kraton Performance Polymers, Inc. Equity Incentive Plan (the "Equity Plan") allows for the grant to key employees, independent contractors, and eligible non-employee directors of incentive stock options (for employees only), non-qualified stock options, stock appreciation rights, restricted stock awards, and restricted stock units, in addition to other equity or equity-based awards (including performance-based awards) as our board determines from time to time. We estimate the fair value of stock options using the Black-Scholes valuation model. Since our equity interests were privately held prior to our initial public offering, we have limited publicly traded stock history, and as a result our estimated volatility is based on a combination of our historical volatility and similar companies' stock that are publicly traded. Until such time that we have enough publicly traded stock history to estimate volatility based solely on our stock, we expect to estimate volatility of options granted based on a combination of our historical volatility and similar companies' stock that are publicly traded. The expected term of options represents the period of time that options granted are expected to be outstanding. For all periods presented, we used the simplified method to calculate the expected term of options. The risk free interest rate for the periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. For all periods presented, the dividend yield is assumed to be zero based on historical and expected dividend activity. Forfeitures are based substantially on the history of cancellations of similar awards granted in prior years. See Note 4 Share-Based Compensation to the consolidated financial statements.

Leases. Our leases entered into as of December 31, 2015 are classified as either operating or capital leases. A lease is deemed a capital lease when one of the following conditions is met: (1) ownership of the asset is transferred to the lessee at the end of the lease term, (2) the lease contains a bargain purchase option, (3) the lease term is 75% or more of the asset's useful life, or (4) the net present value of minimum lease payments is equal to 90% or more of the asset's fair market value. All other leases are classified as an operating lease. The capital lease obligation is classified as either a current liability or long term liability based on the lease payment schedule, and is offset by an asset purchased pursuant to the lease which is depreciated over the lesser of the lease term or the asset useful life, in accordance with our depreciation policy. For operating leases which contain escalating rent payment clauses, we use the straight-line method to record lease expense.

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

Income taxes are recorded utilizing an asset and liability approach. This method gives consideration to the future tax consequences associated with the differences between the financial accounting and tax basis of the assets and liabilities as well as the ultimate realization of any deferred tax asset resulting from such differences. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

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

We provide liabilities for uncertain tax positions for federal, state, local and international exposures relating to periods subject to audit. The development of liabilities for uncertain tax positions for these exposures requires judgment about tax issues, potential outcomes and timing. We assess tax positions and record tax benefits based upon management's evaluation of facts, circumstances, and information available at the respective reporting date. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon settlement with a tax authority. For those tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the consolidated financial statements.

Foreign Currency Translation and Foreign Currency Exchange Rates. Financial statements of our operations outside the United States where the local currency is considered to be the functional currency are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and the average exchange rate for each period for revenue, expenses, gains, losses, and cash flows. The effects of translating such operations into U.S. dollars are included as a component of accumulated other comprehensive income (loss).

2. New Accounting Pronouncements

Adoption of Accounting Standards.

We have implemented all new accounting pronouncements that are in effect and that management believes would materially impact our financial statements.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. In August 2015, the effective date for the standard was deferred by one year and the standard is now effective for public entities for annual and interim periods beginning after December 15, 2017. Early adoption is permitted based on the original effective date. Our evaluation of this standard is currently ongoing and therefore, the effects of this standard on our financial position, results of operations and cash flows are not yet known.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This standard changes the consolidation analysis currently required under U.S. GAAP. This ASU modifies the process used to evaluate whether limited partnerships and similar entities are variable interest entities (“VIEs”) or voting interest entities; affects the analysis performed by reporting entities regarding VIEs, particularly those with fee arrangements and related party relationships; and provides a scope exception for certain investment funds. The amendments in this update are effective for annual and interim periods beginning after December 15, 2015 and early adoption is permitted. We plan to adopt this standard in the first quarter of 2016 and we anticipate this standard will not have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest. This standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of such debt liability. In adopting ASU 2015-03, companies must apply the guidance on a retrospective basis. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. We plan to adopt ASU 2015-03 in the first quarter of 2016. We have assessed the impact of this new standard on our Condensed Consolidated Financial Statements and concluded that it would have resulted in reductions of approximately $1.3 million, $12.2 million, and $13.5 million of other current assets, debt issuance costs, and long-term debt, respectively, as of December 31, 2015.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This standard changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value. ASU 2015-11 defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance must be applied on a prospective basis and is effective for periods beginning after December 15, 2016, with early adoption permitted. We have evaluated this standard and we anticipate that this standard will not have a material impact on our consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This standard requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This includes recording in the reporting period the effect on earnings of changes in depreciation, amortization or other income effects as a result of the change to the provisional amounts as if the accounting had been completed at the acquisition date. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. We plan to adopt this new standard in the first quarter of 2016 in connection with the Arizona Chemical Acquisition.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This standard requires entities to present deferred tax assets ("DTA") and deferred tax liabilities ("DTL") as non-current in a classified balance sheet. This ASU simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current and non-current in a classified balance sheet. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and early adoption is permitted. In addition, the standard can be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We have adopted ASU 2015-17 for the current reporting period and have applied the guidance on a retrospective basis. As a result, current and long-term deferred tax assets and liabilities reported in the consolidated balance sheet for the year ended December 31, 2014 have been reclassified to conform to the current reporting presentation. Our December 31, 2014 current and long-term DTAs decreased by $7.2 million and increased by $1.7 million, respectively, and our current and long-term DTLs decreased by $1.6 million and $3.9 million, respectively.

3. Acquisition of Arizona Chemical

On January 6, 2016, we completed our acquisition of Arizona Chemical, a leading global producer of specialty chemicals and other products primarily derived from pine wood pulping co-products. Arizona Chemical refines and further upgrades two primary feedstocks, crude tall oil ("CTO"), and crude sulfate turpentine ("CST"), into value-added specialty chemicals. These pine-based specialty chemicals are sold into adhesive, road and construction and tire markets, and Arizona Chemical produces and sells a broad range of chemical intermediates into markets that include fuel additives, oilfield chemicals, coatings, metalworking fluids and lubricants, inks, flavors and fragrances and mining.

We believe that the Arizona Chemical Acquisition extends our technology and market diversification, creates a more robust platform for growth, and enhances our opportunities to deepen our customer relationships by expanding our presence in our core markets. Arizona Chemical's end use market exposure is highly complementary with that of Kraton, particularly in markets such as adhesives, roads and construction, coatings and oilfield chemicals. In addition, the renewable nature of Arizona Chemical's product and technology offerings reduces our overall exposure to hydrocarbon-based feedstocks.

We acquired Arizona Chemical for a cash purchase price of $1.37 billion, which is subject to adjustment for cash, indebtedness, working capital and other items. The $1.37 billion cash purchase price for the Arizona Chemical Acquisition, the cash tender offer and redemption of all outstanding 6.75% senior notes due 2019, and the related acquisition and financing expenses for the Arizona Chemical Acquisition were funded through the following transactions:

- A $1,350.0 million six-year senior secured first lien term loan facility,
- A private offering of $440.0 million in aggregate principal amount of 10.5% senior notes due 2023, and
- An amended and restated $250.0 million five-year asset-based revolving credit facility, $37.1 million of which was drawn on the closing date.

Our previously outstanding indebtedness under the 6.75% senior notes due 2019 and the former senior secured credit facilities were satisfied and canceled on January 6, 2016. See Note 19 Subsequent Events to the consolidated financial statements for a further description of the debt issued to finance the acquisition.

The Company will account for the Arizona Chemical Acquisition under the purchase method of accounting for business combinations. Accordingly, the purchase price will be allocated to the underlying net assets in proportion to estimates of their respective fair values. Any excess of the purchase price over the estimated fair value of the net assets acquired will be recorded as goodwill.

We have excluded the purchase price allocation and pro forma disclosures for the Arizona Chemical Acquisition as the initial accounting is currently incomplete. We are currently in the process of performing an initial valuation related to the acquired assets and liabilities. The Company will reflect the preliminary valuation of the net assets acquired in its first quarter 2016 condensed consolidated financial statements. In addition, the results of Arizona Chemical's operations will be included in the Company's consolidated financial statements as of the closing date of the Arizona Chemical Acquisition, January 6, 2016.

4. Share-Based Compensation

We account for share-based awards under the provisions of ASC 718, "Share-Based Payment," which established the accounting for share-based awards exchanged for employee services. Accordingly, share-based compensation cost is measured at the grant date based on the fair value of the award and we expense these costs using the straight-line method over the requisite service period. Share-based compensation expense was approximately $9.0 million, $10.3 million and $7.9 million, net of tax effects of $0.0 million, $0.2 million, and $0.0 million for the years ended December 31, 2015, 2014, and 2013, respectively. We have historically recorded these costs in selling, general, and administrative expenses; however, beginning in the second quarter of 2013, a portion of these costs were recorded in cost of goods sold and research and development expenses. At December 31, 2015, there was approximately $0.8 million of unrecognized compensation expense related to non-vested option awards to be recognized over a weighted-average period of 1.07 years, approximately $7.0 million of unrecognized compensation expense related to awards of restricted stock and restricted share units expected to be recognized over a weighted-average period of 1.90 years, and $4.3 million of unrecognized compensation expense related to awards of performance share units expected to be recognized over a weighted-average period of 2.14 years.

Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan. On November 30, 2009, our board of directors and our stockholders approved the Equity Plan and on May 25, 2011 and February 16, 2012, our board of directors and stockholders approved the amendment and restatement of the Equity Plan. The Equity Plan allows for the grant to key employees, independent contractors, and eligible non-employee directors of incentive stock options (to employees only), non-qualified stock options (which together with the incentive stock options, are referred to herein as ("Options")), stock appreciation rights, restricted stock awards and restricted stock units, in addition to other equity or equity-based awards (including performance-based awards) as the compensation committee of our board, with respect to employees and independent contractors, and our full board, with respect to non-employee directors, determines from time to time.

Under the Equity Plan, there are a total of 4,350,000 shares of our common stock reserved for issuance. As of December 31, 2015 and 2014 there were 1,231,675 and 1,859,189 shares of our common stock available for issuance, respectively.

Stock Option Activity

Option activities for the year ended December 31, 2015 are as follows:

	Options	Weighted Average Exercise Price
	(in thousands)	
Outstanding at December 31, 2014	1,619	$24.52
Granted	—	—
Exercised	64	15.99
Forfeited	11	26.56
Expired	78	32.27
Outstanding at December 31, 2015	1,466	24.47
Exercisable at December 31, 2015	1,319	$24.19

We did not grant stock options during 2015. We granted 158,118, and 131,321 options to our employees during the years ended December 31, 2014, and 2013, respectively. These options have a ten year term and vest in equal installments over three years. The weighted-average grant-date fair values of options granted during the years ended December 31, 2014 and 2013 were $12.32 and $12.30, respectively. There were 64,100, 103,873, and 52,971 options exercised during the years ended December 31, 2015, 2014, and 2013, respectively. The total intrinsic value of the options exercised was $0.4 million, $1.1 million and $0.5 million for the years ended December 31, 2015, 2014, and 2013, respectively.

The following table summarizes additional information regarding the outstanding and exercisable options at December 31, 2015.

	Options	Weighted Average

		Weighted Average Exercise Price	Aggregate Intrinsic Value (1)	Remaining Contractual Term
	(in thousands)		(in thousands)	(in years)
Outstanding options	1,466	$24.47	$1,228	5.05
Exercisable options	1,319	$24.19	$1,228	4.73

(1) The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option as of December 31, 2015.

Weighted-Average Assumptions for Option Pricing

	2015	2014	2013
Risk-free interest rate	n/a	1.82%	1.01%
Expected dividend yield	n/a	—%	—%
Expected volatility	n/a	47.2%	55.0%
Expected term	n/a	6.0 years	6.0 years

Since our equity interests were privately held prior to our initial public offering, we have limited publicly traded stock history, and as a result, our estimated volatility is based on a combination of our historical volatility and similar companies' stock that are publicly traded. Until such time that we have enough publicly traded stock history to estimate volatility based solely on our stock, we expect to estimate volatility of options granted based on a combination of our historical volatility and similar companies' stock that are publicly traded. The expected term of options represents the period of time that options granted are expected to be outstanding. For all periods presented, we used the simplified method to calculate the expected term of options. The risk free interest rate for the periods within the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. For all periods presented, the dividend yield is assumed to be zero based on historical and expected dividend activity.

Restricted stock awards and Restricted stock units

We may grant to certain employees time-vested restricted stock awards and time-vested restricted share units. Holders of restricted share units do not have any beneficial ownership in the common stock underlying the restricted share units and the grant represents an unsecured promise to deliver common stock on a future date. Actual shares of common stock underlying the restricted share units will not be issued until the earlier of the passage of the vesting period, a change in control that also results in the termination of the grantee's employment, or the death / disability of the participant. We awarded 280,353, 192,812, and 203,027 shares of restricted stock to our employees, which are subject to a three-year cliff vesting, during the years ended December 31, 2015, 2014, and 2013, respectively. We issued 32,584, 22,518, and 26,424 shares of restricted stock to members of the board of directors during the years ended December 31, 2015, 2014, and 2013, respectively, which vested on the grant date. We granted 52,845, 38,918, and 28,976 restricted share units to our employees during the years ended December 31, 2015, 2014, and 2013, respectively, which are subject to a three-year cliff vesting.

The following table represents the non-vested restricted stock awards and restricted share units granted, vested, and forfeited during 2015.

	Shares	Weighted-average Grant-date Fair Value
	(in thousands)	
Non-vested shares at December 31, 2014	554	$25.40
Granted	366	19.84
Vested	143	24.88
Forfeited	72	24.70
Non-vested shares at December 31, 2015	705	$22.69

The total fair value of shares vested during the years ended December 31, 2015, 2014, and 2013 pursuant to restricted stock awards and restricted share units was $3.6 million, $4.6 million, and $0.9 million, respectively.

Performance share units

We may grant to certain employees performance share units, which vest after the achievement of performance criteria established at grant. Holders of performance share units do not have any beneficial ownership in the shares of our common stock underlying the performance share units, and the grant represents an unsecured promise to deliver shares of our common stock on a future date. The performance share units vest at the end of a three-year period assuming continued employment and assuming the Company's achievement of the performance measures established by our Compensation Committee when the performance share units were initially granted. When performance share units vest, a number of shares of our common stock equal to 0% to 200% of the initial grant amount will be issued, depending on the level of achievement of such performance measures. We granted 240,536, 90,186, and 67,585 performance share units to our employees during the years ended December 31, 2015, 2014, and 2013, respectively.

