

WILLIS LEASE FINANCE CORP
Form DEF 14A
April 29, 2009

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Willis Lease Finance Corporation

(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
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 - (1) Title of each class of securities to which transaction applies:
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WILLIS LEASE FINANCE CORPORATION

NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS

and

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF

PROXY MATERIALS FOR THE STOCKHOLDER MEETING

To Be Held on May 21, 2009

To our Stockholders:

You are cordially invited to attend the 2009 Annual Meeting of Stockholders of WILLIS LEASE FINANCE CORPORATION, which will be held at our executive offices, 773 San Marin Drive, Suite 2215, Novato, California, 94998 at 2:00 p.m. local time on Thursday May 21, 2009. Directions to attend the Annual Meeting where you may vote in person can be found on our website: www.willislease.com (see "Investor"). Additionally, in accordance with new Securities and Exchange Commission rules, you are receiving this notice that **the proxy statement and annual report to stockholders are available at: <http://materials.proxyvote.com/970646>**. No control or identification number is necessary to access these proxy materials online in PDF format:

Notice of the 2009 Annual Meeting of Stockholders;

The Company's 2009 Proxy Statement; and

The Company's Annual Report to Stockholders for the year ended December 31, 2008.

In addition to any other business that may properly come before the meeting or any adjournment or postponement thereof, the following proposal is to be voted on at the Annual Meeting:

To elect two Class II Directors to serve until the 2012 Annual Meeting of Stockholders: Gérard Laviec and Austin C. Willis. The Board of Directors recommends that you vote FOR this proposal.

The Board of Directors has fixed the close of business on March 24, 2009 as the record date for determining those stockholders who will be entitled to notice of and to vote at the meeting. The stock transfer books will not be closed between the record date and the date of the meeting. A quorum comprising the holders of the majority of the outstanding shares of our common stock on the record date must be present or represented for the transaction of business at the 2009 Annual Meeting of Stockholders. Accordingly, it is important that your shares be represented at the meeting. **WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE AS PROMPTLY AS POSSIBLE**, to ensure that your shares will be voted at the 2009 Annual Meeting of Stockholders. You may revoke your proxy at any time prior to the time it is voted.

The proxy material is being mailed to you on or about April 30, 2009. Please read the proxy material carefully. Your vote is important, and we appreciate your cooperation in considering and acting on the matters presented.

By Order of the Board of
Directors,

Charles F. Willis, IV
Chairman of the Board

April 30, 2009

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WILLIS LEASE FINANCE CORPORATION

PROXY STATEMENT

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**You should read the entire proxy
statement carefully prior to returning your proxy**

**PROXY STATEMENT
FOR
2009 ANNUAL MEETING OF STOCKHOLDERS
OF
WILLIS LEASE FINANCE CORPORATION
To Be Held on May 21, 2009**

SOLICITATION AND VOTING OF PROXIES

General

This proxy statement is furnished in connection with the solicitation by the Board of Directors (also referred to as the "Board") of WILLIS LEASE FINANCE CORPORATION ("we," "us," "our," "Willis Lease" or the "Company") of proxies to be voted at the 2009 Annual Meeting of Stockholders, which will be held at 2:00 p.m. local time on Thursday, May 21, 2009 at our executive offices, located at 773 San Marin Drive, Suite 2215, Novato, California 94998, or at any adjournments or postponements thereof, for the purposes set forth in the accompanying Notice of 2009 Annual Meeting of Stockholders.

This proxy statement is being mailed to stockholders on or about April 30, 2009. Our 2008 Annual Report is being mailed to stockholders concurrently with this proxy statement. You should not regard the 2008 Annual Report as proxy soliciting material or as a communication by means of which any solicitation of proxies is to be made.

Voting

The close of business on March 24, 2009 is the record date for determining whether you in your capacity as a stockholder are entitled to notice of and to vote at the 2009 Annual Meeting of Stockholders. As of that date, we had 9,068,166 shares of common stock, \$0.01 par value, issued and outstanding. All of the shares of our common stock outstanding on the record date are entitled to vote at the 2009 Annual Meeting of Stockholders. If you are entitled to vote at the meeting, you will have one vote for each share of common stock you hold with regard to each matter to be voted upon.

The required quorum for the meeting is a majority of the outstanding shares of common stock eligible to be voted on the matters to be considered at the meeting. In the election for directors (Proposal 1), the nominees for Class II Directors receiving the highest number of affirmative votes will be elected.

Shares of our common stock represented by proxies which are properly executed and returned to us on the accompanying proxy card will be voted at the 2009 Annual Meeting of Stockholders in accordance with the instructions you mark on the proxy card. If you do not mark any instructions on the proxy card, your shares represented by the proxy card will be voted for the election of the Board's nominees as Class II Directors.

If a properly signed proxy or ballot indicates that you abstain from voting or that your shares are not to be voted on a particular proposal, your shares will not be counted as having been voted on that proposal, although your shares will be counted as being in attendance at the meeting for purposes of determining the presence of a quorum. Broker non-votes (*i.e.*, shares held by brokers or nominees as to which instructions have not been received from beneficial owners or persons entitled to vote that the

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broker or nominee does not have discretionary power to vote on a particular matter) are counted towards a quorum, but are not counted for any purpose in determining whether a matter has been approved by a majority of the shares represented in person or by proxy and entitled to vote.

Our management does not know of any matters to be presented at the 2009 Annual Meeting of Stockholders other than those set forth in this proxy statement and in the Notice accompanying this proxy statement. If other matters should properly come before the meeting, the proxy holders will vote on such matters in accordance with their best judgment.

Revocability of Proxies

If you give a proxy in the form accompanying this proxy statement, you have the right to revoke it at any time before it is voted at the meeting. You may revoke your proxy by:

filing an instrument of revocation with our Corporate Secretary;

presenting at or prior to the meeting of a duly executed proxy bearing a later date; or

attending the meeting and electing to vote in person.

Solicitation

This solicitation is made by our Board of Directors on our behalf. The entire cost of preparing, assembling and mailing the Notice of 2009 Annual Meeting of Stockholders, this proxy statement and the enclosed proxy card, and of soliciting proxies, will be paid by us. Proxies will be solicited principally through the use of the mails, but we may solicit proxies personally or by telephone, electronic mail or special letter by our officers and our regular employees for no additional compensation. We have retained American Stock Transfer & Trust and Broadridge to aid in the solicitation at an estimated cost to us of approximately \$11,000 plus out-of-pocket expenses.

**INFORMATION ABOUT THE BOARD OF DIRECTORS
AND THE COMMITTEES OF THE BOARD**

Board of Directors

Our Bylaws authorize us to have six Directors. At the present time, the Board consists of six Directors who are divided into three classes: Class I (two Directors), Class II (two Directors) and Class III (two Directors). One class is elected each year for a three-year term. Gérard Laviec, W. William Coon, Jr., Hans Joerg Hunziker, and Robert T. Morris are independent directors, as defined in the Nasdaq listing standard.

Our business, property and affairs are managed under the direction of the Board. Directors are kept informed of our business through discussions with our President and Chief Executive Officer and our other officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees. The Board held a total of four meetings during the fiscal year ended December 31, 2008. Each incumbent director attended at least 75% of the aggregate of: (i) the total number of meetings of the Board; and (ii) the total number of meetings held by all Committees of the Board on which he served.

Communications with the Board

You may communicate with the Board of Directors by sending a letter to: Board of Directors, Willis Lease Finance Corporation, c/o Office of the Corporate Secretary, 773 San Marin Drive, Suite 2215, Novato, California 94998. Our Office of the Corporate Secretary will receive your correspondence and forward it to the Board of Directors or to any individual director or directors to whom your communication is directed, unless the communication is unduly hostile, threatening, illegal,

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does not reasonably relate to us or our business, or is similarly inappropriate. The Office of the Corporate Secretary has the authority to discard any inappropriate communications or to take other appropriate actions with respect to any such inappropriate communications.

Attendance at the Annual Meeting of Stockholders

Mr. Willis attended the 2008 Annual Meeting of Stockholders; our other directors did not attend. We have no policy requiring Board members to attend our annual meeting.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation Committee, both currently comprised solely of independent directors, as defined by the Nasdaq listing standard.

The Board does not have a nominating committee or committee performing the functions of such a committee. The Board has determined that the function of a nominating committee is adequately fulfilled by the independent directors. It has not established such a committee and therefore has no nominating committee charter. The full Board of Directors participates in the consideration of any director nominee.

Although we have not formally set any specific minimum qualifications that director nominees must possess, we look for candidates with the appropriate experience in aviation and leasing, a strong professional background, and a general understanding of marketing, finance and other disciplines related to the success of a company in our industry. Our directors are generally nominated by our management or other directors, and each nominee is evaluated based on the above qualifications and in the context of the Board as a whole. While we do not normally engage professional search firms or other third parties in connection with our Board nomination process, we may do so in the future.

Since we do not have a history of stockholder nominations of directors, we do not have a formal policy regarding stockholder nominees to the Board. Under our Bylaws, stockholders wishing to nominate a candidate for director must give notice to our Corporate Secretary no later than the close of business on the 90th day prior to the first anniversary of our preceding year's annual meeting. If the annual meeting is more than 30 days before or 60 days after such anniversary date, the notice must be delivered no later than the 90th day prior to such annual meeting or the 10th day following the day on which we publicly announce the annual meeting date. The notice should set forth: (i) the name, age, business address and residence address of the nominee; (ii) the principal occupation or employment of the nominee; (iii) the class and number of our shares beneficially owned by the nominee; (iv) a description of all arrangements or understandings between the stockholder and the nominee and any other person(s) pursuant to which the nomination is made by the stockholder; and (v) any other information relating to the nominee that is required to be disclosed in proxy statements for the election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934. Nominees proposed by stockholders will be evaluated in the same manner as those proposed by management or existing directors.

The Audit Committee oversees our accounting function, internal controls and financial reporting process on behalf of the Board. The Nasdaq's listing rules require that our Audit Committee be composed of at least three independent directors. The Audit Committee meets with our financial management and our independent auditors to review our financial statements and filings, the audit and matters arising from them, and financial reporting procedures, including any significant judgments made in preparation of the financial statements. The Audit Committee currently consists of Directors Robert T. Morris (Chairman), Hans Joerg Hunziker, Gérard Laviec and W. William Coon, Jr. All members of the audit committee are able to read and understand financial statements. Mr. Morris also qualifies as an audit committee financial expert, as defined by the SEC, and is financially sophisticated as required by the Nasdaq listing standards. The Committee held four meetings during the 2008 fiscal

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year. On December 16, 2008 the Board reviewed and approved the Audit Committee Charter meeting the requirements of the Securities and Exchange Commission and the Nasdaq. The Audit Committee's charter is available on the Company's web site (www.willislease.com).

The Compensation Committee reviews and approves our compensation arrangements for executive officers and administers the 2007 Stock Incentive Plan. The Compensation Committee currently consists of Directors Gérard Laviec (Chairman), W. William Coon, Jr., Robert T. Morris and Hans Joerg Hunziker. This Committee held three meetings during the 2008 fiscal year. For additional details, see "Compensation of Executive Officers Compensation Discussion and Analysis" elsewhere in this proxy statement.

Director Compensation

For details regarding director compensation, see "Compensation of Executive Officers Compensation Discussion and Analysis Director Compensation" elsewhere in this proxy statement.

Biographical Information

	Director Since	Age*
Class I Directors Whose Terms Expire at the 2011 Annual Meeting:		
Robert T. Morris	2006	60
W. William Coon, Jr.	2003	69
Class II Directors Whose Terms Expire at the 2009 Annual Meeting:		
Austin C. Willis	2008	28
Gérard Laviec	2002	69
Class III Directors Whose Term Expires at the 2010 Annual Meeting:		
Charles F. Willis, IV	1985	60
Hans Joerg Hunziker	2006	59

*

Age as of March 24, 2009.

Principal Occupations of Nominees and Continuing Directors

Charles F. Willis, IV is the founder of Willis Lease, has served as Chief Executive Officer, President and a Director since our incorporation in 1985, and has served as Chairman of the Board of Directors since 1996. Mr. Willis has over 40 years of experience in the aviation industry. From 1975 to 1985, Mr. Willis served as president of Willis Lease's predecessor, Charles F. Willis Company, which purchased, financed and sold a variety of large commercial transport aircraft and provided consulting services to the aviation industry. During 1974, Mr. Willis operated a small business not involved in the aviation industry. From 1972 through 1973, Mr. Willis was Assistant Vice President of Sales at Seaboard World Airlines, a freight carrier. From 1965 through 1972, he held various positions at Alaska Airlines, including positions in the flight operations, sales and marketing departments.

Hans Joerg Hunziker previously served as one of our Directors from November 2000 until July 1, 2003. He was elected a Class II Director at the 2006 Annual Meeting. Mr. Hunziker currently serves as the CEO of Hunziker Lease & Finance, a company he founded in Zug, Switzerland in 2002 which offers independent business consulting services to the aviation industry. From 1998 to 2002, he was the President and Chief Executive Officer of Flightlease AG Ltd., a public company involved in aircraft leasing as a subsidiary of SAirGroup whose headquarters are in Zurich, Switzerland. From 1998 to 2001, he was also co-CEO of GATX Flightlease Management GmbH, an asset management and commercial aircraft leasing company. From 1996 to 1998, he was the Chief Financial Officer of SAirServices Ltd., a group of companies including aircraft maintenance and overhaul, ground handling

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services, information technology and real estate, and Managing Director of SAirServices Invest Ltd. From 1991 to 1996, he was Chief Financial Officer of Swissair Associated Companies Ltd., a group of 150 companies, primarily in the hotel, catering (Gate Gourmet) and trading business. Mr. Hunziker holds a Masters Degree in Economics and Business Administration from the University of Zurich. He also received the equivalent of a doctoral degree from the University of Zurich, after successful completion of his thesis on Strategic Planning in the Airline Industry. In addition to previously serving as a director of Willis Lease Finance, he was Chairman of the Board of Flightlease Holdings (Guernsey) Limited (and a director of several of its subsidiaries in Guernsey and Bermuda), as well as Chairman of the Board of Flightlease (Netherlands) B.V., SRTechnics Group AG, SRTechnics Switzerland AG, Swisscargo AG and SAirServices Invest AG. He was also a member of the Board of Directors of FlightTechnics LLC, Delaware, Swissport Brazil Ltd., Polygon Insurance Company Ltd. and Gotland Shipping AG.

G rard Laviec joined our Board of Directors in February 2002. In 2001, Mr. Laviec retired from his position as President and Chief Executive Officer of CFM International, a partnership between General Electric Company and SNECMA and a supplier of engines for commercial jets. Mr. Laviec joined the CFM-56 Program in 1976 in its incipient phase. From 1983 to 1995, he served as General Manager in product support engineering, business operations, sales and marketing, and was named President and Chief Executive Officer of CFM International in 1995. Mr. Laviec also served as the Chairman of the Board of Shannon Engine Support, a wholly-owned CFM International subsidiary in Ireland, from 1995 until 2001. Mr. Laviec is a graduate of INSA Lyon, France with a degree in Mechanical Engineering. He served in the French Air Force as a Flight Officer in Search and Rescue teams prior to joining SNECMA. He is a Knight for the French National Order of Merit.

W. William Coon, Jr. spent 34 years at GE Aircraft Engines ("GEAE"), a division of General Electric Company (NYSE:GE), where he served in numerous management positions. Prior to retiring from GEAE in 2000, Mr. Coon was General Manager for Small Commercial Aircraft Services. From 1984 to 1998 he served as Director of Product Support, where he was responsible for supplying global services to the company's regional airline customers. Mr. Coon holds a Bachelor of Science Degree in Aeronautical Engineering from the University of Michigan and a Masters in Business Administration from Xavier University.

Robert T. Morris is currently President of Robert Morris & Company. He joined Union Bank of California Leasing in 2004 to establish an innovative equipment leasing group, and served as its President through March 2007. Prior to joining Union Bank of California Leasing, he was a consultant to more than 25 commercial banks for their equipment leasing operations over a 12 year period. He has also worked for Bank of San Francisco, Bank of Montreal and GATX Leasing Corporation. Mr. Morris holds a Masters Degree from the American Graduate School of International Management and a Bachelor of Arts Degree from the University of Denver with majors in Economics, Political Science and History.

Austin C. Willis was elected to the Board in December 2008. At the time of his election the number of directors was increased from five to six. Mr. Willis was elected to be a Class II director in order to stand for reelection at this Annual Meeting. Mr. Willis is the founder of and has, since 2004, served as the president of JT Power LLC, a privately held company engaged in the business of selling commercial jet turbine engine parts and leasing commercial aircraft. Mr. Willis has, since 2006, also owned and served as Chief Executive Officer of Aviation Management LLC, an aviation consulting firm. Mr. Willis holds a bachelors degree from the London School of Economics and Political Science where he studied finance and industrial relations. He is the son of Charles F. Willis, IV.

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**PROPOSAL 1
ELECTION OF TWO CLASS II DIRECTORS**

Our Board is divided into three classes, each class having a three-year term that expires in successive years. At the 2009 Annual Meeting of Stockholders, two Directors will be elected in Class II, to serve a three-year term expiring at the 2012 Annual Meeting of Stockholders or until succeeded by another qualified director who has been duly elected.

The nominees for Director in Class II are Gérard Laviec and Austin C. Willis.

The proxy holders intend to vote all proxies received by them for the foregoing nominees, unless instructions to the contrary are marked on the proxy. In the event that any nominee is unable or declines to serve as a Director at the time of the 2009 Annual Meeting of Stockholders, the proxies will be voted for any nominee who shall be designated by the present Board to fill the vacancy. As of the date of this proxy statement, the Board is not aware of any nominee who is unable or will decline to serve as a director.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ELECTION OF THE NOMINEES AS CLASS II DIRECTORS.

EXECUTIVE OFFICERS OF WILLIS LEASE FINANCE CORPORATION

Our executive officers are as follows (1):

Name	Age*	Positions and Offices
Charles F. Willis, IV**	60	President and Chief Executive Officer
Bradley S. Forsyth	43	Senior Vice President and Chief Financial Officer
Donald A. Nunemaker	61	Executive Vice President, General Manager Leasing
Thomas C. Nord	68	Senior Vice President, General Counsel and Secretary
Judith M. Webber	58	Senior Vice President, Technical Services

* Age as of March 24, 2009.

** See business experience background under "Principal Occupation of Nominees and Continuing Directors."

(1) Lee G. Beaumont, previously Executive Vice President and Chief Operating Officer, left the Company's employ in November 2008.

Bradley S. Forsyth joined us in January 2007, bringing more than 14 years of experience in the finance and aviation industries. Mr. Forsyth is responsible for the capital markets, finance, treasury, accounting, risk management and systems functions of the Company. Prior to joining Willis Lease, he served as Standard Aero's Vice President of Finance, providing financial management support to nine business units with \$800 million in annual sales. Formerly he was with PriceWaterhouse (now PricewaterhouseCoopers) practicing in their audit and tax departments. He is a Chartered Accountant and graduated from the University of Manitoba with a Bachelor of Commerce Degree.

Donald A. Nunemaker has been with us since July 1997 and currently serves as our Executive Vice President and General Manager Leasing. Prior to his appointment as General Manager Leasing, he served as Chief Operating Officer until September of 2006, and prior to that as Chief Administrative Officer until March 2001. Mr. Nunemaker also served on our Board of Directors from June to November 2000. Mr. Nunemaker is responsible for managing our day-to-day operation and has been extensively involved in the equipment leasing industry since 1973. From 1995 to 1996, Mr. Nunemaker was President and CEO of LeasePartners, Inc., a leasing company based in Burlingame, California, which was acquired in 1996 by Newcourt Credit Group. From 1990 to 1994, Mr. Nunemaker was Executive Vice President of Concord Asset Management, Inc., an aircraft and computer leasing

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subsidiary of Concord Leasing, Inc., which was owned by the HSBC Group. Before joining Concord in 1990, Mr. Nunemaker was President and CEO of Banc One Leasing Corporation of New Jersey. Prior to that he spent thirteen years with Chase Manhattan Leasing Company in a variety of senior line and staff positions. Mr. Nunemaker has a Masters in Business Administration Degree from Indiana University.

