

KAPSTONE PAPER & PACKAGING CORP  
Form 10-K  
February 27, 2015

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-K**

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

**For the fiscal year ended December 31, 2014**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_,  
Commission File No.: 001-33494**

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**KapStone Paper and Packaging Corporation**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-2699372**  
(I.R.S. Employer  
Identification No.)

**KapStone Paper and Packaging Corporation  
1101 Skokie Blvd. Suite 300  
Northbrook, IL 60062**

(Address of principal executive offices) (ZIP Code)

Registrant's telephone number, including area code: **(847) 239-8800**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<b>Title of Each Class</b>	<b>Name of Exchange On Which Registered</b>
Common Stock (Par Value \$0.0001)	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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

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subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition of the above in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

(Do not check if a  
smaller reporting company)

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

The aggregate market value of the 83,731,109 shares of Common Stock held by non-affiliates of the registrant on June 30, 2014, was \$2,774,011,641. This calculation was made using a price per share of Common Stock of \$33.13; the closing price of the Common Stock on the New York Stock Exchange on June 30, 2014 the last day of the registrant's most recently completed second fiscal quarter of 2014. Solely for purposes of this calculation, all shares held by directors and executive officers of the registrant have been excluded. This exclusion should not be deemed an admission that these individuals are affiliates of the registrant.

On February 18, 2015, there were 96,085,557 shares of Common Stock outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE:**

The registrant's Definitive Proxy Statement for its 2015 Annual Meeting of Stockholders will be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K pursuant to General Instruction G(3) of the Form 10-K. Information from such Definitive Proxy Statement will be incorporated by reference into Part III.

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**PART I**

**Item 1. Business**

**KapStone Acquisition History**

KapStone Paper and Packaging Corporation was formed in Delaware as a special purpose acquisition corporation on April 15, 2005 for the purpose of effecting a merger, capital stock exchange, asset acquisition or other similar business combination with an unidentified operating business in the paper, packaging, forest products, and related industries. Unless the context otherwise requires, references to "KapStone," the "Company," "we," "us" and "our" refer to KapStone Paper and Packaging Corporation and its subsidiaries.

On January 2, 2007, we acquired from International Paper Company substantially all of the assets and assumed certain liabilities of the Kraft Papers Business ("KPB") for \$155.0 million, less \$7.8 million of working capital adjustments. The KPB assets consisted of an unbleached kraft paper manufacturing facility in Roanoke Rapids, North Carolina, Ride Rite® Converting, an inflatable dunnage bag manufacturer located in Fordyce, Arkansas, trade accounts receivable and inventories. We subsequently paid an aggregate of \$53.7 million additional purchase price pursuant to contingent earn-out payments based upon achieving certain EBITDA targets.

On July 1, 2008, we acquired from MeadWestvaco Corporation ("MWV") substantially all of the assets and assumed certain liabilities of the Charleston Kraft Division ("CKD") for \$485.0 million (net of cash acquired of \$10.6 million), less \$8.9 million of working capital adjustments. The CKD assets consisted of an unbleached kraft paper manufacturing facility in North Charleston, South Carolina (including a cogeneration facility), chip mills located in Elgin, Hampton, Andrews and Kinards, South Carolina, a lumber mill located in Summerville, South Carolina, trade accounts receivable and inventories.

On March 31, 2009, we completed the sale of our dunnage bag business to Illinois Tool Works Inc. for \$36.0 million, less \$1.1 million of working capital adjustments. The Company considered the sale an opportunity to reduce its debt and focus on its core business.

On October 31, 2011, we acquired U.S. Corrugated Acquisition Inc. ("USC") pursuant to a merger for \$330.0 million in cash plus \$1.9 million of working capital adjustments. USC owned, at the time of the merger, a recycled containerboard paper mill in Cowpens, South Carolina and fourteen corrugated packaging plants across the Eastern and Midwestern United States.

On July 18, 2013, we acquired 100 percent of the stock of Longview Fibre Paper and Packaging, Inc., ("Longview") for \$1.025 billion plus \$41.5 million of working capital adjustments. Longview is a leading manufacturer of high quality containerboard, kraft papers, and corrugated products. Longview's operations include a paper mill located in Longview, Washington equipped with five paper machines which have the capacity to produce approximately 1.3 million tons of containerboard and kraft paper annually. Longview also owns seven converting facilities located in the Pacific Northwest.

The Company operates in one segment, the integrated manufacture and sale of containerboard, corrugated products, and specialty paper for industrial and consumer markets.

**Future Acquisitions**

In an effort to diversify and/or grow our business we have been, and continue to be, engaged in evaluating a number of potential acquisition opportunities. No assurance can be given that we will consummate additional transactions. The structuring and financing of any future acquisitions may be dependent on the terms and availability of additional financing to us that either replaces or does not conflict with the Company's existing senior secured credit facility.

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**General**

KapStone produces containerboard, corrugated products, and specialty paper. In 2014, we produced 2.7 million tons, of which nearly 80 percent was sold to third party converters or shipped to our corrugated products manufacturing plants based in the United States, and 20 percent of which was sold to foreign based customers. In 2014, our corrugating plants produced and sold about 851 thousand tons or 12.9 billion square feet (BSF) of corrugated products in the U.S. Our net sales in 2014 totaled \$2.3 billion, which was comprised of \$1.5 billion of containerboard and corrugated products and \$0.8 billion of specialty paper.

The Company's business is affected by cyclical industry conditions and general economic conditions in the U.S. and in the countries where we export containerboard and specialty paper. These conditions affect the prices which we are able to charge for our products. Our export sales may also be affected by fluctuations in foreign exchange rates and trade policies and relations.

**Industry Overview**

We compete in the containerboard, corrugated products, and specialty paper markets. We view the specialty paper market as including kraft paper, saturating kraft, and unbleached folding carton board.

**Containerboard**

Containerboard, consisting of linerboard and corrugated medium, is primarily used to manufacture corrugated containers for packaging products. U.S. demand for corrugated containers and containerboard tends to be driven by industrial production of processed foods, nondurable goods and certain durable goods.

The American Forest and Paper Association's ("AF&PA") estimate of the size of the U.S. containerboard market is as follows:

<b>(In millions)</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total U.S. sales	31.7 tons	30.8 tons	30.7 tons
U.S. production	35.4 tons	34.8 tons	34.4 tons
Imports	1.0 tons	0.8 tons	0.6 tons
Exports	4.7 tons	4.2 tons	4.3 tons
U.S. operating rates	96%	96%	95%

The primary markets for our containerboard are our corrugated products manufacturing plants and independent corrugated and laminated products customers who focus on specialty niche packaging.

**Corrugated Products**

According to the Fibre Box Association's most recent annual report dated April 2014, the value of industry shipments of corrugated products was \$28.4 billion, an increase of \$2.0 billion, or 7.0 percent.

The primary end-use markets for corrugated products are shown below (as reported in the most recent Fibre Box Association annual report dated April 2014):

Food, beverages and agricultural products	40%
General retail and wholesale trade	21%
Paper products	17%
Miscellaneous manufacturing	12%
Petroleum, plastic, synthetic, and rubber products	7%
Appliances, vehicles, and metal products	3%

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Corrugated products manufacturing plants tend to be located in close proximity to customers to minimize freight costs and shipping times. The Fibre Box Association estimates that the U.S. corrugated products industry consists of approximately 570 companies and over 1,200 plants.

**Specialty Paper**

**Kraft Paper**

We produce three general categories of kraft paper:

**Multiwall paper** is used to produce bags for agricultural products, pet food, baking products, cement and chemicals. We are the only U.S. manufacturer of extensible, high performance multiwall kraft paper. Our FibreShield® and TEA-Kraft® lines of products offer durability, savings, efficiency and are supported by our exceptional customer and technical service. We also manufacture durable flat multiwall sack paper for a variety of end-use applications.

**Specialty products** has a large variety of uses within coating and laminating applications that requires a smooth surface. Specialty products are also used to produce shingle wrap, end caps, roll wrap and dunnage bags. Our specialty paper products are designed to meet the unique needs of a variety of customers and end uses. We modify a range of specialty paper products for our specialty paper grades, such as sizing, smoothness, porosity, wet strength, pH and others. Our specialty paper products are manufactured for a variety of converters, including laminators, coaters, insulation manufacturers, agricultural product processors and food product packaging producers.

**Lightweight paper** is used in a variety of flexible packaging applications that range from 100 percent recycled content for quick-service restaurants carry out bags to 100 percent virgin content for direct contact food packaging. Our lightweight virgin furnished papers are produced from specifically blended wood chip recipes. These wood chip and pulp recipes are specifically designed to develop paper properties important for a variety of specialty packaging end uses and coating base paper applications. Our recycled content light weight papers are made in a wide variety of basis weights and percentages of recycled fiber content, and are valued for their cleanliness, strength, sustainability and end-use possibilities. The most recently developed product line, FibreGreen®, is composed of old corrugated containers ("OCC") processed in our state-of-the-art OCC facility and are available in a wide range of basis weights. FibreGreen® meets the U.S. Food and Drug Administration's requirements for direct food contact and is certified by the Sustainable Forestry Initiative®.