The following table represents the non-vested performance share units granted, vested, and forfeited during 2015.

	Shares	Weighted-average Grant-date Fair Value
	(in thousands)	
Non-vested shares at December 31, 2014	137	$25.40
Granted	241	21.25
Vested	—	—
Forfeited	49	26.10
Non-vested shares at December 31, 2015	329	$22.27

Weighted-Average Assumptions for Performance Share Unit Grant Date Fair Value

For the performance share units granted in 2015, a component of the performance targets was based on relative total shareholder return over the three-year performance cycle compared to an industry peer group. The weighted average fair value using a Monte Carlo simulation model and the corresponding weighted average assumptions for the performance share units granted during the year ended December 31, 2015 was as follows:

	2015
Risk-free interest rate	0.95%
Expected dividend yield	—%
Expected volatility	29.7%
Fair value per performance share award	24.75

5. Detail of Certain Balance Sheet Accounts

	December 31, 2015	2014
	(in thousands)	
Inventories of products:		
Finished products	$211,273	$253,834
Work in progress	4,501	5,552
Raw materials	48,333	67,606
Total inventories of products	$264,107	$326,992
Property, plant and equipment:		
Land	$10,164	$11,240
Buildings	46,234	47,646
Plant and equipment	675,822	658,258
Construction in progress (1)	167,610	122,084
Property, plant and equipment	899,830	839,228
Less accumulated depreciation	382,157	387,463
Property, plant and equipment, net of accumulated depreciation	$517,673	$451,765
Intangible assets:		
Technology	$45,553	$44,979
Customer relationships	35,145	35,145
Tradenames/trademarks	26,562	25,393
Software	34,435	33,032
Intangible assets	141,695	138,549
Less accumulated amortization:		
Technology	35,833	32,835
Customer relationships	28,170	25,827
Tradenames/trademarks	18,819	17,127
Software	17,271	13,150
Total accumulated amortization	100,093	88,939
Intangible assets, net of accumulated amortization	$41,602	$49,610

(1) Construction in progress includes $7.0 million of assets financed with short term capital leases as of December 31, 2014.

	December 31, 2015	2014
	(in thousands)	
Other payables and accruals:		
Employee related	$23,850	$16,156
Interest payable	8,004	7,959
Arizona Chemical transaction accrual	18,267	—
Property, plant, and equipment accrual	16,142	3,864
Other	24,748	22,909
Total other payables and accruals	$91,011	$50,888
Other long-term liabilities:		
Pension and other postretirement benefits	$85,997	$86,605
Other	10,995	17,134
Total other long-term liabilities	$96,992	$103,739

Aggregate depreciation expense for property, plant and equipment was approximately $50.5 million, $54.5 million, and $52.4 million for the years ended December 31, 2015, 2014, and 2013, respectively.

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Aggregate amortization expense for intangible assets was approximately $11.2 million, $11.2 million, and $10.3 million for the years ended December 31, 2015, 2014, and 2013, respectively. Estimated amortization expense for each of the next five years is as follows:

December 31:	Amortization Expense (in thousands)
2016	$ 10,826
2017	$ 10,265
2018	$ 9,843
2019	$ 2,406
2020	$ 1,206

Changes in accumulated other comprehensive income (loss) by component were as follows:

	Cumulative Foreign Currency Translation	Unrealized Loss on Net Investment Hedges	Benefit Plans Liability, Net of Tax	Total
Balance at December 31, 2013	$22,758	$(1,926)	$(42,084)	$(21,252)
Other comprehensive income (loss) before reclassifications	(44,628)	—	(36,078)	(80,706)
Amounts reclassified from accumulated other comprehensive loss	—	—	2,740	2,740
Net other comprehensive income (loss) for the year	(44,628)	—	(33,338)	(77,966)
Balance at December 31, 2014	(21,870)	(1,926)	(75,422)	(99,218)
Other comprehensive income (loss) before reclassifications	(44,125)	—	975	(43,150)
Amounts reclassified from accumulated other comprehensive loss	—	—	3,800	3,800
Net other comprehensive income (loss) for the year	(44,125)	—	4,775	(39,350)
Balance at December 31, 2015	$(65,995)	$(1,926)	$(70,647)	$(138,568)

The following table provides details for amounts reclassified from accumulated other comprehensive income (loss) into net income in the consolidated statements of operations:

Details about amounts reclassified from Accumulated Other Comprehensive Income (Loss) into Net Income	Location of Reclassification Income/(Expense) in Consolidated Statement of Operations	Year Ended December 31, 2015	2014
Amortization of pension and other post-retirement items			
Amortization of net actuarial loss	(1)	$(5,143)	$(2,375)
Curtailment loss	(1)	—	(365)
Settlement loss	(1)	(792)	—
	Provision for income taxes	2,135	—
		$(3,800)	$(2,740)

(1) These components are allocated between cost of good sold, selling, general and administrative and research and development expenses in the Consolidated Statement of Operations. See Note 13. Employee Benefits for further information related to net periodic benefit cost for pension and other post-retirement benefit plans.

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

Unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock awards are considered to be participating securities and therefore the two-class method is used for purposes of calculating EPS. Under the two-class method, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock. These shares are subject to forfeiture and restrictions on transfer until vested and have identical voting, income and distribution rights to the unrestricted common shares outstanding. Restricted stock awards outstanding totaled 599,541, 489,543, and 416,662 at December 31, 2015, 2014, and 2013, respectively. Our weighted average restricted stock awards outstanding were 553,846, 491,698, and 392,329 for the years ended December 31, 2015, 2014, and 2013, respectively. We withheld 28,273 and 27,173 shares of restricted stock upon vesting to satisfy employee payroll tax withholding requirements for the years ended December 31, 2015 and 2014, respectively. We immediately retired all shares withheld and the transactions were reflected in additional paid in capital in the Consolidated Statements of Changes in Equity and as a purchase of treasury stock in the Consolidated Statements of Cash Flows.

Restricted share units in the amount of 138,002, 95,055, and 58,467 were outstanding at December 31, 2015, 2014, and 2013, respectively, including vested and non-vested restricted share units. The computation of diluted EPS includes weighted average restricted share units of 0, 84,658, and 0 for the years ended December 31, 2015, 2014, and 2013, respectively. The computation of diluted EPS excludes weighted average restricted share units of 134,038 and 52,784 for the years ended December 31, 2015 and 2013, respectively, as they are anti-dilutive due to a net loss attributable to Kraton for those periods.

Performance share units in the amount of 329,182, 137,206, and 67,585 were outstanding at December 31, 2015, 2014, and 2013, respectively. The computation of diluted EPS includes weighted average performance share units of 0, 28,902, and 0 for the years ended December 31, 2015, 2014, and 2013, respectively. The computation of diluted EPS excludes weighted average performance share units of 33,296 and 0 for the years ended December 31, 2015 and 2013, respectively, as they are anti-dilutive due to a net loss attributable to Kraton for those periods. In addition, the computation of diluted EPS also excludes the effect of performance share units for which the performance contingencies had not been met as of the reporting date, amounting to 296,684, 102,396, and 67,585 for the years ended December 31, 2015, 2014, and 2013, respectively.

Stock options in the amount of 1,465,609, 1,619,091, and 1,594,581 were outstanding at December 31, 2015, 2014, and 2013, respectively. The computation of diluted EPS includes stock options added under the treasury stock method, which amounted to 0, 205,949, and 0 for the years ended December 31, 2015, 2014, and 2013, respectively. The computation of diluted earnings per share excludes the effect of the potential exercise of stock options that are anti-dilutive, amounting to 1,465,609, 1,001,198, and 1,594,581 for the years ended December 31, 2015, 2014, and 2013, respectively.

The calculations of basic and diluted EPS are as follows:

	Year ended December 31, 2015		
	Net Income attributable to Kraton	Weighted Average Shares Outstanding	Earnings Per Share
	(in thousands, except per share data)		
Basic:			
As reported	$(10,535)	31,128	
Amounts allocated to unvested restricted shares	187	(554)	
Amounts available to common stockholders	$(10,348)	30,574	$(0.34)
Diluted:			
Amounts allocated to unvested restricted shares	(187)	554	
Non participating share units		—	
Stock options added under the treasury stock method		—	
Amounts reallocated to unvested restricted shares	187	(554)	
Amounts available to stockholders and assumed conversions	$(10,348)	30,574	$(0.34)

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	Year ended December 31, 2014		
	Net Income attributable to Kraton	Weighted Average Shares Outstanding	Earnings Per Share
	(in thousands, except per share data)		
Basic:			
As reported	$2,419	32,655	
Amounts allocated to unvested restricted shares	(36)	(492)	
Amounts available to common stockholders	$2,383	32,163	$0.07
Diluted:			
Amounts allocated to unvested restricted shares	36	492	
Non participating share units		114	
Stock options added under the treasury stock method		206	
Amounts reallocated to unvested restricted shares	(36)	(492)	
Amounts available to stockholders and assumed conversions	$2,383	32,483	$0.07

	Year ended December 31, 2013		
	Net Loss attributable to Kraton	Weighted Average Shares Outstanding	Loss Per Share
	(in thousands, except per share data)		
Basic:			
As reported	$(618)	32,488	
Amounts allocated to unvested restricted shares	7	(392)	
Amounts available to common stockholders	$(611)	32,096	$(0.02)
Diluted:			
Amounts allocated to unvested restricted shares	(7)	392	
Non participating share units		—	
Stock options added under the treasury stock method		—	
Amounts reallocated to unvested restricted shares	7	(392)	
Amounts available to stockholders and assumed conversions	$(611)	32,096	$(0.02)

Share Repurchase Program. On October 27, 2014, our board of directors approved a share repurchase program, which allowed for the repurchase of outstanding shares of our common stock having an aggregate purchase price of up to $50.0 million. We repurchased shares of our common stock in the open market at prevailing market prices and through a trading program under Rule 10b5-1. From the inception of the program through December 31, 2015, we repurchased a total of 2,549,683 shares of our common stock at an average price of $19.58 per share and a total cost of $50.0 million (including trading commissions). The share repurchase plan was financed with available cash and the program is now complete.

7. Long-Term Debt

Long-term debt consists of the following:

	December 31, 2015			December 31, 2014		
	(in thousands)					
	Principal	Unamortized Premium	Total	Principal	Unamortized Premium	Total
6.75% unsecured notes	$350,000	$651	$350,651	$350,000	$825	$350,825
KFPC loan agreement	76,912	—	76,912	—	—	—
Capital lease obligation	1,634	—	1,634	1,047	—	1,047
Total debt	428,546	651	429,197	351,047	825	351,872
Less current portion of total debt	141	—	141	87	—	87
Long-term debt	$428,405	$651	$429,056	$350,960	$825	$351,785

Senior Secured Credit Facilities. In March 2013, we entered into an asset-based revolving credit facility consisting of a $150.0 million U.S. senior secured revolving credit facility (the “U.S. Facility”) and a $100.0 million Dutch senior secured revolving credit facility (the “Dutch Facility”, and together with the U.S. Facility, the “Senior Secured Credit Facilities”). Borrowing under the Senior Secured Credit Facilities is subject to borrowing base limitations based on the level of receivables and inventory available for security.

We may request up to an aggregate of $100.0 million of additional revolving facility commitments of which up to an aggregate of $40.0 million may be additional Dutch revolving facility commitments, provided that we satisfy additional conditions described in the Senior Secured Credit Facilities, and provided further that the U.S. revolver commitment is at least 60% of the commitments after giving effect to such increase.

Kraton Polymers U.S. LLC and Kraton Polymers Nederland B.V. are the borrowers under the Senior Secured Credit Facilities, and Kraton Performance Polymers, Inc., Kraton Polymers LLC, Elastomers Holdings LLC and Kraton Polymers Capital Corporation are the guarantors for both the U.S. Facility and the Dutch Facility. In addition, K.P. Global Holdings C.V. and Kraton Polymers Holdings B.V. are guarantors for the Dutch Facility. The Senior Secured Credit Facilities terminate on March 27, 2018; however, we may from time to time request that the lenders extend the maturity of their commitments. Availability under the Senior Secured Credit Facilities is limited to the lesser of the borrowing base and total commitments (less certain reserves).

The Senior Secured Credit Facilities are primarily secured by receivables and inventory. The U.S. Facility provides for borrowings in the United States and is secured by assets located in the United States. The Dutch Facility provides for borrowings outside of the United States and is secured by assets located outside of the United States.

Borrowings under the U.S Facility (other than swingline loans) bear interest at a rate equal to, at the applicable borrower’s option, either (a) a base rate determined by reference to the greater of (1) the prime rate of Bank of America, N.A., (2) the federal funds rate plus 0.5% and (3) LIBOR plus 1.0%, or (b) a rate based on LIBOR, in each case plus an applicable margin. U.S. swingline loans shall bear interest at a base rate determined by reference to the greater of (1) the prime rate of Bank of America, N.A., (2) the federal funds rate plus 0.5% or (3) LIBOR plus 1.0%, in each case plus an applicable margin.

Borrowings under the Dutch Facility (other than swingline loans) bear interest at a rate equal to, at the applicable borrower’s option, either (a) a fluctuating rate, with respect to Euros, Pounds Sterling and Dollars outside of the U.S. and Canada, equal to the rate announced by the European Central Bank and used as a base rate by the local branch of Bank of America in the jurisdiction in which such currency is funded, or (b) a rate based on LIBOR, in each case plus an applicable margin. Dutch swingline loans bear interest at a fluctuating rate, with respect to Euros, Pounds Sterling and Dollars outside of the U.S. and Canada, equal to the rate announced by the European Central Bank and used as a base rate by the local branch of Bank of America in the jurisdiction in which such currency is funded.

The applicable margin is subject to a minimum of 0.5% and a maximum of 1.0% with respect to U.S. base rate loans, and a minimum of 1.5% and maximum of 2.0% for foreign base rate borrowings, and a minimum of 1.5% and maximum of 2.0% for both U.S. and foreign LIBOR loans and is subject to adjustment based on the borrowers’ excess availability of the applicable facility for the most recent fiscal quarter. Our effective interest rate for borrowings on the Senior Secured Credit Facilities was 2.03% for the year ended December 31, 2015.

In addition to paying interest on outstanding principal amounts under the Senior Secured Credit Facilities, the borrowers will be required to pay a commitment fee in respect of the unutilized commitments at an annual rate of 0.375%.