Thomas C. Nord has served as our Senior Vice President and General Counsel since July 2003. Mr. Nord is responsible for managing our legal affairs. From May 1977 to March 2003, he was an attorney with GATX Financial Corporation, a specialized finance and leasing company ("GATX") located in San Francisco, California. During most of his career at GATX, from January 1981 until March 2003, he was their Managing Director, General Counsel and Secretary. From February 1974 until May 1977, Mr. Nord was Counsel to Irving Trust Company in New York, New York. From June 1969 to February 1974 Mr. Nord was associated with the New York City law firm of Seward & Kissel. Mr. Nord holds a Juris Doctor Degree from the University of North Carolina.

Judith M. Webber, our Senior Vice President, Technical Services, has been with us since 1996. Before joining us, she was Powerplant Technical Services Manager at Hawaiian Airlines for 9 years. Ms. Webber also worked in the Canadian high arctic and northern Canada for a number of years and served for 2 years as an Airworthiness Inspector for Transport Canada. She started her aviation career by serving in the Royal Air Force as an Aircraft Propulsion Technician for 8.5 years. Ms. Webber has more than 40 years experience in aircraft and engine maintenance. She holds an FAA Airframe and Powerplant license and previously held both Transport Canada and British CAA Aircraft Maintenance Engineer licenses.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of March 24, 2009 by: (i) each person who is known to us to own beneficially more than five percent of the outstanding shares of our common stock; (ii) each Director; (iii) each officer listed in the Summary Compensation Table; and (iv) all Directors and Executive Officers as a group. Unless specified below, the mailing address for each individual, officer or director is c/o Willis Lease Finance Corporation, 773 San Marin Drive, Suite 2215, Novato, CA 94998.

Name and Address of Beneficial Owner	Common stock(1)	
	Number of Shares	Percentage of Class
Charles F. Willis, IV	3,498,302(2)	36.31%
Donald A. Nunemaker	393,674(3)	4.19%
Thomas C. Nord	128,440(4)	1.41%
Bradley S. Forsyth	97,795(5)	1.08%
Austin C. Willis	80,718(2)	*
Judith M. Webber	79,842(6)	*
G�rard Laviec	35,313(7)	*
W. William Coon, Jr	13,232	*
Robert T. Morris	13,232	*
Hans Joerg Hunziker	10,732(8)	*
All Directors and Executive Officers as a group (10 persons)	4,351,280	45.55%
Lee G. Beaumont	36,006(9)	*
Sy Jacobs	1,164,495(10)	12.84%
Wells Fargo & Company	964,421(11)	10.64%
Dimensional Fund Advisors Inc.	669,305(12)	7.38%

*
Less than one percent of our outstanding common stock.

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- (1) Except as indicated in the footnotes to this table, the stockholders named in the table are known to us to have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable. The number of shares beneficially owned includes common stock of which such individual has the right to acquire beneficial ownership either currently or within 60 days after March 24, 2009, including, but not limited to, upon the exercise of an option.
- (2) Includes 2,420,635 shares held by CFW Partners, L.P., a California limited partnership, of which Charles F. Willis, IV, holds a one percent (1%) interest as sole general partner and an eighty percent (80%) interest as a limited partner. A trust for the benefit of Austin C. Willis holds the remaining nineteen percent (19%) interest as a limited partner. Also includes (i) 1,411 shares held in a joint tenancy account with a family member of Mr. Willis who does not live in the same household; (ii) 1,411 shares held under an account in the name of Charles F. Willis, V for which Mr. Willis is the custodian; and, (iii) 832,665 shares held by Mr. Willis in his individual capacity, which includes 565,760 options to purchase shares at a weighted average exercise price of \$6.71.
- (3) Includes 321,150 options to purchase shares at a weighted average exercise price of \$7.18 per share.
- (4) Includes 46,500 options to purchase shares at a weighted average exercise price of \$6.54 per share. Mr. Nord also owns 2,500 Series A preferred shares which he purchased on February 7, 2006 at \$10.00 per share.
- (5) Mr. Forsyth also owns 300 Series A preferred shares which he purchased on June 5, 2008 at \$10.25 per share.
- (6) Includes 46,250 options to purchase shares at a weighted average exercise price of \$7.46 per share.
- (7) Includes 27,081 options to purchase shares at a weighted average exercise price of \$6.42 per share.
- (8) Includes 2,500 options to purchase shares at a weighted average exercise price of \$8.70 per share.
- (9) Mr. Beaumont left the Company's employ in November 2008.
- (10) Based on a Form 4 filing by Sy Jacobs with the Securities and Exchange Commission on February 25, 2009. Includes 682,868 shares held by JAM Partners, L.P., 446,527 shares held by JAM Special Opportunities Fund, L.P., and 35,100 shares held by Sy Jacobs. The mailing address of all three is One Fifth Avenue, New York, NY 10003.
- (11) Based on Schedule 13G filed by Wells Fargo & Company with the Securities and Exchange Commission on January 20, 2009. Wells Fargo & Company's mailing address is 525 Montgomery Street, San Francisco, CA 94105.
- (12) Based on Schedule 13G filed by Dimensional Fund Advisors Inc. with the Securities and Exchange Commission on February 9, 2009. Dimensional Fund Advisors LP mailing address is Palisades West, Building One, 6300 Bee Cave Rd., Austin, TX 78746.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our Directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and our other equity securities. Directors, executive officers and holders of more than ten percent of our common stock are required by Securities and Exchange Commission regulation to furnish us with copies of all Section 16(a) reports they file.

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Based solely upon review of the copies of such reports furnished to us and written representations from our officers and Directors, we believe that during the fiscal year ended December 31, 2008, our Directors, executive officers and holders of more than ten percent of our common stock complied with all applicable Section 16(a) filing requirements.

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COMPENSATION OF EXECUTIVE OFFICERS

COMPENSATION DISCUSSION & ANALYSIS

This Compensation discussion and analysis describes the material elements of our compensation program for named executive officers. The Compensation Committee of the Board of Directors (the "Committee") oversees the design and administration of our executive compensation programs. The Committee is comprised of four independent directors: Gérard Laviec (Chair), W. William Coon, Jr., Hans Joerg Hunziker and Robert T. Morris. The Committee meets formally twice per year, and more often if needed. Each meeting includes an executive session, with no member of management present. The Committee's charter is available on the Company's web site (www.willislease.com).

The Committee retains compensation consultants from time to time to evaluate executive compensation levels and advise on specific programs; the consultants report directly to the Committee. For the past two years, the Committee has retained Smith Consulting to advise on various compensation issues. Smith Consulting has no other contract or business relationship with Willis Lease.

None of our executive officers currently serves on the Committee. None of our executive officers is, or was during 2008, serving as a director of or member of the compensation committee of another entity, one of whose executive officers serves, or served, as a director of or on our Committee.

Compensation Philosophy and Objectives

The objectives of our compensation programs are to attract and retain high performing executives, to provide a substantial link between the company's performance and executive pay, and to provide shareholders with a superior rate of return.

It is difficult to make direct comparisons with our competitor's pay practices – most of the Company's direct competitors are business units within much larger corporations such as General Electric, United Technologies and Bank of Tokyo Mitsubishi – therefore, the Committee makes its decisions based primarily on its understanding of compensation practices in the aviation services and leasing markets, generally and for companies of comparable size. This information comes through executive recruiting and compensation surveys including, "Watson Wyatt Data Services Top Management Compensation Report." Comparisons included financial institutions with comparable assets and all industry data for companies with comparable sales volume. These surveys allow the Committee, with the aid of Smith Consulting, to consider the compensation practices of comparably sized companies.

Our intention is to provide total compensation opportunity targeted at the 75th percentile of prevailing market compensation, and to pay that level of compensation only when the Company's financial goals are achieved or exceeded.

Governance of Compensation Programs

Our CEO, in conjunction with human resources, develops recommended annual salaries, incentive targets and long-term incentive compensation for the named executive officers. Using the published survey and comparator group information described above under "Compensation Philosophy and Objectives," and based on competitive market information provided by the Committee's outside consultant, the Committee approves the annual salaries, incentive targets and long-term incentive compensation for the named executive officers.

In 2006 and early 2007, with the advice of Smith Consulting, the Committee approved the terms of employment contracts negotiated with Messrs. Beaumont and Forsyth as being consistent with current market for their respective positions. The Committee also approved increases in Messrs. Willis' and Nord's base salaries. In Mr. Willis' case the increase represents the Committee's assessment of his

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performance and input from its consultant. In Mr. Nord's case the Committee considered Mr. Willis' recommendation and input from its consultant and increased his compensation over a two-year period because it believed that it was out of step with the market. Effective January 1, 2008 the Committee increased Mr. Willis' and Mr. Forsyth's base salary. On December 16, 2008 the Committee approved a revised Employment Agreement for Mr. Willis which superseded his previous agreement entered into in 2000.

Elements of Compensation

Components of the total executive compensation package include:

Base Salary: Each officer's base salary is set on the basis of the Committee's assessment of salary levels in effect for comparable positions in the labor market, the officer's personal performance, and internal comparability considerations. The weight given these factors may vary from individual to individual. Base salaries are reviewed annually, and adjustments are made in accordance with the factors described above.

Annual Incentive Compensation: The Committee has established an annual incentive program designed to reward both the achievement of specific financial goals and individual performance. Executives participate in a company-wide bonus plan with each employee participant having an individual target bonus based on a percentage of base salary. The bonus plan rewards the achievement of a financial goal set by the Board on an annual basis. A "bonus pool" is determined in the annual budgeting process which will be funded if we achieve the financial goal.

In 2008 the bonus plan provided for a bonus pool based on the achievement of a return on common equity goal established by the Board. If the pre-established goal is achieved the bonus pool will be fully funded and all employees, including the executives, will receive essentially 100% of their target bonuses which range from 100% (in the case of the CEO) to 50% of base salary. If return on common equity is less than the pre-established goal the bonus pool is correspondingly reduced. If net income is less than 80% of this goal the bonus pool is eliminated and no bonuses are paid. Similarly, if the results exceed the goal, 20% of the profits in excess of the goal is added to the bonus pool to be distributed to all employees participating in the Company-wide plan.

Long-term Incentive Compensation: To reward executives for the long term growth in the value of the Company's shares, the Committee also makes annual long-term incentive grants.

Prior to June 2006, stock options (non-qualified and incentive stock options) were the primary form of long-term incentives for our executives. Because the 1996 Stock Option Plan expired in June 2006, no option grants were made after that date. The stockholders approved the 2007 Incentive Stock Plan ("2007 Plan") at the 2007 Annual Meeting of Stockholders. Under the 2007 Plan, these awards may take the form of stock options, restricted stock, stock appreciation rights, or long-term cash incentives. The intent is to model awards under this program to provide potential gains that are competitive with those offered in comparable companies. The current expectation is that restricted stock awards will be the primary form of long term incentives for our executives.

Employee Stock Purchase Plan: With the exception of the CEO, whose ownership level precludes his participation under IRS regulations, our named executive officers, as well as all other eligible employees, may purchase Company shares at a discount under the Employee Stock Purchase Plan.

Under the 1996 Employee Stock Purchase Plan (the "Purchase Plan") 175,000 shares of common stock have been reserved for issuance. Participants may purchase not more than 1,000 shares or \$25,000 of common stock in any one calendar year. Each January 31 and July 31, shares of common stock are purchased with the employees' payroll deductions from the immediately preceding six months at a price per share of 85% of the lesser of the market price of the common stock on the purchase date or the

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market price of the common stock on the date of entry into an offering period. The weighted average per share fair value of the employee's purchase rights under the Purchase Plan for the rights granted in 2008 was \$2.77.

Executive Stock Ownership

While the Company promotes share ownership by its executives, and encourages them to acquire shares through the Employee Stock Purchase Plan (in which all eligible executives participate) and long-term stock incentives in the form of restricted stock and stock options, there are currently no specific guidelines for executive stock ownership.

Deferred Compensation

We maintained a Deferred Compensation Plan through September 19, 2007. That Plan permitted participating executives to defer payment of up to 80% of their base salaries and/or part or all of their bonuses. Mr. Willis was the only executive who elected to participate in the Deferred Compensation Plan. In 2006 he terminated his participation and in early 2007 withdrew the balance of his previous deferred compensation. As a result he has no accumulated deferrals. Because of the lack of utilization of the plan, it was terminated by the Board on September 19, 2007.

Severance Payments

As described in detail below, employment contracts for Messrs. Willis, Forsyth, Nunemaker and Nord specify certain severance benefits to be paid in the event of an involuntary termination or termination after a change of control. Consistent with our compensation philosophy, the Committee believes that the interests of stockholders are best served if the interests of senior management are aligned with those of the stockholders. To this end, we provide enhanced change of control severance benefits to certain of our executive officers to reduce any reluctance of the executive officers to pursue or support potential change in control transactions that would be beneficial to our stockholders. The agreement to pay such severance resulted from negotiations of employment terms with our named executive officers. For further details, please refer to the section "Termination and Change in Control Payments" elsewhere in this proxy statement.

The following table sets forth certain information with respect to the compensation of our Chief Executive Officer, Chief Financial Officer, the three most highly compensated executive officers other than the CEO and CFO and one individual for whom information would have been provided but for the fact that he was not serving as an executive officer at the end of the year, based on total compensation for their services with us in all capacities.

Table of Contents**SUMMARY COMPENSATION TABLE**

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Awards (\$)(1) (e)	Option Grants (\$) (f)	Non-Equity Incentive Plan Compensation (\$)(3) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (h)	All Other Compensation (\$)(4) (i)	Total (\$) (j)
Charles F. Willis, IV PRES., CEO	2006	618,125				584,391		38,011(5)	1,240,527
	2007	650,000		88,559		920,527	200,379	53,486(5)	1,912,951
	2008	682,500		565,000		1,275,475		113,439(5)	2,636,414
Bradley S. Forsyth									
SVP, CFO	2006								
	2007	230,000		20,891		245,435		57,966(6)	554,292
	2008	260,000		147,733	45,200(2)	291,537		8,002	752,472
Donald A. Nunemaker									
EVP, GM-Leasing	2006	297,275				238,894		19,423	555,592
	2007	297,275		13,511		210,500		24,287(5)	545,573
	2008	297,275		100,788		277,778		21,991(5)	697,832
Thomas C. Nord									
SVP, GC, Sec.	2006	237,040				113,914		12,850	363,804
	2007	265,000		26,341		187,646		13,527	492,514
	2008	290,000		158,487		270,980		14,164	733,631
Judith M. Webber									
SVP, Technical Svcs.	2006	168,050				47,664		9,810	225,524
	2007	173,537		7,632		88,729		10,972	280,870
	2008	190,000		50,054		106,523		10,972	357,549
Lee G. Beaumont									
EVP, COO	2006	182,474				150,580		35,284(7)	368,338
	2007	360,000		27,340	241,500(2)	433,355		27,762(5)	1,089,957
	2008	297,050		76,320				775,543(5)(8)	1,148,913

- (1) The amounts in this column represent the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with SFAS 123(R). These amounts may reflect options and awards granted in years prior to 2008.
- (2) Payment under Stock Appreciation Right.
- (3) Reflects cash bonuses paid to our named executive officers pursuant to the annual incentive program. For a description of the program, see "Compensation of Executive Officers Compensation Discussion & Analysis Elements of Compensation Annual Incentive Compensation" elsewhere in this proxy statement.
- (4) Unless otherwise noted, amounts shown represent the following payments made on behalf of the officers: a 401(k) matching contribution, life insurance premium, and perquisites (if applicable).
- (5) As part of an employment agreement executed in 2008, Mr. Willis is provided a company car, three club memberships to facilitate his role as a Company representative in the community, and financial, tax and estate planning services with a maximum value of \$30,000 per year. The amount of perquisites for Mr. Willis,

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Mr. Nunemaker and Mr. Beaumont are included because the aggregate amount, in each case, exceeds \$10,000. The perquisites are valued as follows:

		Financial Planning	Perquisites Company Car	Club Memberships
Charles F. Willis, IV	2006	\$ 15,000	\$ 3,239	\$ 6,840
	2007	15,000	17,886	7,254
	2008	30,000	11,458	7,093
Donald A. Nunemaker	2006			
	2007		12,079	
	2008		9,783	
Lee G. Beaumont	2006			
	2007		18,452	
	2008		12,305	

- (6) Includes relocation reimbursement in the amount of \$50,000 to assist with relocation to the Company's headquarters.
- (7) Includes relocation reimbursement in the amount of \$35,000 to assist with relocation to the Company's headquarters.
- (8) Includes \$754,000 under Mr. Beaumont's Employment Agreement for severance and payment in lieu of notice.

The following table sets forth certain information with respect to the grant of non-equity incentive plan awards under our Annual Incentive Program. As described above, we did not grant any equity awards in 2006.

**GRANTS OF PLAN-BASED AWARDS
For Fiscal Years Ended 2006, 2007 and 2008**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)		Estimated Future Payouts Under Equity Incentive Plan Awards		All Other Stock Awards: Number of Shares or Units	All Other Option Awards Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
		Threshold	Target	Maximum	Threshold				
(a)	(b)	(\$)	(\$)	(\$)	(#)	(#)	(#)	(\$/Sh)	(\$)(2)
		(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Charles F. Willis, IV PRES., CEO	2006		618,125						
	2007		650,000					91,848	88,559
	2008		682,500					192,670	565,000
Bradley S. Forsyth SVP, CFO	2006								
	2007		138,000					21,667	20,891
	2008		156,000					63,645	147,733
Donald A. Nunemaker EVP, GM-Leasing	2006		252,684						
	2007		148,637					14,013	13,511
	2008		148,638					51,697	100,788
Thomas C. Nord SVP, GC, SEC.	2006		118,520						
	2007		132,500					27,319	26,341

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	2008	145,000	53,923	158,487
Judith M. Webber	2006	50,415		
SVP, Technical	2007	52,061	7,915	7,632
Svcs.	2008	57,000	23,838	50,054
Lee G. Beaumont	2006	156,800		
EVP, COO	2007	297,500	28,355	27,340
	2008			76,320

- (1) Reflects awards from the 2006, 2007 and 2008 annual incentive programs.
- (2) The amounts in this column represent the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with SFAS 123(R).

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The following table sets forth certain information with respect to the outstanding equity awards held by the named executive officers at the end of 2008.

OUTSTANDING EQUITY AWARDS AT FISCAL 2008 YEAR-END

Name (a)	Option Awards					Stock Awards		Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (j)
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) (c)(1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (d)	Option Exercise Price(\$) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)(2)	Market Value or Units of Stock That Have Not Vested(\$) (h)	
Charles F. Willis, IV PRES, CEO	44,250	14,750		9.20	8/5/2015			
	127,954			5.01	3/3/2013			
	36,614			4.68	5/8/2012			
	150,000			5.40	10/12/2011			
	140,000			10.00	2/27/2011			
	66,942			5.50	10/13/2010	261,556	\$2,424,624	
	565,760	14,750		6.71		261,556		

Bradley S. Forsyth

79,895 \$
each person
or group
who is
known by
us to own
beneficially
more than
5% of our
outstanding
shares of
common
stock;

SVP, CFO

each of our named executive officers;

each of our directors and each director nominee; and

all of our executive officers, directors and director nominees as a group.