The AF&PA's estimate of the size of the U.S. kraft paper market is as follows:

(In millions)	2014	2013	2012
Total U.S. sales	1.40 tons	1.34 tons	1.34 tons
U.S. production	1.34 tons	1.27 tons	1.28 tons
Imports	0.17 tons	0.18 tons	0.16 tons
Exports	0.21 tons	0.21 tons	0.22 tons
U.S. operating rates	90%	77%	76%

Over the last two decades, unbleached kraft paper production capacity has declined. This decline was primarily driven by plastic bags replacing paper at most grocery stores across North America. The multiwall shipping sack market also contributed to the decrease in capacity resulting from conversion to plastic and woven poly in certain end-use markets, primarily pet food, chemicals and seed and feed markets.

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***Saturating Kraft***

Saturating kraft is used in multiple industries around the world, including construction, electronics manufacturing and furniture manufacturing. The major end-use is thin high pressure laminates (HPL), used to create decorative surfaces such as kitchen and bath countertops, home and office furniture and flooring. Within the HPL market there is a growing and distinct HPL segment manufacturing and selling a much thicker product called compact laminates used as surfacing products such as exterior cladding, partitions and doors. In Asia, there is significant use of saturating kraft product for the manufacturing of printed circuit boards (PCB) and copper clad laminates (CCL) and there is also a growing use for thin HPL in decorative surfaces. We are not aware of any published data reporting the size of the saturating kraft market. Barriers to entry for producing high quality saturating kraft are high as it is a technically difficult grade of paper to produce.

***Unbleached Folding Carton Board***

Unbleached folding carton board is a low density virgin fiber board. Applications are widely spread throughout end uses in the general folding carton segment of the paperboard packaging market. This product can replace the use of more expensive coated recycled board, coated natural kraft board and solid bleached sulfate board which are currently much larger markets. There is no published data we are aware of reporting the size of the unbleached, uncoated folding carton market.

**Manufacturing**

We operate four paper mills, three in the Southeastern region and one in the Pacific Northwest region of the United States. In 2014, we produced 2.7 million tons of containerboard and specialty paper at our mills in North Charleston, South Carolina; Roanoke Rapids, North Carolina; Cowpens, South Carolina and Longview, Washington. Our mills generally operate 24 hours a day, seven days a week. Fiber used to make containerboard and specialty paper is produced from a combination of locally sourced roundwood and woodchips. After the wood is debarked and chipped, the chips are loaded into digesters for cooking. Woodchips, chemicals and steam are mixed in the digester to produce softwood pulp. Hardwood pulp is produced in North Charleston in a similar fashion for the production of DuraSorb® saturating kraft. The pulp is screened and washed through a series of washers, and then stored prior to the paper making process. OCC is used to make recycled containerboard at our Cowpens mill and is a component of certain grades of kraft paper and containerboard at our Longview mill. The Company processes pulp using eleven paper machines at our facilities. Management monitors productivity on a real-time basis with on-line reporting tools that track production values versus targets. Overall equipment efficiency is also monitored daily through production reporting systems.

As of December 31, 2014, we operated 21 corrugated products manufacturing plants, comprised of twelve box plants, seven sheet plants and two sheet feeder plants. Box plants operate as combining operations that manufacture corrugated sheets and finished corrugated products. Sheet feeder plants have a corrugator machine and manufacture corrugated sheets which are shipped to sheet or box plants. Sheet plants have various machines which convert corrugated sheets, purchased either from our operations or third parties, into finished corrugated products. Plants with a corrugating machine have total capacity of approximately eighteen billion square feet ("BSF").

Our corrugated products manufacturing plants operate in fourteen states in the U.S., with no manufacturing facilities outside of the continental U.S. Each plant, for the most part, serves a market radius that typically averages 200 miles. Our sheet plants are generally located in close proximity to our larger corrugated plants, which enables us to offer additional services and converting capabilities, such as small volume and quick turnaround items.

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We produce a wide variety of products ranging from basic corrugated shipping containers to specialized packaging. We also have multi-color printing capabilities to make high-impact graphics boxes and displays that offer customers such as consumer products companies more attractive packaging.

We have dedicated personnel who coordinate and execute all containerboard buy/sell arrangements with other containerboard manufacturers. As is industry practice, we also "trade" among industry participants who are located more closely to converting plants in order to reduce freight costs.

**Distribution**

Containerboard and specialty paper produced in our mills is shipped by rail or truck to customers in the U.S. and is shipped by truck to nearby ports and then by ocean vessel to our export customers. Domestic rail shipments represent about 40 percent of the tons shipped and the remaining 60 percent is shipped by truck.

Our corrugated products are delivered by truck due to our customers demand for timely service. We use a combination of a dedicated third-party fleet and our own trucks.

**Sales and Marketing**

Our containerboard and specialty paper marketing strategy is to sell our products to third-party converters and manufacturers of industrial and consumer packaging products. We seek to meet the quality and service needs of the customers of our corrugated operations at the most efficient cost, while balancing those needs against the demands of our containerboard customers.

We sell our products directly to end users and converters, as well as through sales agents. Our sales groups are responsible for the sale of these products to third party converters in the U.S. Sales to export markets are managed by separate teams of which certain personnel are based in Europe and Asia.

Our corrugated products are sold through an internal sales and marketing organization. We have sales representatives and sales managers who serve local and regional accounts. We also have corporate account managers who serve large national accounts at multiple customer locations. Our corrugated operations focus on supplying both high-volume commodity products and specialized packaging with high-value graphics.

**Customers and Products**

The following represents the Company's sales by product line:

Product Line Revenue:	Years Ended December 31,							
	Net Sales (in thousands)				Tons Sold			
	2014	2013	Increase/ (Decrease)	%	2014	2013	Increase/ (Decrease)	%
Containerboard / Corrugated products	\$ 1,463,670	\$ 1,108,545	\$ 355,125	32.0%	1,764,628	1,403,797	360,831	25.7%
Specialty paper	741,601	551,931	189,670	34.4%	1,031,024	799,261	231,763	29.0%
Other	95,649	87,686	7,963	9.1%				
Product sold	\$ 2,300,920	\$ 1,748,162	\$ 552,758	31.6%	2,795,652	2,203,058	592,594	26.9%

KapStone has over 3,000 U.S.-based and over 200 export customers.

Containerboard is sold to domestic and foreign converters in the corrugated packaging industry and to other converters for a variety of uses including laminated tier sheets and wrapping material,





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among others. Historically, our focus is on independent converters who do not have their own mill systems or converters who otherwise commonly purchase containerboard in the open market.

Corrugated products are sold primarily to regional and local accounts, which are broadly diversified across industries and geographic locations. We have a select number of national accounts, or those customers with a national presence. These national customers typically purchase corrugated products from several of our box plants throughout the United States.

Specialty paper is sold to both domestic and export converters who produce multiwall bags for food grade agricultural products, pet food, cement and chemicals, grocery bags and specialty conversion products, such as wrapping paper products, dunnage bags and roll wrap.

Our saturating kraft paper, sold under the trade name Durasorb®, has a customer base which is split among three geographic regions the Americas, Europe and Asia. Approximately 86 percent of our sales are exports to customers in Europe, Latin America and Asia where growth opportunities are favorable. KapStone, or its predecessor, has done business with many of these customers for well over 40 years. Some customers have consolidated to form a greater presence in their end-use markets. Customer consolidation is particularly evident in North America and is in the early phase in Europe. In Asia, there are numerous players and it is a highly fragmented market making entry difficult for some companies that do not have a presence in the region. KapStone has acquired a leadership position with our Durasorb® product through knowledge of our markets and understanding the technical needs of our customers' manufacturing processes and the demanding requirements of their products.

Our unbleached folding carton board sold under the Kraftpak® trade name has a customer base which consists primarily of integrated and independent converters in the folding carton industry. Our unbleached folding carton board product is a unique, low-density virgin fiber board. KapStone believes that the best growth opportunities for Kraftpak® are in consumer brands that are changing their images to promote environmental friendliness and sustainability. Kraftpak® and similar products replace the use of coated recycled board, coated natural kraft board and solid bleached sulfate board, which are currently much larger markets.

No customer accounts for more than 10 percent of consolidated net sales. Our business is not dependent upon a single customer or upon a small number of major customers. We do not believe the loss of any one customer would have a material adverse effect on our business.

