Kraton Performance Polymers, Inc.
Form 10-Q
April 29, 2016

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-34581

KRATON PERFORMANCE POLYMERS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-0411521 (I.R.S. Employer Identification No.)
15710 John F. Kennedy Blvd. Suite 300 Houston, TX 77032 (Address of principal executive offices, including zip code)	281-504-4700 (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act. (Check one):
Large accelerated filer: ý Accelerated filer: ¨
Non-accelerated filer: ¨ Smaller reporting company: ¨

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

Number of shares of Kraton Performance Polymers, Inc. Common Stock, $0.01 par value, outstanding as of April 26, 2016: 30,839,941.

Index to Quarterly Report
on Form 10-Q for
Quarter Ended March 31, 2016

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Some of the statements in this Quarterly Report on Form 10-Q under the headings “Condensed Consolidated Financial Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written or oral forward-looking statements in our periodic reports on Forms 10-K, 10-Q and 8-K, in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements are often characterized by the use of words such as “outlook,” “believes,” “estimates,” “expects,” “projects,” “may,” “intends,” “plans” or “anticipates,” or by discussions of strategy, plans o intentions; anticipated benefits of or performance of our products; beliefs regarding opportunities for new, differentiated applications and other innovations; adequacy of cash flows to fund our working capital requirements; our investment in the joint venture with Formosa Petrochemical Corporation (“FPCC”); our expectations regarding indebtedness to be incurred by our joint venture with FPCC; expected synergies and cost savings associated with the acquisition of Arizona Chemical Holdings Corporation (now known as AZ Chem Holdings LP, “Arizona Chemical”); debt payments, interest payments, benefit plan contributions, and income tax obligations; our anticipated 2016 capital expenditures, health, safety and environmental and infrastructure and maintenance projects, projects to optimize the production capabilities of our manufacturing assets and to support our innovation platform; our ability to fully access our senior secured credit facilities; expectations regarding our counterparties’ ability to perform, including with respect to trade receivables; estimates regarding the tax expense of repatriating certain cash and short-term investments related to foreign operations; expectations regarding differentiated applications; our ability to realize certain deferred tax assets and our beliefs with respect to tax positions; expectations regarding our full year effective tax rate; estimates related to the useful lives of certain assets for tax purposes; expectations regarding our pension contributions for fiscal year 2016; estimates or expectations related to monomer costs, ending inventory levels and related estimated charges; the outcome and financial impact of legal proceedings; expectations regarding the spread between FIFO and ECRC in future periods; the estimates and matters described under the caption “Item 2. Management's Discussion and Analysis—Results of Operations—Outlook” and projections regarding environmental costs and capital expenditures and related operational savings. Such forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or our achievements, or industry results, to differ materially from historical results, any future results, or performance or achievements expressed or implied by such forward-looking statements. There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Further description of these risks and uncertainties and other important factors are set forth in this report, in our latest Annual Report on Form 10-K, including but not limited to “Part I, Item 1A. Risk Factors” and “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” therein, and in our other filings with the Securities and Exchange Commission, and include, but are not limited to, risks related to:

- failure to successfully integrate Arizona Chemical in the expected time frame, which may adversely affect our future results, including the realization of anticipated cost synergies and the incurrence of additional and/or unexpected costs in order to realize them;
- failure to successfully achieve the expected synergies or significant delays in achieving such expected synergies in connection with the Arizona Chemical Acquisition;
- our substantial indebtedness, which could adversely affect our financial condition and prevent us from fulfilling our obligations under our current and future indebtedness;
- we may incur additional indebtedness or we may pay dividends in the future, which could further exacerbate the risks associated with our substantial financial leverage;
- our current and future debt instruments may impose significant operating and financial restrictions on us and affect our ability to access liquidity;
- to service our indebtedness, we will require a significant amount of cash;
- our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly;
- conditions in the global economy and capital markets;

- the failure of our raw materials suppliers to perform their obligations under long-term supply agreements, or our inability to replace or renew these agreements when they expire;
- limitations in the availability of raw materials we need to produce our products in the amounts or at the prices necessary for us to effectively and profitably operate our business;
- the promotion of the use of energy from renewable resources and similar legislation in the United States and elsewhere may incentivize the use of CTO as a feedstock for production of alternative fuels, reducing the availability of CTO in the amounts or prices necessary for our business;