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (2)	Percent of Class
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Five-Percent Stockholders:

BlackRock, Inc. (3)	3,697,804(4)	11.03%
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40 East 52nd Street

New York, New York 10022

Fine Capital Partners, L.P. (5)	3,009,187(6)	8.98%
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590 Madison Avenue, 27th Floor

New York, New York 10022

The Vanguard Group, Inc. (7)	1,988,883(8)	5.93%
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100 Vanguard Boulevard

Malvern, Pennsylvania 19355

GMT Capital Corp. (9)	1,792,103(10)	5.35%
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2300 Windy Ridge Parkway, Suite 550 South

Atlanta, Georgia 30339

Frontier Capital Management Co., LLC	1,747,073(11)	5.21%
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99 Summer Street

Boston, Massachusetts 02110

Directors and Named Executive Officers:

Richard C. Brown	30,087	*
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Anna C. Catalano	8,834	*
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Steven J. Demetriou	26,937	*
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Kevin M. Fogarty	521,976	1.56%
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Dominique Fournier	7,591	*
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Lothar P. F. Freund	93,245	*
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John J. Gallagher III	18,651	*
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Barry J. Goldstein	30,087	*
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Holger R. Jung	54,080	*
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Francis S. Kalman	8,651	*
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G. Scott Lee	55,400	*
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Dan F. Smith	57,243	*
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Stephen E. Tremblay	117,117	*
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Karen A. Twitchell	13,436	*
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All Directors and Executive Officers as a Group	1,187,264	3.54%
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- * Represents beneficial ownership of less than 1%.
- (1) Unless otherwise provided in the table, the address for the beneficial owners is 15710 John F. Kennedy Boulevard, Suite 300 Houston, Texas 77032.
 - (2) Shares shown in the table above include shares held in the beneficial owner's name or jointly with others, or in the name of a bank, nominee or trustee for the beneficial owner's account. The totals in this column include the following shares, beneficial ownership of which the officer or director has the right to acquire within 60 days of the Record Date: Mr. Brown 16,651; Mr. Demetriou 7,400; Mr. Fogarty 379,978; Dr. Freund 75,455; Mr. Goldstein 16,651; Dr. Jung 35,230; Mr. Lee 40,705; Mr. Smith 14,801; and Mr. Tremblay 83,144.
 - (3) According to a Schedule 13G/A filed with the SEC on January 10, 2014, the subsidiaries of BlackRock, Inc. that acquired the shares are BlackRock (Luxembourg) S.A., BlackRock Advisors (UK) Limited, BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., BlackRock International Limited, BlackRock Asset Management (Australia) Limited, BlackRock Investment Management (UK) Limited, and BlackRock Investment Management, LLC.
 - (4) This share information was obtained from a Schedule 13G/A filed with the SEC on January 10, 2014.
 - (5) According to a Schedule 13G filed with the SEC on February 14, 2014, Fine Capital Partners, L.P., Fine Capital Advisors, LLC and Debra Fine share voting and dispositive power over the shares reported.
 - (6) This share information was obtained from a Schedule 13G filed with the SEC on February 14, 2014.
 - (7) According to a Schedule 13G/A filed with the SEC on February 11, 2014, Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 50,325 shares of the Common Stock outstanding of the company as a result of its serving as investment manager of collective trust accounts. Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 2,300 shares of the Common Stock outstanding of the company as a result of its serving as investment manager of Australian investment offerings.
 - (8) This share information was obtained from a Schedule 13G/A filed with the SEC on February 11, 2014.
 - (9) According to a Schedule 13G/A filed with the SEC on February 18, 2014, GMT Capital Corp. (GMT Capital), the general partner of Bay Resource Partners, L.P. (Bay) and Bay II Resource Partners, L.P. (Bay II), has the power to direct the affairs of Bay and Bay II, including the voting and disposition of shares. As the discretionary investment manager of Bay Resource Partners Offshore Master Fund, L.P. (Offshore Fund) and certain other accounts, GMT Capital has power to direct the voting and disposition of shares held by the Offshore Fund and such accounts. Thomas E. Claugus is the President of GMT Capital and in that capacity directs the operations of each of Bay and Bay II and the voting and disposition of shares held by the Offshore Fund and separate client accounts managed by GMT Capital.
 - (10) This share information was obtained from a Schedule 13-G/A filed with the SEC on February 18, 2014.
 - (11) This share information was obtained from a Schedule 13G filed with the SEC on February 14, 2014.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

We do not directly employ our executive officers. The executives who run our company are employed by our principal operating subsidiary, Kraton Polymers LLC, and, therefore, the disclosure in this section relates to those executives. References to our compensation policies in this proxy statement refer to the joint policies and practices of us and Kraton Polymers LLC, and references to our Compensation Committee refers to both the Compensation Committees of our company and Kraton Polymers LLC. Executive officers named in the Summary Compensation Table below are referred to in this proxy statement as our named executive officers. This section includes information and analysis related to the compensation arrangements of our named executive officers.

Named Executive Officers.

Our named executive officers for 2013 were:

Kevin M. Fogarty, President and Chief Executive Officer;

Stephen E. Tremblay, Vice President and Chief Financial Officer;

Holger R. Jung, Vice President Sales and Marketing

Lothar P. F. Freund, Vice President Technology; and

G. Scott Lee, Vice President Operations.

Executive Summary

2013 Operating Results. Despite a difficult macroeconomic environment and a declining raw material pricing environment, Kraton demonstrated some meaningful operating and innovation successes in 2013. We demonstrated solid growth in our Cariflex® business, expanding into additional end-uses beyond the surgical glove market. In addition, highly-modified asphalt and oilfield applications continued to grow, and we saw some success from our continued focus on additional low molecular weight polymers. We made considerable progress with our joint venture partner, Formosa Petrochemical Company, including groundbreaking, on our new plant in Taiwan, and we reached mechanical completion in the construction of our semi-works facility to progress our innovation platforms. In addition, considerable work in 2013 ultimately resulted in our entry into the Combination Agreement with LCY Chemical Corp. (LCY), and the other parties named in the agreement, on January 28, 2014 (the Combination Agreement), pursuant to which we have agreed to combine with LCY's styrenic block copolymer business (the LCY Combination). We currently expect to close the transactions in the fourth quarter of 2014. For more information on the LCY Combination, see *Recent Developments* above.

Key operating results for 2013 were as follows:

Sales volume was 313.5 kilotons in 2013, unchanged from 313.4 kilotons in 2012.

Sales revenue was \$1,292.1 million for 2013, down 9.2% compared to \$1,423.1 million in 2012. Excluding the effects of foreign currency, revenue decreased 8.6%.

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Adjusted EBITDA at ECRC was \$140.9 million in 2013, compared to \$143.8 million in 2012.

Adjusted EBITDA was \$110.2 million in 2013 compared to \$113.3 million in 2012.

Net loss attributable to Kraton for 2013 of \$0.6 million or \$0.02 per diluted share, compared to net loss of \$16.2 million or \$0.50 per diluted share in 2012.

Cash provided by operating activities for 2013 was \$105.5 million, compared to \$146.3 million in 2012.

For a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC, please refer to *Compensation Discussion and Analysis* *Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC*.

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Elements of Compensation Paid in 2013. Material elements of compensation paid to our named executive officers in 2013 consisted of:

Element of Compensation	Performance-Based?	Variable?	Purpose
Base Salary	No	No	Attract and retain high quality executives to drive our success
Annual Cash Incentive Compensation	Yes	Yes	Motivate and reward our executives to lead their organizations to achieve key annual business objectives and, for 2013, individual goals
Long-Term Equity Incentive Compensation Nonqualified Stock Options	Yes	Yes	Drive our performance Align interests of executives with those of stockholders Support our growth strategy and the achievement of long-term performance goals Encourage stock ownership by executives
Long-Term Equity Incentive Compensation Restricted Stock Awards	No	Yes	Attract, motivate and retain executive talent Drive our performance Align interests of executives with those of stockholders Support our growth strategy and the achievement of long-term performance goals Encourage stock ownership by executives

Long-Term Equity Incentive Compensation Restricted Stock Performance Units	Yes	Yes	Attract, motivate and retain executive talent Drive our performance
			Align interests of executives with those of stockholders
			Support our growth strategy and the achievement of long-term performance goals
			Encourage stock ownership by executives
			Attract, motivate and retain executive talent

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Element of Compensation	Performance-Based?	Variable?	Purpose
Other Compensation (principally contributions to the Kraton Savings Plan, contributions to the Benefits Restoration Plan, premiums for Supplemental Disability Insurance and, for Dr. Freund, certain perquisites)	No	No	Attract and retain executive talent Provide market-competitive benefits and tax deferred methods for general savings, including for retirement

All elements of compensation are reviewed against those of our stated peer group, through the market review of total direct compensation and of each discrete element of total direct compensation (base salary, cash incentive compensation, and long-term equity incentives).

Significant Proportion of Total Compensation Paid in Variable Compensation. Total direct compensation for 2013 to our CEO and to our other named *executive* officers, excluding our CEO, as a group, reflected our Compensation Committee's belief that a significant portion of total compensation should be in the form of variable compensation, the value of which increases or decreases based on the performance of our company and/or our common stock, taking into account both short-term business performance and long-term share performance. In 2013,

total variable compensation paid to our CEO, which was comprised of long-term equity incentive compensation (in the form of restricted stock performance units, stock options, and restricted stock) and cash incentive compensation (in the form of payments under the Kraton Performance Polymers, Inc. 2013 Cash Incentive Plan), accounted for approximately 75% of his total direct compensation, an increase of 5% compared to 2012; and

aggregate total variable compensation paid to our other named executive officers, excluding our CEO, as a group accounted for approximately 55% of their aggregate total direct compensation, unchanged compared to 2012.

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Total Direct Compensation for CEO and Named Executive Officers Increased in 2013. Total direct compensation is determined in consideration of our need to motivate, attract, and retain our key leaders. Our pay-for-performance philosophy is designed to align executive compensation with the creation of long-term stockholder value, particularly through long-term equity incentive compensation, while encouraging commitment and focus for the achievement of annual objectives. For our CEO and for our other named executive officers, excluding our CEO, as a group, total compensation increased year-over-year in 2013, primarily as a result of an increase in long-term incentive compensation. The Compensation Committee reviewed the amount of long-term incentive equity compensation in the overall mix of total direct compensation and believed that increasing total direct compensation through increased long-term equity incentive compensation was consistent with the committee's overall compensation philosophy by increasing the degree to which total direct compensation is performance-based and through improved retention of our CEO and other named executive officers. In 2013, just over 62% of our CEO's total direct compensation, and almost 42% of the total direct compensation of our other named executive officers, excluding our CEO, as a group, was in the form of long-term equity incentive compensation, with two-thirds of such equity compensation comprised of performance-based compensation (non-qualified stock options and restricted stock performance units, which were introduced as an element of executive compensation in 2013). In 2013, our annual cash incentive financial metrics resulted in cash incentive compensation below target for our named executive officers.

Aggregate total direct compensation paid to our CEO and to our other named executive officers, excluding our CEO, as a group, increased approximately 34% and 11%, respectively, in comparison to 2012. In each case, the increase was primarily due to an increase in long-term equity incentive compensation compared to 2012 as a result of our Compensation Committee's annual review of peer data for named executive officer compensation. Further, in the case of our other named executive officers, excluding our CEO, as a group, a substantial portion of the year-over-year increase was due to the inclusion of Mr. Lee, who participates in our defined benefit plan, as a named executive officer in 2013. The 2013 increase in Mr. Lee's pension value is included in aggregate compensation for our other named executive officers, excluding our CEO, as a group, for 2013, but was not included in 2012 when Mr. Lee was not a named executive officer. This change represents approximately 3% of the aggregate increase (or 26% of the total) in compensation to our other named executive officers, excluding our CEO, as a group. Excluding Mr. Lee's pension gain for 2013, the aggregate total direct compensation to our other named executive officers, excluding our CEO, as a group, would have increased approximately 8%.

Decreased Levels of Cash Incentive Compensation. The Compensation Committee emphasizes pay-for-performance in determining annual compensation for our named executive officers. Our Compensation Committee believes that the individual performances of our named executive officers in 2013 generally met expectations and that our company performed well, despite the difficult global macroeconomic conditions in which we operated in 2013. Nevertheless, some of our financial results did not meet our targets for the year, and the cash incentive compensation paid to our named executive officers, as a group, was therefore down year over year, both in the aggregate and as a percentage of base salary, as referenced above, and consistent with our pay-for-performance philosophy. For our CEO, cash incentive compensation decreased approximately 5% compared to 2012. For our other named executive officers, excluding our CEO, as a group, aggregate total cash incentive compensation decreased approximately 2% compared to 2012.

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Increased Long-term Equity Incentive Compensation. For our CEO, long-term equity incentive compensation increased in 2013 by approximately 63% as compared to 2012, and for our other named executive officers, excluding our CEO, as a group, long-term equity incentive compensation increased by approximately 16% as compared to 2012. As noted above, this increase was in connection with our Compensation Committee's annual review of compensation data from our peer companies. The Compensation Committee utilized this peer data as a tool, as well as its consideration of the need to motivate and retain our CEO and named executive officers. The committee was of the view that increased long-term incentive compensation, including the use of performance units, which was new for 2013, met our overall compensation philosophy and further aligned executives with the creation of long-term stockholder value. The 2013 grants for our named executive officers were one-third non-qualified stock options, one-third restricted share awards, and one-third restricted stock performance units. The Compensation Committee believes that the stock options and performance units continue the alignment of executive pay with the creation of stockholder value because stock options only deliver value if our share price increases after the date of grant and the performance units will only vest, if at all, upon the achievement of cumulative adjusted EBITDA at ECRC over the three-year performance period.

Base Compensation Increased Moderately in 2013. Base compensation for our CEO, as well as our named executive officers, excluding the CEO, as a group, increased in 2013 as compared to 2012. Base salary for our CEO increased approximately 8% compared to 2012, and aggregate base salary for our other named executive officers, excluding our CEO, as a group increased approximately 4%. The principal driver of the increase in base compensation was our Compensation Committee's annual review of data for named executive officer compensation from our peers.

Results of 2013 Say-on-Pay Vote. Kraton had strong stockholder support for its executive compensation program in 2013, with approximately 97% of the votes cast on the proposal voted in favor of the proposal. Even with this strong support, the Compensation Committee recognizes that market practices and stockholder views on executive compensation continue to evolve. In recognition of these factors, the Compensation Committee will continue to consider the outcome of say-on-pay votes in making decisions on executive compensation, as well as to evaluate and develop our programs in an effort to maintain appropriate compensation programs to align executive compensation with the interests of Kraton and its stockholders.

Compensation Philosophy and Objectives

Our Compensation Committee looks to total direct compensation for each named executive officer to determine the individual elements of compensation. Our executive compensation philosophy, as established by our Compensation Committee, is designed to provide a base salary and incentive compensation that attracts, motivates, retains and rewards high quality executives through competitiveness in the marketplace with other

For a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC, please refer to *Compensation Discussion and Analysis - Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC.*

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publicly-traded companies in similar or comparable industries to us, whose revenue is similar to ours, and/or from which companies we recruit executive talent.

We consider compensation to named executive officers of our peer companies (described below) in setting total targeted direct compensation for our named executive officers. In 2013, our general objective was to benchmark our named executive officers' compensation at or near the median of the peer group we have identified because our Compensation Committee has determined that such a benchmark reflects an objective means of determining a competitive level of executive compensation provided that the committee has reserved the right to deviate from this measure when it deems appropriate in the exercise of its business judgment.

With respect to individual elements of total direct compensation, the Compensation Committee utilizes the peer data as a tool when it considers base pay, incentives and compensation plan design. While the peer data was reviewed and considered by the committee in determining the individual elements of direct compensation, it was not utilized for benchmarking purposes.

Our Compensation Committee and our Board of Directors approve annual cash incentive compensation under the terms of a cash incentive compensation plan (the Cash Incentive Plan) designed to pay competitive cash incentives to our named executive officers if pre-established individual and company performance goals are achieved. It is our intention that a significant portion of our named executive officers' total compensation be comprised of performance-based compensation tied to the company's overall performance in a given year.

Our Compensation Committee may also approve the grant of equity or equity-based awards from time to time. Each of our named executive officers is eligible for one or more of the types of awards described under the section entitled *Components of Total Direct Compensation - Equity Compensation* below. These awards are intended to align our named executive officers' long-term interests with those of our company and our stockholders by linking this portion of the executive's compensation with the performance of our company, while also promoting retention through multi-year vesting periods. We will also often grant equity awards to executives in connection with their commencement of employment with us.

For 2013 and 2014, and consistent with our Compensation Committee's use of peer data, our Compensation Committee adopted a practice of annual long-term equity incentive compensation grants valued with reference to long-term incentive compensation paid by our peer group. Our practice is to grant such awards when the trading window opens under our stock trading policy after we have announced our annual and fourth quarter results, provided our Compensation Committee has the discretion to grant such awards throughout the year. As described more fully below, the committee believed that a more diversified approach in delivering equity incentive compensation was appropriate to further align the interests of our stockholders and management. The Compensation committee, therefore, granted one-third of the annual long-term equity incentive compensation award in performance units, which will vest, if at all, based on our achievement of certain performance targets established by the Committee, furthering our overall pay-for-performance philosophy. For 2013, the committee established cumulative Adjusted EBITDA at ECRC, over a three-year performance period, as the performance target. For 2014, the committee established Return on Capital Employed (ROCE) over a one-year performance period (plus an additional two years of time-vesting after the conclusion of the performance period) as the performance metric for 2014 grants of restricted stock performance units.

As the Compensation Committee reviewed executive compensation for 2013, it also reviewed key performance indicators of the company, including total stockholder return (TSR), as it was the first time the committee could review a three-year TSR. The committee acknowledged that TSR, following a significant increase in share price during 2010 and the first half of 2011, fell during the three-year period. Although the committee recognized that our TSR performance was lagging that of our peers, the committee believed that,

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particularly after factoring in the extreme volatility in raw materials as represented by the income or expense we incurred based on the difference between the estimated current replacement cost and first in first out basis of accounting for inventory as a percentage of overall income from 2011 to 2013, the long-term value of the company would best be achieved by retaining the executive officers through significant ties to the company's value creation and delivering total direct compensation with particular emphasis on long-term equity incentive compensation. In addition, the committee considered the role of performance units as a factor for maintaining increased peer group alignment with respect to long-term equity. Further, as the committee looked forward to 2014, in light of the pending combination with LCY's SBC business, the committee concluded that continuity with the named executive officers and long-term value creation for both the executives and the stockholders was best incentivized through a stronger emphasis on long-term equity.

Role of the Compensation Committee

Our Compensation Committee discharges the responsibility of the Board of Directors relating to the compensation of our executive officers, including our named executive officers. The Compensation Committee's charter contains detailed information on the Compensation Committee's duties and function and is available under the Corporate Governance portion of the Investor Relations section on our website at www.kraton.com.

Our Compensation Committee reviews, at least annually, our goals and objectives related to the compensation of our named executive officers. During that review, the Compensation Committee considers the balance between short-term compensation and long-term incentive compensation, evaluates the performance of our named executive officers in light of pre-established goals and objectives, and sets the compensation levels of our named executive officers based on that evaluation. In determining appropriate targeted compensation, our Compensation Committee considers our performance and relative stockholder return, the compensation levels of persons holding comparable positions at our peer companies (described below) and individual executive performance.

Our Compensation Committee has the ultimate authority and responsibility to engage and terminate any outside consultant to assist in determining appropriate compensation levels for our named executive officers. Our Compensation Committee uses information provided by such advisors and consultants to determine the appropriate compensation of our named executive officers. Our CEO is typically consulted regarding the compensation of the named executive officers, other than himself. Our Vice President of Human Resources regularly attends the meetings of the committee and provides input on compensation matters, as requested by the committee. Our Compensation Committee then reviews and recommends any changes to the CEO's recommendations.

Compensation Consultants. For 2013, our Compensation Committee engaged Pearl Meyer & Partners (Pearl Meyer) to evaluate the competitiveness of, and provide recommendations for, our executive officers', including our named executive officers', compensation. This review and recommendation includes base salary, targeted annual cash incentive, and targeted long-term equity incentive compensation (both with respect to the design of the program for 2013 and with respect to the targeted grants). In addition, Pearl Meyer provides analysis and advice regarding other compensation matters, including severance, change-in-control, and perquisites. The committee retained Pearl Meyer because of its recognized expertise in the field and its institutional knowledge of Kraton and its compensation issues gained over multiple years of rendering compensation advisory services to Kraton.