**Seasonality and Backlog**

Demand for our major product lines is relatively constant throughout the year, and seasonal fluctuations in marketing, production, shipments and inventories are not significant. Slight seasonal fluctuations are largely driven by the agricultural market within the western United States. Backlogs are a factor in the industry, as they allow paper mills to run more efficiently. However, most orders are placed for delivery within 30 days.

**Major Raw Materials Used**

Fiber is the single largest cost in the manufacture of containerboard and specialty paper. KapStone consumes both wood fiber and recycled fiber in its paper mills. Our mills in North Charleston and Roanoke Rapids use primarily virgin fiber. The fiber needs in 2014 of our Longview, Washington mill were supplied by approximately 68 percent of virgin fiber and 32 percent recycled fiber. Fiber used to make containerboard and specialty paper is produced from a combination of locally sourced roundwood and woodchips. We rely on supply agreements and open-market purchases to supply these mills with roundwood and wood chips. Fiber resources are generally available within economic proximity to these mills and we have not experienced any significant difficulty in obtaining our mill fiber needs.

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Our mill in Cowpens, South Carolina is a 100 percent recycled mill, whose fiber consumption consists solely of recycled fiber or OCC. We obtain OCC pursuant to certain supply agreements and in open market purchases from suppliers within economic proximity to the Cowpens Mill. OCC has historically exhibited significant price volatility. The Cowpens mill has not experienced any significant difficulty in obtaining OCC.

Our corrugated manufacturing plants consume containerboard produced at our mills or from third parties and through buy/sell arrangements. We use third-party mills which are closer to our corrugated manufacturing plants to realize freight savings. Containerboard, which includes both linerboard and corrugating medium, is the principal raw material used to manufacture corrugated products. Linerboard is used as the inner and outer facings, or liners, of corrugated products. Corrugating medium is fluted and laminated to linerboard in corrugated plants to produce corrugated sheets. The sheets are subsequently printed, cut, folded and glued to produce corrugated products.

**Energy**

Energy at the mills is obtained through purchased electricity or through various fuels, which are converted to steam or electricity on-site. Fuel sources include coal, natural gas, oil, bark, and by-products of the manufacturing and pulping process, including black liquor. These fuels are burned in boilers to produce steam. Steam turbine generators are used to produce electricity. To reduce our mill energy cost, we have invested in processes and equipment to ensure a high level of purchased fuel flexibility. In recent history, fuel oil has exhibited higher costs per thermal unit and more price volatility than natural gas and coal. During 2014, approximately 65 percent of our North Charleston, South Carolina and Roanoke Rapids, North Carolina mills purchased fuel needs were from coal, historically our lowest cost purchased fuel. A substantial portion of our Longview mill electricity requirements are satisfied by hydroelectric power, which has relatively stable pricing.

In 2014, we purchased coal under two contracts that ended on December 31, 2014. In 2015, the Company has one coal contract for all of its needs with contracted pricing through December 31, 2015.

KapStone's corrugated product manufacturing plants primarily use boilers that produce steam which are used to power the corrugating machines. The majority of these boilers burn natural gas, although some also have the ability to burn fuel oil. Sheet plants use electricity for their main source of power.

**Competition**

The markets in which we sell our products are highly competitive and comprised of many participants. We face significant competitors, including large, vertically integrated companies and numerous smaller companies.

Our principal competitors with respect to sales of our containerboard and specialty paper are a number of large, diversified paper companies, including International Paper Company, Georgia-Pacific (owned by Koch Industries, Inc.), Rock-Tenn Company and Packaging Corporation of America, all of which have greater financial resources than we do. We also compete with other regional manufacturers of these products. Our specialty paper products (other than our Durasorb® and Kraftpak® products) are each generally considered a commodity-type product that can be purchased from numerous suppliers and competition is based primarily on price, product specification, service and quality.

Corrugated products businesses seek to differentiate themselves through pricing, quality, service and product design and innovation. We compete for both local and national account business, and we compete against producers of other types of packaging products. On a national level, our primary competitors include International Paper Company, Georgia-Pacific (owned by Koch Industries, Inc.), Rock-Tenn Company and Packaging Corporation of America. However, with our strategic focus on local and regional accounts, we also compete with the smaller independent converters.

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**Intellectual Property**

The Company owns patents, licenses, trademarks and trade names on products. However, we do not believe that our intellectual property is material to our business and the loss of any or our intellectual property rights would not have a material adverse effect on our operations or financial condition.

**Employees**

As of December 31, 2014, we had 4,628 employees. Of these, 1,380 employees are salaried and 3,248 are hourly. Approximately 2,500 of our hourly employees are represented by unions. The majority of our unionized employees are represented by the United Steel Workers (USW).

Currently, there is a collective bargaining agreement in place with trade union employees at our mills in North Charleston through June 2015 and Roanoke Rapids through August 2016. The Company is engaged in negotiations with its union employees in Longview. The mill is operating under the terms of a contract that expired in June 2014. We expect to begin negotiations to renew the North Charleston union contract in early 2015.

We did not experience any work stoppages in 2014 and have not experienced any work stoppages in the eight years prior to 2014. We believe we have good relations with our employees.

**Environmental Matters**

Compliance with environmental requirements is a significant factor in our business operations. We commit substantial resources to maintaining environmental compliance and managing environmental risk. We are subject to, and must comply with, a variety of federal, state and local environmental laws, particularly those relating to air and water quality, waste disposal, and cleanup of contaminated soil, groundwater or rivers. The most significant of these laws affecting us are:

1. Resource Conservation and Recovery Act (RCRA);
2. Clean Water Act (CWA);
3. Clean Air Act (CAA);
4. The Emergency Planning and Community Right-to-Know-Act (EPCRA);
5. Toxic Substance Control Act (TSCA); and
6. Safe Drinking Water Act (SDWA).

We believe that we are currently in material compliance with these and all applicable environmental rules and regulations. Because environmental regulations are constantly evolving, we have incurred, and will continue to incur, costs to maintain compliance with these and other environmental laws and regulations. We work diligently to anticipate and budget for the impact of applicable environmental regulations, and do not currently expect that future environmental compliance obligations will materially affect our business or financial condition.

We do not believe that any ongoing remedial projects are material in nature.

The Company's subsidiary, Longview is a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") with respect to the Lower Duwamish Waterway Superfund Site in the State of Washington (the "Site"). The U.S. Environmental Protection Agency ("EPA") asserts that the Site is contaminated as a result of discharges from various businesses and government entities located along the Lower Duwamish Waterway, including a corrugated converting plant owned and operated by Longview. In November 2014, the EPA issued a Record of Decision ("ROD") for the Site. The ROD includes a selected remedy for the Site. In the ROD, EPA states that the total estimated net present value costs (discounted at 2.3%) for the selected



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remedy are \$342 million. At least 40 potentially responsible parties, including Longview, have entered into an Allocation Agreement. Pursuant to the Allocation Agreement, the parties will attempt to determine each party's portion of the cost to remediate the site. The allocation process is not expected to be completed until 2017. Based on available information provided to the Company to date, the Company cannot reasonably estimate its potential liability. We also maintain insurance that may limit our financial exposure for defense costs, as well as liability, if any, for claims covered by the insurance (subject also to deductibles, self-insurance amounts, and retrospective premiums).

We could also incur environmental liabilities as a result of claims by third parties for civil damages, including liability for personal injury or property damage, arising from releases of hazardous substances or contamination. We are not aware of any material claims of this type currently pending against us.

While legislation regarding the regulation of greenhouse gas emissions has been proposed from time to time at the federal level, it is uncertain whether such legislation will be passed and, if so, what the breadth and scope of such legislation will be. The EPA has begun to propose and / or adopt regulations regulating certain aspects of greenhouse gas emissions. To the extent such regulations become applicable to our operations, they could potentially adversely affect the Company. The result of a broader regulation of greenhouse gas emissions could be an increase in our future environmental compliance costs, through caps, taxes or additional capital expenditures to modify facilities, which may be material. However, climate change legislation and the resulting future energy policy could also provide us with opportunities if the use of renewable energy is encouraged. We currently generate a significant portion of our power requirements for our mills using bark, black liquor and biomass as fuel, which are derived from renewable resources. While we believe we are well-positioned to take advantage of any renewable energy incentives, it is uncertain what the ultimate costs and opportunities of any climate change legislation or regulation will be and how our business and industry will be affected.

In 2004, EPA published the Boiler MACT regulations, establishing air emissions standards and certain other requirements for industrial boilers. These regulations have been subject to a series of legal challenges and have been repurposed and / or amended by EPA several times since the initial rules were published. A final reconsidered regulation was issued in January 2013 but legal challenges have been filed and it remains uncertain as to whether the rule as currently promulgated will be further revised. Based upon the Company's current understandings of the rules, it is unclear what the total cost of compliance will be, if any.