The Senior Secured Credit Facilities contain a financial covenant that if either (a) excess availability is less than the greater of (i) 12.5% of the lesser of the commitments and the borrowing base and (ii) $31,250,000 or (b) U.S. availability is less than the greater of (i) 12.5% of the lesser of the U.S. commitments and U.S. borrowing base and (ii) $18,750,000, then following such event, Kraton and its restricted subsidiaries must maintain a fixed charge coverage ratio of at least 1.0 to 1.0 for four fiscal quarters (or for a shorter duration if certain financial conditions are met). The Senior Secured Credit Facilities contain certain customary events of default, including, without limitation, a failure to make payments under the facility, cross-default and cross-judgment default, certain bankruptcy events and certain change of control events.

As of December 31, 2015, our available borrowing capacity was $165.5 million of which $0.0 million was drawn.

On January 6, 2016, the Senior Secured Credit Facilities were canceled and replaced with an amended and restated $250.0 million ABL Facility. See Note 19 Subsequent Events to the consolidated financial statements for a description of the amended and restated ABL Facility.

6.75% Senior Notes due 2019. Kraton Polymers LLC and its wholly-owned financing subsidiary Kraton Polymers Capital Corporation issued $350.0 million aggregate principal amount of 6.75% senior notes that were scheduled to mature on March 1, 2019 pursuant to an indenture dated February 11, 2011 as amended and supplemented by a supplemental indenture thereto dated March 20, 2012 (collectively, the "Indenture"). On January 6, 2016, the outstanding indebtedness under the 6.75% Senior Notes was satisfied and canceled with the issuance of $440.0 million of new 10.5% Senior Notes due 2023. See Note 19 Subsequent Events to the consolidated financial statements for a description of the new 10.5% Senior Notes.

Capital Lease. In January 2014, we entered into a 10 year capital lease with a principal amount of $7.0 million to fund a portion of our capital expenditures. In March 2015, this capital lease increased by $0.7 million based on final project construction costs.

KFPC Loan Agreement. On July 17, 2014, KFPC executed a syndicated loan agreement (the "KFPC Loan Agreement") in the amount of 5.5 billion New Taiwan Dollars ("NTD"), or $167.5 million (converted at the December 31, 2015 exchange rate), to provide additional funding to construct the hydrogenated styrenic block copolymer ("HSBC") facility in Taiwan and to provide funding for working capital requirements and/or general corporate purposes.

The KFPC Loan Agreement is comprised of a NTD 4.29 billion Tranche A, or $130.6 million (converted at the December 31, 2015 exchange rate), to fund KFPC's capital expenditures, and a NTD 1.21 billion Tranche B, or $36.9 million (converted at the December 31, 2015 exchange rate), to fund working capital requirements and/or general corporate purposes. As of December 31, 2015, NTD 2.53 billion, or $76.9 million (converted at the December 31, 2015 exchange rate) was drawn on the KFPC Loan Agreement. The facility period of the KFPC Loan Agreement is five years from January 17, 2015 (the first drawdown date). KFPC may continue to draw on the KFPC Loan Agreement for the first 28 months following the first drawdown date. Subject to certain conditions, KFPC can request a two-year extension of the facility period of the KFPC Loan Agreement.

The total outstanding principal amount is payable in six semi-annual installments with the first payment due on July 17, 2017 and each subsequent payment due every six months thereafter. The first five installments shall be in an amount equal to 10.0% of the outstanding principal amount and the final installment shall be in an amount equal to the remaining 50.0% of the outstanding principal amount. In the event the extension period is granted, the final 50.0% of the outstanding principal amount shall be repaid in five equal semi-annual installments with the first installment due on the original final maturity date.

The KFPC Loan Agreement is subject to a variable interest rate composed of a fixed 0.8% margin plus the three-month or six-month fixing rate of the Taipei Interbank Offered Rate (depending on the interest period selected by KFPC in the drawdown request or the interest period notice), subject to a floor of 1.7%. Interest is payable on a monthly basis. For the year ended December 31, 2015, our effective interest rate for borrowings on the KFPC Loan Agreement was 1.8%.

The KFPC Loan Agreement contains certain financial covenants which change during the term of the KFPC Loan Agreement. The financial covenants include a maximum debt to equity ratio of 3.0 to 1.0 through 2016, which will decrease to 2.0 to 1.0 in 2017 and 1.2 to 1.0 in 2018; a minimum tangible net worth requirement of $50.0 million through 2018, which will increase to $100.0 million in 2019; and a minimum interest coverage ratio of 2.5 to 1.0 commencing in 2016, which will increase to 5.0 to 1.0 in 2017. In each case, these covenants are calculated and tested on an annual basis. Formosa Petrochemical Corporation and Kraton Polymers LLC are the guarantors of the KFPC Loan Agreement with each guarantor guaranteeing 50.0% of the indebtedness. At December 31, 2015, KFPC was in compliance with the covenants under the KFPC Loan Agreement.

Debt Maturities. The principal payments on our outstanding total debt as of December 31, 2015, are as follows:

December 31:	Principal Payments (in thousands)
2016	$ 141
2017	7,841
2018	15,541
2019	365,551
2020	38,636
Thereafter	836
Total debt	$ 428,546

See Note 8 Fair Value Measurements, Financial Instruments and Credit Risk to the consolidated financial statements for fair value information related to our long-term debt.

8. Debt Issuance Costs

We capitalize debt issuance costs related to issuing long-term debt and amortize these costs using the effective interest method, except for costs related to revolving debt, which are amortized using the straight-line method. Amortization of debt issuance costs and the accelerated write-off of debt issuance costs in connection with refinancing activities are recorded as a component of interest expense. We had net debt issuance costs of $15.9 million and $9.5 million (of which $2.4 million and $2.3 million were included in other current assets) as of December 31, 2015 and December 31, 2014, respectively. In connection with the March 2013 refinancing of our indebtedness, we charged to interest expense $5.1 million of unamortized debt issuance costs related to our previously existing indebtedness and we capitalized $4.8 million of debt issuance costs related to our new indebtedness. During the year ended December 31, 2014, our consolidated joint venture, KFPC, capitalized $0.5 million of debt issuance costs related to the KFPC Loan Agreement executed in July 2014. During the year ended December 31, 2015, we capitalized $8.8 million of debt issuance costs related to the debt financing associated with the Arizona Chemical Acquisition, which closed on January 6, 2016. See Note 3 Acquisition of Arizona Chemical for further discussion of the Arizona Chemical Acquisition and Note 19 Subsequent Events for a description of the debt financing. We amortized $2.2 million, $2.2 million, and $2.4 million (which excludes $5.1 million of accelerated amortization) of debt issuance costs for the years ended December 31, 2015, 2014, and 2013, respectively.

9. Fair Value Measurements, Financial Instruments, and Credit Risk

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

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

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

In accordance with ASC 820, these two types of inputs have created the following fair value hierarchy:

- Level 1—Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability, including:
- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Inputs other than quoted prices that is observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

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- Level 3—Inputs that are unobservable and reflect our assumptions used in pricing the asset or liability based on the best information available under the circumstances (e.g., internally derived assumptions surrounding the timing and amount of expected cash flows).

Recurring Fair Value Measurements. The following tables set forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2015 and December 31, 2014, respectively. These financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of their fair value and their placement within the fair value hierarchy levels.

	Balance Sheet Location	December 31, 2015	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(in thousands)		
Retirement plan asset—current	Other current assets	$272	$ 272	$ —	$ —
Retirement plan asset—noncurrent	Other long-term assets	1,636	1,636	—	—
Total		$1,908	$ 1,908	$ —	$ —

	Balance Sheet Location	December 31, 2014	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(in thousands)		
Retirement plan asset—current	Other current assets	$272	$ 272	$ —	$ —
Retirement plan asset—noncurrent	Other long-term assets	2,055	2,055	—	—
Total		$2,327	$ 2,327	$ —	$ —

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

Nonrecurring Fair Value Measurements. Our long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. When impairment has occurred, such long-lived assets are written down to fair value.

The following table sets forth by level within the fair value hierarchy our fair value measurements with respect to non-financial assets that are measured at fair value on a nonrecurring basis. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of their fair value and their placement within the fair value hierarchy levels. See Note 10 Impairment and Restructuring Charges, for further discussion.

	Fair Value Measurements as of Reporting Date				
	Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2014	Total Impairment Charges
Long-lived assets	$—	$—	$ 723	$723	$4,731
Total	$—	$—	$ 723	$723	$4,731

For the year ended December 31, 2015 and 2013 we determined that there was no impairment related to our long-lived assets.

The following table presents the carrying values and approximate fair values of our long-term debt as of December 31, 2015 and December 31, 2014:

	December 31, 2015		December 31, 2014	
	Carrying Value (in thousands)	Fair Value	Carrying Value	Fair Value
6.75% unsecured notes (quoted prices in active market for identical assets – level 1)	$350,651	$350,000	$350,825	$358,750
Capital lease obligation (significant other observable inputs - level 2)	$1,634	$1,634	$1,047	$1,047

Financial Instruments

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

On March 27, 2013, in connection with the refinancing of our credit facility, we terminated and settled an interest rate swap agreement, and as a result, recognized $0.7 million of interest expense for the year ended December 31, 2013. We did not have any interest rate swap agreements in effect during the year ended December 31, 2015.

Fair Value Hedges. In April 2012, we entered into a series of non-deliverable forward contracts to reduce our exposure to fluctuations in the Canadian dollar (“CAD”) against the U.S. dollar associated with the funding of certain capital expenditures. These non-deliverable forward contracts qualified for hedge accounting and were designated as fair value hedges in accordance with ASC 815-25 “Fair Value Hedges.” These hedges were effective in offsetting our exposure to the CAD, and therefore the $0.1 million gain on these hedges was offset by the $0.1 million loss on the exposure associated with the funding of our semi-works facility for the year ended December 31, 2013. We did not have any fair value hedges in place during the years ended December 31, 2014 and 2015.

Net Investment Hedges. In June 2013, we entered into a TWD 450.0 million notional amount non-deliverable forward contract to protect our net investment in our subsidiary in Taiwan against adverse changes in exchange rates by fixing the New Taiwan Dollar/Euro exchange rate. This contract qualified for hedge accounting and was designated as a net investment hedge in accordance with ASC 815-35 “Net Investment Hedges.” For the year ended December 31, 2013, we recorded in accumulated other comprehensive loss an aggregate $0.5 million loss related to the settlement of the effective portion of this contract. We did not have any net investment hedges in place during the years ended December 31, 2015 and 2014.

Foreign Currency Hedges. Periodically, we enter into foreign currency agreements to hedge or otherwise protect against fluctuations in foreign currency exchange rates. These agreements typically do not qualify for hedge accounting and gains/losses resulting from both the up-front premiums and/or settlement of the hedges at expiration of the agreements are recognized in the period in which they are incurred. During the years ended December 31, 2015, 2014, and 2013, we entered into a series of foreign currency option and forward contracts to reduce our exposure to exchange rate volatility. The contracts were structured such that the underlying foreign currency exchange gains/losses would be offset by the mark-to-market impact of the hedging instruments and reduce the impact of foreign currency exchange movements throughout the period. These contracts did not qualify for hedge accounting. For the years ended December 31, 2015, 2014, and 2013, we recorded an aggregate loss of $5.8 million, $6.5 million, and $1.8 million, respectively, which are recorded in cost of goods sold. In all periods, these contracts are structured such that these gains/losses from the mark-to-market impact of the hedging instruments materially offset the underlying foreign currency exchange gains/losses to reduce the overall impact of foreign currency exchange movements throughout the period.

Credit Risk

Our customers are diversified by industry and geography with more than 850 customers in over 70 countries. We analyze the counterparties' financial condition prior to extending credit and we establish credit limits and monitor the appropriateness of those limits on an ongoing basis. We also obtain cash, letters of credit, or other acceptable forms of security from customers to provide credit support, where appropriate, based on our financial analysis of the customer and the contractual terms and conditions applicable to each transaction.

10. Impairment and Restructuring Charges

During 2014, we determined that we had impaired long-lived assets and, as a result, recorded pre-tax impairment charges of $4.7 million. Of this amount, $2.4 million related to engineering and design assets for projects we determined were no longer economically viable, $1.4 million related to information technology and office assets associated with fourth quarter 2014 restructuring activities, and $0.9 million related to other long-lived assets. The $5.4 million carrying value of these long-lived assets was reduced to fair market value of $0.7 million. We used internally developed assumptions in determining the fair value of these long-lived assets, which are classified within level 3 of the fair value hierarchy.

For the years ended December 31, 2015, 2014, and 2013, restructuring and restructuring-related expenses amounted to $1.7 million, $3.0 million and $0.8 million, respectively. Restructuring expenses in 2015 were primarily comprised of professional services and advisory costs related to our cost reset initiative. Restructuring expenses for 2014 were comprised of severance expenses of $2.5 million and $0.4 million of other restructuring related costs, which are recorded primarily in selling, general and administrative expenses.

11. Income Taxes

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

Our income tax provision was a $6.9 million expense, a $5.1 million expense, and a $3.9 million benefit for the years ended December 31, 2015, 2014, and 2013, respectively. Our effective tax rates for the years ended December 31, 2015, 2014, and 2013 were a 124.3% expense, an 80.9% expense, and a 79.9% benefit, respectively. Our effective tax rates differed from the U.S. corporate statutory tax rate of 35.0%, primarily due to the mix of pre-tax income or loss earned in certain jurisdictions and the change in our valuation allowance. Excluding the change in our valuation allowance, our effective tax rates would have been a 75.4% benefit, a 229.0% expense, and an 81.4% benefit for the years ended December 31, 2015, 2014, and 2013, respectively.