Pearl Meyer conducted its analysis relating to 2013 compensation using the following peer group. These companies were selected because they operate in a similar or comparable industry to ours and have a median revenue and market capitalization comparable to ours.

Chemtura Corp.
Ferro Corp.
H.B. Fuller Co.
Olin Corp.

OM Group Inc.
OMNOVA Solutions Inc.
PolyOne Corporation

A. Schulman Inc.
Spartech Corp.
Stepan Co.

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Pearl Meyer evaluated the total direct annual compensation, including base salary, targeted annual cash incentive compensation, and targeted long-term equity incentive compensation paid to our executive officers against that paid to similarly situated executives at the peer group companies. Based on this review and recommendations by Pearl Meyer, our Compensation Committee determined that it was appropriate for our retention and recruitment goals to benchmark total direct compensation for our executives at or near the market median for our peer group, provided that the committee has the discretion to deviate from this benchmark. It is the reasoned judgment of the Compensation Committee that the long-term strategy of targeting total direct compensation at the median for peer companies balances our interests in recruitment and retention against the interest of avoiding excessive compensation. Based on this determination, the Compensation Committee implemented certain base salary and target bonus increases and granted long-term equity incentive compensation in 2013 as described more fully below.

In September 2013, our Compensation Committee reevaluated the peer group, ultimately selecting the broader group of peers described below, and Pearl Meyer conducted a similar market analysis using the broader peer group. The Compensation Committee selected this peer group by reviewing the previous peer group and considering the industry and revenue of the prospective peers. Based on this analysis, the following peer group was used for 2014:

A. Schulman, Inc.
Albemarle Corp.
Axiall Corp.
Chemtura Corp.
Cytex Industries, Inc.
Ferro Corp.
Grace & Co.
H.B. Fuller Co.
Innophos Holdings, Inc.
Innospec, Inc.
International Flavors & Fragrances, Inc.
Minerals Technologies, Inc.
Newmarket Corp.
Olin Corp.
OM Group Inc.
OMNOVA Solutions, Inc.
PolyOne Corp.
Polypore International, Inc.
Quaker Chemical Corp.
Rockwood Holdings, Inc.
Sensient Technologies Corp.
Stepan Co.
Westlake Chemical Corp.

Using this peer group, Pearl Meyer evaluated the total targeted direct compensation, including base salary, targeted annual incentive compensation, and targeted long-term equity incentive compensation paid to our executive officers against that paid to similarly situated executives at the peer group companies. Based on this review and recommendations by Pearl Meyer, our Compensation Committee determined that it was appropriate for our retention and recruitment goals to continue to benchmark total direct compensation for our executives at or near the market median for our peer group subject to the committee's discretion to deviate from this benchmark. Based on these determinations, the Compensation Committee implemented certain base salary and target bonus increases and granted targeted long-term equity incentive compensation for 2014 as described more fully below.

Independence of Compensation Consultants. The Compensation Committee evaluates the independence of Pearl Meyer yearly under the applicable Exchange Act and NYSE regulations in order to confirm the consultant is independent and meets all applicable regulatory requirements. Pearl Meyer does not provide additional business services to us beyond its provision of executive and director compensation advisory services to our Compensation Committee and to our Nominating and Corporate Governance Committee, respectively.

Compensation Risk Assessment

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As part of the process undertaken to design and implement our compensation plan, our Compensation Committee evaluated our compensation policies, practices and plans to evaluate whether they encourage

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excessive risk taking. In undertaking this evaluation, our Compensation Committee reviewed, in addition to our compensation policies and practices, our gain-sharing plans at our manufacturing locations, the annual cash incentive plan, our discretionary recognition award program, our sales compensation plans and our equity incentive program. In addition, the committee consulted with Pearl Meyer, which opined that none of our compensation policies, practices, or plans, encourages employees to take unreasonable risks related to our business. Based upon the Compensation Committee's review of the company's policies and practices of compensating its employees, including non-executive officers, and Pearl Meyer's assessment, the Compensation Committee has determined that risks arising from our compensation policies and procedures are not reasonably likely to have a material adverse effect on the company.

Components of Total Direct Compensation

Base Salary. Our Compensation Committee reviews the base salaries of our named executive officers on an annual basis and determines if a change in base salary is warranted based on its review of individual performance, compensation comparisons (with executives in comparable positions at peer companies and comparisons among our other executives), consultation with our CEO and consideration of each named executive officer's experience and skills. Base salary is a necessary component of total compensation to attract and retain executive talent. At target levels of cash incentive compensation, base salary would account for approximately 20% of total compensation, for each of 2013 and 2014 respectively, for Mr. Fogarty, and approximately 37% and 32% of total aggregate compensation, for 2013 and 2014 respectively, for our other named executive officers, excluding our CEO, as a group, which our Compensation Committee believes is consistent with our objective of paying a significant portion of total cash compensation as performance-based compensation.

Base salaries for 2013 were determined based on the Compensation Committee's review of peer data compiled by Pearl Meyer as described above. For 2013, base salaries for our named executive officers effective as of April 1, 2013 were: Mr. Fogarty \$800,000; Mr. Tremblay \$420,000; Dr. Jung \$361,000; Dr. Freund \$338,000; and Mr. Lee \$320,000. Effective April 1, 2014, base salaries for our named executive officers are: Mr. Fogarty \$875,000; Mr. Tremblay \$450,000; Dr. Jung \$375,000; Dr. Freund \$350,000; and Mr. Lee \$320,000, based on the results of the 2014 Pearl Meyer analysis.

Targeted Annual Cash Incentive Compensation. Our Compensation Committee intends for a significant portion of total cash compensation to be based on the performance of our company because the committee believes that performance-based compensation is best suited to aligning the interests of our named executive officers and our stockholders.

For 2013, cash incentive targets for our named executive officers were:

Named Executive Officer	Target Bonus
Kevin M. Fogarty	1.0 x Base Salary
Stephen E. Tremblay	.65 x Base Salary
Holger R. Jung	.55 x Base Salary
Lothar P. F. Freund	.55 x Base Salary
G. Scott Lee	.55 x Base Salary

In 2013, for eligible executives, including our named executive officers, this annual cash incentive compensation was earned and payable under the Kraton Performance Polymers, Inc. 2013 Cash Incentive Plan.

Kraton Performance Polymers, Inc. Cash Incentive Plan. The purposes of the Cash Incentive Plan are to promote the interests of our company and its stockholders by providing variable cash compensation opportunities that are competitive with other companies, and to provide an annual performance-based cash bonus awards to those individuals who contribute to the short-term performance and long-term performance and growth of our company. Generally, our Compensation Committee will establish target bonuses for employees based on

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position, level of responsibility, and, as it relates to our named executive officers, the annual peer data provided by Pearl Meyer. Awards are granted based on the achievement of pre-established performance goals (that have been approved by our stockholders) established by the Compensation Committee during the first 90 days of the calendar year for which the goals apply (the performance period). Participants receive payments, if any, in cash following written certification by our Compensation Committee of the extent to which the applicable performance targets have been achieved, and in no event later than March 15 following the end of the performance period to which such certification relates. A participant must be an employee on the last day of the plan year and on the payment date in order to receive payment of an award. The amount paid to a participant under the plan may not exceed \$3,000,000 per plan year. This plan was adopted to take advantage of the performance-based compensation exception to Section 162(m) of the Internal Revenue Code. The plan contains additional limitations and requirements for awards to Covered Employees (as defined in Section 162(m) of the Code), including our named executive officers.

In January 2013, the Compensation Committee reviewed the design of the 2013 incentive compensation plan for alignment with the creation of stockholder value and challenging company and individual goals. In February 2013, the Compensation Committee discussed the balance of the Business Targets and the Personal Performance Targets with respect to overall alignment between stockholder value creation and individual performance. As a result, the committee changed the weighting employed in the annual cash incentive plan design from that used in 2012 (75% Business / 25% Personal) to 85% Business Performance Targets and 15% Personal Performance Targets, further aligning the variable cash incentive targets with annual financial metrics for the company and furthering transparency of the performance metrics to stockholders. In addition, the committee determined that safety performance will be incorporated into the personal performance targets for individuals having management and control over that function. In March 2013, our Compensation Committee approved the Business and Personal Performance Targets under the Cash Incentive Plan for our executive officers. As described more fully below, if the Business Performance Targets and the Personal Performance Targets had been achieved at the maximum, or stretch, levels, each named executive officer's actual bonus could have been up to two times his Target Bonus.

The Compensation Committee established both Business and Personal Performance Targets for each named executive officer and assigned a percentage weighting to the achievement of each. The Business Performance Targets focus on annual company performance measures, while the Personal Performance Targets focus on both annual and longer-term strategic objectives. The actual bonus earned, if any, has been calculated as the sum of:

the amount earned for achievement of Business Performance Targets times the eighty-five percent (85%) weighting assigned to the achievement of Business Performance Targets, and

the amount earned for achievement of the Personal Performance Targets times the fifteen percent (15%) weighting assigned to the achievement of Personal Performance Targets,

provided that if no bonus compensation is payable for the achievement of Business Performance Targets, then no annual bonus compensation is payable to the participants. The bonus for each named executive officer was therefore calculated using the following formula:

$$((0.85 \times \text{Business Factor}) + (0.15 \times \text{Personal Factor})) = \underline{\text{Total Annual Cash Incentive}}$$

The Business Performance Targets were comprised of three performance measures, each of which was assigned an individual weighting by our Compensation Committee. The Compensation Committee established threshold, target and stretch targets for each of these factors, which if achieved, would have provided a ratable bonus multiplier from 0.5 to 2.0.

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For 2013, our Business Performance Targets were as follows (\$ in millions):

	Weighting	Threshold 0.5x	Target 1.0x	Stretch 2.0x
Adjusted EBITDA	35%	\$ 123	\$ 164	\$ 205
Adjusted EBITDA at ECRC	35%	\$ 143	\$ 165	\$ 183
Operating Cash Flow	30%	\$ 86	\$ 100	\$ 115

For a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC, please refer to *Compensation Discussion and Analysis Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC*.

Our performance against these Business Performance Targets was as follows (\$ in millions):

	Weighting	Below Threshold	Threshold 0.5x	Target 1.0x	Stretch 2.0x	Factor
Adjusted EBITDA	35%	\$ 110				0.00
Adjusted EBITDA at ECRC	35%	\$ 141				0.00
Operating Cash Flow	30%				\$ 111.6 ¹	0.53

Company Factor: 0.533

¹ Interpolated to arrive at a factor of 1.77

The Personal Performance Criteria were comprised of three or more performance measures within the executive's area of management or control, each of which was assigned an individual weighting. The Compensation Committee established threshold, target and stretch targets for each of these factors, which if achieved, would have provided a ratable bonus multiplier from 0.5 to 2.0.

For 2013, individual Personal Performance Criteria (and weighting) were as follows:

Mr. Fogarty: safety (25%); innovation (25%); growth capital (25%); and mergers and acquisitions (25%).

Mr. Tremblay: manage market expectations (25%); capital structure (15%); Asia HSBC project (20%); fixed costs (20%); cash planning (20%).

Dr. Jung: contribution margin and forecast accuracy (40%); HSBC sales volume (20%); vitality index (15%); new product launches (10%); and cash planning (15%).

Dr. Freund: vitality index (25%); innovation momentum (50%); critical capabilities (15%); and safety at KIC facilities (10%).

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Mr. Lee: safety (20%); cash planning (20%); capital expenditure (20%); fixed costs (20%); and manufacturing reliability performance (20%).

For a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC, please refer to *Compensation Discussion and Analysis Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC.*

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At year end, Mr. Fogarty reviewed with our Compensation Committee the performance of each of our named executive officers, other than himself, against the Personal Performance Criteria set forth above, and the Compensation Committee, and subsequently the full Board of Directors, reviewed the performance of Mr. Fogarty. Based upon the achievement of performance metrics assigned to respective performance goals or, where applicable, the reasoned subjective assessment of individual performance established during such review process, the Compensation Committee arrived at individual performance factors based on the Personal Performance Criteria as follows:

Mr. Fogarty	1.20
Mr. Tremblay	1.35
Dr. Jung	0.73
Dr. Freund	0.86
Mr. Lee	0.87

Aggregate bonus multipliers for each named executive officer were as follows:

Name	$((0.85 \times \text{Business Factor}) + (0.15 \times \text{Personal Factor})) = \text{Bonus Multiplier}$
Mr. Fogarty	$((.85 \times 0.533) + (.15 \times 1.20)) = \mathbf{0.63}$
Mr. Tremblay	$((.85 \times 0.533) + (.15 \times 1.35)) = \mathbf{0.66}$
Dr. Jung	$((.85 \times 0.533) + (.15 \times 0.73)) = \mathbf{0.56}$
Dr. Freund	$((.85 \times 0.533) + (.15 \times 0.86)) = \mathbf{0.58}$
Mr. Lee	$((.85 \times 0.533) + (.15 \times 0.87)) = \mathbf{0.58}$

Based on the performance of our business and each individual named executive officer against his Personal Performance Factors, we paid total cash incentive compensation to our named executive officers in the following amounts for 2013:

Mr. Fogarty (\$506,372); Mr. Tremblay (\$178,942); Dr. Jung (\$111,677); Dr. Freund (\$108,187); and Mr. Lee (\$102,690), which amounts are reflected in the 2013 Summary Compensation Table.

2014 Targeted Annual Cash Incentive Compensation. In February 2014, our Compensation Committee reviewed the annual executive compensation data for our peers provided by Pearl Meyer to determine annual cash incentive targets for our named executive officers. Based on this data, and the reasoned subjective judgment of the committee members, the committee established the following 2014 cash incentive compensation targets under the 2013 Cash Incentive Plan. Cash Incentive Plan payments, if any, will be payable on or before March 15, 2015:

Named Executive Officer	Target Bonus
Mr. Fogarty	1.0 x Base Salary
Mr. Tremblay	.65 x Base Salary
Dr. Jung	.60 x Base Salary
Dr. Freund	.60 x Base Salary
Mr. Lee	.55 x Base Salary

In February 2014, our Compensation Committee reviewed the cash incentive design and determined it was important to further align performance goals with stockholder value creation by shifting the weighting of the Business Performance Targets to 100% for determining the total payout. For 2014, the committee established the following metrics for use in establishing the Business Performance Targets: Adjusted EBITDA at ECRC (75%)

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weighting) and Operating Cash Flow (25% weighting). Safety performance and innovation performance will be incorporated into the personal performance targets for individuals having management and control over those functions, but will not be used in determining annual cash incentive compensation.

Comparing actual 2013 compensation to anticipated 2014 compensation, at target levels of cash incentive compensation, annual cash incentive would account for approximately 13% and 20% of total compensation, for 2013 and 2014 respectively, for Mr. Fogarty, and approximately 13% and 19% of total aggregate compensation, for 2013 and 2014 respectively, for our other named executive officers, excluding our CEO, as a group, which our Compensation Committee believes is consistent with our objective of paying a significant portion of total compensation as variable or performance-based compensation.

In February 2014, the Compensation Committee also approved up to \$2,000,000 to establish a bonus pool for the payment of discretionary bonuses to our officers and employees, which may include our named executive officers. These bonuses are to be paid, at the discretion of the committee, for work performed in 2013, relating to the execution of the Combination Agreement, and 2014, in connection with the closing of the transactions contemplated by the Combination Agreement. To the extent any payments are made to named executive officers, such payments would be determined and paid only upon the closing of the transactions contemplated by the Combination Agreement.

Equity Compensation. In order to align the interests of our named executive officers with those of the company and its stockholders, the Compensation Committee has determined that a material portion of each named executive officer's compensation should be in the form of equity or equity-based awards. In 2013, the Compensation Committee's approach to equity compensation was to grant options, restricted shares, or performance units, or a combination thereof, to the company's executives. Whereas options reward an increase in the value of the company following their grant, restricted shares serve as a useful retention tool by requiring the executive to continue to work for the company during the applicable vesting period. Performance units further align the interests of the executives with those of our stockholders because such awards vest, if at all, based upon the achievement of performance targets that reflect the successful operation of our business.

Although the company has only been a publicly-traded company since December 2009, in 2013, the committee believed it was appropriate to shift the overall mix of long-term equity incentive compensation to further balance the need to attract, motivate, and retain our key executives and with the need to further align executive interests with that of stockholder value creation. Prior to 2013, the mix of long-term equity incentive compensation was weighted heavily toward non-qualified stock options. Although a short-term stock appreciation is a strong performance indicator, the committee believed that long-term stockholder value creation entailed a multiplicity of factors and, therefore, a more balanced approach to long-term equity incentive compensation was warranted. The committee, therefore, modified the mix of long-term equity incentive compensation to a balance of elements between non-qualified stock options, restricted stock awards, and restricted stock performance units, aligning between both short-term and long-term value creation, while also creating additional ownership and retention value for our executive officers. In addition, the use of performance-based restricted stock units was adjudged to be consistent with the compensation practices of our peer companies.

Equity awards are made under the Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan. The 2009 Equity Incentive Plan is designed to promote the interests of the company and its stockholders by providing employees and independent contractors of the company and eligible non-employee directors of Kraton with incentives and rewards to encourage continued service to the company. The 2009 Equity Incentive Plan provides for the issuance of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards and performance-based compensation awards, in addition to other equity or equity-based awards as the board determines necessary from time to time. The 2009 Equity Incentive Plan is administered by our Compensation Committee. At the end of fiscal year 2013, there were 2,304,949 shares of common stock available for issuance under the 2009 Equity Incentive Plan. Subject to the terms of the 2009

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Equity Incentive Plan, 1,000,000 of the reserved shares may be used to issue incentive stock options. Subject to adjustment, no participant may receive awards under the 2009 Equity Incentive Plan in any calendar year that relate to more than 300,000 shares of common stock.

Consistent with our overall approach to total direct compensation, the Compensation Committee reviewed long-term equity incentive compensation as a component of total direct compensation and determined to place additional emphasis on long-term equity incentive compensation. In March 2013, we granted long-term incentive compensation to our named executive officers in the following amounts (performance shares reported at target levels): Mr. Fogarty (33,564 shares of restricted stock, 65,093 options and 33,564 performance units); Mr. Tremblay (7,551 shares of restricted stock, 14,646 options and 7,551 performance units); Dr. Jung (4,908 shares of restricted stock, 9,519 options and 4,866 performance units); Dr. Freund (4,908 shares of restricted stock, 9,519 options and 4,866 performance units); and Mr. Lee (4,908 shares of restricted stock, 9,519 options and 4,866 performance units). The options have a ten-year term and vest in equal installments over three years. The restricted shares are subject to three-year cliff vesting. The performance units will vest three years from the date of grant in an amount, if at least the threshold level of performance is achieved, ranging from 0.5x target to 2.0x target level depending on performance against the committee-established metric for the achievement of cumulative Adjusted EBITDA at ECRC over the three-year performance period. The total amount of these grants and the allocation between restricted stock awards, option grants and performance unit awards were made with reference to Pearl Meyer's review and to the long-term incentive policy described above. As noted, the committee settled on these levels of targeted long-term equity incentive compensation in order to serve our goal of paying total annual direct compensation to our named executive officers at or near the market rate for our peer group companies based on the committee's annual review of peer data compiled by Pearl Meyer. Vesting and other terms of the grants were based upon the recommendation of Pearl Meyer.