In addition to Boiler MACT and greenhouse gas standards, the EPA has recently finalized a number of other environmental rules, which may impact the pulp and paper industry. The EPA also is revising existing environmental standards and developing several new rules that may apply to the industry in the future. We cannot currently predict with certainty how any future changes in environmental laws and regulations (or their interpretation) and/or enforcement practices will affect our business; however, it is possible that our compliance, capital expenditure requirements and operating costs could increase materially.

**Available Information**

We make available free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished as required by Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through our Internet Website ([www.kapstonepaper.com](http://www.kapstonepaper.com)) as soon as is reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Information contained in or incorporated into our Internet Website is not incorporated by reference herein.

**Financial Information About Segments and Geographic Areas**

We operate as one segment and our revenues are generated primarily in one geographic region. See "Segment Information" of Note 2 Summary of Significant Accounting Policies and Note 15 Segment Information contained in the "Notes to Consolidated Financial Statements."

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**Item 1A. Risk Factors**

Some of the statements in this report and, in particular, statements found in Management's Discussion and Analysis of Financial Condition and Results of Operations, that are not historical in nature are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements about our expectations regarding our future liquidity, earnings, expenditures and financial condition. These statements are often identified by the words "will," "should," "anticipate," "believe," "expect," "intend," "estimate," "hope," or similar expressions. These statements reflect management's current views with respect to future events and are subject to risks and uncertainties. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. These factors, risks and uncertainties include, but are not limited to, the factors described below.

Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, and, accordingly, we can give no assurances that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what impact they will have on our results of operations or financial condition. In view of these uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. We expressly disclaim any obligation to publicly revise any forward looking statements that have been made to reflect the occurrence of events after the date hereof.

**Risks associated with our business**

***We rely on key customers and a loss of one or more of our key customers could adversely affect our business, results of operations, cash flows and financial position.***

During the year ended December 31, 2014, no customer accounted for more than 10 percent of consolidated net sales. However, losses of key customers could significantly impact our business, results of operations, cash flows and financial position.

***We are dependent upon key management executives the loss of whom may adversely impact our business.***

We depend on the expertise, experience and continued services of corporate and mill management. The loss of such management, or an inability to attract or retain other key individuals, could materially adversely affect our business. There can be no assurance that our salaries and incentive compensation plans will allow us to retain the services of these key management executives or hire new key employees.

***Our indebtedness may adversely affect our financial health.***

As of December 31, 2014, we had approximately \$1.1 billion of outstanding debt. As a result of the indebtedness, our ability to obtain additional financing for working capital, capital expenditures, acquisitions or other general corporate purposes may be impaired in the future. The debt could make us vulnerable to economic downturns and may hinder our ability to adjust to rapidly changing market conditions.

A significant portion of our cash flow from operations will be needed to meet the payment of principal and interest on our indebtedness. The business may not generate sufficient cash flow from operations to enable it to repay our indebtedness and to fund other liquidity needs, including capital expenditure requirements. The indebtedness incurred by us under our senior secured credit facility (the "Credit Facility") under our Amended and Restated Credit Agreement bears interest at variable rates, and therefore if interest rates increase, our debt service requirements would increase. In such case, we may need to refinance or restructure all or a portion of our indebtedness on or before maturity. We may not be able to refinance any of our indebtedness, including the Credit Facility, on commercially

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reasonable terms, or at all. If we cannot service or refinance our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, any of which could have a material adverse effect on our operations and financial condition.

Our Credit Facility contains restrictive covenants that limit our liquidity and corporate activities, including our ability to pursue additional acquisitions. Our Credit Facility imposes operating and financial restrictions that limit our ability to:

- incur additional indebtedness;
- create additional liens on our assets;
- make investments;
- engage in mergers or acquisitions;
- pay dividends; and
- sell all or any substantial part of our assets.

In addition, our Credit Facility also imposes other restrictions on us. Therefore, we would need to seek permission from the lenders in order to engage in certain corporate actions. The lenders' interests may be different from ours, and no assurance can be given that we will be able to obtain the lenders' permission when needed. This may prevent us from taking actions that are in our best interest.

Our Credit Facility requires us to maintain certain financial ratios. The failure to maintain the specified ratios could result in an event of default if not cured or waived.

In the event of a default under our Amended and Restated Credit Agreement, the lenders generally would be able to declare all outstanding indebtedness, together with accrued interest, to be due and payable. In addition, borrowings under the Credit Facility are secured by a first priority lien on substantially all of our assets and, in the event of a default under that facility, the lenders generally would be entitled to seize the collateral. A default under any debt instrument, unless cured or waived, would likely have a material adverse effect on our business, liquidity and financial condition.

***If we fail to extend or renegotiate the collective bargaining agreements as they expire from time to time, or if our unionized employees were to engage in a strike or other work stoppage, our business and operating results could be materially harmed.***

Most of our hourly paid employees are represented by trade unions. We are a party to collective bargaining contracts which apply to approximately 875 employees at various corrugating manufacturing plants, 700 employees at the Longview mill, 560 employees at the North Charleston mill, and 365 employees at the Roanoke Rapids mill. No assurance can be given that we will be able to successfully extend or renegotiate the collective bargaining agreements as they expire from time to time. Currently, there is a collective bargaining agreement in effect with respect to North Charleston through June 2015 and Roanoke Rapids through August 2016. The Longview union contract expired in June 2014 and remains under negotiations. If we are unable to extend or negotiate new agreements without work stoppages, it could negatively impact our ability to manufacture our products and adversely affect our results of operations.



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*We sell some of our products internationally, and, accordingly, our business, results of operations, cash flows and financial position could be adversely affected by the political and economic conditions of the countries in which we conduct business, by fluctuations in exchange rates and other factors related to our international operations.*

Approximately 20 percent of our revenues in 2014 and 2013 were derived from export sales. Our international operations and activities face increasing exposure to the risks of selling to customers in foreign countries. These factors include:

Changes in foreign currency exchange rates which could adversely affect selling prices for our products, and therefore our competitive position in a particular market.

Trade protection measures in favor of local producers of competing products, including government subsidies, tax benefits, trade actions (such as anti-dumping proceedings) and other measures giving local producers a competitive advantage over us.

Changes generally in political, regulatory or economic conditions in the countries in which we sell our products.

These risks could affect the cost of selling our products, our pricing, sales volume, and ultimately our financial performance. The likelihood of such occurrences and their potential effect on the Company vary from country to country and are unpredictable.

*We may be required to record a charge to our earnings if our goodwill becomes impaired.*

We test for impairment of goodwill annually in accordance with generally accepted accounting standards. When events or changes in circumstances indicate that the carrying value for such assets may not be recoverable, we review goodwill for impairment on an interim basis. Factors that may be considered a change in circumstances requiring our interim testing include a decline in stock price as compared to our book value per share, future cash flows and slower growth rates. In connection with future annual or interim tests, we may be required to record a non-cash charge to earnings during the period in which any impairment of goodwill is determined, which would adversely impact our results of operations.

See Note 2, "Significant Accounting Policies - Goodwill and Intangible Assets" in the Notes to the Consolidated Financial Statements for additional information related to testing for impairment of goodwill.

*Our business depends on effective information management systems.*

We rely on our enterprise resource planning (ERP) systems to support such critical business operations as processing sales orders and invoicing, inventory control, purchasing and supply chain management, payroll and human resources and financial reporting. We periodically implement upgrades to such systems or migrate one or more of our affiliates, facilities or operations from one system to another. If we are unable to adequately maintain such systems to support our developing business requirements or effectively manage any upgrade or migration, we could encounter difficulties that could have a material adverse impact on our business, internal controls over financial reporting, financial results or our ability to timely and accurately report such results.

*We are subject to cyber-security risks related to certain customer, employee, vendor or other company data.*

We use information technologies to securely manage operations and various business functions. We rely upon various technologies to process, store and report on our business and interact with customers, vendors and employees. Despite our security design and controls, and those of our third-party providers, we could become subject to cyber attacks which could result in operational disruptions or the

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misappropriation of sensitive data. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not be material to our results of operations, financial condition or cash flows.

***We may incur business disruptions.***

We take measures to minimize the risks of disruptions at our manufacturing facilities. However, the occurrence of a natural disaster, such as a hurricane, tropical storm, earthquake, tornado, flood, fire or other unanticipated problems, such as labor difficulties, equipment failure or unscheduled maintenance, could cause operational disruptions and could materially adversely affect our earnings and cash flows. Any losses due to these events may not be covered by our existing insurance policies or may be subject to certain deductibles.

***Environmental regulations could materially adversely affect our results of operations and financial position and require us to make unexpected capital expenditures.***

We are subject to environmental regulation by federal, state and local authorities in the United States, including requirements that regulate discharge into the environment, waste management and remediation of environmental contamination. Maintaining compliance with existing and new environmental laws may require material additional capital expenditures.