The provision for income taxes is comprised of the following:

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Current tax provision (benefit):			
U.S.	$34	$550	$(49)
Foreign	10,023	7,091	11,708
Total current tax provision	10,057	7,641	11,659
Deferred tax provision (benefit):			
U.S.	(2,683)	—	(10,065)
Foreign	(431)	(2,523)	(5,481)
Total deferred tax provision (benefit)	(3,114)	(2,523)	(15,546)
Total income tax expense (benefit)	$6,943	$5,118	$(3,887)

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

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Income (loss) before income taxes:			
U.S.	$(41,455)	$8,391	$(39,445)
Foreign	35,869	(2,063)	34,583
Total income (loss) before income taxes	$(5,586)	$6,328	$(4,862)

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

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Income taxes at the statutory rate	$(1,955)	$2,215	$(1,702)
Foreign tax rate differential	(1,639)	11,777	(4,278)
State taxes, net of federal benefit	(315)	140	(285)
Permanent differences	(88)	182	1,145
Tax credits	(46)	(535)	—
Alternative minimum tax	—	541	—
Uncertain tax positions	126	(429)	1,020
Valuation allowance	11,156	(9,370)	72
Other	(296)	597	141
Income tax expense (benefit)	$6,943	$5,118	$(3,887)

	Years ended December 31,		
	2015	2014	2013
Income taxes at the statutory rate	35.0%	35.0%	35.0%
Foreign tax rate differential	29.3	186.1	88.0
State taxes, net of federal benefit	5.6	2.2	5.9
Permanent differences	1.6	2.9	(23.6)
Tax credits	0.8	(8.5)	—
Alternative minimum tax	—	8.5	—
Uncertain tax positions	(2.3)	(6.7)	(21.0)
Valuation allowance	(199.7)	(148.1)	(1.5)
Other	5.4	9.5	(2.9)
Effective tax rate	(124.3)%	80.9%	79.9%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as net operating loss and tax credit carryforwards. The tax effects of temporary differences are comprised of the following:

	December 31,	
	2015	2014
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$110,569	$106,944
Inventory	7,832	7,116
Benefit plans accrual	27,435	28,042
Other accruals and reserves	29,665	18,694
	175,501	160,796
Valuation allowance for deferred tax assets	(100,149)	(90,433)
Total deferred tax assets	$75,352	$70,363
Deferred tax liabilities:		
Property, plant and equipment	$(79,237)	$(74,363)
Intangible assets	(1,318)	(3,472)
Total deferred tax liabilities	(80,555)	(77,835)
Net deferred tax liabilities	$(5,203)	$(7,472)

	December 31	
	2015	2014
	(in thousands)	
Net deferred tax liabilities consist of:		
Non-current deferred tax assets	3,867	3,848
Non-current deferred tax liabilities	(9,070)	(11,320)
Net deferred tax liabilities	$(5,203)	$(7,472)

As of December 31, 2015, we had $317.8 million of net operating loss carryforwards, of which $52.5 million relates to foreign jurisdictions and $265.3 million relates to the United States, which will expire beginning in 2024 through 2035, if not utilized. We expect to generate sufficient taxable income in future years that will allow utilization of the portion of the net operating loss carryforwards for which no valuation allowance has been provided.

We record a valuation allowance when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. As of December 31, 2015 and December 31, 2014, a valuation allowance of $100.1 million and $90.4 million, respectively, has been provided for net operating loss carryforwards and other deferred tax assets. We increased our valuation allowance by $9.7 million in 2015, which includes $13.9 million related to current period net operating losses in the U.S. jurisdiction, partially offset by a $2.7 million decrease related to the tax effect of unrealized pension gains, and a $1.5 million decrease related to changes in other comprehensive income (loss). We increased our valuation allowance by $0.4 million in 2014, which includes a $9.8 million increase related to changes in other comprehensive income (loss), partially offset by a $7.6 million decrease related to current year operating income and a $1.8 million decrease related to the assessment of our ability to utilize net operating loss carryforwards in future periods. We consider the reversal of deferred tax liabilities within the net operating loss carryforward period, projected future taxable income and tax planning strategies in making this assessment. Excluding the change in our valuation allowance, our effective tax rates would have been a 75.4% benefit and a 229.0% expense for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, $87.9 million of the $100.1 million valuation allowance is associated with net deferred tax assets in the U.S. jurisdiction.

Following the acquisition of Arizona Chemical on January 6, 2016, we project that we will have sufficient combined pre-tax earnings in the U.S. to fully utilize net operating loss carryforwards within a reasonable projection period. Under ASC 805-740-30-3, the release of an acquirer's existing valuation allowance resulting from an acquisition is recognized as an adjustment to the financial statements as of the acquisition date. As a result, we expect to release the valuation allowance related to the U.S. net deferred tax assets in 2016.

For the period ending December 31, 2015, the unremitted earnings of our foreign subsidiaries are permanently reinvested in the corresponding country of origin. Accordingly, we have not provided deferred taxes for the differences between the book basis and underlying tax basis in those subsidiaries or on the foreign currency translation adjustment amounts related to such operations.

We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. For our U.S. federal income tax returns, the statute of limitations has expired through the tax year ended December 31, 2003. As a result of net operating loss carryforwards from 2004, the statute remains open for all years subsequent to 2003. In addition, open tax years for state and foreign jurisdictions remain subject to examination.

We recognize the tax impact of certain tax positions only when it is more likely than not those such positions are sustainable. The taxes are recorded in accordance with ASC 740-10, “Accounting for Uncertainty in Income Taxes,” which prescribes the minimum recognition threshold.

As of December 31, 2015 and December 31, 2014, we had $4.3 million and $4.7 million, respectively, of unrecognized tax benefits related to uncertain foreign tax positions, all of which, if recognized, would impact our effective tax rate. For the years ending December 31, 2015, 2014, and 2013, we recorded $0.2 million, $0.1 million, and $0.4 million in interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of December 31, 2015 and December 31, 2014, we had $0.8 million and $0.6 million of penalties and interest included in the total unrecognized tax benefits. We believe that no current tax positions that have resulted in unrecognized tax benefits will significantly increase or decrease within one year.

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

	December 31	
	2015	2014
	(in thousands)	
Balance at January 1	$4,663	$6,423
Increase in current year tax positions	336	432
Increase in prior year tax positions	301	320
Decrease in prior year tax positions	(416)	(743)
Lapse of statute of limitations	(538)	(255)
Settlements	—	(1,514)
Balance at December 31	$4,346	$4,663

12. Commitments and Contingencies

(a) Lease Commitments

We have entered into various long-term non-cancelable operating leases. Future minimum lease commitments at December 31, 2015 are as follows: 2016—$16.4 million; 2017—$10.9 million; 2018—$7.0 million; 2019—$6.0 million; 2020—$4.7 million; and 2020 and thereafter—$1.9 million. For the years ended December 31, 2015, 2014, and 2013, we recorded $18.1 million, $18.7 million and $11.2 million in rent expense, respectively.

(b) Environmental and Safety Matters

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

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

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

We had no material operating expenditures for environmental fines, penalties, government imposed remedial or corrective actions in each of the years ended December 31, 2015, 2014, and 2013.

(c) Legal Proceedings

We received notice from the tax authorities in Brazil assessing R$6.1 million or $1.5 million (converted at the December 31, 2015 exchange rate) in connection with tax credits that were generated from the purchase of certain goods which were subsequently applied by us against taxes owed. We have appealed the assertion by the tax authorities in Brazil that the goods purchased were not eligible to earn the credits. While the outcome of this proceeding cannot be predicted with certainty, we do not expect this matter to have a material adverse effect upon our financial position, results of operations or cash flows.

On January 28, 2014, we executed a definitive agreement (the “Combination Agreement”) to combine with the SBC operations of Taiwan-based LCY Chemical Corp. (“LCY”). The Combination Agreement called for LCY to contribute its SBC business in exchange for newly issued shares in the combined company, such that our existing stockholders and LCY would each own 50% of the outstanding shares of the combined enterprise.

On June 30, 2014, we notified LCY that our Board of Directors intended to withdraw its recommendation to our stockholders to approve the Combination Agreement unless the parties could agree upon mutually acceptable revised terms to the Combination Agreement. This notice cited the decline in operating results for LCY’s SBC business in the first quarter of 2014 and a related decline in forecasted results thereafter, together with the decline in our stock price and negative reactions from our stockholders. Following our notification of our Board’s intention to change its recommendation, the parties engaged in discussions to determine whether they could mutually agree to changes to the terms of the Combination Agreement that would enable our Board to continue to recommend that our stockholders approve the Combination Agreement. The parties engaged in numerous discussions subsequent to June 30, 2014 regarding possible revisions to the terms of the Combination Agreement.

On July 31, 2014, an explosion occurred in a pipeline owned by LCY in Kaohsiung, Taiwan, causing substantial property damage and loss of life, and numerous governmental and private investigations and claims have been initiated and asserted against LCY. On August 4, 2014, LCY notified us that it would no longer negotiate, and it would not agree to, any revisions to the terms of the Combination Agreement. On August 6, 2014, our Board withdrew its recommendation that our stockholders approve the Combination Agreement. On August 8, 2014, we received notice from LCY that LCY had exercised its right to terminate the Combination Agreement.

The provisions of the Combination Agreement provide for us to pay LCY a $25.0 million break-up fee upon a termination of the Combination Agreement following a withdrawal of our Board’s recommendation, unless an LCY material adverse effect has occurred and is continuing at the time of the withdrawal of our Board’s recommendation. In LCY’s notice terminating the Combination Agreement, LCY requested payment of such $25.0 million termination fee.

On October 6, 2014, LCY filed a lawsuit against us in connection with our refusal to pay the $25.0 million termination fee. We believe that the impact upon LCY of the July 31, 2014 explosion in a gas pipeline in Kaohsiung, Taiwan, constitutes an LCY material adverse effect as defined in the Combination Agreement, and we have notified LCY that accordingly we are not obligated to pay the termination fee. On July 23, 2015, LCY's lawsuit was dismissed from the Delaware federal court on jurisdictional grounds. LCY has the right to re-file its suit in Delaware state court. As of the date of this filing, they had not re-filed their suit. While the ultimate resolution of this matter cannot be predicted with certainty, we do not expect any material adverse effect upon our financial position, results of operations, or cash flows from the ultimate outcome of this matter.

We and certain of our subsidiaries, from time to time, are parties to various other legal proceedings, claims, and disputes that have arisen in the ordinary course of business. These claims may involve significant amounts, some of which would not be covered by insurance. A substantial settlement payment or judgment in excess of our accruals could have a material adverse effect on our financial position, results of operations or, cash flows. While the outcome of these proceedings cannot be predicted with certainty, we do not expect any of these existing matters, individually or in the aggregate, to have a material adverse effect upon our financial position, results of operations, or cash flows.

(d) Asset Retirement Obligations ("ARO")

The changes in the aggregate carrying amount of our ARO liability are as follows:

	2015	2014
	(in thousands)	
Beginning balance	$10,394	$10,497
Accretion expense	425	533
Obligations settled	(329)	(95)
Foreign currency translation	(412)	(541)
Ending balance	$10,078	$10,394

For a portion of our ARO liability related to the decommissioning of the coal boilers at our Belpre, Ohio, facility, we recorded a $3.7 million receivable from Shell Chemicals as of December 31, 2015 pursuant to the indemnity included in the February 2001 separation agreement, which serves to offset the related ARO asset which is included in property, plant, and equipment.

(e) Production downtime

In the first quarter of 2014, we experienced weather-related downtime at our Belpre, Ohio facility. In addition, our facility in Berre, France, experienced an operating disruption resulting from a small fire that impacted one of the production lines at this facility. We incurred $10.3 million of net costs in the year ended December 31, 2014 associated with these two events.

13. Employee Benefits

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

The 2015 measurement date of the Pension Plan's assets and obligations was December 31, 2015. Based on the funded status of our Pension Plan as of December 31, 2015 and 2014, we reported a decrease in our accumulated other comprehensive loss of approximately $3.2 million and an increase of $28.6 million, respectively, and a related change in accrued pension obligations.

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

	December 31,	
	2015	2014
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of period	$158,885	$122,222
Service cost	3,528	2,800
Interest cost	6,483	6,171
Benefits paid	(4,724)	(4,170)
Actuarial (gain) / loss	(11,661)	31,862
Benefit obligation at end of period	$152,511	$158,885
Change in plan assets:		
Fair value at beginning of period	$104,792	$92,709
Actual return on plan assets	(4,267)	9,053
Employer contributions	1,760	7,200
Benefits paid	(4,724)	(4,170)
Fair value at end of period	$97,561	$104,792
Funded status at end of period	$(54,950)	$(54,093)
Amounts recognized on balance sheet:		
Noncurrent liabilities	$(54,950)	$(54,093)
Amounts recognized in accumulated other comprehensive loss:		
Net actuarial loss	$49,491	$52,666
Amounts recognized in accumulated other comprehensive loss	$49,491	$52,666

The accumulated benefit obligation for the Pension Plan was $140.8 million and $145.1 million at December 31, 2015 and 2014, respectively.

Estimated Future Benefit Payments. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	(in thousands)
2016	$ 5,020
2017	5,360
2018	5,690
2019	6,150
2020	6,530
Years 2021-2025	40,030
	$ 68,780

Net Periodic Pension Costs. Net periodic pension costs consist of the following components:

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Service cost benefits earned during the period	$3,528	$2,800	$3,332
Interest on prior year’s projected benefit obligation	6,483	6,171	5,506
Expected return on plan assets	(8,459)	(7,677)	(6,608)
Amortization of net actuarial loss	4,239	1,841	3,576
Net periodic pension costs	$5,791	$3,135	$5,806

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

	December 31,	
	2015	2014
Weighted average assumptions used to determine benefit obligations:		
Measure date	12/31/2015	12/31/2014
Discount rate	4.55 %	4.12 %
Rates of increase in salary compensation level	3.00 %	3.00 %
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	4.12 %	5.02 %
Rates of increase in salary compensation level	3.00 %	3.00 %
Expected long-term rate of return on plan assets	8.50 %	8.50 %

Our management relied in part on actuarial studies in establishing the expected long-term rate of return on assets assumption. The study includes a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the Pension Plan to determine the average rate of earnings expected on the funds invested to provide for the Pension Plan benefits. While the study gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. Based on our most recent study, the expected long-term return assumption for our Pension Plan effective for 2015 will remain at 8.5%.

Pension Plan Assets. We maintain target allocation percentages among various asset classes based on an investment policy established for our Pension Plan. The target allocation is designed to achieve long term objectives of return, while mitigating downside risk and considering expected cash flows. The plan’s strategic target allocation as of December 31, 2015 was 50.0% equity, 30.0% debt, and 20.0% other, consisting of real estate funds, hedge funds, and commodity funds. The latter was assumed to behave similar to debt securities and therefore we included this 20.0% asset allocation as bonds in the model. Our investment policy is reviewed from time to time to ensure consistency with our long term objective. Our Pension Plan asset allocations at December 31, 2015 and 2014 by asset category are as follows:

	Percentage of Plan Assets at December 31,	
	2015	2014
Equity securities	57.1 %	61.7 %
Debt securities	33.5 %	28.8 %
Real estate	— %	3.0 %
Other	9.4 %	6.5 %
Total	100.0 %	100.0 %

No pension assets were invested in debt or equity securities of Kraton at December 31, 2015 and 2014.