In March 2014, we granted long-term incentive compensation to our named executive officers in the following amounts (performance shares reported at target levels): Mr. Fogarty (32,166 shares of restricted stock, 73,052 options and 32,166 performance units); Mr. Tremblay (9,543 shares of restricted stock, 21,591 options and 9,507 performance units); Dr. Jung (7,148 shares of restricted stock, 16,234 options and 7,148 performance units); Dr. Freund (6,576 shares of restricted stock, 14,854 options and 6,540 performance units); and Mr. Lee (4,182 shares of restricted stock, 9,416 options and 4,146 performance units). The options have a ten-year term and vest in equal installments over three years. The restricted shares are subject to three-year cliff vesting. The performance units will vest three-years from the date of grant in an amount, if at least the threshold level of performance is achieved, ranging from 0.5x target to 2.0x target level depending on performance against the committee-established metric for the achievement of Return on Capital Employed for the thirteen-month period commencing December 2013 and ending December 31, 2014. The total amount of these grants and the allocation between restricted stock awards, option grants and performance unit awards were made with reference to Pearl Meyer's review and to the long-term incentive policy described above. As noted, the committee settled on these levels of targeted long-term equity incentive compensation in order to serve our goal of paying total annual direct compensation to our named executive officers at or near the market rate for our peer group companies based on the committee's annual review of peer data compiled by Pearl Meyer. Vesting and other terms of the grants were based upon the recommendation of Pearl Meyer.

Comparing actual 2013 compensation to anticipated 2014 compensation, assuming target cash incentive compensation and vesting of performance units at target levels, annual long-term incentive equity grants would account for approximately 62% and 61% of total compensation, for 2013 and 2014 respectively, for Mr. Fogarty, and approximately 42% and 49% of aggregate total compensation, for 2013 and 2014 respectively, for our other named executive officers, excluding the CEO, as a group, which our Compensation Committee believes is

For a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC, please refer to *Compensation Discussion and Analysis - Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC*.

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consistent with our objective of paying a significant portion of total compensation as variable or performance-based compensation.

Fringe Benefits/Perquisites. We reimburse Dr. Freund (i) for travel expenses to his home country of Germany for himself and his spouse and up to two of his dependents once per year and (ii) for expenses related to tax return preparation. We provide these perquisites to Dr. Freund because they aid us in retaining his valuable services and yet can be provided at relatively little cost to the company. No other material fringe benefits or perquisites were provided to our named executive officers in 2013.

Non-Qualified Benefit Restoration Plans. Our named executive officers who participate in our U.S. 401(k) plan and/or U.S. pension plan are eligible to participate in a non-qualified defined benefit restoration plan and non-qualified defined contribution restoration plan, respectively. These non-qualified plans are intended to restore certain benefits that may not be provided under the tax-qualified savings plan and pension plan, respectively, due to certain limitations imposed on tax-qualified plans by the Internal Revenue Code.

Supplemental Disability Insurance. Our senior managers and executives, including our named executive officers, participate in a supplemental disability insurance program for which the premiums will be paid by the company. The plan provides disability income protection at 60% of base salary and annual cash incentive compensation with no maximum benefit. Annual premiums for our named executive officers ranged from \$4,995 to \$38,036. The Compensation Committee determined that the provision of this benefit was appropriate in order to provide competitive, market-based benefits to our named executive officers.

U.S. 401(k) Plan. Our named executive officers are eligible to participate in the Kraton Savings Plan, a broad-based tax-qualified savings plan providing for employer and employee contributions for employees employed within the United States.

U.S. Pension Plan. Our named executive officers who were hired prior to October 15, 2005, which include Messrs. Fogarty and Lee and Dr. Freund, were afforded an opportunity to participate in our broad-based tax-qualified noncontributory pension plan. Employees hired on or after October 15, 2005 are not eligible to participate in the pension plan. The pension plan was amended in 2005 to provide participants with a choice, which was effective as of January 1, 2006, between (i) continuing to accrue benefits under the final average pay formula provided for under the pension plan or (ii) freezing benefits under the pension plan in exchange for an enhanced benefit under the Kraton Savings Plan. For participants who chose to receive the enhanced benefit under the Kraton Savings Plan, the final average earnings, service and social security benefit components of the pension formula (as defined in the plan) were frozen as of December 31, 2005. However, such participants will still be credited with service accumulated after December 31, 2005 for purposes of vesting of benefits under the pension plan.

Retiree Medical Benefits. Health and welfare benefits are provided to eligible employees in the United States, including our named executive officers, who retire from Kraton Performance Polymers. Retirees under the age of 65 are eligible for the same medical, dental, and vision plans as active employees. To be an eligible participant, employees must retire on or after age 50 with 80 points (age plus eligibility service is greater than or equal to 80) or retire on or after age 65 and have at least 10 years of eligibility service or retire due to a disability. The portion the company will pay for the post-retirement medical premium ranges from \$7,000 to \$10,000 per covered individual on an annual basis.

Components of Post-Employment Compensation

Executive Severance Program. Certain of our executives, including our named executive officers, participate in the Kraton Performance Polymers, Inc. Executive Severance Program. The Compensation Committee provides severance to our executive officers because it is consistent with the market practice among our peer companies, and, in the business judgment of the Compensation Committee, is necessary for our

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recruitment and retention goals. Each of the participants in the program has executed a non-competition and confidentiality agreement.

The severance program provides for severance payments upon certain events terminating employment. In the event the named executive officer's employment is terminated by us without cause or by the named executive officer for good reason (as each such term is defined in the severance program), the executive would be entitled to 18 months of salary, up to 18 months of medical benefit continuation and a lump-sum payment equal to 1.5 times the average bonus over the prior three years for Mr. Fogarty, and 12 months of base salary, up to 12 months medical benefit continuation and a lump-sum payment equal to one times the average bonus over the prior three years for all other named executive officers. In the event such termination occurs within one year immediately following a change in control of Kraton, the executive would be entitled to 36 months of salary, up to 36 months of medical benefit continuation and a lump-sum payment equal to three times the average bonus over the prior three years for Mr. Fogarty, and to 24 months of base salary, up to 24 months of medical benefit continuation and a lump-sum payment equal to two times the average bonus over the prior three years for all other named executive officers. The Compensation Committee elected these multiples based upon a market assessment of the severance benefits offered by our peer companies and a determination that these levels were consistent with market practice and, therefore, serve our recruitment and retention goals. In June and September 2013, the committee revisited the severance program, with the assistance of Pearl Meyer, to verify the continuing market competitiveness of the terms of the program.

Other Compensation Policies

Financial Restatement. The Kraton Performance Polymers Inc. 2009 Equity Incentive Plan and the Kraton Performance Polymers, Inc. 2013 Cash Incentive Plan each provide that performance-based compensation granted under such plan is subject to a right of recapture. In the event that a determination that the achievement of a performance goal was based on incorrect data and such goal was in fact not achieved, any compensation under the respective plan that was paid on the basis of the purported achievement of such goal must be returned.

Executive Compensation Recoupment Policy. In September 2013, the company adopted an Executive Compensation Recoupment Policy. The policy covers our Section 16 reporting persons under the Securities Exchange Act of 1934, as amended, which includes our named executive officers. The policy provides that we will, to the extent permitted by governing law, seek to recover, at the direction of the Compensation Committee after it has considered the costs and benefits of doing so, any annual incentive compensation payment, long-term incentive payment or other payment to a covered executive under the following circumstances:

the payment was predicated upon achieving certain financial results that were subsequently the subject of a substantial restatement of our financial statements as filed with the Securities and Exchange Commission;

the Compensation Committee determines that the covered executive engaged in fraud or willful misconduct that caused or substantially caused the substantial restatement; and

a lower payment would have been made to the covered executive based upon the restated financial results.

In each instance, we will to the extent practicable seek to recover from the covered executive the amount by which the Compensation Committee has determined that an incentive payment made in the prior three years to such covered executive for the relevant period exceeded the lower payment that would have been made based on the restated financial results.

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Executive Stock Ownership Guidelines. To further align the financial interests of our executives with those of our stockholders, our board of directors has adopted executive stock ownership guidelines. The guidelines apply to our Section 16 reporting persons under the Securities Exchange Act of 1934, as amended, which includes our named executive officers. Our guidelines provide that our executives should own an amount of shares equal to a multiple of the executive's annual base salary as follows:

Covered Executive	Ownership Target
CEO	5X
CFO	3X
VP Sales and Marketing; VP Operations; VP Technology	1.5X
Other Executives	1X

Each executive covered by the guideline is expected to comply with the ownership target within the five-year period commencing on January 1 of the year following the date on which such executive becomes subject to the guidelines. During this five-year period, the covered executives are expected to make reasonable progress, as determined by the Compensation Committee, toward their ownership targets. As of December 31, 2013, it was determined that all executives subject to the guidelines were making reasonable progress toward their respective ownership targets.

Trading in Our Stock Derivatives. Our Stock Trading Policy prohibits our employees, including our named executive officers, from speculative trading in our common stock, including the trading of stock derivatives.

Hedging and Pledging by Executive Officers and Directors. Our Stock Trading Policy prohibits the purchase by our directors or executive officers of financial instruments (including prepaid variable forward contracts, equity swaps, collars, and exchange funds) that are designed to hedge or offset any decrease in the market value of equity securities of the company held, directly or indirectly, by any director or executive officer. Our Stock Trading Policy prohibits pledging of any Kraton stock as security by our directors or executive officers.

Table of Contents***Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC.***

We consider EBITDA, Adjusted EBITDA, Adjusted EBITDA at estimated current replacement cost (ECRC) and Gross Profit at ECRC to be important supplemental measures of our performance and believe they are frequently used by investors, securities analysts and other interested parties in the evaluation of our performance and/or that of other companies in our industry, including period-to-period comparisons. In addition, management uses these measures to evaluate operating performance, and our incentive compensation plan bases incentive compensation payments on our Adjusted EBITDA and Adjusted EBITDA at ECRC performance, along with other factors. EBITDA, Adjusted EBITDA, Adjusted EBITDA at ECRC and Gross Profit at ECRC have limitations as analytical tools and in some cases can vary substantially from other measures of our performance. You should not consider any of them in isolation, or as substitutes for analysis of our results under U.S. generally accepted accounting principles (GAAP).

	Years ended December 31,		
	2013	2012	2011
		(in thousands)	
EBITDA(1)	\$ 88,790	\$ 96,972	\$ 184,128
Adjusted EBITDA(2)	110,169	113,309	194,327
Adjusted EBITDA at ECRC(3)	140,906	143,842	127,995
Gross Profit at ECRC(3)	256,569	261,975	249,854

- (1) EBITDA represents net income before interest, taxes, depreciation and amortization.

Limitations for EBITDA as an analytical tool include the following:

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

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

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

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

EBITDA calculation under the terms of our debt agreements may vary from EBITDA presented herein, and our presentation of EBITDA herein is not for purposes of assessing compliance or non-compliance with financial covenants under our debt agreements;

other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure; and

EBITDA is not a measure of discretionary cash available to us to invest in the growth of our business.

- (2) We prepare Adjusted EBITDA by adjusting EBITDA to eliminate the impact of a number of items we do not consider indicative of our ongoing operating performance. We explain how each adjustment is derived and why we believe it is helpful and appropriate in the reconciliation below. You are encouraged to evaluate each adjustment and the reasons we consider it appropriate for supplemental

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analysis. As an analytical tool, Adjusted EBITDA is subject to the limitations applicable to EBITDA described above. In addition, in evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

- (3) Adjusted EBITDA at ECRC is Adjusted EBITDA net of the impact of the spread between the FIFO basis of accounting and ECRC and Gross Profit at ECRC is gross profit net of the impact of the spread between the

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FIFO basis of accounting and ECRC. Although we report our financial results using the FIFO basis of accounting, as part of our pricing strategy, we measure our business performance using the estimated current replacement cost of our inventory and cost of goods sold. We maintain our perpetual inventory in our global enterprise resource planning system. The carrying value of our inventory is determined using FIFO. At the beginning of each month, we determine the estimated current cost of our raw materials for that particular month, and using the same perpetual inventory system that we use to manage inventory and therefore costs of goods sold under FIFO, we revalue our ending inventory to reflect the total cost of such inventory as if it was valued using the estimated current replacement cost. The result of this revaluation from FIFO creates the spread between FIFO and ECRC. With inventory valued under FIFO and ECRC, we then have the ability to report cost of goods sold and therefore EBITDA, Adjusted EBITDA, Adjusted EBITDA at ECRC, Gross Profit, and Gross Profit at ECRC under both our FIFO convention and under estimated current replacement cost. As an analytical tool, Adjusted EBITDA at ECRC is subject to the limitations applicable to EBITDA described above, as well as the following limitations:

due to volatility in raw material prices, Adjusted EBITDA at ECRC may, and often does, vary substantially from EBITDA, net income and other performance measures, including net income calculated in accordance with US GAAP; and

Adjusted EBITDA at ECRC may, and often will, vary significantly from EBITDA calculations under the terms of our debt agreements and should not be used for assessing compliance or non-compliance with financial covenants under our debt agreements. Because of these and other limitations, EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

Our presentation of non-GAAP financial measures and the adjustments made therein should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items, and in the future we may incur expenses or charges similar to the adjustments made in the presentation of our non-GAAP financial measures.

As a measure of our performance, Gross Profit at ECRC is limited because it often varies substantially from gross profit calculated in accordance with US GAAP due to volatility in raw material prices.

We compensate for these limitations by relying primarily on our GAAP results and using EBITDA, Adjusted EBITDA, Adjusted EBITDA at ECRC and Gross Profit at ECRC only as supplemental measures. See our financial statements included in our annual report on Form 10-K for the year ended December 31, 2013.

We reconcile Gross Profit to Gross Profit at ECRC as follows:

	Years ended December 31,		
	2013	2012	2011
Gross profit	\$ 225,832	\$ 231,442	\$ 316,186
<i>Add (deduct):</i>		(in thousands)	
Spread between FIFO and ECRC	30,737	30,533	(66,332)
Gross profit at ECRC	256,569	261,975	249,854

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

	Years ended December 31,		
	2013	2012	2011
	(in thousands)		
Net income (loss) attributable to Kraton	\$ (618)	\$ (16,191)	\$ 90,925
Net loss attributable to noncontrolling interest	(357)	0	0
Consolidated net income (loss)	(975)	(16,191)	90,925
<i>Add (deduct):</i>			
Interest expense, net	30,470	29,303	29,884
Income tax expense (benefit)	(3,887)	19,306	584
Depreciation and amortization expenses	63,182	64,554	62,735
EBITDA	\$ 88,790	\$ 96,972	\$ 184,128
<i>Add (deduct):</i>			
Settlement gain(a)	0	(6,819)	0
Property tax dispute(b)	0	6,211	0
Storm related charges(c)	0	2,481	0
Retirement plan settlement(d)	0	1,100	0
Restructuring charges(e)	815	1,359	1,755
Fees related to a proposed business combination(f)	9,164	0	0
Non-cash compensation expense(g)	7,894	6,571	5,459
Impairment of long-lived assets(h)	0	5,434	0
Production downtime related to MACT legislation(i)	3,506	0	0
Loss on extinguishment of debt(j)	0	0	2,985
Adjusted EBITDA	\$ 110,169	\$ 113,309	\$ 194,327
<i>Add (deduct):</i>			
Spread between FIFO and ECRC	30,737	30,533	(66,332)
Adjusted EBITDA at ECRC	140,906	143,842	127,995

- (a) Receipt from LyondellBasell in settlement of disputed charges, which is recorded in cost of goods sold.
- (b) Charge associated with resolution of a property tax dispute in France, of which \$5.6 million is recorded in cost of goods sold and \$0.6 million is recorded in selling, general and administrative expenses.
- (c) Storm related charge at our Belpre, Ohio facility, which is recorded in cost of goods sold.
- (d) Retirement plan settlement charge associated with a disbursement from a benefit plan upon the retirement of an employee, which is recorded in selling, general and administrative expenses.
- (e) Severance expenses, fees associated with the public offering of our senior notes and secondary public offering of our common stock and charges associated with the restructuring of our European organization, which are primarily recorded in selling, general and administrative expenses in 2013 and 2011, and primarily in cost of goods sold in 2012.
- (f) Primarily professional fees, related to our proposed combination with the styrenic block copolymer operations of LCY Chemical Corp., which are recorded in selling, general and administrative expenses.
- (g) 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.
- (h) Impairment of long-lived assets, of which \$3.4 million and \$2.0 million were associated with the HSBC facility and other long-term assets, respectively.
- (i) Costs of 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.
- (j) Loss on extinguishment of debt arising from the 2011 refinancing.

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COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with our management the Compensation Discussion and Analysis included in this proxy statement. Based upon such review, the related discussions and such other matters deemed relevant and appropriate to the Compensation Committee, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Submitted by the Compensation Committee:

Richard C. Brown, *Chairman*

Anna C. Catalano

Dan F. Smith

Karen A. Twitchell

Table of Contents**SUMMARY OF CASH AND CERTAIN OTHER COMPENSATION**

The following table provides information concerning compensation we paid or accrued on behalf of our principal executive officer, principal financial officer and the other three most highly compensated executive officers serving at December 31, 2013, who are sometimes referred to herein as our named executive officers. In accordance with SEC rules, we exclude changes in pension value and non-qualified deferred compensation earnings from our determination of our most highly-compensated executive officers.

2013 Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Awards (\$) (1)(2) (e)	Option Awards (\$) (1)(3) (f)	Non-equity Incentive Plan Compensation (\$) (4) (g)	Change in Pension Value	Non-qualified Deferred Compensation Earnings (\$) (5) (h)	All Other Compensation (\$) (6) (i)	Total (\$) (j)
Kevin M. Fogarty President and Chief	2013	783,750		1,599,996	799,993	506,372			162,960	3,853,071
	2012	726,250		440,993	1,029,001	535,600		2,032	145,419	2,879,295
Executive Officer	2011	700,000		615,416	1,470,004	668,938		2,432	112,614	3,569,404
Stephen E. Tremblay Vice President and Chief	2013	413,750		359,956	179,999	178,942			65,682	1,198,330
	2012	390,000		118,511	276,503	153,800			47,380	986,194
Financial Officer	2011	375,000		164,829	393,762	181,758			36,011	1,151,360
Holger R. Jung Vice President,	2013	358,250		232,963	116,989	111,677			32,869	852,748
	2012	350,000		105,012	245,003	110,700			30,873	841,588
Sales and Marketing	2011	279,775	219,090	158,557	367,499				43,983	1,068,904
Lothar P. F. Freund Vice President,	2013	334,750		232,963	116,989	108,187			56,325	849,214
	2012	325,000		97,509	227,500	139,400		1,175	64,570	855,154
Technology	2011	325,000		142,861	341,258	128,477		1,502	55,730	994,828
G. Scott Lee Vice President,	2013	315,000		232,963	116,989	102,690		95,392	26,045	889,079
	2012	293,750		90,006	209,997	113,900		291,408	31,908	1,030,969
Operations	2011	275,000		120,894	288,754	118,164		538,488	41,611	1,382,911

- (1) Amounts set forth in the Stock Awards and Option Awards columns represent the aggregate grant date fair value with respect to restricted stock awards and option awards, in accordance with the Financial Accounting Standards Board ASC Topic 718 (disregarding the estimate of forfeitures related to service-based vesting conditions). For a discussion of the assumptions used in calculating the fair value of our stock-based compensation, refer to Note 3, *Share-Based Compensation*, in the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013.
- (2) This column consists of awards of restricted stock awards and restricted stock performance units granted pursuant to the Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan, as amended and restated.
- (3) This column consists of awards of options to purchase shares of our common stock granted pursuant to the Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan, as amended and restated.
- (4) Amounts listed in this column for 2013 consist of cash incentive payments pursuant to the Kraton Performance Polymers, Inc. 2013 Cash Incentive Plan. Please see the discussion of the specific components of the incentive compensation plan under *Compensation Discussion and Analysis Components of Total Direct Compensation Targeted Annual Cash Incentive Compensation*.
- (5) All amounts in this column reflect the aggregate change in the actuarial present value of the named executive officer's accumulated benefit under our pension plan during the applicable periods. Our named executive officers do not earn above-market or preferential earnings on compensation that is deferred on a basis that is not tax-qualified.
- (6)

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Amounts in this column consist of (a) contributions to the savings plan by Kraton on behalf of Messrs. Fogarty, Tremblay, Jung, Freund and Lee in the amounts of \$124,924, \$52,608, \$27,874, \$41,552 and \$18,900, respectively; (b) for Dr. Freund, reimbursement in the amount of \$14,173 for travel expenses to his home country of Germany for himself and his direct family members; and (c) for Messrs. Fogarty, Tremblay, Jung and Lee premiums for supplemental disability insurance in the amounts of \$38,036, \$13,074, \$4,995 and \$7,145, respectively.