Due to past history of industrial operations at the Roanoke Rapids mill, North Charleston mill, Longview mill and some of our corrugating manufacturing plants, the possibility of on-site and off-site environmental impact to the soil and groundwater may present a heightened risk of contamination. If we are required to make significant expenditures for remediation, the costs of such efforts may have a significant negative impact on our results of operations, cash flows and financial position.

***Our operations are dependent upon certain operating agreements for fiber.***

We rely on certain supply arrangements to provide us roundwood and woodchips. If one of these suppliers failed to deliver quality roundwood or woodchips in the quantities we require, KapStone's supply may not be adequate to cover customer needs, which could have an adverse effect on our results of operations, cash flows and financial position.

***Our pension costs are subject to a variety of factors and assumptions that could cause these costs to change.***

We have a defined benefit pension plan that covers 54 percent of our employees. Our pension costs are dependent upon a variety of factors and assumptions based upon past experience. Fluctuations in market returns, interest rates, mortality rates, the number of retirees and longer life-expectancy may result in increased pension costs. Similarly, changes in assumptions regarding current discount rates and expected rates of return on plan assets could also change pension costs. Material adverse changes in these factors could have a negative impact on our results of operations, cash flows, and financial position.

**Risks Associated with KapStone's Common Stock**

***The market price for our common stock may be highly volatile.***

The market price of our common stock may be volatile due to certain factors, including, but not limited to: quarterly fluctuations in our financial and operating results; general conditions in the paper and packaging industries; or changes in earnings estimates.

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***Our executive officers and directors control a substantial percentage, approximately 11 percent, of our common stock and thus may influence certain actions requiring a stockholder vote.***

At December 31, 2014, our named executive officers and directors owned 11.0 million shares of our common stock, or approximately 11 percent of our total outstanding common stock. Accordingly, our named executive officers and directors may have some influence over the outcome of all matters requiring approval by our stockholders, including future acquisitions and the election of directors. In addition, our board of directors is divided into three classes, each of which will generally serve for a term of three years with only one class of directors being elected in each year. At the annual meeting, as a consequence of our "staggered" board of directors, only a minority of the board of directors will be considered for election and our officers and directors, because of their ownership position, will have some influence regarding the outcome of the election.

**Risks associated with the paper, packaging, forest products and related industries**

***The paper, packaging, forest products and related industries are highly cyclical. Fluctuations in the prices of and the demand for products could result in smaller profit margins and lower sales volumes.***

Historically, economic and market shifts, fluctuations in capacity and changes in foreign currency exchange rates have created cyclical changes in prices, sales volume and margins for products in the paper, packaging, forest products and related industries. The length and magnitude of industry cycles have varied over time and by product, but generally reflect changes in macroeconomic conditions and levels of industry capacity. Most paper products and many wood products used in the packaging industry are commodities that are widely available from many producers. Because commodity products have few distinguishing qualities from producer to producer, competition for these products is based primarily on price, which is determined by supply relative to demand. The overall levels of demand for these commodity products reflect fluctuations in levels of end-user demand, which depend in large part on general macroeconomic conditions in North America and regional economic conditions in our markets (including Europe, Asia, and Central and South America), as well as foreign currency exchange rates. The foregoing factors could materially and adversely impact our sales, cash flows, profitability and results of operations.

***An increase in the cost or a reduction in the availability of wood fiber, other raw materials, energy and transportation may have an adverse effect on our profitability and results of operations.***

Wood fiber (including OCC) is the principal raw material in many parts of the paper and packaging industry. Wood fiber is a commodity, and prices historically have been cyclical and have varied on a regional basis. Environmental litigation and regulatory developments have caused, and may cause in the future, significant reductions in the amount of timber available for commercial harvest in the United States. In addition, future domestic or foreign legislation and litigation concerning the use of timberlands, the protection of endangered species, the promotion of forest health and the response to and prevention of catastrophic wildfires could also affect timber supplies. Availability of harvested timber may further be limited by fire, insect infestation, disease, ice storms, wind storms, flooding and other causes, thereby reducing supply and increasing prices. Demand for OCC, especially from China, could result in shortages or spikes in the cost of OCC.

Industry supply of commodity paper and wood products is also subject to fluctuation, as changing industry conditions can influence producers to idle or permanently close individual machines or entire mills. In addition, to avoid substantial cash costs in connection with idling or closing a mill, some producers will choose to continue to operate at a loss, sometimes even a cash loss, which could prolong weak pricing environments due to oversupply. Oversupply in these markets can also result from producers introducing new capacity in response to favorable short-term pricing trends. Industry supply of commodity papers and wood products is also influenced by overseas production capacity, which has

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grown in recent years and is expected to continue to grow. Wood fiber pricing is subject to regional market influences, and the cost of wood fiber may increase in particular regions due to market shifts in those regions. In addition, the ability to obtain wood fiber from foreign countries may be impacted by economic, legal and political conditions in those countries as well as transportation difficulties.

Energy is a significant input cost for the paper and packaging industry. Increases in energy prices can be expected to adversely impact businesses. Energy prices, particularly for electricity, coal and fuel oil, have been volatile in recent years and currently coal and electricity prices exceed historical averages. These fluctuations have historically impacted manufacturing costs of companies in the industry, often contributing to reduced margins and increased earnings volatility. In addition, we could be materially adversely impacted by supply disruptions or the inability to pass on cost increases to our customers.

***Disruptions in transportation could adversely affect our supply of raw materials and/or our ability to distribute our products and could have an adverse effect on our results of operations, profitability and liquidity.***

Since we distribute our products by truck, rail, and ship, the reduced availability of those modes of transportation could limit our ability to promptly deliver products to our customers. The delay or failure to deliver our products to customers in a timely manner may require us to offer price concessions, discounts or other financial incentives to any affected customer in compensation for such delay or failure or could result in lost sale(s) and, ultimately, if the delay or failure is not promptly remedied, the loss of affected customers. Reduced availability of transportation could also affect our ability to receive adequate supplies of raw materials in a timely manner; which could have an adverse effect on our operations; financial condition and liquidity. In addition, the increased costs of transportation may reduce our profitability if we are not able to recover those costs through price increases for our products.

Our business in the past has been and in the future could be adversely affected by strikes and labor renegotiations affecting seaports, labor disputes between railroads or trucking companies and their union employees, or by a work stoppage at one or more seaports, railroads or local trucking companies servicing the areas in which we operate or with whom we do business.

***Paper and packaging companies face strong competition.***

We face competition from numerous competitors, domestic as well as foreign. Some of our competitors are larger, more vertically integrated companies that have greater financial and other resources, greater manufacturing economies of scale, greater energy self-sufficiency and/or lower operating costs.

***Certain paper and wood products are vulnerable to long-term declines in demand due to competing technologies or materials.***

Companies in the paper and packaging industry are subject to possible declines in demand for their products as the use of alternative materials and technologies grows and the prices of such alternatives become more competitive. Any substantial shift in demand from wood and paper products to competing technologies or materials could result in a material decrease in sales of our products and could adversely affect our results of operations, cash flows and financial position. We cannot ensure that any efforts we might undertake to adapt our product offerings to such changes would be successful or sufficient.

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***Paper and packaging companies are subject to significant environmental regulation and environmental compliance expenditures, as well as other potential environmental liabilities.***

Companies in the paper and packaging industry are subject to a wide range of general and industry specific environmental laws and regulations, particularly with respect to air emissions, wastewater discharges, solid and hazardous waste management, hazardous substance reporting, hazardous substance release notification, site remediation, forestry operations and endangered species habitats. We may incur substantial expenditures to maintain compliance with applicable environmental laws and regulations (or new interpretations thereof), which could adversely affect our results of operations. Failure to comply with applicable environmental laws and regulations could expose us to civil or criminal fines or penalties or enforcement actions, including orders limiting operations or requiring corrective measures, installation of pollution control equipment or other remedial actions.

**Risks Associated with Acquisitions**

***The anticipated benefits of the Longview acquisition may not be realized.***

We acquired Longview with the expectation that the acquisition of Longview would result in various benefits including, among other things, benefits relating to enhanced revenues, a broader array of product offerings, the expansion of our production capabilities, operational improvements and a diversification of our customer base. The acquisition presents challenges to management, including the integration of operations, information systems, properties and personnel of Longview and our existing operations. Achieving the anticipated benefits of the acquisition is subject to a number of uncertainties, including, but not limited to, whether we can integrate our business and the Longview business in an efficient and effective manner. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy and could materially impact our business, financial condition and operating results.