- significant fluctuations in raw material costs may result in volatility in our quarterly operating results and impact the market price of our common stock;
- our reliance on LyondellBasell Industries for the provision of significant operating and other services;
- competition from other producers of styrenic block copolymers and from producers of products that can be substituted for our products;
- our ability to produce and commercialize technological innovations;
- our ability to protect our intellectual property, on which our business is substantially dependent;
- the possibility that our products infringe upon the intellectual property rights of others;
- a major failure of our information systems, which could harm our business;
- seasonality in our business may affect our quarterly operating results;
- the inherently hazardous nature of chemical manufacturing;
- product liability claims and other lawsuits arising from environmental damage, personal injuries, other damages associated with chemical manufacturing or our products;
- political, economic and local business risks in the various countries in which we operate;
- health, safety and environmental laws, including laws that govern our employees' exposure to chemicals deemed harmful to humans;
- regulation of our company or our customers, which could affect the demand for our products or result in increased compliance and other costs;
- customs, international trade, export control, antitrust, zoning and occupancy and labor and employment laws that could require us to modify our current business practices and incur increased costs;
- fluctuations in currency exchange rates;
- we may have additional tax liabilities;
- our formation of a joint venture to expand hydrogenated styrenic block copolymers capacity in Asia;
- our relationship with our employees;
- loss of key personnel or our inability to attract and retain new qualified personnel;
- the fact that we generally do not enter into long-term contracts with our customers;
- a decrease in the fair value of our pension assets could require us to materially increase future funding requirements of the pension plan;
- domestic or international natural disasters or terrorist attacks may disrupt our operations;
- Delaware law and some provisions of our organizational documents that make a takeover of our company more difficult;
- our expectation that we will not pay dividends for the foreseeable future; and
- we are a holding company with nominal net worth and will depend on dividends and distributions from our subsidiaries to pay any dividends.

There may be other factors of which we are currently unaware or that we deem immaterial that may cause our actual results to differ materially from the expectations we express in our forward-looking statements. Although we believe the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and, therefore, also the forward-looking statements based on these assumptions could themselves prove to be inaccurate. Forward-looking statements are based on current plans, estimates, assumptions and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them publicly in light of new information or future events.

Presentation of Financial Statements

The terms “Kraton,” “our company,” “we,” “our,” “ours” and “us” as used in this report refer collectively to Kraton Performan Polymers, Inc. (“KPPI”) and its consolidated subsidiaries. Furthermore, these references relate to the combined company including both the legacy Kraton and legacy Arizona Chemical businesses.

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

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

We have reviewed the accompanying condensed consolidated balance sheet of Kraton Performance Polymers, Inc. and subsidiaries (the Company) as of March 31, 2016, and the related condensed consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the three-month periods ended March 31, 2016 and 2015. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2015, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the year then ended (not presented herein); and in our report dated February 24, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2015 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP
Houston, Texas
April 28, 2016

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

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

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$78,378	$70,049
Receivables, net of allowances of $849 and $244	206,210	105,089
Inventories of products	347,257	264,107
Inventories of materials and supplies	17,876	12,138
Other current assets	66,077	29,956
Total current assets	715,798	481,339
Property, plant, and equipment, less accumulated depreciation of $391,918 and $382,157	878,949	517,673
Goodwill	740,150	—
Intangible assets, less accumulated amortization of $111,196 and $100,093	480,895	41,602
Investment in unconsolidated joint venture	11,724	11,628
Debt issuance costs	4,292	1,337
Deferred income taxes	7,999	3,867
Litigation receivable	95,293	—
Other long-term assets	25,134	21,789
Total assets	$2,960,234	$1,079,235
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$143	$141
Accounts payable-trade	125,048	59,337
Other payables and accruals	101,878	91,011
Due to related party	16,268	14,101
Total current liabilities	243,337	164,590
Long-term debt, net of current portion	1,750,883	415,591
Deferred income taxes	219,948	9,070
Litigation payable	95,864	—
Other long-term liabilities	143,314	96,992
Total liabilities	2,453,346	686,243
Commitments and contingencies (note 11)		
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; 30,840 shares issued and outstanding at March 31, 2016; 30,569 shares issued and outstanding at December 31, 2015	308	306
Additional paid in capital	352,167	349,871
Retained earnings	235,218	147,131
Accumulated other comprehensive loss	(115,261)	(138,568)