Table of Contents**Equity Compensation Plan Information**

The following table sets forth information as of December 31, 2013 with respect to compensation plans under which our equity securities are authorized for issuance.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (\$) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (1) (c)
Equity compensation plans approved by stockholders	1,594,581(2)	23.56	2,304,949
Equity compensation plans not approved by stockholders			
Total:	1,594,581	23.56	2,304,949

- (1) Represents securities remaining available for future issuance under the Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan.
(2) 304,688 of these options, warrants and rights were issued under the 2004 TJ Chemical Holdings LLC 2004 Option Plan. Stockholder approval of this plan occurred prior to our initial public offering.

2013 Grants of Plan-Based Awards

The following table provides details regarding plan-based awards granted to our named executive officers during the fiscal year ended December 31, 2013.

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Stocks or Units (#) (3) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (4) (j)	Exercise or Base Price of Option Awards (\$/Sh) (5) (k)	Grant Date Fair Value of Stock and Option Awards (\$) (6) (l)
		Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)				
Kevin M. Fogarty		400,000	800,000	1,600,000							
	3/4/2013				16,782	33,564	67,128				799,998
	3/4/2013							33,564			799,998
Stephen E. Tremblay	3/4/2013	136,500	273,000	546,000					65,093	\$ 23.84	799,993
	3/4/2013				3,776	7,551	15,102				179,978
	3/4/2013							7,551			179,978
Holger R. Jung	3/4/2013	99,275	198,550	397,100					14,646	\$ 23.84	179,999
	3/4/2013				2,433	4,866	9,732				115,981
	3/4/2013							4,908			116,982

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	3/4/2013							9,519	\$ 23.84	116,989
Lothar P. F. Freund		92,950	185,900	371,800						
	3/4/2013				2,433	4,866	9,732			115,981
	3/4/2013							4,908		116,982
	3/4/2013							9,519	\$ 23.84	116,989
G. Scott Lee		88,000	176,000	352,000						
	3/4/2013				2,433	4,866	9,732			115,981
	3/4/2013							4,908		116,982
	3/4/2013							9,519	\$ 23.84	116,989

- (1) These columns provide information on potential payouts under the Kraton Performance Polymers, Inc. 2013 Cash Incentive Plan. For information on the amounts actually earned, see the 2013 Summary Compensation Table. For a discussion of the applicable performance criteria, see *Compensation Discussion and Analysis Components of Total Direct Compensation Targeted Annual Cash Incentive Compensation*, above.

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- (2) These columns provide information on potential share issuances under restricted stock performance unit awards granted pursuant to the 2009 Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan, as amended and restated. The amount actually issued will be determined based on the achievement of Adjusted EBITDA at ECRC during the three-year performance period ending December 31, 2015. For a discussion of the applicable performance criteria, see *Compensation Discussion and Analysis Components of Total Direct Compensation Equity Compensation*, above.
- (3) This column reflects grants of restricted stock to each of our named executive officers under our Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan, as amended and restated. In each case, such shares are subject to three-year cliff vesting.
- (4) This column reflects grants of non-qualified stock options to each of our named executive officers under our Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan, as amended and restated. Such options vest ratably over three years and have a ten year term.
- (5) The exercise price of these option awards is determined pursuant to the Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan, as amended and restated, by averaging the high and low price of our common shares on the New York Stock Exchange on the trading day immediately preceding the grant date.
- (6) The grant-date fair value for each award is computed in accordance with ASC 718 (disregarding the estimate of forfeitures related to service-based vesting conditions). For a discussion of the assumptions used in calculating the fair value of our stock-based compensation, refer to Note 3, *Share-Based Compensation*, in the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

2013 Outstanding Equity Awards at the Fiscal Year End

The following table sets forth information regarding outstanding equity awards held by our named executive officers as of December 31, 2013.

Name (a)	Option Awards (1)				Stock Awards (2)			Equity Incentive Plan Awards: market or payout value of unearned shares, units or other rights that have not vested (j)
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (3) (h)	Equity Incentive Plan Awards: number of unearned shares, units or other rights that have not vested (#) (4) (i)	
Kevin M. Fogarty	81,430		13.51	6/19/2018				
	106,571	71,048	14.46	1/3/2020				
	55,399	27,699	37.11	3/7/2021				
	25,829	51,656	28.42	3/5/2022				
		65,093	23.84	3/4/2023				
					16,977	391,320		
				15,517	357,667			
				33,564	773,650			
						16,782	386,825	

For a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC, please refer to *Compensation Discussion and Analysis Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC*.

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Name (a)	Option Awards (1)				Stock Awards (2)			
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) (c)	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Number of Shares of Stock or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (3) (h)	Equity Incentive Plan Awards: number of unearned shares, units or other rights that have not vested (#) (4) (i)	Equity Incentive Plan Awards: market or payout value of unearned shares, units or other rights that have not vested (\$) (3) (j)
Stephen E. Tremblay	12,619		13.51	6/19/2018				
	22,202	14,802	14.46	1/3/2020				
	14,839	7,420	37.11	3/7/2021				
	6,941	13,880	28.42	3/5/2022				
		14,646	23.84	3/4/2023				
					4,547	104,808		
					4,170	96,119		
				7,551	174,051			
						3,776	87,037	
Holger R. Jung	13,172	6,586	36.98	3/14/2021				
	6,150	12,229	28.42	3/5/2022				
		9,519	23.84	3/4/2023				
					4,260	98,193		
					3,695	85,170		
				4,908	113,129			
						2,433	56,081	
Lothar P. F. Freund	23,809		13.51	6/19/2018				
	13,321	8,881	14.46	1/3/2020				
	12,861	6,430	37.11	3/7/2021				
	5,711	11,420	28.42	3/5/2022				
		9,519	23.84	3/4/2023				
				3,941	90,840			
				3,431	79,085			
				4,908	113,129			
						2,433	56,081	
G. Scott Lee	6,167		13.51	6/19/2018				
	3,000	3,000	13.90	1/28/2020				
	10,882	5,441	37.11	3/7/2021				
	5,271	10,542	28.42	3/5/2022				
		9,519	23.84	3/4/2023				
				3,335	76,872			
				3,167	72,999			
				4,908	113,129			
						2,433	56,081	

(1) All options granted prior to our initial public offering in December 2009 were granted pursuant to the TJ Chemical Holdings LLC 2004 Option Plan. Options granted from January 2010 forward were granted

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pursuant to the Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan, as amended and restated. Options granted in January 2010 vest over five years. Options granted in March 2011, 2012 and 2013 vest over three years. The vesting of the option grants set forth above is as follows:

With respect to Mr. Fogarty's unvested options granted on January 3, 2010, 35,524 vested on January 3, 2014, and 35,524 will vest on January 3, 2015, subject to Mr. Fogarty's remaining continuously employed by us through the vesting date. With respect to Mr. Fogarty's unvested options granted on March 7, 2011, 27,699 vested on March 7, 2014. With respect to Mr. Fogarty's unvested options granted on March 5, 2012, 25,828 vested on March 5, 2014 and 25,828 will vest on March 5, 2015, subject to Mr. Fogarty's remaining continuously employed by us through the vesting date. With respect to Mr. Fogarty's unvested options granted on March 4, 2013, 21,698 vested on March 4, 2014 and 21,697 will vest on March 4, 2015 and 21,698 will vest on March 4, 2016, subject in each case to Mr. Fogarty's remaining continuously employed by us through the vesting date.

With respect to Mr. Tremblay's unvested options granted on January 3, 2010, 7,401 vested on January 3, 2014, and 7,401 will vest on January 3, 2015, subject to Mr. Tremblay's remaining continuously employed by us through the vesting date. With respect to Mr. Tremblay's unvested options granted on March 7, 2011, 7,420 vested on March 7, 2014. With respect to Mr. Tremblay's unvested options granted on March 5, 2012, 6,940 vested on March 5, 2014 and 6,940 will vest on March 5, 2015, subject to Mr. Tremblay's remaining continuously employed by us through the vesting date. With respect to Mr. Tremblay's unvested options granted on March 4, 2013, 4,882 vested on March 4, 2014 and 4,882 will vest on each of March 4, 2015 and 2016, subject in each case to Mr. Tremblay's remaining continuously employed by us through the vesting date.

With respect to Dr. Jung's unvested options granted on March 14, 2011, 6,586 vested on March 14, 2014. With respect to Dr. Jung's unvested options granted on March 5, 2012, 6,149 vested on March 5, 2014, and 6,150 will vest on March 5, 2015, subject to Dr. Jung's remaining continuously employed by us through the vesting date. With respect to Dr. Jung's unvested options granted on March 4, 2013, 3,173 vested on March 4, 2014 and 3,173 will vest on each of March 4, 2015 and 2016, subject in each case to Dr. Jung's remaining continuously employed by us through the vesting date.

With respect to Dr. Freund's unvested options granted on January 3, 2010, 4,440 vested on January 3, 2014 and 4,441 will vest on January 3, 2015, subject to Dr. Freund's remaining continuously employed by us through the vesting date. With respect to Dr. Freund's unvested options granted on March 7, 2011, 6,430 vested on March 7, 2014. With respect to Dr. Freund's unvested options granted on March 5, 2012, 5,710 vested on March 5, 2014, and 5,710 will vest March 5, 2015, subject to Dr. Freund's remaining continuously employed by us through the vesting date. With respect to Dr. Freund's unvested options granted on March 4, 2013, 3,173 vested on March 4, 2014 and 3,173 will vest on each of March 4, 2015 and 2016, subject in each case to Dr. Freund's remaining continuously employed by us through the vesting date.

With respect to Mr. Lee's unvested options granted on January 28, 2010, 1,500 vested on January 28, 2014 and 1,500 will vest on January 28, 2015, subject to Mr. Lee's remaining continuously employed by us through the vesting date. With respect to Mr. Lee's unvested options granted on March 7, 2011, 5,441 vested on March 7, 2014. With respect to Mr. Lee's unvested options granted on March 5, 2012, 5,271 vested on March 5, 2014 and 5,271 will vest March 5, 2015, subject to Mr. Lee's remaining continuously employed by us through the vesting date. With respect to Mr. Lee's unvested options granted on March 4, 2013, 3,173 vested on March 4, 2014 and 3,173 will vest on each of March 4, 2015 and 2016, subject in each case to Mr. Lee's remaining continuously employed by us through the vesting date.

- (2) Each of our named executive officers has received restricted stock grants having a three-year cliff vest. The vesting of the restricted stock grants set forth in the table above is as follows:

Mr. Fogarty received a grant of 16,977 restricted shares on March 7, 2011, which vested on March 7, 2014, a grant of 15,517 restricted shares on March 5, 2012, which will vest on March 5, 2015, and a

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grant of 33,564 restricted shares on March 4, 2013, which will vest on March 4, 2016, subject in each case to Mr. Fogarty's remaining continuously employed by us through the vesting date.

Mr. Tremblay received a grant of 4,547 restricted shares on March 7, 2011, which vested on March 7, 2014, a grant of 4,170 restricted shares on March 5, 2012, which will vest on March 5, 2015, and a grant of 7,551 restricted shares on March 4, 2013, which will vest on March 4, 2016, subject in each case to Mr. Tremblay's remaining continuously employed by us through the vesting date.

Dr. Jung received a grant of 4,260 restricted shares on March 14, 2011, which vested on March 14, 2014, and a grant of 3,695 restricted shares on March 5, 2012, which will vest on March 5, 2015, and a grant of 4,908 restricted shares on March 4, 2013, which will vest on March 4, 2016, subject in each case to Dr. Jung's remaining continuously employed by us through the vesting date.

Dr. Freund received a grant of 3,941 restricted shares on March 7, 2011, which vested on March 7, 2014, a grant of 3,431 restricted shares on March 5, 2012, which will vest on March 5, 2015, and a grant of 4,908 restricted shares on March 4, 2013, which will vest on March 4, 2016, subject in each case to Dr. Freund's remaining continuously employed by us through the vesting date.

Mr. Lee received a grant of 3,335 restricted shares on March 7, 2011, which vested on March 7, 2014, a grant of 3,167 restricted shares on March 5, 2012, which will vest on March 5, 2015, and a grant of 4,908 restricted shares on March 4, 2013, which will vest on March 4, 2016, subject in each case to Mr. Lee's remaining continuously employed by us through the vesting date.

- (3) The market value of shares that have not yet vested and of equity incentive plan awards that have not been earned is calculated based on our closing price on December 31, 2013, the last trading day of the year, which was \$23.05.
- (4) The number of shares reported in this column (i) and the payout value in column (j) is based on the achievement of threshold performance levels of Adjusted EBITDA at ECRC.

2013 Pension Benefits

The following table sets forth information regarding participation of our named executive officers in our pension plans.

Name (a)	Plan Name (b)	Number of Years Credited Services (#) (c)	Present Value of Accumulated Benefit (\$) (d)	Payments During Last Fiscal Year (\$) (e)
Kevin M. Fogarty	Pension Plan	0.60	9,183	
	Pension Benefit Restoration Plan			
Stephen E. Tremblay	Pension Plan			
	Pension Benefit Restoration Plan			
Holger R. Jung	Pension Plan			
	Pension Benefit Restoration Plan			
Lothar P. F. Freund	Pension Plan	0.34	6,743	
	Pension Benefit Restoration Plan			
G. Scott Lee	Pension Plan	28.57	930,527	
	Pension Benefit Restoration Plan			28.57

For a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC, please refer to *Compensation Discussion and Analysis - Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDA at ECRC and Gross Profit to Gross Profit at ECRC*.

Table of Contents**U.S. Pension Plan**

We maintain a tax-qualified noncontributory defined benefit pension plan that covers our U.S. eligible employees hired prior to October 15, 2005, our former employees and our retirees. See Note 12, *Employee Benefits*, in the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013. We make contributions to the plan on behalf of our eligible employees. Employees do not make contributions to the plan. The pension plan is intended to qualify under Section 401 of the Internal Revenue Code.

The normal retirement benefit formula for participants is approximately 1.6% of the participant's average final compensation multiplied by his years of accredited service, minus a percentage of benefits received under social security. The company does not have a policy of granting extra years of service. The primary elements of compensation that are included in applying the payment and benefit formulae are (i) base salary, including salary deferrals, and (ii) non-deferred payments under incentive compensation plans prior to a participant's separation from service, provided that no more than three consecutive payments of incentive compensation are taken into account.

Participants become eligible to begin receiving payments when they reach the normal retirement age of 65. Under certain circumstances participants are eligible to receive payments at early retirement; however, under no circumstances can a participant be qualified for early retirement before the age of 45. None of our named executive officers is currently eligible for early retirement under the terms of the pension plan or the pension benefit restoration plan described below. Benefits under the pension plan for Messrs. Fogarty, Freund and Lee were frozen as of December 31, 2005; however, they continue to accumulate years of credited service for purposes of vesting under the plan. The other named executive officers do not participate in the pension plan.

Pension Benefit Restoration Plan

Certain participants in the tax-qualified pension plan, including the participating named executive officers, are eligible to participate in a non-qualified pension benefit restoration plan, which is intended to restore certain benefits that may not be provided under the pension plan due to certain limitations that are imposed on tax-qualified plans under the Internal Revenue Code. The terms set forth above with regard to the pension plan also apply to the pension benefit restoration plan, which is generally designed to mirror the pension plan.

2013 Nonqualified Deferred Compensation

The following table sets forth information regarding participation of our named executive officers in our non-qualified deferred compensation plans. Amounts set forth in the table are under our Benefits Restoration Plan.

Name (a)	Executive Contributions in 2013 (\$) (b)	Company Contributions in 2013 (\$) (1) (c)	Aggregate Earnings in 2013 (\$) (2) (d)	Aggregate Withdrawals/ Distributions (\$) (e)	Aggregate Balance at 12/31/2013 (\$) (f)
Kevin M. Fogarty	66,965	99,424	95,583		785,139
Stephen E. Tremblay	18,187	28,425	15,843		211,151
Holger R. Jung	12,635	12,574	3,864		58,785
Lothar P. F. Freund	11,830	16,052	12,257		160,918
G. Scott Lee	10,434	3,600	26,901		114,202

(1) Amounts set forth in this column were reported in All Other Compensation in our 2013 Summary Compensation Table.

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- (2) Our named executive officers do not earn above-market or preferential earnings on contributions under this plan, so these amounts were not reported in the *2013 Summary Compensation Table*. In 2013, our named executive officers invested in the following funds with the following annual rates of return: Baron Growth (38.32%); Baron Small Cap (37.77%); DWS Equity Dividend (27.34%); Fidelity Blue Chip Growth (39.84%); Fidelity Blue Chip Value (35.64%); Fidelity Contrafund (34.15%); Fidelity Freedom 2020 (13.22%); Fidelity Freedom 2025 (16.50%); Fidelity Freedom 2030 (18.13%); Fidelity Freedom 2035 (20.68%); Fidelity Freedom Income (4.56%); Fidelity Growth and Income (33.40%); Fidelity Large Cap Stock (39.24%); Fidelity OTC Portfolio (46.50%); Fidelity Pacific Basin (27.43%); Fidelity Real Estate Invs (1.53%); Fidelity Worldwide (31.55%); Mutual Global Discovery A (25.25%); PIMCO High Yield Administrative (5.51%).

Deferred Compensation and Restoration Plan

Our Deferred Compensation and Restoration Plan is intended to restore certain benefits that may not be provided under our tax-qualified savings plan due to limitations under the Internal Revenue Code on tax-qualified plans. We amended our benefits restoration plan and discontinued our deferred compensation plan effective January 1, 2013.

Our Benefits Restoration Plan offers participants the opportunity to defer a portion of their base compensation in excess of the compensation limit under the Internal Revenue Code (*compensation limit*) that applies to our tax-qualified 401(k) plan (*deferral contributions*). Deferral contributions are limited to the matched contribution percentage of the participant's base compensation under our 401(k) plan. Participants receive employer matching contributions under our Benefits Restoration Plan on their deferral contributions based on the employer matching contribution formula under our 401(k) plan. Also, participants have the opportunity to receive non-elective employer contributions under our Benefits Restoration Plan based on the enhanced employer contribution formula under our 401(k) plan based on their base compensation in excess of the compensation limit. To make deferral contributions, a participant must complete a deferral election prior to January 1st of the plan year during which the deferrals will be made. Deferrals and employer contributions are credited to a bookkeeping account and notionally invested in accordance with the participant's investment elections in the investment options selected for the plan.

A participant's deferral contributions (and earnings thereon) made under the Benefits Restoration Plan on and after January 1, 2013 will be paid to the participant in a lump sum cash payment 183 days after the participant's separation from service date. Deferral contributions (and earnings thereon) made prior to 2013 are subject to the terms and conditions of the plan and the participant's deferral elections in effect at the time the amounts were contributed to the plan, including with respect to the form of payment of the participant's pre-2013 benefits.

Termination and Change in Control Payments

The following tables set forth the estimated value of payments and benefits that our named executive officers would be entitled to receive assuming certain terminations of employment and/or assuming a change in control of Kraton, in each case occurring on December 31, 2013, in addition to the amounts they would be entitled to receive pursuant to the pension plan, the pension benefit restoration plan and the deferred compensation and restoration plan, each as described above, as well as benefits available generally to salaried employees. Excluded from the tables below are payouts under the Executive Deferred Compensation Plan, a plan formerly available to our executives, now frozen, under which they were allowed to defer a portion of their annual cash bonus, which was invested in phantom shares of Kraton common stock that are to be issued six months after the executive's separation from service.

The following tables reflect amounts that would be due to our named executive officers under the Kraton Performance Polymers, Inc. Executive Severance Program as it existed on December 31, 2013. Additional description of the Executive Severance Program immediately follows these tables.