***Future acquisitions of businesses by us would subject us to additional business, operating and industry risks, the impact of which cannot presently be evaluated, and could adversely impact our capital structure.***

We may pursue other acquisition opportunities in an effort to diversify our investments and/or grow our business. Any business acquired by us may cause us to be affected by numerous risks inherent in the acquired business' operations. If we acquire a business in an industry characterized by a high level of risk, we may be adversely affected by the currently unascertainable risks of that industry. We cannot ensure that we would be able to properly ascertain or assess all of the significant risk factors with any such acquisitions.

In addition, the financing of any acquisition completed by us could adversely impact our capital structure as any such financing would likely include the issuance of additional equity securities and/or the borrowing of additional funds. The issuance of additional equity securities may significantly dilute our stockholders and/or adversely affect prevailing market prices for our common stock. Increasing our indebtedness could increase the risk of a default that would entitle the holder to declare all of such indebtedness due and payable and/or to seize any collateral securing the indebtedness. In addition, default under one debt instrument could in turn permit lenders under other debt instruments to declare borrowings outstanding under those other instruments to be due and payable pursuant to cross default clauses. Accordingly, the financing of future acquisitions could adversely impact our capital structure and the value of your equity interest in us.

Except as required by law or the rules of any securities exchange on which our securities might be listed at the time we seek to consummate a subsequent acquisition, stockholders will not be asked to vote on any such proposed acquisition and no redemption rights in connection with any such acquisition will exist.

**Item 1B. Unresolved Staff Comments**

None.

Table of Contents**Item 2. Properties**

The table below provides a summary of our paper mills, the principal products produced and each mill's annual practical maximum capacity based upon all of our paper machines' production capabilities, as reported to the AF&PA:

Location	Products	Capacity (tons)
Longview, WA	Containerboard / Specialty Paper	1,300,000
North Charleston, SC	Containerboard / Specialty Paper	910,000
Roanoke Rapids, NC	Containerboard / Specialty Paper	460,000
Cowpens, SC	Recycled containerboard	240,000
<b>Total</b>		<b>2,910,000</b>

We have granted mortgages on all of our owned real property, including our paper mills, to secure our obligations under our Credit Facility.

As of December 31, 2014, our corrugated products production facilities included:

Corrugated Products Manufacturing Plants	Approx. Sq. Ft.	Property Leased(1)/ Owned
<b>Full-Line Box Plants</b>		
Amsterdam, NY	227,000	Leased
Bowling Green, KY	306,000	Leased
Cedar Rapids, IA	386,000	Leased
College Park, GA	183,000	Owned
Longview, WA	241,000	Owned
Mesquite, TX	275,000	Leased
Minneapolis, MN	275,000	Leased
Oakland, CA	216,000	Owned
Seattle, WA	132,000	Owned
Spanish Fork, UT	519,000	Owned
Twin Falls, ID	446,000	Owned
Yakima, WA	420,000	Owned
<b>Sheet Plants</b>		
Atlanta, GA	113,000	Leased
Aurora, IL	198,000	Leased
Cedar City UT	143,000	Owned
Grand Forks, ND	85,000	Leased
Seward, NE	85,000	Leased
Somerset, KY	87,000	Leased
Springfield, MA	235,000	Owned
<b>Sheet Feeders</b>		
Atlanta, GA	133,000	Leased
Fort Worth, TX	100,000	Owned

(1) Of the leased property 1.4 million square feet expire in 2032. The equipment in the leased facilities is, in virtually all cases, owned by KapStone, except for forklifts, trailers and other rolling stock which are leased.

We currently lease space for our corporate headquarters in Northbrook, Illinois. The lease for this facility expires in 2020.

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We currently believe that our owned and leased space for facilities and properties are sufficient to meet our operating requirements for the foreseeable future.

**Item 3. Legal Proceedings**

We are from time to time subject to various administrative and legal investigations, claims and proceedings incidental to our business, including environmental and safety matters, labor and employment matters, personal injury claims, contractual disputes and taxes. We establish reserves for claims and proceedings when it is probable that liabilities exist and where reasonable estimates can be made. We also maintain insurance that may limit our financial exposure for defense costs, as well as liability, if any, for claims covered by the insurance (subject also to deductibles and self-insurance amounts). While any investigation, claim or proceeding has an element of uncertainty, and we cannot predict or assure the outcome of any claim or proceeding involving the Company, we believe the outcome of any pending or threatened claim or proceeding (other than those that cannot be assessed due to their preliminary nature), or all of them combined, will not have a material adverse effect on our results of operations, cash flows or financial condition.

**Item 4. Mine Safety Disclosure**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock, par value \$0.0001 per share, trades on the New York Stock Exchange ("NYSE") under the symbol "KS". As of December 31, 2014, there were 8 shareholders of record of our common stock. The number of shareholders of record includes one single shareholder, Cede & Co., for all of the shares held by our shareholders in individual brokerage accounts maintained at banks, brokers and institutions.

On December 11, 2013, the board of directors declared a two-for-one stock split in the form of a stock dividend (the "Stock Split"). To implement the stock split, one share of common stock for each then outstanding share of common stock was distributed on January 7, 2014 to all shareholders of record as of the close of business on December 23, 2013.

The following table sets forth the high and low sales price information for the Company's common stock from January 1, 2013 through December 31, 2014, as reported by the NYSE. All amounts for 2013 have been restated for the 2014 Stock Split (defined below).

Quarter Ended	2014		2013	
	Low	High	Low	High
March 31	\$ 26.71	\$ 32.59	\$ 11.28	\$ 13.93
June 30	\$ 24.74	\$ 33.34	\$ 13.18	\$ 20.42
September 30	\$ 28.13	\$ 33.35	\$ 20.72	\$ 24.68
December 31	\$ 24.46	\$ 31.56	\$ 21.74	\$ 28.53

At December 31, 2014, the closing share price on the NYSE was \$29.31.

In December 2014, our board of directors approved the initiation of a regular quarterly dividend of \$0.10 per share, indicating a current annualized dividend of \$0.40 per share. The timing and amount of future dividends are subject to the determination of the Company's board of directors.

There were no cash dividends or other cash distributions made during 2013.

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**Stock Performance Graph**

The performance graph shall not be deemed to be "soliciting material" or to be "filed" with the commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Securities Exchange Act of 1934 as amended.

The following graph compares a \$100 investment in our common stock on December 31, 2009 with a \$100 investment in each of the S&P 500 and the S&P Paper and Packaging Index (the Company's peer group) also made on December 31, 2009. The graph portrays total return, 2009-2014, assuming reinvestment of dividends.

**Comparison of 5 Year Cumulative Total Return  
Assumes Initial Investment of \$100  
December 2014**



Table of Contents**Item 6. Selected Financial Data**

The following table sets forth KapStone's selected financial information derived from its audited consolidated financial statements as of, and for the years ended, December 31, 2014, 2013, 2012, 2011 and 2010.

The selected financial data presented below summarizes certain financial data which has been derived from and should be read in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and KapStone's audited consolidated financial statements included in Item 8.

In thousands, except per share amounts	Years Ended December 31,				
	2014	2013(1)	2012	2011(1)	2010
<b>Statement of Income Data:</b>					
Net sales	\$ 2,300,920	\$ 1,748,162	\$ 1,216,637	\$ 906,119	\$ 782,676
Operating income(2)	\$ 299,931	\$ 219,888	\$ 109,560	\$ 106,741	\$ 68,703
Net income(3)	\$ 171,915	\$ 127,338	\$ 62,505	\$ 123,981	\$ 65,041
Basic net income per share(4)	\$ 1.79	\$ 1.34	\$ 0.67	\$ 1.34	\$ 0.71
Diluted net income per share(4)	\$ 1.76	\$ 1.32	\$ 0.65	\$ 1.31	\$ 0.69
Cash dividends declared per common share(5)	\$ 0.10	\$	\$ 1.00	\$	\$
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 28,467	\$ 12,967	\$ 16,488	\$ 8,062	\$ 67,358
Total assets	\$ 2,556,274	\$ 2,651,862	\$ 1,135,860	\$ 1,130,147	\$ 723,421
Long-term liabilities	\$ 1,499,338	\$ 1,715,504	\$ 414,628	\$ 442,269	\$ 185,539
Total stockholders' equity	\$ 778,127	\$ 666,080	\$ 517,948	\$ 546,278	\$ 418,634

- (1) 2013 results reflect the results of the Longview acquisition on July 18, 2013 while 2011 results and later reflect the USC acquisition on October 31, 2011.
- (2) 2009 and 2010 operating income includes \$164.0 million and \$22.2 million, respectively, of income from alternative fuel mixture credits.
- (3) 2013 and 2011 net income includes a \$5.0 million and \$63.0 million benefit, respectively, from the reversal of the tax reserves for alternative fuel mixture credits. 2010 net income includes a \$21.0 million cellulosic biofuel producers' tax credit.
- (4) Earnings per share for all periods have been restated for the stock split declared in December 2013.
- (5) In December 2014, the Company declared a regular dividend that will be paid in January 2015. In December 2012, the Company paid a special cash dividend.