The inputs and methodology used for valuing securities are not an indication of the risk associated with investing in those securities. The following is a description of the primary valuation methodologies used for assets measured at fair value:

- Common/Collective Trust Funds: Valued at the net asset value per unit held at year end as quoted by the funds.
- Mutual Funds, Real Estate Funds, and Other Funds: Valued at the net asset value of shares held at year end as quoted in the active market.

A summary of total investments for our pension plan assets measured at fair value is presented below. See Note 9 Fair Value Measurements, Financial Instruments, and Credit Risk to the consolidated financial statements for a detailed description of fair value measurements and the hierarchy established for Level 1, 2, and 3 valuation inputs.

	Pension Plan Assets Fair Value Measurements at December 31, 2015			
	Total	Quoted Prices In Active Markets Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash and Cash Equivalents	$70	$ 70	$—	$—
Common/Collective Trust Funds(a):				
Equity Funds	34,504	—	34,504	—
Debt Funds	21,669	—	21,669	—
Mutual Funds:				
Equity Funds	21,188	21,188	—	—
Debt Funds	11,031	11,031	—	—
Other	9,099	9,099	—	—
Total	$97,561	$ 41,388	$56,173	$—

	Pension Plan Assets Fair Value Measurements at December 31, 2014			
	Total	Quoted Prices In Active Markets Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash and Cash Equivalents	$529	$ 529	$—	$—
Common/Collective Trust Funds(a):				
Equity Funds	35,864	—	35,864	—
Debt Funds	21,155	—	21,155	—
Mutual Funds:				
Equity Funds	28,815	28,815	—	—
Debt Funds	9,009	9,009	—	—
Real Estate	3,106	3,106	—	—
Other	6,314	6,314	—	—
Total	$104,792	$ 47,773	$57,019	$—

(a) Strategies are generally to invest in equity or debt securities, or a combination thereof, that match or outperform certain predefined indices.

(b) Other Retirement Benefit Plans. Certain employees were eligible to participate in non-qualified defined benefit restoration plans (“BRP”), which were intended to restore certain benefits under the Pension Plan in the United States and the Kraton Savings Plan in the United States, which would otherwise be lost due to certain limitations imposed by law on tax-qualified plans.

On November 26, 2014, the Company terminated the Pension Plan BRP effective November 30, 2014. As a result of this termination, future benefit accruals were eliminated and the lump sum amount for each participant was paid in December 2015. As such, a curtailment event was recognized at December 1, 2014 resulting in a curtailment expense of $0.4 million in the year ended December 31, 2014 and a settlement expense of $0.8 million in the year ended December 31, 2015.

For the years ended December 31, 2015, 2014, and 2013, we made contributions related to the Pension Plan BRP of $2.3 million, $0.1 million, and $0.0 million, respectively. Due to the termination and final settlement, there was no remaining liability for this plan as of December 31, 2015. As of December 31, 2014, $2.2 million was recognized as a component of other current liabilities.

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

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

ASC 715, “Compensation-Retirement Benefits,” requires that we measure the plans’ assets and obligations that determine our funded status at the end of each fiscal year and the 2015 measurement date of the plans’ assets and obligations was December 31, 2015. We are also required to recognize as a component of accumulated other comprehensive loss the changes in funded status that occurred during the year that are not recognized as part of new periodic benefit cost.

Based on the funded status of our postretirement benefit plan as of December 31, 2015 and 2014, we reported a decrease in our accumulated other comprehensive loss of approximately $3.4 million and an increase of $4.1 million, respectively, and a related change in accrued pension obligations.

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

	December 31,	
	2015	2014
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of period	$32,444	$26,893
Service cost	597	498
Interest cost	1,271	1,275
Benefits and expenses paid (premiums)	(825)	(767)
Actuarial (gain) loss	(2,620)	4,545
Benefit obligation at end of period	$30,867	$32,444
Change in plan assets (1):		
Fair value at beginning of period	$—	$—
Employer contributions	$825	$767
Benefits paid	(825)	(767)
Fair value at end of period	$—	$—
Funded status at end of year	$30,867	$32,444

(1) Shell Chemicals has committed to a future cash payment related to retiree medical expenses based on a specified dollar amount per employee, if certain contractual commitments are met. We have recorded an asset of approximately $10.1 million and $9.9 million as our estimate of the present value of this commitment as of December 31, 2015 and 2014, respectively.

	December 31,	
	2015	2014
	(in thousands)	
Amounts recognized in the balance sheet:		
Current liabilities	$(1,341)	$(1,320)
Noncurrent liabilities	(29,526)	(31,124)
	$(30,867)	$(32,444)
Amounts recognized in accumulated other comprehensive loss:		
Net actuarial loss	8,307	11,684

	$8,307	$11,684

Net periodic benefit costs consist of the following components:

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Service cost	$597	$498	$557
Interest cost	1,271	1,275	1,155
Amortization of net actuarial loss	757	416	708
Net periodic benefit costs	$2,625	$2,189	$2,420

	December 31,	
	2015	2014
Weighted average assumptions used to determine benefit obligations:		
Measurement date	12/31/2015	12/31/2014
Discount rate	4.45 %	4.02 %
Rates of increase in salary compensation level	N/A	N/A
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	4.02 %	4.86 %
Rates of increase in salary compensation level	N/A	N/A
Expected long-term rate of return on plan assets	N/A	N/A

	December 31,	
	2015	2014
Assumed health care cost trend rates:		
Health care cost trend rate assumed for next year	7.50 %	7.00 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate	2021	2020

Discount rates are determined annually and are based on rates of return of high-quality long-term fixed income securities currently available and expected to be available during the maturity of the postretirement benefit plan.
Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1.0% change in assumed health care cost trend rates would have the following effect (in thousands):

	1% Increase	1% Decrease
Effect on total of service and interest cost components	$24	$(31)
Effect on postretirement benefit obligation	$445	$(539)

(d) Kraton Savings Plan. The Kraton Savings Plan, as adopted on March 1, 2001, covers substantially all U.S. employees, including executive officers. Through automatic payroll deduction, participants have the option to defer up to 60% of eligible earnings in any combination of pretax and/or post-tax contributions, subject to annual dollar limitations set forth in the Internal Revenue Code. Under this plan, we have two types of employer contributions:
(1) For our standard contributions, we make matching contributions of 50.0% of the first 6.0% contributed by the employee after completing one year of service, and we make matching contributions of 100.0% of the first 6.0% contributed by the employee after completing five years of service.
(2) For our enhanced contributions, we make employer contributions of 3.0% for employees who have less than five years of service and a 4.0% contribution for employees who have five or more years of service.
For our employees who were employed as of February 28, 2001, and who were previously employed by Shell Chemicals, we recognize their Shell Chemicals years of service for purposes of determining employer contributions under our Plan. Our contributions to the plan for the years ended December 31, 2015, 2014, and 2013, were $4.1 million, $4.0 million, and $3.7 million, respectively.

14. Industry Segment and Foreign Operations

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

Our products are manufactured and our commercial activities are organized in the following product groups based upon polymer chemistry and process technologies:

	Revenue for the years ended December 31,		
	2015	2014	2013
	(in thousands)		
Performance Products	$540,615	$678,930	$762,939
Specialty Polymers	350,689	412,435	412,009
Cariflex	142,904	138,596	116,003
Other	418	472	1,170
	$1,034,626	$1,230,433	$1,292,121

During the years ended December 31, 2015, 2014, and 2013, no single customer accounted for 10.0% or more of our total revenue.

For geographic reporting, revenue is attributed to the geographic location in which the customers' facilities are located. Long-lived assets consist primarily of property, plant, and equipment, which are attributed to the geographic location in which they are located and presented at historical cost. Following is a summary of revenue by geographic region:

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
Revenue:			
United States	$324,103	$380,620	$399,547
Germany	121,346	163,065	172,625
China	80,050	80,219	72,103
Japan	77,091	83,193	81,056
Thailand	52,999	53,667	42,402
Brazil	33,468	49,944	55,549
Malaysia	31,808	27,175	26,353
France	31,095	41,878	47,443
United Kingdom	30,556	33,610	36,736
Italy	26,141	33,315	43,321
Belgium	24,232	43,748	39,825
Netherlands	23,308	25,384	29,146
Sweden	14,688	17,961	17,269
Canada	14,403	15,466	16,187
South Korea	14,015	15,442	12,923
Mexico	13,183	16,447	17,710
Taiwan	12,767	17,914	17,182
Turkey	11,074	12,463	23,403
Argentina	9,824	14,453	15,672
Austria	8,924	12,855	12,863
Denmark	8,829	8,440	6,401
Poland	8,430	9,310	13,751
All other countries	62,292	73,864	92,654

$1,034,626	$1,230,433	$1,292,121

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Following is a summary of long-lived assets by geographic region:

	December 31, 2015	2014
	(in thousands)	
Long-lived assets, at cost:		
United States	$497,653	$495,313
Taiwan	135,410	56,994
France	112,767	115,987
Brazil	56,344	71,970
Germany	56,292	60,022
Netherlands	33,410	29,838
China	6,001	7,273
Japan	1,779	1,637
All other countries	174	194
	$899,830	$839,228

15. Related Party Transactions

We own a 50.0% equity investment in a SBC manufacturing joint venture in Kashima, Japan. Our due to related party liability on the consolidated balance sheet is related to this joint venture and the purchases from the joint venture amounted to $30.4 million, $40.3 million, and $50.7 million for the years ended December 31, 2015, 2014, and 2013, respectively.

We own a 50% variable interest in KFPC, a HSBC manufacturing joint venture in Mailiao, Taiwan. The KFPC joint venture is fully consolidated in our financial statements, and our joint venture partner, Formosa Petrochemical Corporation (“FPCC”), is a related party affiliate. Under the terms of the joint venture agreement, FPCC is to provide certain site services and raw materials to KFPC. Charges from and amounts due to FPCC are immaterial through the period ended December 31, 2015. See Note 16 Variable Interest Entity, for further discussion related to the KFPC joint venture.

In 2015, one of our board members, Steven Demetriou, was appointed as the Chief Executive Officer of Jacobs Engineering which has historically supplied site maintenance and engineering services for our Belpre, Ohio facility. Our total purchases from Jacobs Engineering in 2015 were $12.4 million and our outstanding payable to them was $0.3 million as of December 31, 2015.

16. Variable Interest Entity

We hold a variable interest in a joint venture with FPCC to build, own and operate a 30 kiloton HSBC plant at FPCC's petrochemical site in Mailiao, Taiwan. Kraton and FPCC are each 50% owners of the joint venture company, KFPC. Under the provisions of an offtake agreement with KFPC, we have exclusive rights to purchase all production from KFPC. Additionally, the agreement requires us to purchase a minimum of eighty percent of the plant production capacity each year at a defined fixed margin. This offtake agreement represents a variable interest which provides us the power to direct the most significant activities of KFPC and exposes us to the economic variability of the joint venture. As such, we have determined that we are the primary beneficiary of this variable interest entity; and therefore, we have consolidated KFPC in our financial statements and reflected FPCC's 50% percent ownership as a noncontrolling interest.

The following table summarizes the carrying amounts of assets and liabilities as of December 31, 2015 and 2014 for KFPC before intercompany eliminations. See Note 7 Long Term Debt, for further discussion related to the KFPC Loan Agreement executed on July 17, 2014.

	December 31, 2015	December 31, 2014
	(In thousands)	
Cash and cash equivalents	$9,315	$7,993
Other current assets	7,015	2,533
Property, plant and equipment	135,230	56,904
Intangible assets	9,203	9,579
Other long-term assets	1,709	1,044
Total assets	$162,472	$78,053
Current liabilities	17,057	2,717
Long-term debt	$76,912	$—
Total liabilities	$93,969	$2,717

17. Supplemental Guarantor Information

Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, (collectively, "the Issuers"), are co-issuers of the 6.75% senior notes due March 1, 2019. The 6.75% senior notes are fully and unconditionally guaranteed on a joint and several basis by KPPI, the parent company of the Issuers, and Elastomers Holdings LLC, which is a U.S. holding company and a 100% owned subsidiary of Kraton Polymers LLC, (collectively,"the Guarantors"). Our remaining subsidiaries are not guarantors of the 6.75% senior notes. We do not believe that separate financial statements and other disclosures concerning the guarantor subsidiaries would provide any additional information that would be material to investors in making an investment decision.

KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATING BALANCE SHEET
December 31, 2015
(In thousands, except par value)

	Kraton	Kraton Polymers LLC(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$—	$7,256	$11,595	$51,198	$—	$70,049
Receivables, net of allowances	—	470	37,758	66,861	—	105,089
Inventories of products	—	(2,077)	149,200	116,984	—	264,107
Inventories of materials and supplies	—	—	9,880	2,258	—	12,138
Other current assets	—	4,823	4,594	21,861	—	31,278
Total current assets	—	10,472	213,027	259,162	—	482,661
Property, plant and equipment, less accumulated depreciation	—	35,923	256,663	225,087	—	517,673
Intangible assets, less accumulated amortization	—	38,721	2,053	828	—	41,602
Investment in consolidated subsidiaries	497,308	1,446,567	—	—	(1,943,875)	—
Investment in unconsolidated joint venture	—	813	—	10,815	—	11,628
Debt issuance costs	—	12,088	721	671	—	13,480
Deferred income taxes	—	320	—	3,547	—	3,867
Other long-term assets	—	28,314	658,253	105,444	(770,222)	21,789
Total assets	$497,308	$1,573,218	$1,130,717	$605,554	$(2,714,097)	$1,092,700
LIABILITIES AND STOCKHOLDERS' AND MEMBER'S EQUITY						
Current liabilities:						
Current portion of long-term debt	—	—	141	—	—	141
Accounts payable-trade	—	2,030	25,450	31,857	—	59,337
Other payables and accruals	—	45,717	14,983	30,311	—	91,011
Due to related party	—	—	—	14,101	—	14,101
Total current liabilities	—	47,747	40,574	76,269	—	164,590
Long-term debt, net of current portion	—	350,651	1,493	76,912	—	429,056
Deferred income taxes	—	6,334	—	2,736	—	9,070
Other long-term liabilities	—	674,939	88,758	103,517	(770,222)	96,992
Total liabilities	$—	$1,079,671	$130,825	$259,434	$(770,222)	$699,708
Commitments and contingencies (note 12)						
Stockholders' and member's equity:						
Preferred stock, $.01 par value; 100,000 shares authorized; none issued	—	—	—	—	—	—
Common stock, $.01 par value; 500,000 shares authorized	306	—	—	—	—	306

Additional paid in capital	349,871	—	—	—	—	349,871
Member's equity	—	497,308	1,061,621	384,946	(1,943,875)	—
Retained earnings	147,131	—	—	—	—	147,131
Accumulated other comprehensive loss	—	(3,761)	(61,729)	(73,078)	—	(138,568)
Kraton stockholders' and member's equity	497,308	493,547	999,892	311,868	(1,943,875)	358,740
Noncontrolling interest	—	—	—	34,252	—	34,252
Total stockholders' and member's equity	497,308	493,547	999,892	346,120	(1,943,875)	392,992
Total liabilities and stockholders' and member's equity	$497,308	$1,573,218	$1,130,717	$605,554	$(2,714,097)	$1,092,700

(1) Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be material to investors in making an investment decision.

KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATING BALANCE SHEET
December 31, 2014
(In thousands, except par value)

	Kraton	Kraton Polymers LLC(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$—	$646	$5,881	$47,291	$—	$53,818
Receivables, net of allowances	—	553	37,266	69,613	—	107,432
Inventories of products	—	35	201,146	125,811	—	326,992
Inventories of materials and supplies	—	—	9,092	1,876	—	10,968
Other current assets	—	5,317	931	18,273	—	24,521
Total current assets	—	6,551	254,316	262,864	—	523,731
Property, plant and equipment, less accumulated depreciation	—	46,081	248,220	157,464	—	451,765
Intangible assets, less accumulated amortization	—	45,356	4,000	254	—	49,610
Investment in consolidated subsidiaries	529,701	1,382,584	—	—	(1,912,285)	—
Investment in unconsolidated joint venture	—	813	—	11,835	—	12,648
Debt issuance costs	—	4,674	1,297	1,182	—	7,153
Deferred income taxes	—	428	—	3,420	—	3,848
Other long-term assets	—	6,384	591,841	85,520	(655,623)	28,122
Total assets	$529,701	$1,492,871	$1,099,674	$522,539	$(2,567,908)	$1,076,877
LIABILITIES AND STOCKHOLDERS' AND MEMBER'S EQUITY						
Current liabilities:						
Current portion of long-term debt	—	—	87	—	—	87
Accounts payable-trade	—	637	30,332	41,817	—	72,786
Other payables and accruals	—	21,913	14,017	14,958	—	50,888
Due to related party	—	—	—	18,121	—	18,121
Total current liabilities	—	22,550	44,436	74,896	—	141,882
Long-term debt, net of current portion	—	350,825	960	—	—	351,785
Deferred income taxes	—	8,443	—	2,877	—	11,320
Other long-term liabilities	—	582,462	93,191	83,709	(655,623)	103,739
Total liabilities	—	964,280	138,587	161,482	(655,623)	608,726
Commitments and contingencies (note 11)						
Stockholders' and member's equity:						
Preferred stock, $.01 par value; 100,000 shares authorized; none issued	—	—	—	—	—	—
Common stock, $.01 par value; 500,000 shares authorized	318	—	—	—	—	318

Additional paid in capital	361,342	—	—	—	—	361,342
Member’s equity	—	529,701	1,030,294	352,290	(1,912,285)	—
Retained earnings	168,041	—	—	—	—	168,041
Accumulated other comprehensive income (loss)	—	(1,110)	(69,207)	(28,901)	—	(99,218)
Kraton stockholders’ and member’s equity	529,701	528,591	961,087	323,389	(1,912,285)	430,483
Noncontrolling interest	—	—	—	37,668	—	37,668
Total stockholders’ and member’s equity	529,701	528,591	961,087	361,057	(1,912,285)	468,151
Total liabilities and stockholders’ and member’s equity	$529,701	$1,492,871	$1,099,674	$522,539	$(2,567,908)	$1,076,877

(1) Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be material to investors in making an investment decision.

KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATING STATEMENT OF OPERATIONS
Year ended December 31, 2015
(In thousands)

	Kraton	Kraton Polymers LLC(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$—	$—	$547,884	$ 650,239	$(163,497)	$1,034,626
Cost of goods sold	—	14,574	453,922	500,971	(163,497)	805,970
Gross profit (loss)	—	(14,574)	93,962	149,268	—	228,656
Operating expenses						
Research and development	—	6,873	4,210	19,941	—	31,024
Selling, general and administrative	—	9,895	30,383	77,030	—	117,308
Depreciation and amortization	—	22,593	28,685	10,815	—	62,093
Mergers and acquisitions	—	—	—	—	—	—
Total operating expenses	—	39,361	63,278	107,786	—	210,425
Earnings (loss) in consolidated subsidiaries	(12,529)	61,990	—	—	(49,461)	—
Earnings of unconsolidated joint venture	—	—	—	406	—	406
Interest expense (income), net	—	24,708	(115)	(370)	—	24,223
Income (loss) before income taxes	(12,529)	(16,653)	30,799	42,258	(49,461)	(5,586)
Income tax expense (benefit)	—	(4,124)	(527)	11,594	—	6,943
Consolidated net income (loss)	(12,529)	(12,529)	31,326	30,664	(49,461)	(12,529)
Net loss attributable to noncontrolling interest	—	—	—	(1,994)	—	(1,994)
Net income (loss) attributable to Kraton	$(12,529)	$(12,529)	$31,326	$ 32,658	$(49,461)	$(10,535)

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(1) Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be material to investors in making an investment decision.

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KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATING STATEMENT OF OPERATIONS
Year ended December 31, 2014
(In thousands)

	Kraton	Kraton Polymers LLC(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$—	$—	$626,791	$ 773,091	$(169,449)	$1,230,433
Cost of goods sold	—	11,146	506,932	644,737	(169,449)	993,366
Gross profit (loss)	—	(11,146)	119,859	128,354	—	237,067
Operating expenses						
Research and development	—	10,997	2,666	17,707	—	31,370
Selling, general and administrative	—	10,989	400	92,820	—	104,209
Depreciation and amortization	—	22,515	29,728	13,999	—	66,242
Impairment of long-lived assets	—	1,407	3,324	—	—	4,731
Total operating expenses	—	45,908	36,118	124,526	—	206,552
Earnings in consolidated subsidiaries	1,210	81,126	—	—	(82,336)	—
Earnings of unconsolidated joint venture	—	—	—	407	—	407
Interest expense (income), net	—	24,864	(179)	(91)	—	24,594
Income (loss) before income taxes	1,210	(792)	83,920	4,326	(82,336)	6,328
Income tax expense (benefit)	—	(2,002)	550	6,570	—	5,118
Consolidated net income (loss)	$1,210	$1,210	$83,370	$ (2,244)	$(82,336)	$1,210
Net loss attributable to noncontrolling interest	$—	$—	$—	$ (1,209)	$—	$(1,209)
Net income (loss) attributable to Kraton	$1,210	$1,210	$83,370	$ (1,035)	$(82,336)	$2,419

(1) Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be material to investors in making an investment decision.

KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATING STATEMENT OF OPERATIONS
Year ended December 31, 2013
(In thousands)

	Kraton	Kraton Polymers LLC(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$—	$—	$635,456	$ 812,412	$(155,747)	$1,292,121
Cost of goods sold	—	1,988	511,220	708,828	(155,747)	1,066,289
Gross profit (loss)	—	(1,988)	124,236	103,584	—	225,832
Operating expenses						
Research and development	—	—	17,372	14,642	—	32,014
Selling, general and administrative	—	154	73,202	32,202	—	105,558
Depreciation and amortization	—	16,317	32,049	14,816	—	63,182
Total operating expenses	—	16,471	122,623	61,660	—	200,754
Earnings (loss) in consolidated subsidiaries	(975)	58,772	—	—	(57,797)	—
Earnings of unconsolidated joint venture	—	—	—	530	—	530
Interest expense (income), net	—	43,477	(14,490)	1,483	—	30,470
Income (loss) before income taxes	(975)	(3,164)	16,103	40,971	(57,797)	(4,862)
Income tax expense (benefit)	—	(2,189)	(10,114)	8,416	—	(3,887)
Consolidated net income (loss)	(975)	(975)	26,217	32,555	(57,797)	(975)
Net loss attributable to noncontrolling interest	—	—	—	(357)	—	(357)
Net income (loss) attributable to Kraton	(975)	(975)	26,217	32,912	(57,797)	(618)

(1) Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be material to investors in making an investment decision.

KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
Year ended December 31, 2015
(In thousands)

	Kraton	Kraton Polymers LLC (1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss) attributable to Kraton	$(12,529)	$(12,529)	$31,326	$ 32,658	$(49,461)	$(10,535)
Other comprehensive income (loss):						
Foreign currency translation adjustments, net of tax of $0	—	32	—	(44,157)	—	(44,125)
Increase in benefit plans liability, net of tax of $0	—	(2,683)	7,478	(20)	—	4,775
Other comprehensive income (loss), net of tax	—	(2,651)	7,478	(44,177)	—	(39,350)
Comprehensive income (loss) attributable to Kraton	(12,529)	(15,180)	38,804	(11,519)	(49,461)	(49,885)
Comprehensive loss attributable to noncontrolling interest	—	—	—	(3,416)	—	(3,416)
Consolidated comprehensive income (loss)	$(12,529)	$(15,180)	$38,804	$ (14,935)	$(49,461)	$(53,301)

(1) Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be material to investors in making an investment decision.

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KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
Year ended December 31, 2014
(In thousands)

	Kraton	Kraton Polymers LLC (1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss) attributable to Kraton	$1,210	$1,210	$83,370	$ (1,035)	$ (82,336)	$2,419
Other comprehensive loss:						
Foreign currency translation adjustments, net of tax of $0	—	(575)	—	(44,053)	—	(44,628)
Increase in benefit plans liability, net of tax of $0	—	—	(33,232)	(106)	—	(33,338)
Other comprehensive loss, net of tax	—	(575)	(33,232)	(44,159)	—	(77,966)
Comprehensive income (loss) attributable to Kraton	1,210	635	50,138	(45,194)	(82,336)	(75,547)
Comprehensive loss attributable to noncontrolling interest	—	—	—	(3,240)	—	(3,240)
Consolidated comprehensive income (loss)	$1,210	$635	$50,138	$ (48,434)	$ (82,336)	$(78,787)

(1) Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be material to investors in making an investment decision.

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KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
Year ended December 31, 2013
(In thousands)

	Kraton	Kraton Polymers LLC (1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss) attributable to Kraton	$(975)	$(975)	$26,217	$ 32,912	$(57,797)	$(618)
Other comprehensive income (loss):						
Foreign currency translation adjustments, net of tax of $0	—	(4)	—	(4,194)	—	(4,198)
Reclassification of loss on interest rate swap, net of tax of $0	—	837	—	—	—	837
Unrealized loss on net investment hedge, net of tax of $0	—	(189)	—	(301)	—	(490)
(Increase) decrease in benefit plans liability, net of tax of $10,065	—	—	17,112	(3)	—	17,109
Other comprehensive income (loss), net of tax	—	644	17,112	(4,498)	—	13,258
Comprehensive income (loss) attributable to Kraton	$(975)	$(331)	$43,329	$ 28,414	$(57,797)	$12,640
Comprehensive loss attributable to noncontrolling interest	$—	$—	$—	$ (722)	$—	$(722)
Consolidated comprehensive income (loss)	$(975)	$(331)	$43,329	$ 27,692	$(57,797)	$11,918

(1) Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be material to investors in making an investment decision.

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KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATING STATEMENT OF CASH FLOWS
Year ended December 31, 2015
(In thousands)

	Kraton	Kraton Polymers LLC(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$—	$(12,130)	$100,146	$15,831	$—	$103,847
Cash flows provided by (used in) investing activities:						
Proceeds from intercompany loans	—	55,590	—	—	(55,590)	—
Kraton purchase of property, plant and equipment	—	(1,723)	(38,434)	(16,908)	—	(57,065)
KFPC purchase of property, plant and equipment	—	—	—	(69,105)	—	(69,105)
Purchase of software and other intangibles	—	(2,297)	(275)	—	—	(2,572)
Net cash provided by (used in) investing activities	—	51,570	(38,709)	(86,013)	(55,590)	(128,742)
Cash flows used in financing activities:						
Proceeds from debt	—	—	30,000	—	—	30,000
Repayments of debt	—	—	(30,000)	—	—	(30,000)
KFPC proceeds from debt	—	—	—	80,094	—	80,094
Capital lease payments	—	—	(133)	—	—	(133)
Purchase of treasury stock	(31,899)	—	—	—	—	(31,899)
Cash contribution from member	—	(31,899)	—	—	31,899	—
Cash distribution to member	30,873	1,026	—	—	(31,899)	—
Proceeds from the exercise of stock options	1,026	—	—	—	—	1,026
Debt issuance costs	—	(1,957)	—	—	—	(1,957)
Payments on intercompany loans	—	—	(55,590)	—	55,590	—
Net cash provided by (used in) financing activities	—	(32,830)	(55,723)	80,094	55,590	47,131
Effect of exchange rate differences on cash	—	—	—	(6,005)	—	(6,005)
Net increase in cash and cash equivalents	—	6,610	5,714	3,907	—	16,231
Cash and cash equivalents, beginning of period	—	646	5,881	47,291	—	53,818
Cash and cash equivalents, end of period	$—	$7,256	$11,595	$51,198	$—	$70,049

(1) Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be material to investors in making an investment decision.

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KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATING STATEMENT OF CASH FLOWS
Year ended December 31, 2014
(In thousands)

	Kraton	Kraton Polymers LLC(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$—	$(8,744)	$81,969	$(43,367)	$—	$29,858
Cash flows provided by (used in) investing activities:						
Proceeds from intercompany loans	—	31,959	—	—	(31,959)	—
Kraton purchase of property, plant, and equipment	—	(1,628)	(49,210)	(15,560)	—	(66,398)
KFPC purchase of property, plant, and equipment	—	—	—	(44,277)	—	(44,277)
Purchase of software and other intangibles	—	(3,710)	—	—	—	(3,710)
Net cash provided by (used in) investing activities	—	26,621	(49,210)	(59,837)	(31,959)	(114,385)
Cash flows used in financing activities:						
Proceeds from debt	—	—	39,000	—	—	39,000
Repayments of debt	—	—	(39,000)	—	—	(39,000)
Capital lease payments	—	—	(6,007)	—	—	(6,007)
Purchase of treasury stock	(19,383)	—	—	—	—	(19,383)
Cash contribution from member	—	(18,679)	(704)	—	19,383	—
Cash distribution to member	17,935	1,448	—	—	(19,383)	—
Proceeds from the exercise of stock options	1,448	—	—	—	—	1,448
Debt issuance costs	—	—	—	(485)	—	(485)
Payments on intercompany loans	—	—	(31,959)	—	31,959	—
Net cash used in financing activities	—	(17,231)	(38,670)	(485)	31,959	(24,427)
Effect of exchange rate differences on cash	—	—	—	(13,100)	—	(13,100)
Net increase (decrease) in cash and cash equivalents	—	646	(5,911)	(116,789)	—	(122,054)
Cash and cash equivalents, beginning of period	—	—	11,792	164,080	—	175,872
Cash and cash equivalents, end of period	$—	$646	$5,881	$47,291	$—	$53,818

(1) Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be material to investors in making an investment decision.