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The closing of the pending combination with LCY will constitute a change in control under our Executive Severance Plan and 2009 Equity Incentive Plan. However, both plans require a termination of employment within a certain period of time following the change in control in order for the change in control payment or vesting acceleration, as applicable, to occur (a double trigger requirement). We agreed in the Combination Agreement to amend our Executive Severance Plan prior to the closing of the LCY Combination and revise our equity award forms for grants made after the date of the Combination Agreement (and the closing date) to prevent a second change in control from occurring with respect to LCY after the closing date of the LCY Combination in the event the aggregate share holdings of LCY and its respective affiliates exceed 50% of the total fair market value or total voting power of our common stock solely due to a decrease in the total number of our shares that are outstanding. We also agreed, prior to the closing, to amend our Change in Control Severance Plan to reduce the ownership interest requirement for a change in control from 50% to 40% with respect to transactions (other than merger or consolidation transactions) that may occur after the closing of the LCY Combination.

Kevin M. Fogarty

In addition to the amounts set forth in the table below, on the first day of the seventh month from his date of separation, Mr. Fogarty would be entitled to the issuance of 27,809 shares of Kraton common stock based on phantom shares of Kraton common stock Mr. Fogarty holds as a result of deferrals of bonus compensation he had previously made under the terms of the Executive Deferred Compensation Plan and as a result of a grant of phantom stock prior to our initial public offering.

Triggering Event	Severance Payment(\$)	Accelerated Vesting of Equity Awards (\$) (4)	Continuation of Medical Benefits (\$)	Total (\$)
Termination of Employment:				
By us for cause or resignation by executive without good reason				
By us without cause or by executive for good reason (1)	2,238,694		42,805	2,281,499
By us without cause or by executive for good reason within one year after a change in control (2)	4,477,388	2,390,822	64,207	6,932,418
Upon Disability or Death (3)	692,463	1,031,533		1,723,996
Upon a Change in Control				

- (1) Upon termination of Mr. Fogarty's employment by us without cause or by Mr. Fogarty for good reason, Mr. Fogarty is entitled to (i) continuation of base salary for 18 months, (ii) a lump sum cash payment equal to 1.5 times Mr. Fogarty's average annual bonus paid over the prior three years and (iii) continuation of medical benefits for up to 18 months (such benefits cease when Mr. Fogarty becomes entitled to benefits from a new employer, if any; however, for the purposes of this table, we have assumed such benefits shall continue for 18 months).
- (2) Upon termination of Mr. Fogarty's employment by us without cause or by Mr. Fogarty for good reason within one year after a change in control, Mr. Fogarty is entitled to (i) continuation of base salary for 36 months, (ii) a lump sum cash payment equal to three times Mr. Fogarty's average annual bonus paid over the prior three years and (iii) continuation of medical benefits for up to 36 months (such benefits cease when Mr. Fogarty becomes entitled to benefits from a new employer, if any; however, for the purposes of this table, we have assumed such benefits shall continue for 36 months).
- (3) Upon termination of Mr. Fogarty's employment due to Disability or Death, Mr. Fogarty, or his estate, is entitled to a lump sum cash payment equal to the product of Mr. Fogarty's average annual bonus paid over the prior three years, times a fraction, the numerator of which is the number of days Mr. Fogarty worked in the year in which the termination event occurred and the denominator of which is 365.

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- (4) Equity awards vest in accordance with the terms of the individual grant agreements with respect to each award. Options, restricted shares and restricted stock performance units (which vest at the Target amount) held by Mr. Fogarty vest immediately in the event of termination of Mr. Fogarty's employment by us without cause within one year following a change in control. Commencing in 2013, option and restricted share awards will also vest in full upon the termination of the grantee's employment due to Disability or death, and restricted stock performance units will vest at 1/3 of Target (if termination occurs prior to the first anniversary of grant), 2/3 of target (after the first anniversary, but prior to the second) or in full (after the second anniversary of grant). The value in this column represents an amount equal to the number of shares underlying Mr. Fogarty's unvested restricted stock, restricted stock performance units and stock options as of December 31, 2013 multiplied by (i) in the case of restricted stock and restricted stock performance units, the closing market price of our common stock on December 31, 2013 (\$23.05), which was the last trading day of fiscal 2013, and (ii) in the case of stock options, the spread between the closing market price of our common stock on December 31, 2013 (\$23.05) and the applicable exercise price of each stock option.

Stephen E. Tremblay

Triggering Event	Severance Payment(\$)	Accelerated Vesting of Equity Awards (\$ (4)	Continuation of Medical Benefits (\$)	Total (\$)
Termination of Employment:				
By us for cause or resignation by executive without good reason				
By us without cause or by executive for good reason (1)	621,142		16,575	637,717
By us without cause or by executive for good reason within one year after a change in control (2)	1,242,283	328,076	24,863	1,595,222
Upon Disability or Death (3)	201,142	232,067		433,209
Upon a Change in Control				

- (1) Upon termination of Mr. Tremblay's employment by us without cause or by Mr. Tremblay for good reason, Mr. Tremblay is entitled to (i) continuation of base salary for 12 months, (ii) a lump sum cash payment equal to one times Mr. Tremblay's average annual bonus paid over the prior three years and (iii) continuation of medical benefits for up to 12 months (such benefits cease when Mr. Tremblay becomes entitled to benefits from a new employer, if any; however, for the purposes of this table, we have assumed such benefits shall continue for 12 months).
- (2) Upon termination of Mr. Tremblay's employment by us without cause or by Mr. Tremblay for good reason within one year after a change in control, Mr. Tremblay is entitled to (i) continuation of base salary for 24 months, (ii) a lump sum cash payment equal to two times Mr. Tremblay's average annual bonus paid over the prior three years and (iii) continuation of medical benefits for up to 24 months (such benefits cease when Mr. Tremblay becomes entitled to benefits from a new employer, if any; however, for the purposes of this table, we have assumed such benefits shall continue for 24 months).
- (3) Upon termination of Mr. Tremblay's employment due to Disability or Death, Mr. Tremblay, or his estate, is entitled to a lump sum cash payment equal to the product of Mr. Tremblay's average annual bonus paid over the prior three years, times a fraction, the numerator of which is the number of days Mr. Tremblay worked in the year in which the termination event occurred and the denominator of which is 365.
- (4) Equity awards vest in accordance with the terms of the individual grant agreements with respect to each award. Options, restricted shares and restricted stock performance units (which vest at the Target amount) held by Mr. Tremblay vest immediately in the event of termination of Mr. Tremblay's employment by us without cause within one year following a change in control. Commencing in 2013, option and restricted share awards will also vest in full upon the termination of the grantee's employment due to Disability or death, and restricted stock performance units will vest at 1/3 of Target (if termination occurs prior to the

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first anniversary of grant), 2/3 of target (after the first anniversary, but prior to the second) or in full (after the second anniversary of grant). The value in this column represents an amount equal to the number of shares underlying Mr. Tremblay's unvested restricted stock, restricted stock performance units and stock options as of December 31, 2013 multiplied by (i) in the case of restricted stock and restricted stock performance units, the closing market price of our common stock on December 31, 2013 (\$23.05), which was the last trading day of fiscal 2013, and (ii) in the case of stock options, the spread between the closing market price of our common stock on December 31, 2013 (\$23.05) and the applicable exercise price of each stock option.

Holger R. Jung

Triggering Event	Severance Payment(\$)	Accelerated Vesting of Equity Awards (\$)(4)	Continuation of Medical Benefits (\$)	Total (\$)
Termination of Employment:				
By us for cause or resignation by executive without good reason				
By us without cause or by executive for good reason (1)	519,930		19,255	539,185
By us without cause or by executive for good reason within one year after a change in control (2)	1,039,860	183,363	28,883	1,252,106
Upon Disability or Death (3)	158,930	150,516		309,446
Upon a Change in Control				

- (1) Upon termination of Dr. Jung's employment by us without cause or by Dr. Jung for good reason, Dr. Jung is entitled to (i) continuation of base salary for 12 months, (ii) a lump sum cash payment equal to one times Dr. Jung's average annual bonus paid over the prior three years and (iii) continuation of medical benefits for up to 12 months (such benefits cease when Dr. Jung becomes entitled to benefits from a new employer, if any; however, for the purposes of this table, we have assumed such benefits shall continue for 12 months).
- (2) Upon termination of Dr. Jung's employment by us without cause or by Dr. Jung for good reason within one year after a change in control, Dr. Jung is entitled to (i) continuation of base salary for 24 months, (ii) a lump sum cash payment equal to two times Dr. Jung's average annual bonus paid over the prior three years and (iii) continuation of medical benefits for up to 24 months (such benefits cease when Dr. Jung becomes entitled to benefits from a new employer, if any; however, for the purposes of this table, we have assumed such benefits shall continue for 24 months).
- (3) Upon termination of Dr. Jung's employment due to Disability or Death, Dr. Jung, or his estate, is entitled to a lump sum cash payment equal to the product of Dr. Jung's average annual bonus paid over the prior three years, times a fraction, the numerator of which is the number of days Dr. Jung worked in the year in which the termination event occurred and the denominator of which is 365.
- (4) Equity awards vest in accordance with the terms of the individual grant agreements with respect to each award. Options, restricted shares and restricted stock performance units (which vest at the Target amount) held by Dr. Jung vest immediately in the event of termination of Dr. Jung's employment by us without cause within one year following a change in control. Commencing in 2013, option and restricted share awards will also vest in full upon the termination of the grantee's employment due to Disability or death, and restricted stock performance units will vest at 1/3 of Target (if termination occurs prior to the first anniversary of grant), 2/3 of target (after the first anniversary, but prior to the second) or in full (after the second anniversary of grant). The value in this column represents an amount equal to the number of shares underlying Dr. Jung's unvested restricted stock, restricted stock performance units and stock options as of December 31, 2013 multiplied by (i) in the case of restricted stock and restricted stock performance units, the closing market price of our common stock on December 31, 2013 (\$23.05), which was the last trading day of fiscal 2013, and (ii) in the case of stock options, the spread between the closing market price of our common stock on December 31, 2013 (\$23.05) and the applicable exercise price of each stock option.

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Triggering Event	Severance Payment(\$)	Accelerated Vesting of Equity Awards (\$ (4)	Continuation of Medical Benefits (\$)	Total (\$)
Termination of Employment:				
By us for cause or resignation by executive without good reason				
By us without cause or by executive for good reason (1)	499,755		21,402	521,157
By us without cause or by executive for good reason within one year after a change in control (2)	999,510	246,212	32,104	1,277,826
Upon Disability or Death (3)	161,755	150,516		312,271
Upon a Change in Control				

- (1) Upon termination of Dr. Freund's employment by us without cause or by Dr. Freund for good reason, Dr. Freund is entitled to (i) continuation of base salary for 12 months, (ii) a lump sum cash payment equal to one times Dr. Freund's average annual bonus paid over the prior three years and (iii) continuation of medical benefits for up to 12 months (such benefits cease when Dr. Freund becomes entitled to benefits from a new employer, if any; however, for the purposes of this table, we have assumed such benefits shall continue for 12 months).
- (2) Upon termination of Dr. Freund's employment by us without cause or by Dr. Freund for good reason within one year after a change in control, Dr. Freund is entitled to (i) continuation of base salary for 24 months, (ii) a lump sum cash payment equal to two times Dr. Freund's average annual bonus paid over the prior three years and (iii) continuation of medical benefits for up to 24 months (such benefits cease when Dr. Freund becomes entitled to benefits from a new employer, if any; however, for the purposes of this table, we have assumed such benefits shall continue for 24 months).
- (3) Upon termination of Dr. Freund's employment due to Disability or Death, Dr. Freund, or his estate, is entitled to a lump sum cash payment equal to the product of Dr. Freund's average annual bonus paid over the prior three years, times a fraction, the numerator of which is the number of days Dr. Freund worked in the year in which the termination event occurred and the denominator of which is 365.
- (4) Equity awards vest in accordance with the terms of the individual grant agreements with respect to each award. Options, restricted shares and restricted stock performance units (which vest at the Target amount) held by Dr. Freund vest immediately in the event of termination of Dr. Freund's employment by us without cause within one year following a change in control. Commencing in 2013, option and restricted share awards will also vest in full upon the termination of the grantee's employment due to Disability or death, and restricted stock performance units will vest at 1/3 of Target (if termination occurs prior to the first anniversary of grant), 2/3 of target (after the first anniversary, but prior to the second) or in full (after the second anniversary of grant). The value in this column represents an amount equal to the number of shares underlying Dr. Freund's unvested restricted stock, restricted stock performance units and stock options as of December 31, 2013 multiplied by (i) in the case of restricted stock and restricted stock performance units, the closing market price of our common stock on December 31, 2013 (\$23.05), which was the last trading day of fiscal 2013, and (ii) in the case of stock options, the spread between the closing market price of our common stock on December 31, 2013 (\$23.05) and the applicable exercise price of each stock option.

Table of Contents*G. Scott Lee*

Triggering Event	Severance Payment(\$)	Accelerated Vesting of Equity Awards (\$ (4)	Continuation of Medical Benefits (\$)	Total (\$)
Termination of Employment:				
By us for cause or resignation by executive without good reason				
By us without cause or by executive for good reason (1)	464,021		21,402	485,424
By us without cause or by executive for good reason within one year after a change in control (2)	928,043	177,321	32,104	1,137,467
Upon Disability or Death (3)	144,021	150,516		294,537
Upon a Change in Control				

- (1) Upon termination of Mr. Lee's employment by us without cause or by Mr. Lee for good reason, Mr. Lee is entitled to (i) continuation of base salary for 12 months, (ii) a lump sum cash payment equal to one times Mr. Lee's average annual bonus paid over the prior three years and (iii) continuation of medical benefits for up to 12 months (such benefits cease when Mr. Lee becomes entitled to benefits from a new employer, if any; however, for the purposes of this table, we have assumed such benefits shall continue for 12 months).
- (2) Upon termination of Mr. Lee's employment by us without cause or by Mr. Lee for good reason within one year after a change in control, Mr. Lee is entitled to (i) continuation of base salary for 24 months, (ii) a lump sum cash payment equal to two times Mr. Lee's average annual bonus paid over the prior three years and (iii) continuation of medical benefits for up to 24 months (such benefits cease when Mr. Lee becomes entitled to benefits from a new employer, if any; however, for the purposes of this table, we have assumed such benefits shall continue for 24 months).
- (3) Upon termination of Mr. Lee's employment due to Disability or Death, Mr. Lee, or his estate, is entitled to a lump sum cash payment equal to the product of Mr. Lee's average annual bonus paid over the prior three years, times a fraction, the numerator of which is the number of days Mr. Lee worked in the year in which the termination event occurred and the denominator of which is 365.
- (4) Equity awards vest in accordance with the terms of the individual grant agreements with respect to each award. Options, restricted shares and restricted stock performance units (which vest at the Target amount) held by Mr. Lee vest immediately in the event of termination of Mr. Lee's employment by us without cause within one year following a change in control. Commencing in 2013, option and restricted share awards will also vest in full upon the termination of the grantee's employment due to Disability or death, and restricted stock performance units will vest at 1/3 of Target (if termination occurs prior to the first anniversary of grant), 2/3 of target (after the first anniversary, but prior to the second) or in full (after the second anniversary of grant). The value in this column represents an amount equal to the number of shares underlying Mr. Lee's unvested restricted stock, restricted stock performance units and stock options as of December 31, 2013 multiplied by (i) in the case of restricted stock and restricted stock performance units, the closing market price of our common stock on December 31, 2013 (\$23.05), which was the last trading day of fiscal 2013, and (ii) in the case of stock options, the spread between the closing market price of our common stock on December 31, 2013 (\$23.05) and the applicable exercise price of each stock option.

Severance Arrangements under Executive Severance Program

The executive severance program generally sets forth the severance, if any, a named executive officer is entitled to receive under specified circumstances. Any executive who is not party to an employment agreement with us is eligible to be named as a participant in the severance program. Participants are designated by the Compensation Committee each calendar year and are subject to removal from the program upon written notice from the committee. The severance program provides for the payment of severance benefits upon the occurrence

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of certain termination events. The provisions of the severance program that are related to payments on termination of employment or a change in control of Kraton are set forth in the tabular disclosure directly above under the heading *Termination and Change in Control Payments*.

Generally, the severance program defines *Cause* to mean (A) the executive's continued failure substantially to perform the executive's duties, provided that we cannot terminate the executive's employment for Cause because of dissatisfaction with the quality of services provided by or disagreement with the actions taken by him or her in the good faith performance of his or her duties to our company; (B) failure to maintain his principal residence in the same metropolitan area as our principal headquarters, or elsewhere as mutually agreed; (C) theft or embezzlement of our company's property; (D) executive's conviction of or plea of guilty or no contest to (i) a felony or (ii) a crime involving moral turpitude; (E) the executive's willful malfeasance or willful misconduct in connection with his or her duties or any act or omission which is materially injurious to the financial condition or business reputation of our company or any of its subsidiaries or affiliates; or (F) the executive's breach of the restrictive covenants in any confidentiality, non-compete or non-solicitation agreement.

Generally, the severance program defines *Good Reason* to mean (A) our failure to pay the executive's Base Salary or Annual Bonus (if any) when due; (B) a material reduction in the executive's Base Salary, the Target Annual Bonus opportunity, or Employee Benefits, other than an across-the-board reduction; (C) a relocation of the executive's primary work location more than 50 miles from Houston, TX, without written consent; or (D) a material reduction in the executive's duties and responsibilities, provided that none of these events shall constitute Good Reason if it was an isolated and inadvertent action not taken in bad faith and if it is remedied by us within 30 days after receipt of written notice (or, if the matter is not capable of remedy within 30 days, then within a reasonable period of time following such 30-day period, provided that we have commenced remedy within said 30-day period).

Employee Confidentiality and Non-competition Agreements

Each of our named executive officers has entered into an Employee Confidentiality and Non-competition Agreement containing confidentiality provisions and providing for customary restrictive covenants, including non-competition and non-solicitation provisions for a period of 12 months following termination of employment.

Table of Contents**DIRECTOR COMPENSATION**

The table below summarizes the compensation paid by us to our non-employee directors. We also reimburse our directors for travel, lodging and related expenses incurred in attending board or committee meetings and for directors' education programs and seminars.

2013 Compensation of Directors

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) (1)	Total (\$)
Richard C. Brown (2)	92,500	69,980	162,480
Anna C. Catalano	80,000	69,980	149,980
Steven J. Demetriou (3)	90,000	69,980	159,980
Dominique Fournier	80,000	69,980	149,980
John J. Gallagher, III	80,000	69,980	149,980
Barry J. Goldstein (4)	97,500	69,980	167,480
Francis S. Kalman	80,000	69,980	149,980
Dan F. Smith (5)	210,000	69,980	279,980
Karen A. Twitchell	80,000	69,980	149,980

- (1) Amounts set forth in the Stock Awards column represent the aggregate grant date fair value with respect to grants of fully vested common stock in accordance with the Financial Accounting Standards Board ASC Topic 718 (disregarding the estimate of forfeitures related to service-based vesting conditions). For a discussion of the assumptions used in calculating the fair value of our stock-based compensation, refer to Note 3, *Share-Based Compensation*, in the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013.
- (2) At December 31, 2013, Mr. Brown had 16,651 options outstanding, all of which were exercisable.
- (3) At December 31, 2013, Mr. Demetriou had 7,400 options outstanding, all of which were exercisable.
- (4) At December 31, 2013, Mr. Goldstein had 16,651 options outstanding, all of which were exercisable.
- (5) At December 31, 2013, Mr. Smith had 14,801 options outstanding, all of which were exercisable, and 22,202 shares of restricted stock, which vested on January 27, 2013.

2013 Director Compensation

During 2013, our non-management directors were compensated by a combination of retainers and grants of fully-vested Kraton common stock.