See Note 3 in the Notes to Consolidated Financial Statements for a discussion of the Longview acquisition.

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

**Executive Summary**

Net sales of \$2.3 billion and earnings of \$171.9 million in 2014 were both a record high for the Company reflecting 2.8 million tons of product sold. In 2014, the average mill selling price per ton increased by \$15 to \$684 per ton. This increase was primarily due to the realization of 2013 containerboard and corrugated products price increases, along with 2013 specialty paper price increases, and the 2014 kraft paper price increase. Our mill operations had a strong year in 2014, producing a record 2.7 million tons of containerboard and specialty paper compared to 2.1 million tons in 2013.

Some key highlights for 2014 include:

In February the Company completed a \$29 million investment at our North Charleston mill. The primary project in this investment was the replacement of the press section on No. 3 Paper Machine, which is designed to improve the capability and efficiency of producing Ultra High Performance (UPL) lightweight linerboard grades.

In March the Company announced a \$50 per ton selling price increase for kraft paper. This price increase was fully realized by the end of the third quarter of 2014.

In July the Company released its 2013 sustainability report, which showed significant progress toward its 2020 sustainability goals. These goals, which were set based on our commitment to social responsibility, extend well beyond applicable laws and regulations mandated by federal, state and local governmental entities.

In September the Company entered into an accounts receivable securitization arrangement ("Securitization") with Wells Fargo Bank, N.A. and PNC Bank, N.A. The Securitization generated proceeds of \$175 million which were used to partially prepay our existing term loans. Due to a lower interest rate on the Securitization, our gross annual interest expense is expected to be reduced by approximately \$2.0 million.

In December the Company's board of directors approved the initiation of a regular quarterly dividend of \$0.10 per share which was paid on January 12, 2015.

As of December the Company merged its three defined benefit pension plans into one.

We believe we are the 5th largest manufacturer of containerboard in the United States.

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**Results of Operations for the Years Ended December 31, 2014, 2013, and 2012**

The following table compares results of operations for the years ended December 31, 2014 and 2013:

	Years Ended December 31,			% of Net Sales	
	2014	2013	% Change	2014	2013
Net sales	\$ 2,300,920	\$ 1,748,162	31.6%	100.0%	100.0%
Cost of sales, excluding depreciation and amortization	1,551,531	1,186,930	30.7%	67.4%	67.9%
Depreciation and amortization	136,548	95,435	43.1%	5.9%	5.5%
Freight and distribution expenses	175,901	135,972	29.4%	7.6%	7.8%
Selling, general and administrative expenses	137,009	110,612	23.9%	6.0%	6.3%
Other operating income		675	(100.0)%		
Operating income	299,931	219,888	36.4%	13.0%	12.6%
Foreign exchange gain/(loss)	(1,222)	232	626.7%	(0.1)%	
Loss on debt extinguishment	5,617		100.0%	0.2%	
Interest expense, net	32,491	25,130	29.3%	1.4%	1.4%
Income before provision for income taxes	260,601	194,990	33.6%	11.3%	11.2%
Provision for income taxes	88,686	67,652	31.1%	3.9%	3.9%
Net income	\$ 171,915	\$ 127,338	35.0%	7.6%	7.3%

Net sales for the year ended December 31, 2014 were \$2,300.9 million compared to \$1,748.2 million for the year ended December 31, 2013, an increase of \$552.7 million. The increase in net sales was driven primarily by the Longview acquisition which accounted for \$510.2 million. In addition to the Longview acquisition, net sales increased by \$29.5 million due to higher average selling prices and product mix changes and \$11.1 million of higher sales volume. Average mill selling price per ton for 2014 was \$684 compared to \$669 for 2013. Average mill selling prices increased primarily due to the realization of 2013 containerboard and corrugated products price increases, along with 2013 specialty paper price increases, and the \$50 per ton 2014 kraft paper selling price increase.

The following represents the Company's sales by product line:

Product Line Revenue:	Years Ended December 31,							
	Net Sales (in thousands)		Increase/	%	Tons Sold		Increase/	%
	2014	2013	(Decrease)		2014	2013	(Decrease)	
Containerboard / Corrugated products	\$ 1,463,670	\$ 1,108,545	\$ 355,125	32.0%	1,764,628	1,403,797	360,831	25.7%
Specialty paper	741,601	551,931	189,670	34.4%	1,031,024	799,261	231,763	29.0%
Other	95,649	87,686	7,963	9.1%				
Product sold	\$ 2,300,920	\$ 1,748,162	\$ 552,758	31.6%	2,795,652	2,203,058	592,594	26.9%

Tons of product sold in 2014 was 2,795,652 tons compared to 2,203,058 tons in 2013. Excluding the Longview acquisition, tons of products sold in 2014 decreased by 14,738 tons or 0.9 percent as follows:

Containerboard / Corrugated product sales volume decreased 1.3 percent. Containerboard sales decreased 5.8 percent reflecting volumes being redirected from outside sales to fulfill demand for internal converting. Corrugated product sales volume increased 6.5 percent.

Specialty paper sales decreased by 0.1 percent, primarily due to lower Durasorb® sales, which decreased 5.8 percent, partially offset by a kraft paper volume increase of 3.2 percent.

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Cost of sales, excluding depreciation and amortization expense, for the year ended December 31, 2014 was \$1,551.5 million compared to \$1,186.9 million for the year ended December 31, 2013, an increase of \$364.6 million. The increase in cost of sales was mainly due to the \$337.5 million impact of the Longview acquisition. In addition to the Longview acquisition, cost of sales increased mainly due to \$21.5 million of inflation on labor, benefits and input costs, \$18.7 million of higher sales volume, \$11.2 million of higher planned maintenance outage costs, \$6.6 million of voluntary severance plan charges and \$4.4 million of other cost increases. These cost increases were partially offset by \$35.3 million of productivity gains, primarily resulting from higher production and cost savings. Including Longview, annual planned maintenance outage costs during 2014 and 2013 totaled \$36.1 million and \$24.9 million, respectively, and were included in cost of sales for those years.

Depreciation and amortization expense for the year ended December 31, 2014 totaled \$136.5 million compared to \$95.4 million for 2013. The increase of \$41.1 million was primarily due to \$34.1 million from the Longview acquisition, \$5.2 million of which reflected amortization of identified intangibles, and \$7.0 million was the result of higher capital spending.

Freight and distribution expenses for the year ended December 31, 2014 totaled \$175.9 million compared to \$136.0 million for 2013. The increase of \$39.9 million was primarily due to \$30.5 million from the Longview acquisition, \$7.5 million from higher sales volumes and mix and \$1.9 million of inflation and other cost increases.

Selling, general and administrative expenses for the year ended December 31, 2014 totaled \$137.0 million compared to \$110.6 million in 2013. The increase of \$26.4 million was primarily due to \$25.2 million from the Longview acquisition. In addition to the Longview acquisition, selling, general, and administrative expenses increased due to \$3.9 million of higher compensation and benefit related expenses, \$4.2 million of 2014 Longview integration related expenses, \$0.9 million higher legal expenses and \$0.3 million of voluntary severance plan charges, partially offset by \$8.5 million of 2013 Longview acquisition related expenses that did not occur in 2014. As a percentage of net sales, selling, general, and administrative expenses decreased to 6.0 percent in 2014 from 6.3 percent in 2013.

Loss on debt extinguishment for the year ended December 31, 2014, was \$5.6 million due to the \$325.0 million of voluntary prepayments on the term loans under the Credit Facility.

Net interest expense for the years ended December 31, 2014 and 2013 was \$32.5 million and \$25.1 million, respectively. Interest expense reflects interest on the Company's borrowings under its Credit Facility, Receivables Credit Facility and amortization of debt issuance costs. Interest expense was \$7.4 million higher for the year ended 2014 due to higher term loan balances used to fund the Longview acquisition and an increase in variable interest rates.

Provision for income taxes for the years ended December 31, 2014 and 2013 was \$88.7 million and \$67.7 million, respectively, reflecting an effective income tax rate of 34.0 percent for 2014 compared to 34.7 percent for 2013. The higher provision for income taxes in 2014 primarily reflects higher pre-tax income. In addition, 2013 included a \$5.0 million favorable adjustment for reversal of a tax reserve for an uncertain tax position relating to alternative fuel mixture credits.