Total Kraton stockholders' equity	472,432	358,740
Noncontrolling interest	34,456	34,252
Total equity	506,888	392,992
Total liabilities and equity	$ 2,960,234	$ 1,079,235

See Notes to Condensed Consolidated Financial Statements

KRATON PERFORMANCE POLYMERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three months ended March 31,	
	2016	2015
Revenue	$419,923	$261,429
Cost of goods sold	326,105	214,868
Gross profit	93,818	46,561
Operating expenses:		
Research and development	10,576	7,947
Selling, general, and administrative	49,862	26,949
Depreciation and amortization	30,154	15,296
Total operating income (loss)	3,226	(3,631)
Gain on sale of assets	45,251	—
Loss on extinguishment of debt	(13,423)	—
Earnings of unconsolidated joint venture	78	76
Interest expense, net	(33,838)	(6,120)
Income (loss) before income taxes	1,294	(9,675)
Income tax benefit (expense)	86,251	(66)
Consolidated net income (loss)	87,545	(9,741)
Net loss attributable to noncontrolling interest	542	285
Net income (loss) attributable to Kraton	$88,087	$(9,456)
Earnings (loss) per common share:		
Basic	$2.87	$(0.30)
Diluted	$2.84	$(0.30)
Weighted average common shares outstanding:		
Basic	30,026	31,067
Diluted	30,289	31,067

See Notes to Condensed Consolidated Financial Statements

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

	Three months ended March 31,	
	2016	2015
Net income (loss) attributable to Kraton	$88,087	$(9,456)
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax of $0	25,567	(33,084)
Unrealized loss on cash flow hedges, net of tax benefit of $1,000	(2,260)	—
Other comprehensive income (loss), net of tax	23,307	(33,084)
Comprehensive income (loss) attributable to Kraton	111,394	(42,540)
Comprehensive income attributable to noncontrolling interest	204	93
Consolidated comprehensive income (loss)	$111,598	$(42,447)

See Notes to Condensed Consolidated Financial Statements

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

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Kraton Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2014	$ 318	$361,342	$168,041	$ (99,218)	$ 430,483	$ 37,668	$468,151
Net loss	—	—	(9,456)	—	(9,456)	(285)	(9,741)
Other comprehensive income (loss)	—	—	—	(33,084)	(33,084)	378	(32,706)
Retired treasury stock from employee tax withholdings	—	(548)	—	—	(548)	—	(548)
Retired treasury stock from share repurchases	(7)	(8,937)	(3,937)	—	(12,881)	—	(12,881)
Exercise of stock options	—	181	—	—	181	—	181
Non-cash compensation related to equity awards	3	2,606	—	—	2,609	—	2,609
Balance at March 31, 2015	$ 314	$354,644	$154,648	$ (132,302)	$ 377,304	$ 37,761	$415,065
Balance at December 31, 2015	$ 306	$349,871	$147,131	$ (138,568)	$ 358,740	$ 34,252	$392,992
Net income (loss)	—	—	88,087	—	88,087	(542)	87,545
Other comprehensive income	—	—	—	23,307	23,307	746	24,053
Retired treasury stock from employee tax withholdings	(1)	(953)	—	—	(954)	—	(954)
Exercise of stock options	—	169	—	—	169	—	169
Non-cash compensation related to equity awards	3	3,080	—	—	3,083	—	3,083
Balance at March 31, 2016	$ 308	$352,167	$235,218	$ (115,261)	$ 472,432	$ 34,456	$506,888