Retainers

Our non-management directors received retainers for serving on our board of directors as follows:

Position	Retainer (\$)
Board Member	80,000
Chairman of the Board	130,000
Audit Committee Chair	17,500
Compensation Committee Chair	12,500
Nominating and Corporate Governance Committee Chair	10,000

Equity Awards

All of our non-management directors received a grant of \$70,000 of our fully-vested common stock in March 2013.

Table of Contents*Compensation Consultant*

In November 2012, Pearl Meyer conducted an analysis of the director compensation of our peers, and the Nominating and Corporate Governance Committee used such data in preparing its recommendation to the Board of Directors for 2013 director compensation. The committee expressed its intent to revisit the compensation consultant's analysis on a biennial basis.

2014 Director Compensation

For 2014, our board has adopted the following compensation program for our non-management directors under which these directors are to be compensated by a combination of retainers and grants of fully-vested Kraton common stock.

Retainers

Our non-management directors will receive retainers for serving on our board of directors as follows:

Position	Retainer (\$)
Board Member	80,000
Chairman of the Board	130,000
Audit Committee Chair	17,500
Compensation Committee Chair	12,500
Nominating and Corporate Governance Committee Chair	10,000

Equity Awards

All of our non-management directors received a grant of \$70,000 of our fully-vested common stock in March 2014.

Compensation Consultant

In setting 2014 director compensation, the Nominating and Corporate Governance Committee again relied on the November 2012 Pearl Meyer analysis described above, which the committee confirmed remained current based on an informal review of the director compensation data of the peer companies used to determine executive compensation.

Director Stock Ownership Guidelines

To further align the financial interests of our directors with those of our stockholders, our board of directors has adopted stock ownership guidelines applicable to any director who is not subject to our executive stock ownership guidelines. Under these guidelines, each covered director should own shares of our stock valued at three times the total annual retainer for service on our board. The qualifying shares, compliance period and other relevant terms are identical to those under our executive stock ownership guidelines. For a further discussion of those provisions, see *Compensation Discussion and Analysis Other Compensation Policies: Executive Stock Ownership Guidelines*. As of December 31, 2013, it was determined that all directors subject to the guidelines were making reasonable progress toward their respective ownership targets.

Indemnification of Officers and Directors and Limitation of Liability

Our certificate of incorporation and bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by Delaware law, as it now exists or may in the future be amended, against all expenses and liabilities reasonably incurred in connection with their service for or on behalf of Kraton. In addition, our

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certificate of incorporation provides that our directors will not be personally liable for monetary damages to us for breaches of their fiduciary duty as directors, unless they violated their duty of loyalty to us or our stockholders, acted in bad faith, knowingly or intentionally violated the law, authorized illegal dividends or redemptions, or derived an improper personal benefit from their action as directors. We maintain liability insurance that insures our directors and officers against certain losses and that insures us against our obligations to indemnify our directors and officers.

In addition, we have entered into indemnification agreements with each of our directors and officers, including our named executive officers.

These agreements, among other things, require us to indemnify each director and officer to the fullest extent permitted by Delaware law, including indemnification of expenses such as attorneys' fees, judgments, fines, and settlement amounts incurred by the director or officer in any action or proceeding, including any action or proceeding by or in right of us, arising out of the person's services as a director or officer. We are obligated to advance expenses under the agreements upon an indemnitee's request, provided the indemnitee delivers an undertaking to repay any amounts advanced if it is ultimately determined that indemnification is not available under the agreement.

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PROPOSAL 2 ADVISORY VOTE ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS

The Dodd-Frank Wall Street Reform and Consumer Protection Act added Section 14A to the Securities Exchange Act of 1934, which requires that we provide our stockholders with the opportunity to vote to approve, on a nonbinding, advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission.

As discussed in the *Compensation Discussion and Analysis* section of this proxy statement, we seek to align the interests of our named executive officers with the interests of our stockholders. Our compensation programs are designed to reward our named executive officers for the achievement of short-term and long-term strategic and operational goals, while at the same time avoiding encouragement of unnecessary or excessive risk-taking. Elements of compensation paid to our named executive officers in 2013 included base salary, annual cash incentive compensation, long-term equity incentive compensation and other compensation. The Board of Directors invites you to review carefully the Compensation Discussion and Analysis and the tabular and other disclosures on executive compensation contained herein.

The board of directors recommends that stockholders vote FOR the following resolution:

RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation paid to its named executive officers, as disclosed in this proxy statement pursuant to the compensation rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure.

This proposal allows our stockholders to express their opinions regarding the decisions of the Compensation Committee on the prior year's compensation paid to our named executive officers. Your vote on this resolution is not intended to address any specific element of compensation; rather, the vote relates to the overall compensation of our named executive officers as described in this proxy statement. The vote is advisory, which means that it is not binding on the company, the board or the Compensation Committee. Your advisory vote will serve as an additional tool to guide the board of directors and the Compensation Committee in continuing to maintain the appropriate compensation programs to align executive compensation with the interests of Kraton and its stockholders. Accordingly, we and the board of directors welcome our stockholders' views on this subject and will consider the outcome of this vote when making future decisions regarding executive compensation. The board of directors has adopted a policy that provides for annual say on pay advisory votes.

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PROPOSAL 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our Audit Committee has selected KPMG LLP to serve as our independent registered public accounting firm for the year ending December 31, 2014. While the Audit Committee is responsible for the appointment, compensation, retention, termination and oversight of the independent auditor, we are requesting, as a matter of good corporate governance, that the stockholders ratify the appointment of KPMG LLP as our independent registered public accounting firm. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether to retain KPMG LLP and may retain that firm or another without re-submitting the matter to our stockholders. Even if the appointment is ratified, the Audit Committee may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year.

KPMG LLP's representatives are expected to be present at the Annual Meeting and will have an opportunity to make a statement, if they so desire, as well as to respond to appropriate questions asked by our stockholders.

The board of directors recommends that our stockholders vote FOR ratification of the selection of KPMG LLP as our independent registered public accounting firm.

Fees Paid to KPMG LLP

Audit Fees

During the years ended December 31, 2013 and 2012, the aggregate fees billed by KPMG LLP for the audit of our consolidated financial statements, review of our interim financial statements, review of our systems of internal control over financial reporting and statutory audits were \$1.8 million and \$1.8 million, respectively.

Audit-Related Fees

During the years ended December 31, 2013 and 2012, the aggregate fees for certain procedures performed by KPMG LLP that related to the performance of the audit or review of our financial statements and other professional services, but are not reportable as Audit Fees were \$0.4 million and \$0.2 million, respectively.

Tax Fees

During the years ended December 31, 2013 and 2012, the aggregate fees billed by KPMG LLP for tax compliance, tax advice and tax planning services were \$0.5 million and \$0.3 million, respectively. Such fees primarily related to consultations for certain tax matters with respect to our international operations.

All Other Fees

No other fees were billed by KPMG LLP during the years ended December 31, 2013 and 2012.

The services provided by KPMG LLP described in *Audit-Related Fees*, *Tax Fees* and *All Other Fees* above, if any, were approved by the Audit Committee according to applicable SEC rules.

Auditor Independence

The Audit Committee has considered whether the provision of the above-noted non-audit services is compatible with maintaining the independence of the independent registered public accounting firm and has determined, based on advice from KPMG LLP, that the provision of such services has not adversely affected KPMG LLP's independence.

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Audit Committee Pre-Approval Policies and Procedures

The Audit Committee's policy is that the committee shall pre-approve the audit and non-audit services performed by our independent registered public accounting firm to assure that the provision of such services does not impair our auditor's independence. Toward this end, our Audit Committee has identified certain services that will always require separate pre-approval on a case-by-case basis and has also provided for policy-based approvals by describing particular types of services that may be provided by our independent registered public accounting firm without consideration by the Audit Committee on a case-by-case basis. Unless a service is of a type that has received policy-based approval, as specifically identified in our pre-approval policy, the service will require separate approval by the Audit Committee.

Under our policy, the terms and fees for the annual financial statement audit and for the annual audit of our internal control over financial reporting always require separate approval on a case-by-case basis by the Audit Committee. The Audit Committee has granted policy-based pre-approval for other specified Audit Services, Audit-Related Services, Tax Services and All Other Services as scheduled in our pre-approval policy provided that in each case, such pre-approval is limited to \$100,000 per engagement with an annual calendar-year aggregate limit on all pre-approved engagements of \$500,000. All services to be provided by our independent registered public accounting firm are reviewed by the Audit Committee with the independent registered public accounting firm on a quarterly basis.

The Audit Committee may delegate pre-approval authority from time to time to one or more of its members in its discretion. Any committee member to whom pre-approval authority is delegated is required to report any pre-approval decisions to the full Audit Committee at its next meeting. The Audit Committee may not delegate its responsibilities to pre-approve services performed by the independent registered public accounting firm to any member of our management.

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee represents and assists the board in fulfilling its oversight responsibility relating to (i) the integrity of the company's financial statements and financial reporting process and the company's systems of internal accounting and financial controls; (ii) the performance of the internal audit services function; (iii) the annual independent audit of the company's financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; (iv) the compliance by the company with legal and regulatory requirements, including the company's disclosure controls and procedures; (v) the evaluation of enterprise risk issues; and (vi) the fulfillment of the other responsibilities set out in the committee's charter. The Audit Committee has the sole responsibility for the engagement and retention of the company's independent registered public accounting firm and the approval of all audit and other engagement fees.

In discharging its responsibilities, the committee is not itself responsible for the planning or conducting of audits or for any determination that the company's financial statements are complete and accurate or in accordance with generally accepted accounting principles. The company's management is primarily responsible for its financial statements and the quality and integrity of the reporting process. The independent registered public accounting firm KPMG LLP is responsible for auditing those financial statements and for expressing an opinion on the conformity of the consolidated financial statements with accounting principles generally accepted in the United States of America.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed our audited consolidated financial statements for the year ended December 31, 2013 and management's report of the effectiveness of the company's system of internal control over financial reporting with the company's management and representatives of the independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm the matters required to be discussed by the statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence and has discussed with the independent registered public accounting firm its independence.

KPMG LLP, which has served as our independent registered public accounting firm since 2001, audited the financial records of the company and its subsidiaries for the year ended December 31, 2013. Representatives of KPMG LLP are expected to be present at the Annual Meeting of Stockholders and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

In reliance on its review of the audited consolidated financial statements, the review of the report of management on the effectiveness of Kraton's internal control over financial reporting, the discussions referred to above and the receipt of the written disclosures referred to above, the Audit Committee has recommended to the board of directors that the audited consolidated financial statements be included in Kraton's Annual Report on Form 10-K for the year ended December 31, 2013, for filing with the SEC.

Submitted by the Audit Committee:

Barry J. Goldstein, *Chairman*

John J. Gallagher, III

Francis S. Kalman

Karen A. Twitchell

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OTHER BUSINESS

The board of directors is not aware of any other matter to be submitted at the Annual Meeting of Stockholders. If any other matter properly comes before the annual meeting, the persons named in the enclosed form of proxy generally will have discretionary authority to vote the shares thereby represented in accordance with their judgment.

INCORPORATION BY REFERENCE

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings including this proxy statement, in whole or in part, the report of the Compensation Committee and the report of the Audit Committee included in this proxy statement shall not be incorporated by reference to any such filings.

STOCKHOLDER PROPOSALS AND NOMINATIONS FOR 2015 ANNUAL MEETING

Inclusion of Proposals in Our Proxy Statement and Proxy Card under the SEC's Rules

Any proposal of a stockholder intended to be included in our proxy statement and form of proxy/voting instruction card for the 2015 annual meeting of stockholders pursuant to Rule 14a-8 of the SEC's rules must be received by us no later than December 16, 2014, unless the date of our 2015 annual meeting is more than 30 days before or after June 3, 2015, in which case the proposal must be received a reasonable time before we begin to print and mail our proxy materials. All proposals should be addressed to The Secretary of the Company, Kraton Performance Polymers, Inc., 15710 John F. Kennedy Boulevard, Suite 300, Houston, Texas 77032.

Bylaw Requirements for Stockholder Submission of Nominations and Proposals

A stockholder recommendation for nomination of a person for election to our board or a proposal for consideration at our 2015 annual meeting must be submitted in accordance with the advance notice procedures and other requirements set forth in our bylaws. These requirements are separate from, and in addition to, the requirements discussed above to have the stockholder nomination or other proposal included in our proxy statement and form of proxy/voting instruction card pursuant to the SEC's rules. The item to be brought before the meeting must be a proper subject for stockholder action. Our bylaws require that the proposal or recommendation for nomination must be received by our Secretary at the above address not later than March 5, 2015, nor earlier than February 3, 2015, unless the date of our 2015 annual meeting is more than 30 days before or more than 60 days after June 3, 2015, the anniversary of our 2014 annual meeting, in which case notice by the stockholder to be timely must be so delivered not earlier than 120 days prior to such annual meeting and not later than the close of business on the later of the ninetieth day prior to such annual meeting or, if the first public announcement of the date of the annual meeting is less than 100 days prior to the date of the meeting, the tenth day following the day on which public announcement of the date of such meeting is first made. Stockholder proposals or nominations must include specified information concerning the stockholder and the proposal or nominee as provided in our bylaws.

Stockholder Proposals after the LCY Combination

If the LCY Combination closes before a 2015 annual meeting, we will not be subject to SEC Rule 14a-8 governing stockholder proposals if we qualify as a foreign private issuer at the applicable time. Further, instead of the bylaw requirements outlined above, UK Holdco (which will become our parent company following the LCY Combination) will be subject to English law (including the United Kingdom Companies Act 2006) and the rules governing proposed shareholder resolutions in the articles of association of UK Holdco, which are currently

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in agreed form and will be adopted by UK Holdco at the closing of the LCY Combination. Under the United Kingdom Companies Act 2006 and the articles of association, the shareholders may request UK Holdco to (i) call a general meeting for the purposes of bringing a resolution before the meeting, or (ii) give notice of a resolution to be proposed at an annual general meeting. In order to do so and be able to vote on such resolution, the articles of association require that the shareholder deliver any such request in writing to the secretary of UK Holdco not later than March 5, 2015, nor earlier than February 3, 2015, unless the date of UK Holdco's 2015 annual general meeting would be more than 30 days before or more than 60 days after June 3, 2015, the anniversary of our 2014 annual meeting, in which case notice by the shareholder to be timely must be so delivered not earlier than 120 days prior to such annual general meeting and not later than the close of business on the later of the ninetieth day prior to such annual general meeting or, if the first public announcement of the date of the annual general meeting is less than 100 days prior to the date of the meeting, the tenth day following the day on which public announcement of the date of such meeting is first made. Shareholder proposals or nominations will need to include specified information concerning the shareholder and the proposal or nominee as provided in the articles of association of UK Holdco.

ADDITIONAL INFORMATION

Form 10-K

We will furnish without charge to each person whose proxy is being solicited, upon request of any such person, a copy of our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC, including the consolidated financial statements and schedules thereto, but not the exhibits.

Requests for copies of such report should be directed to Director of Investor Relations, Kraton Performance Polymers, Inc., 15710 John F. Kennedy Boulevard, Suite 300, Houston, Texas 77032. Copies of any exhibit to the Form 10-K will be forwarded upon receipt of a written request addressed to our Director of Investor Relations.

Important Notice Regarding Internet Availability of Proxy Materials for the 2014 Annual Meeting to be held on June 3, 2014

Our proxy material relating to our 2014 Annual Meeting (notice, proxy statement, proxy and 2013 Annual Report) will be available at Investor Relations on our website at www.kraton.com.

Delivery of Documents to Stockholders Sharing an Address

No more than one annual report and proxy statement are being sent to multiple stockholders sharing an address unless we have received contrary instructions from one or more of the stockholders at that address. Stockholders may request a separate copy of the most recent annual report and/or the proxy statement by writing to The Director of Investor Relations, Kraton Performance Polymers, Inc., 15710 John F. Kennedy Boulevard, Suite 300, Houston, Texas 77032, or by calling Investor Relations at 281-504-4700. Requests will be responded to promptly. Stockholders sharing an address who desire to receive multiple copies, or who wish to receive only a single copy, of the annual report and/or the proxy statement may write to the above address to request a change.

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WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, WE URGE YOU TO VOTE BY TELEPHONE, OVER THE INTERNET OR BY MARKING, SIGNING AND RETURNING YOUR PROXY OR VOTING INSTRUCTION CARD AS SOON AS POSSIBLE. NO POSTAGE IS NECESSARY IF MAILED IN THE UNITED STATES.

By Order of the Board of Directors,

STEPHEN W. DUFFY,

Vice President, General Counsel and Secretary

HOUSTON, TEXAS

April 15, 2014

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Kraton Performance Polymers, Inc.

2014 Annual Meeting of Stockholders

The Board of Directors Solicits this Proxy

PROXY

The undersigned hereby constitutes and appoints Kevin M. Fogarty, President and Chief Executive Officer of Kraton Performance Polymers, Inc., and Stephen E. Tremblay, Vice President and Chief Financial Officer of Kraton Performance Polymers, Inc., and each of them, acting in the absence of others, as proxies of the undersigned, with full power of substitution in the premises and with discretionary authority to each of them, to appear and vote, as designated herein, all shares of the common stock of Kraton Performance Polymers, Inc. held of record by the undersigned on April 8, 2014 at the Annual Meeting of Stockholders scheduled to be held at The Sheraton North Houston, 15700 John F. Kennedy Boulevard, Houston, Texas 77032 on June 3, 2014 at 1:00 p.m. central time, and at any and all postponements or adjournments thereof. The undersigned acknowledges receipt of the notice of and proxy statement for such annual meeting.

PROXY VOTING INSTRUCTIONS

MAIL Date, sign and mail your proxy card in the envelope provided as soon as possible.

-or-

TELEPHONE Call toll-free **1-800-652-VOTE** (1-800-652-8683) from any touch-tone telephone and follow the instructions. Have your proxy card available when you call.

-or-

INTERNET Access **www.investorvote.com/kra** and follow the on-screen instructions. Have your proxy card available when you access the web page.

You may enter your voting instructions at **1-800-652-VOTE** (1-800-652-8683) or **www.investorvote.com/kra** until 1:00 a.m. eastern time on June 3, 2014.

The Board of Directors recommends a vote FOR each of the nominees listed in Proposal 1,

FOR Proposal 2, and FOR Proposal 3.

Please sign, date and return promptly in the enclosed envelope. Please mark your vote in blue or black ink as shown here "

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1. To elect the nominees listed below as Class II Directors.

.. FOR all Nominees

.. FOR all Nominees EXCEPT: To withhold authority to vote for any individual nominee(s), mark (1) the box to the left and (2) the box(es) next to the nominee(s) for which you wish to withhold authority.

.. Dominique Fournier

.. John J. Gallagher III

.. Francis S. Kalman

.. Withhold Authority for all Nominees

	For	Against	Abstain
2. Advisory vote on the compensation of named executive officers

	For	Against	Abstain
3. To ratify the appointment of KPMG LLP as independent registered public accounting firm for the 2014 fiscal year.

4. In their discretion, the proxies are authorized to vote upon such business as may properly come before the Annual Meeting or any postponement or adjournment thereof.

IMPORTANT NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE 2014 ANNUAL MEETING

Our proxy material relating to our 2014 Annual Meeting (notice, proxy statement, proxy and 2013 Annual Report) will be available at Investor Relations on our website at www.kraton.com.

When properly executed, this proxy will be voted as designated herein by the undersigned. If no choice is specified, the proxy will be voted FOR the election of the nominees for Class II Director listed in Proposal 1, FOR Proposal 2, FOR Proposal 3 and according to the discretion of the proxy holders on any other matters that may properly come before the Annual Meeting or any and all postponements or adjournments thereof.

Signature of Stockholder: _____ Date: _____

Signature of Stockholder: _____ Date: _____

Note: This proxy must be signed exactly as the name appears hereon. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign in corporate name by duly authorized officer, giving full title as such and indicating full corporate name. If the signer is a partnership, please sign in partnership name by duly authorized person, giving full title as such and indicating full partnership name.