KRATON PERFORMANCE POLYMERS, INC.
CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2013
(In thousands)

	Kraton	Kraton Polymers LLC(1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$—	$29,662	$(46,569)	$122,363	$—	$105,456
Cash flows provided by (used in) investing activities:						
Proceeds from intercompany loans	—	68,962	—	—	(68,962)	—
Kraton purchase of property, plant, and equipment	—	—	(40,048)	(29,095)	—	(69,143)
KFPC purchase of property, plant, and equipment	—	—	—	(11,937)	—	(11,937)
Purchase of software and other intangibles	—	—	(5,125)	—	—	(5,125)
Settlement of net investment hedge	—	(2,490)	—	—	—	(2,490)
Net cash provided by (used) in investing activities	—	66,472	(45,173)	(41,032)	(68,962)	(88,695)
Cash flows provided by (used in) financing activities:						
Proceeds from debt	—	—	40,000	—	—	40,000
Repayments of debt	—	(96,875)	(40,000)	—	—	(136,875)
Capital lease payments	—	—	(2,950)	—	—	(2,950)
Cash contribution from member	—	741	(741)	—	—	—
Cash distribution to member	(741)	—	741	—	—	—
Contribution from noncontrolling interest	—	—	—	41,630	—	41,630
Proceeds from the exercise of stock options	741	—	—	—	—	741
Debt issuance costs	—	—	(3,310)	(1,484)	—	(4,794)
Proceeds from (payments on) intercompany loans	—	—	28,891	(97,853)	68,962	—
Net cash provided by (used in) financing activities	—	(96,134)	22,631	(57,707)	68,962	(62,248)
Effect of exchange rate differences on cash	—	—	—	(1,807)	—	(1,807)
Net increase (decrease) in cash and cash equivalents	—	—	(69,111)	21,817	—	(47,294)
Cash and cash equivalents, beginning of period	—	—	80,903	142,263	—	223,166
Cash and cash equivalents, end of period	$—	$—	$11,792	$164,080	$—	$175,872

(1) Kraton Polymers LLC and Kraton Polymers Capital Corporation, a financing subsidiary, collectively, the Issuers, are co-issuers of the 6.75% senior notes due March 1, 2019. Kraton Polymers Capital Corporation has minimal assets and income. We do not believe that separate financial information concerning the Issuers would provide additional information that would be material to investors in making an investment decision.

18. Selected Quarterly Financial Data (Unaudited)

The following table sets forth a summary of Kraton Performance Polymers, Inc.'s quarterly financial information for each of the four quarters ended December 31, 2015 and December 31, 2014:

	First Quarter(1)	Second Quarter(2)	Third Quarter(3)	Fourth Quarter(4)	Total
	(in thousands, except per share data)				
2015					
Revenue	$261,429	$255,908	$269,012	$248,277	$1,034,626
Gross profit	46,561	47,436	67,810	66,849	228,656
Operating income (loss)	(3,631)	602	17,151	4,109	18,231
Net income (loss) attributable to Kraton	(9,456)	(5,564)	8,446	(3,961)	(10,535)
Earnings (loss) per common share					
Basic	(0.30)	(0.18)	0.27	(0.13)	(0.34)
Diluted	(0.30)	(0.18)	0.27	(0.13)	(0.34)
Weighted average common shares outstanding					
Basic	31,067	30,772	30,503	29,969	30,574
Diluted	31,067	30,772	30,849	29,969	30,574
2014					
Revenue	$311,656	$323,767	$318,971	$276,039	$1,230,433
Gross profit	57,073	72,080	63,824	44,090	237,067
Operating income (loss)	(1,851)	19,132	23,458	(10,224)	30,515
Net income (loss) attributable to Kraton	(7,909)	11,143	16,615	(17,430)	2,419
Earnings (loss) per common share					
Basic	(0.24)	0.34	0.51	(0.54)	0.07
Diluted	(0.24)	0.33	0.50	(0.54)	0.07
Weighted average common shares outstanding					
Basic	32,162	32,268	32,315	31,907	32,163
Diluted	32,162	32,777	32,600	31,907	32,483

(1) The first quarter of 2014 was negatively impacted by approximately $13.0 million of charges associated with production downtime at our Belpre, Ohio, and Berre, France, facilities and charges of approximately $9.2 million related to professional fees for the terminated combination agreement with LCY.

(2) Results for the second quarter of 2015 were negatively impacted by approximately $13.2 million of unplanned production issues and higher turnaround costs. The second quarter of 2014 included charges of approximately $3.8 million related to professional fees for the terminated combination agreement with LCY.

(3) The third quarter of 2015 included $5.0 million of transaction related costs, primarily associated with the Arizona Chemical Acquisition. The third quarter of 2014 included a $4.2 million benefit from a reduction in estimated transaction fees related to the terminated combination agreement with LCY and a $1.0 million benefit from an insurance recovery related to the first quarter 2014 production downtime at our Belpre, Ohio, facility and a $1.9 million tax benefit due to a reduction of income tax valuation allowance related to the assessment of our ability to utilize net operating losses in future periods.

(4) The fourth quarter of 2015 included $15.0 million of transaction related costs, primarily associated with the Arizona Chemical Acquisition. The fourth quarter of 2014 included $2.3 million of restructuring and other charges and $4.7 million of impairments of long lived assets. The fourth quarter of 2014 also included approximately $1.7 million benefit from insurance recoveries and reductions in estimated expenses related to the first quarter 2014 production downtime at our Belpre, Ohio, facility.

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

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19. Subsequent Events

Financing Associated with the Arizona Chemical Acquisition. In connection with the Arizona Chemical Acquisition, our previously outstanding indebtedness under the 6.75% Senior Notes and the previous Senior Secured Credit Facilities were satisfied and canceled on January 6, 2016. Following is a description of the debt instruments entered into in connection with the Arizona Chemical Acquisition. See Note 3 Acquisition of Arizona Chemical to the consolidated financial statements for a further description of the Arizona Chemical Acquisition.

Senior Secured Term Loan Facility. In January 2016, Kraton Polymers LLC entered into a senior secured term loan facility in an aggregate principal amount equal to $1,350.0 million that matures on January 6, 2022 (the "Term Loan Facility"). Subject to compliance with certain covenants and other conditions, we have the option to borrow up to $350.0 million of incremental term loans plus an additional amount subject to a senior secured net leverage ratio.

The Term Loan Facility was issued at a price of 97.000%. Borrowings under the Term Loan Facility bear interest at a rate per annum equal to an applicable margin, plus, at our option, either (a) an adjusted LIBOR rate (subject to a 1.0% floor) determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for statutory reserve requirements or (b) an alternate base rate (subject to a 2.0% floor) determined by reference to the highest of (1) the prime rate of Credit Suisse AG, (2) the federal funds effective rate plus 0.5% and (3) the one month adjusted LIBOR rate plus 1.0% per annum. In addition, we are required to pay customary agency fees. As of the date of this filing, the effective rate on the Term Loan Facility was 6.0% comprised of the 1.0% LIBOR floor plus a 5.0% applicable margin.

We are required to make scheduled quarterly payments on the Term Loan Facility of 2.5% of the original principal amount per year through the end of the last quarter of 2016 and 5.0% thereafter, with the balance expected to be due and payable in full on January 6, 2022. Voluntary prepayments on the Term Loan Facility may be made without premium or penalty other than customary "breakage" costs with respect to LIBOR loans and other than a 1.0% premium in connection with certain repricing transactions consummated within a certain period of time after the closing of the Term Loan Facility. In the event we have consolidated excess cash flow for any fiscal year, we are required to prepay an amount of borrowings under the Term Loan Facility equal to at least 50% of such cash flow by the 90th day after the end of the fiscal year. The prepayment percentage is reduced to 25% if our senior secured net leverage ratio is under 2.5:1.0 or 0% if our senior secured net leverage ratio is below 2.0:1.0.

The Term Loan Facility is a senior secured obligation that is guaranteed by Kraton Performance Polymers, Inc. and each of our domestic wholly-owned subsidiaries. The Term Loan Facility contains a number of customary affirmative and negative covenants. These covenants include a senior secured net leverage ratio which shall not exceed, as of the last day of any fiscal quarter, 4.00:1.00 through March 31, 2017, which will decrease to 3.75:1.00 through March 31, 2018, 3.50:1.00 through March 31, 2019, and 3.25:1.00 thereafter. As of the date of this filing, we were in compliance with the covenants under the Term Loan Facility.

10.5% Senior Notes due 2023. Kraton Polymers LLC and its wholly-owned financing subsidiary, Kraton Polymers Capital Corporation, issued $440.0 million aggregate principal amount of 10.5% senior notes that mature on April 15, 2023 (the "10.5% Senior Notes"). The 10.5% Senior Notes were issued at a price of 96.225% on January 6, 2016. The 10.5% Senior Notes are general unsecured, senior obligations and are unconditionally guaranteed on a senior unsecured basis by each of Kraton's wholly-owned domestic subsidiaries. We pay interest on the notes at 10.5% per annum, semi-annually in arrears on April 15 and October 15 of each year, with the first payment of interest due on October 15, 2016.

ABL Facility. In January 2016, we entered into an amended and restated asset-based revolving credit facility which provides financing of up to $250.0 million (the "ABL Facility"). The ABL Facility is primarily secured by receivables and inventory, and borrowing availability under the facility is subject to borrowing base limitations based on the level of receivables and inventory available for security. Revolver commitments under the ABL Facility consist of U.S. and Dutch revolving credit facility commitments, and the terms of the ABL Facility require the U.S. revolver commitments comprise at least 60.0% of the outstanding commitments under the facility.

The ABL Facility provides that we have the right at any time to request up to an aggregate of $100.0 million of additional commitments under this facility, provided that we satisfy additional conditions described in the credit agreement, and provided further that the U.S. revolver commitment comprises at least 60.0% of the commitments after giving effect to such increase. The ABL Facility terminates on January 6, 2021; however, we may, from time to time, request that the lenders extend the maturity of their commitments; provided that at no time shall there be more than four different maturity dates under the ABL Facility.

Obligations under the ABL Facility are unconditionally guaranteed by Kraton Performance Polymers, Inc. and each of our domestic wholly-owned subsidiaries including Arizona Chemical Holdings Corporation and its domestic wholly-owned subsidiaries (collectively, the “ABL U.S. Guarantors”). Certain foreign obligations under our ABL Facility, in addition to being guaranteed by the ABL U.S. Guarantors, will be unconditionally guaranteed by Kraton Polymers Nederland B.V., Kraton Polymers Holdings B.V., KP International C.V. and K.P. Global Holdings C.V. The ABL Facility terminates on January 6, 2021; however, we may, from time to time, request that the lenders extend the maturity of their commitments. Availability under the ABL Facility is limited to the lesser of the borrowing base and total commitments (less certain reserves).

Borrowings under the ABL Facility bear interest at a rate per annum equal to the applicable margin plus (1) a base rate determined by reference to the prime rate of Bank of America, N.A. in the jurisdiction where the currency is being funded or (2) LIBOR for loans that bear interest based on LIBOR. The initial applicable margin for borrowings under our ABL Facility is 0.5% with respect to U.S. base rate borrowings and 1.5% with respect to LIBOR or borrowings made on a European base rate. The applicable margin ranges from 0.5% to 1.0% with respect to U.S. base rate borrowings and 1.5% to 2.0% for LIBOR or borrowings made on a European base rate per annum based on the average excess availability for the prior fiscal quarter. In addition to paying interest on outstanding principal amounts under the ABL Facility, we are required to pay a commitment fee in respect of the unutilized commitments at an annual rate of 0.375%.

The ABL Facility contains a financial covenant that if either (a) excess availability is less than the greater of (i) 12.5% of our borrowing base and (ii) $31,250,000 or (b) U.S. availability is less than the greater of (i) 12.5% of our borrowing base in the United States and (ii) $18,750,000, then following such event, Kraton and its restricted subsidiaries must maintain a fixed charge coverage ratio of at least 1.0 to 1.0. The ABL Facility contains certain customary events of default, including, without limitation, a failure to make payments under the facility, cross-default and cross-judgment default, certain bankruptcy events and certain change of control events. As of the date of this filing, we were in compliance with the covenants under the ABL Facility.

As of the date of this filing, $37.0 million was drawn on the ABL Facility with a remaining available borrowing capacity of $176.9 million

Belpre Compounding Unit Asset Sale. On January 29, 2016, we sold certain assets to PolyOne Corporation(“PolyOne”) in connection with the closing of our Belpre, Ohio compounding unit (the “BCU”). These assets included intellectual property, inventory, equipment and other intangible assets. Before closing, the BCU was used to manufacture HSBC and USBC based compounds. The $72.0 million purchase price, which was paid in cash at closing, was used to pay down existing indebtedness. In connection with the sale, we entered into a seven year exclusive polymer supply agreement and a compound manufacturing agreement for a transition period of up to two years with PolyOne. Following transition of the business to PolyOne, we expect to realize fixed cost savings arising from the sale of the business. The sale and related closing of the BCU are part of our strategic initiatives designed to improve our overall cost structure. Our historical compound sales have primarily been directed into personal care, protective film, general compounds for consumer, medical & automotive applications, with the compound sales previously reported under the Specialty Polymers business line.

Evaluation of Other Subsequent Events. We have evaluated significant events and transactions that occurred after the balance sheet date and determined that there were no other events or transactions that would require recognition or disclosure in our consolidated financial statements for the period ended December 31, 2015.