See Notes to Condensed Consolidated Financial Statements

10

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

	Three months ended March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income (loss)	$87,545	$(9,741)
Adjustments to reconcile consolidated net income (loss) to net cash used in operating activities:		
Depreciation and amortization	30,154	15,296
Amortization of debt premium and original issue discount	1,655	(42)
Amortization of debt issuance costs	1,959	551
Loss on disposal of property, plant, and equipment	82	17
Gain on sale of assets	(45,251)	—
Loss on extinguishment of debt	13,423	—
Earnings from unconsolidated joint venture, net of dividends received	369	287
Deferred income tax benefit	(2,643)	(2,254)
Release of valuation allowance	(86,631)	—
Share-based compensation	3,083	2,609
Decrease (increase) in:		
Accounts receivable	(15,551)	(20,464)
Inventories of products, materials, and supplies	26,478	35,361
Other assets	(10,393)	177
Increase (decrease) in:		
Accounts payable-trade	(10,272)	(16,958)
Other payables and accruals	(27,952)	(7,091)
Other long-term liabilities	6,176	(1,688)
Due to related party	1,154	(2,557)
Net cash used in operating activities	(26,615)	(6,497)
CASH FLOWS FROM INVESTING ACTIVITIES		
Kraton purchase of property, plant, and equipment	(18,502)	(14,725)
KFPC purchase of property, plant, and equipment	(8,325)	(15,968)
Purchase of software and other intangibles	(352)	(541)
Acquisition, net of cash acquired	(1,317,252)	—
Sale of assets	72,000	—
Net cash used in investing activities	(1,272,431)	(31,234)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt	1,782,965	25,000
Repayments of debt	(430,133)	(5,000)
KFPC proceeds from debt	12,100	19,977
Capital lease payments	(35)	(32)
Purchase of treasury stock	(954)	(13,429)
Proceeds from the exercise of stock options	169	181
Settlement of interest rate swap	(5,155)	—
Debt issuance costs	(57,116)	—
Net cash provided by financing activities	1,301,841	26,697
Effect of exchange rate differences on cash	5,534	(2,993)

Net increase (decrease) in cash and cash equivalents	8,329	(14,027)
Cash and cash equivalents, beginning of period	70,049	53,818
Cash and cash equivalents, end of period	$78,378	$39,791
Supplemental disclosures:		
Cash paid during the period for income taxes, net of refunds received	$3,792	$1,963
Cash paid during the period for interest, net of capitalized interest	$19,690	$11,183
Capitalized interest	$797	$1,016
Supplemental non-cash disclosures:		
Property, plant, and equipment accruals	$15,121	$3,410
Asset acquired through capital lease	$—	$681

See Notes to Condensed Consolidated Financial Statements

KRATON PERFORMANCE POLYMERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

Description of our Business. We are a leading global specialty chemicals company that manufactures styrenic block copolymers (“SBCs”) and other engineered polymers. Effective with the January 6, 2016 acquisition of Arizona Chemical (the “Arizona Chemical Acquisition”), we are now also a leading global producer of value-added specialty products primarily derived from pine wood pulping co-products. The operating results of Arizona Chemical have been included in these financial statements since January 6, 2016, the date of the Arizona Chemical Acquisition.

SBCs are highly-engineered synthetic elastomers, which we invented and commercialized over 50 years ago. We developed the first unhydrogenated styrenic block copolymers (“USBC”) in 1964 and the first hydrogenated styrenic block copolymers (“HSBC”) 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, and paving and roofing products. We also sell isoprene rubber (“IR”) and isoprene rubber latex (“IRL”) which are non-SBC products primarily used in applications such as medical products, personal care, adhesives, tackifiers, paints, and coatings.

Following the Arizona Chemical Acquisition, we also refine and further upgrade two primary feedstocks, crude tall oil (“CTO”) and crude sulfate turpentine (“CST”), into value-added specialty chemicals. Our pine-based specialty products are sold into adhesive, road and construction, and tire markets, and we produce and sell 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.

References in this document to “Kraton,” “our company,” “we,” “our,” “ours” and “us” as used in this report refer collectively Kraton Performance Polymers, Inc. and its consolidated subsidiaries. Furthermore, these references relate to the combined company including both the legacy Kraton and legacy Arizona Chemical businesses, except for historical financial information prior to the January 6, 2016 Arizona Chemical Acquisition.

Basis of Presentation. The accompanying unaudited Condensed 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. These interim financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly our results of operations and financial position.