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Kraton Performance Polymers, Inc.:

Under date of February 24, 2016, we reported on the consolidated balance sheets of Kraton Performance Polymers, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2015, which are included in Kraton Performance Polymers, Inc.’s annual report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule II—Valuation and Qualifying Accounts and Reserves (financial statement schedule) in Kraton Performance Polymers, Inc.’s annual report on Form 10-K. This financial statement schedule is the responsibility of Kraton Performance Polymers, Inc.’s management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP
Houston, Texas
February 24, 2016

KRATON PERFORMANCE POLYMERS, INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
For the Years Ended December 31, 2015, 2014, and 2013
(In thousands)

	Balance at Beginning of Period	Net Expenses	Write-offs	Balance at End of Period
Allowance for doubtful accounts:				
Year ended December 31, 2015	$ 245	$ 31	$ (32)	$ 244
Year ended December 31, 2014	$ 315	$ 13	$ (83)	$ 245
Year ended December 31, 2013	$ 401	$ 6	$ (92)	$ 315

	Balance at Beginning of Period	Net Expenses	Foreign Currency	Balance at End of Period
Inventory reserves:				
Year ended December 31, 2015	$ 11,028	$ 171	$ 29	$ 11,228
Year ended December 31, 2014	$ 10,476	$ 339	$ 213	$ 11,028
Year ended December 31, 2013	$ 11,179	$ (693)	$ (10)	$ 10,476

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EXHIBIT INDEX

Item 15. Exhibits
The following is a list of all exhibits filed as a part of this annual report on Form 10-K, including those incorporated by reference.

Exhibit No	Description of Exhibits
2.1	Combination Agreement by and among Kraton Performance Polymers, Inc., KPP Shelfco Limited, NY Mergerco, LLC, LCY Chemical Corp. and LCY Synthetic Rubber Corp., dated as of January 28, 2014 (incorporated by reference to Exhibit 2.1 to Kraton Performance Polymers, Inc.'s Current Report on Form 8-K filed with the SEC on January 28, 2014)
2.2	Stock Purchase Agreement, dated as of September 27, 2015, by and among AZC Holding Company LLC, Arizona Chemical Holdings Corporation and Kraton Polymers LLC (incorporated by reference to Exhibit 2.1 to Kraton's current report on Form 8-K filed with the SEC on September 30, 2015)
3.1	Certificate of Incorporation of Kraton Performance Polymers, Inc. (incorporated by reference to Exhibit 3.1 to Kraton Performance Polymers, Inc.'s Form S-3 filed with the SEC on August 25, 2015)
3.2	Bylaws of Kraton Performance Polymers, Inc. (incorporated by reference to Exhibit 3.2 to Kraton Performance Polymers, Inc.'s Form S3 filed with the SEC on August 25, 2015)
4.1	Specimen Stock Certificate of Kraton Performance Polymers, Inc.'s Common Stock, par value $0.01 per share (incorporated by reference to Exhibit 4.1 to the Kraton Performance Polymers, Inc.'s Form S-1/A filed with the SEC on December 10, 2009)
4.2	Indenture, dated as of February 11, 2011, among Kraton Polymers LLC, Kraton Polymers Capital Corporation, the Guarantors named therein and Wells Fargo Bank, National Association, as trustee, relating to the 6.75% Senior Notes due 2019 (incorporated by reference to Exhibit 4.1 to Kraton Performance Polymers, Inc.'s Current Report on Form 8-K filed with the SEC on February 15, 2011)
4.3	First Supplemental Indenture dated as of March 20, 2012, among Kraton Polymers LLC, Kraton Polymers Capital Corporation, the Guarantors named therein and Wells Fargo Bank, National Association, as trustee, relating to the 6.75% Senior Notes due 2019 (incorporated by reference to Exhibit 4.1 to Kraton Performance Polymers, Inc.'s Current Report on Form 8-K filed with the SEC on March 21, 2012)
4.4	Second Supplemental Indenture dated as of December 14, 2015, among Kraton Polymers LLC, Kraton Polymers Capital Corporation, the Guarantors named therein and Wells Fargo Bank, National Association, as trustee, relating to the 6.75% Senior Notes due 2019 (incorporated by reference to Exhibit 4.3 to Kraton Performance Polymers, Inc.'s Current Report on Form 8-K filed with the SEC on January 7, 2016)
4.5	Indenture, dated as of January 6, 2016, among Kraton Polymers LLC, Kraton Polymers Capital Corporation, the Guarantors named therein and Wells Fargo Bank, National Association, as trustee, relating to the 10.5% Senior Notes due 2023 (incorporated by reference to Exhibit 4.1 to Kraton Performance Polymers, Inc.'s Current Report on Form 8-K filed with the SEC on January 7, 2016)
10.1	Guarantee Agreement by and between Kraton Polymers LLC and Taiwan Cooperative Bank, Ltd., dated as of July 17, 2014 (incorporated by reference to Exhibit 10.1 to Kraton Performance Polymer,

	Inc.'s Quarterly Report on Form 10-Q filed with the SEC on July 31, 2014)
10.2	Credit and Guarantee Agreement, dated as of January 6, 2016, among Kraton Polymers LLC, as the Borrower, Kraton Performance Polymers, Inc., Kraton Polymers U.S. LLC, Elastomers Holdings LLC, Kraton Polymers Capital Corporation, Arizona Chemical Holdings Corporation, AZ Chem Intermediate Inc., AZ Chem US Holdings Inc., AZ Chem US Inc. and Arizona Chemical Company, LLC, as Guarantors, and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent and Collateral Agent
10.3	Pledge and Security Agreement, dated as of January 6, 2016, among Kraton Polymers LLC, Kraton Performance Polymers, Inc., Kraton Polymers U.S. LLC, Elastomers Holdings LLC, Kraton Polymers Capital Corporation, Arizona Chemical Holdings Corporation, AZ Chem Intermediate Inc., AZ Chem US Holdings Inc., AZ Chem US Inc. and Arizona Chemical Company, LLC, as Grantors, and Credit Suisse AG, Cayman Islands Branch, as Collateral Agent

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Exhibit No	Description of Exhibits
10.4	Amended and Restated Loan, Security and Guarantee Agreement, dated as of January 6, 2016, among Kraton Polymers LLC, as the Borrower, Kraton Performance Polymers, Inc., Kraton Polymers U.S. LLC, Elastomers Holdings LLC, Kraton Polymers Capital Corporation, Arizona Chemical Holdings Corporation, AZ Chem Intermediate Inc., AZ Chem US Holdings Inc., AZ Chem US Inc. and Arizona Chemical Company, LLC, as Guarantors, and Bank of America, N.A., as Administrative Agent and Collateral Agent
10.5	Purchase Agreement, dated as of January 5, 2016, by and among Kraton Polymers LLC and Kraton Polymers Capital Corporation, as Issuers, Credit Suisse Securities (USA) LLC, Nomura Securities International, Inc. and Deutsche Bank Securities Inc., as representatives of the several initial purchasers named therein, and the Guarantors named therein
10.6	Shareholder Agreement of Kraton Formosa Polymers Corporation, dated as of February 27, 2013, by and between KP Investment BV and Formosa Petrochemical Corporation (incorporated by reference to Exhibit 10.3 to Kraton Performance Polymers, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on May 2, 2013)
10.7	Ground Lease, dated as of February 27, 2013, by and between Formosa Petrochemical Corporation and Kraton Formosa Polymers Corporation (Mailiao) (incorporated by reference to Exhibit 10.4 to Kraton Performance Polymers, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on May 2, 2013)
10.8	Contribution Agreement, dated as of February 28, 2001, between Shell Oil Company and Shell Elastomers (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.44 to Amendment No. 1 to Kraton Performance Polymers, Inc.'s Annual Report on Form 10-K/A filed with the SEC on October 28, 2011)
10.9	Contribution Agreement, dated as of February 28, 2001, between Shell Internationale Research Maatschappij B.V. and Kraton Polymers Research B.V. (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.45 to Amendment No. 3 to Kraton Performance Polymers, Inc.'s Annual Report on Form 10-K/A filed with the SEC on March 8, 2012)
10.10	Amended and Restated Belpre Facility Sharing and Operating Agreement, dated as of July 1, 1999, among Infineum USA LP, Shell Oil Kraton and Shell Elastomers LLC (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.31 to Amendment No. 1 to Kraton Performance Polymers, Inc.'s Annual Report on Form 10-K/A filed with the SEC on October 28, 2011)
10.11	Amendment No. 1 to Amended and Restated Belpre Facility Sharing and Operating Agreement, dated as of January 23, 2007 (incorporated by reference to Exhibit 10.69 to the Kraton Performance Polymers, Inc.'s Form S-1 filed with the SEC on November 20, 2009)
10.12	Amendment No. 2 to Amended and Restated Belpre Facility Sharing and Operating Agreement, dated as of January 1, 2009 (incorporated by reference to Exhibit 10.70 to the Kraton Performance Polymers, Inc.'s Form S-1 filed with the SEC on November 20, 2009)

10.13	Manufacturing Facility Lease, dated as of August 24, 2000, between Shell Chimie and Kravis (Berre-Kraton D) (incorporated by reference to Exhibit 10.47 to Kraton Polymers LLC's Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.14	Manufacturing Facility Lease, dated as of August 24, 2000, between Shell Chimie and Kraton Polymers France SAS (Berre-Kraton G) (incorporated by reference to Exhibit 10.48 to Kraton Polymers LLC's Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.15	Business Lease, dated as of March 31, 2000, between Elenac GmbH and Kraton Polymers GmbH (Wesseling) (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.49 to Kraton Polymers LLC's Registration Statement on Form S-4 filed with the SEC on April 1, 2005).
10.16	Amendment to the Business Lease dated March 31, 2000 between Bassell Polyolefine GmbH (previously Elenac GmbH) and Kraton Polymers GmbH (Wesseling) (incorporated by reference to Exhibit 10.49(a) to Kraton Polymers LLC's Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
10.17*	Lease Agreement dated as of February 28, 2007 between International Paper Company and Arizona Chemical Company (Savannah)
10.18*	Oulu Land Lease Agreement dated effective as of 30 August 1996 between Enso Oy and Forchem Oy (Oulu)

Exhibit No	Description of Exhibits
10.19*	Amendment for Land Lease Contract dated 15 February 2015 between Stora Enso Oyj and Arizona Chemical Oy (Oulu)
10.20+	Kraton Polymers U.S. LLC Benefits Restoration Plan, as amended and restated effective as of January 1, 2013 (incorporated by reference to Exhibit 10.1 to Kraton Performance Polymers, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on November 1, 2012)
10.21+	Form of Letter to Participants in the Benefits Restoration Plan with respect to Death Benefit (incorporated by reference to Exhibit 10.21 to Kraton Performance Polymers, Inc.'s Annual Report on Form 10-K filed with the SEC on February 28,2013)
10.22+	Kraton Polymers U.S. LLC Pension Benefit Restoration Plan as amended and restated December 10, 2013 (incorporated by reference to Exhibit 10.24 to Kraton Performance Polymers, Inc.'s Annual Report on Form 10-K filed with the SEC on February 27, 2014)
10.23+	Polymer Holdings LLC Executive Deferred Compensation Plan dated November 30, 2009 (incorporated by reference to Exhibit 10.52 to the Kraton Performance Polymers, Inc.'s Form S-1/A filed with the SEC on December 2, 2009)
10.24+	TJ Chemical Holdings LLC 2004 Option Plan (as amended and restated November 30, 2009) (incorporated by reference to Exhibit 10.53 to the Kraton Performance Polymers, Inc.'s Form S-1/A filed with the SEC on December 2, 2009)
10.25+	Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan (as amended and restated February 16, 2012) (incorporated by reference to Exhibit 10.24 to Kraton Performance Polymers, Inc.'s Annual Report on Form 10-K filed with the SEC on February 29, 2012)
10.26+*	Form of Kraton Performance Polymers, Inc. Restricted Stock Award Agreement under the 2009 Equity Incentive Plan
10.27+*	Form of Kraton Performance Polymers, Inc. Restricted Stock Unit Award Agreement under the 2009 Equity Incentive Plan
10.28+*	Form of Kraton Performance Polymers, Inc. Restricted Stock Performance Unit Award Agreement under the 2009 Equity Incentive Plan
10.29+*	Form of Kraton Performance Polymers, Inc. Nonqualified Stock Option Award Agreement under the 2009 Equity Incentive Plan
10.30+*	Form of Kraton Performance Polymers, Inc. Cash Award Agreement
10.31+	Kraton Performance Polymers, Inc. 2013 Cash Incentive Plan (incorporated by reference to Exhibit 10.1 to Kraton Performance Polymers, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on August 1, 2012)
10.32+	First Amendment to Kraton Performance Polymers, Inc. 2013 Cash Incentive Plan (incorporated by reference to Exhibit 10.2 to Kraton Performance Polymers, Inc.'s Current Report on Form 8-K filed with the SEC on September 16, 2013)

10.33+	Summary of Terms of 2015 Kraton Performance Polymers, Inc. Cash Incentive Plan (incorporated by reference to Kraton Performance Polymers, Inc.'s Current Reports on Form 8-K filed with the SEC on February 17, 2015)
10.34+	Kraton Performance Polymers, Inc. Executive Severance Program effective as of November 1, 2011 (incorporated by reference to Exhibit 10.30 to Kraton Performance Polymers, Inc.'s Annual Report on Form 10-K filed with the SEC on February 29, 2012)
10.35+	Form of Employee Confidentiality and Non-Competition Agreement entered into by executives participating in the Executive Severance Program (incorporated by reference to Exhibit 10.31 to Kraton Performance Polymers, Inc.'s Annual Report on Form 10-K filed with the SEC on February 29, 2012)
10.36+	Amendment to Outstanding Option Grant Agreements (incorporated by reference to Exhibit 10.92 to the Kraton Performance Polymers, Inc.'s Form S-1 filed with the SEC on December 2, 2009)
10.37+	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to Kraton Performance Polymers, Inc.'s Current Report on Form 8-K filed with the SEC on December 16, 2011)
10.38+	Executive Compensation Recoupment Policy (adopted September 11, 2013) (incorporated by reference to Exhibit 10.1 to Kraton Performance Polymers, Inc.'s Current Report on Form 8-K filed with the SEC on September 16, 2013)
12.1*	Statement of Computation of Ratio of Earnings to Fixed Charges

Exhibit No	Description of Exhibits
21.1*	List of Significant Subsidiaries
23.1*	Consent of Independent Registered Public Accounting Firm
24.1*	Powers of Attorney
31.1*	Certification by CEO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by CFO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following materials from Kraton Performance Polymers, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2015 and December 31, 2014, (ii) Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013, (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2015, 2014, and 2013 (iv) Consolidated Statements of Changes in Equity for the years ended December 31, 2015, 2014 and 2013, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013, and (vi) Notes to Consolidated Financial Statements.

+ Denotes management contract or compensatory plan or arrangement.
* Filed herewith.