Amounts reported in our Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods or any other interim period, in particular due to the effect of seasonal changes and weather conditions that typically affect our sales into paving, roadmarkings, roofing and construction applications. In particular, sales volumes into these applications generally rise in the warmer months and generally decline during the colder months, or during abnormally wet seasons.

Significant Accounting Policies. Our significant accounting policies have been disclosed in Note 1 Description of Business, Basis of Presentation, and Significant Accounting Policies in our most recent Annual Report on Form 10-K. In connection with the Arizona Chemical Acquisition, we updated our accounting policies as follows.

Goodwill and Other Intangible Assets. We record goodwill when the purchase price of an acquired business exceeds the fair value of the net identifiable assets acquired. Goodwill and intangible assets are allocated to the reporting unit level based on the estimated fair value at the date of the Arizona Chemical Acquisition.

Goodwill and other indefinite-lived intangible assets are tested for impairment at the reporting unit level annually or more frequently as deemed necessary. Our annual measurement date for testing impairment is October 1st. The impairment test includes a comparison of the carrying value of net assets of our reporting units, including goodwill,

with their estimated fair values. If the carrying value exceeds the estimated fair value, an impairment charge is recognized in the period in which the review is performed.
There have been no other changes to the accounting policies as disclosed in our most recent Annual Report on Form 10-K. The accompanying unaudited Condensed Consolidated Financial Statements we present in this report have been prepared in accordance with our policies.

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

Significant items subject to such estimates and assumptions include

- the useful lives of long-lived assets;
- estimates of fair value for assets acquired and liabilities assumed in purchase business combinations;
- 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 ("ARO"), income tax uncertainties and other contingencies.

Income Tax in Interim Periods. We conduct operations in separate legal entities in different jurisdictions. As a result, income tax amounts are reflected in these Condensed Consolidated Financial Statements for each of those jurisdictions. Tax laws and tax rates vary substantially in these jurisdictions and are subject to change based on the political and economic climate in those countries. We file our tax returns in accordance with our interpretations of each jurisdiction's tax laws. We record our tax provision or benefit on an interim basis using the estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated to the interim period.

Losses from jurisdictions for which no benefit can be realized and the income tax effects of unusual and infrequent items are excluded from the estimated annual effective tax rate. Valuation allowances are provided against the future tax benefits that arise from the losses in jurisdictions for which no benefit can be realized. The effects of unusual and infrequent items are recognized in the impacted interim period as discrete items.

The estimated annual effective tax rate may be significantly affected by nondeductible expenses and by our projected earnings mix by tax jurisdiction. Adjustments to the estimated annual effective income tax rate are recognized in the period during which such estimates are revised.

We have established valuation allowances against a variety of deferred tax assets, including net operating loss carryforwards, foreign tax credits and other income tax credits. Valuation allowances take into consideration our expected ability to realize these deferred tax assets and reduce the value of such assets to the amount that is deemed more likely than not to be recoverable. Our ability to realize these deferred tax assets is dependent on achieving our forecast of future taxable operating income over an extended period of time. We review our forecast in relation to actual results and expected trends on a quarterly basis. If we fail to achieve our operating income targets, we may change our assessment regarding the recoverability of our net deferred tax assets and such change could result in a valuation allowance being recorded against some or all of our net deferred tax assets. A change in our valuation allowance would impact our income tax benefit (expense) and our stockholders' equity and could have a significant impact on our results of operations or financial condition in future periods.

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 affect our financial statements.

New Accounting Standards

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. generally accepted accounting principles ("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 adopted this standard in the first quarter of 2016 and there was no 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 adopted this standard in the first quarter of 2016. As a result of retrospective application, the adoption of this standard resulted in reductions of approximately $1.3 million, $12.1 million, and $13.5 million of other current assets, debt issuance costs, and long-term debt, respectively, as of December 31, 2015. Furthermore, we had a material change in debt issuance costs in association with the financing for the Arizona Chemical Acquisition in the first quarter of 2016. See Note 8 Long Term Debt for further information about debt issuance costs as of March 31, 2016.

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 adopted this standard in the first quarter of 2016 and will consider the impact of such guidance on our recording of the Arizona Chemical Acquisition. See Note 3 Acquisition of Arizona Chemical for further information about the measurement period for this acquisition.

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 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 d