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The following table compares results of operations for the years ended December 31, 2013 and 2012:

	Years Ended December 31,			% of Net Sales	
	2013	2012	% Change	2013	2012
Net sales	\$ 1,748,162	\$ 1,216,637	43.7%	100.0%	100.0%
Cost of sales, excluding depreciation and amortization	1,186,930	866,124	37.0%	67.9%	71.2%
Depreciation and amortization	95,435	63,124	51.2%	5.5%	5.2%
Freight and distribution expenses	135,972	108,438	25.4%	7.8%	8.9%
Selling, general and administrative expenses	110,612	70,055	57.9%	6.3%	5.8%
Other operating income	675	664	1.7%		0.1%
Operating income	219,888	109,560	100.7%	12.6%	9.0%
Foreign exchange gain/(loss)	232	(303)	176.6%		
Interest expense, net	25,130	11,774	113.4%	1.4%	1.0%
Income before provision for income taxes	194,990	97,483	100.0%	11.2%	8.0%
Provision for income taxes	67,652	34,978	93.4%	3.9%	2.9%
Net income	\$ 127,338	\$ 62,505	103.7%	7.3%	5.1%

Net sales for the year ended December 31, 2013 were \$1,748.2 million compared to \$1,216.6 million for the year ended December 31, 2012, an increase of \$531.6 million. The increase in net sales was driven primarily by the Longview acquisition, which accounted for \$439.6 million. Excluding the Longview acquisition, net sales increased by \$92.0 million or 7.6 percent. Net sales (excluding Longview) increased by \$77.3 million due to higher average selling prices, \$9.2 million of other sales and \$5.5 million due to volume and product mix changes. Average mill selling price per ton for 2013 was \$669 compared to \$622 for 2012. Average mill selling prices increased primarily due to the full realization of the 2012 and 2013 price increases for domestic containerboard and corrugated products.

The following represents the Company's sales by product line:

Product Line Revenue:	Years Ended December 31,				Tons Sold			
	Net Sales (in thousands)		Increase/ (Decrease)	%	2013	2012	Increase/ (Decrease)	%
	2013	2012						
Containerboard / Corrugated products	\$ 1,108,545	\$ 714,085	\$ 394,460	55.2%	1,403,797	1,046,500	357,297	34.1%
Specialty paper	551,931	428,663	123,268	28.8%	799,261	633,965	165,296	26.1%
Other	87,686	73,889	13,797	18.7%				0.0%
Product sold	\$ 1,748,162	\$ 1,216,637	\$ 531,525	43.7%	2,203,058	1,680,465	522,593	31.1%

Tons of product sold in 2013 was 2,203,058 tons compared to 1,680,465 tons in 2012. Excluding the Longview acquisition, tons of products sold in 2013 decreased by 13,897 tons or 1 percent as follows:

Domestic containerboard sales increased 14.5 percent due to higher demand for ultra performance containerboard grades.

Corrugated product sales volume increased 3.9 percent reflecting a heavier basis weight of tons shipped and product mix, new customers and the addition of the Aurora manufacturing facility.

Export containerboard sales decreased by 30.3 percent as more containerboard volume was shipped to domestic customers and used for internal consumption.

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Specialty paper sales decreased by 5.7 percent, primarily due to Kraft paper sales which decreased 20.5 percent, reflecting an overall decrease in demand in the industry and lower volume of sales to a customer as it internalized its needs, partially offset by higher Durasorb® and Kraftpak® volume.

Cost of sales, excluding depreciation and amortization expense, for the year ended December 31, 2013 was \$1,186.9 million compared to \$866.1 million for the year ended December 31, 2012, an increase of \$320.8 million. The increase in cost of sales was mainly due to the \$272.0 million impact of the Longview acquisition. Excluding the Longview acquisition, cost of sales increased by \$48.8 million, or 5.6 percent, mainly due to \$32.5 million of inflation on labor, benefits and input costs, \$6.5 million of higher planned maintenance outage costs and other cost increases. Including Longview, annual planned maintenance outage costs during 2013 and 2012 totaled \$24.9 million and \$18.4 million, respectively, and were included in cost of sales for those years.

Depreciation and amortization expense for the year ended December 31, 2013 totaled \$95.4 million compared to \$63.1 million for 2012. The increase of \$32.3 million was primarily due to \$27.6 million from the Longview acquisition, \$2.4 million of which was amortization of identified intangibles. Excluding the Longview acquisition, depreciation and amortization expense increased \$5.3 million due to the recent investments in information technology, equipment upgrades, and replacements at the paper mills.

Selling, general and administrative expenses for the year ended December 31, 2013 totaled \$110.6 million compared to \$70.1 million in 2012. The increase of \$40.5 million was primarily due to \$26.1 million from the Longview acquisition. Excluding the Longview acquisition, selling, general, and administrative expenses increased by \$14.4 million due to \$8.5 million of Longview transaction fees and expenses, \$5.9 million of higher compensation related expenses, \$1.8 million of higher IT and consulting expenses, \$1.4 million for the Aurora, IL manufacturing facility, and \$0.6 million of bad debt expense, partially offset by \$3.8 million of 2012 USC acquisition and integration related expenses. As a percentage of net sales, selling, general, and administrative expenses increased to 6.3 percent in 2013 from 5.8 percent in 2012.

Net interest expense for the years ended December 31, 2013 and 2012 was \$25.1 million and \$11.8 million, respectively. Interest expense reflects interest on the Company's borrowings under its Credit Facility and amortization of debt issuance costs. Interest expense was \$13.3 million higher for the year ended 2013 due to higher term loan balances used to fund the Longview acquisition and an increase in variable interest rates.

Provision for income taxes for the years ended December 31, 2013 and 2012 was \$67.7 million and \$35.0 million, respectively, reflecting an effective income tax rate of 34.7 percent for 2013 compared to 35.9 percent for 2012. The higher provision for income taxes in 2013 primarily reflects higher pre-tax income and higher state income taxes, partially offset by a \$5.0 million favorable adjustment for reversal of a tax reserve for an uncertain tax position relating to alternative fuel mixture credits.

**Liquidity and Capital Resources**

***Receivables Credit Facility***

In September 2014, certain wholly-owned subsidiaries of the Company ("Originators") entered into a one-year agreement to sell all eligible trade receivables (the "Receivables") on a non-recourse basis (subject to purchase price credits for breaches of certain representations and warranties with respect to the Receivables), to KapStone Receivable, LLC ("KAR"), a wholly-owned subsidiary of the Company that is a bankruptcy remote variable interest entity (the "VIE"). KAR is a variable interest entity as it receives subordinated financing from the Originators from time to time to finance its activities. The Company continues to service the receivables after they have been sold to KAR and makes the



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primary decisions regarding the collateral in KAR and is therefore the primary beneficiary and will consolidate the account balances of KAR. KAR finances its purchases of the Receivables in part with proceeds of draws under a one-year facility ("Receivables Credit Facility"), subject to a maximum of \$175 million. The actual amount available to draw upon varies based on eligible receivables (as defined in the agreement establishing the Receivables Credit Facility). The proceeds from the initial sales of the Receivables were used to pay down the term loans under our Amended and Restated Credit Agreement. As of December 31, 2014, \$167.0 million was outstanding with an interest rate of 0.9 percent.

***Amendments to the Amended and Restated Credit Agreement***

In April 2014, the Company entered into a First Amendment (the "First Amendment") to the Amended and Restated Credit Agreement dated as of July 18, 2013 (as amended from time to time, the "Amended and Restated Credit Agreement"). The First Amendment reduced the borrowing rates under our Credit Facility for both term loans under the Credit Facility and for any future borrowings under the \$400 million revolving credit facility (the "Revolver") portion of the Credit Facility. The interest rates are based on LIBOR rates plus a margin determined from a pricing grid based on the Company's debt to EBITDA ratio as defined in our Amended and Restated Credit Agreement. Accordingly, the weighted average interest rate on borrowings under the Credit Facility as of December 31, 2014 is 1.98 percent, compared to 2.25 percent as of March 31, 2014. The First Amendment also reduced the unused commitment fees related to the Revolver by 5 to 10 basis points.

In August 2014, the Company entered into a Second Amendment to the Amended and Restated Credit Agreement, which included certain technical amendments to the Amended and Restated Credit Agreement in connection with the Receivables program and the related Receivables Credit Facility.

In December 2014, the Company entered into a Third Amendment to the Amended and Restated Credit Agreement. The modification of the Amended and Restated Credit Agreement will enable the Company, subject to certain conditions and limitations, to pay dividends on, or make repurchases of, the Company's common stock.

***Voluntary and Mandatory Prepayments***

For the year ended December 31, 2014, the Company made \$325.0 million of voluntary prepayments on its term loans under its credit facility using \$175.0 million of cash from the Receivables Credit Facility and \$150.0 million of cash generated from operations.

For the year ended December 31, 2014, the Company made an \$8.0 million mandatory payment on the Receivable Credit Facility based on the Company's eligible receivables. No mandatory prepayments were required under the Amended and Restated Credit Agreement.

For the year ended December 31, 2013, the Company made a \$40.0 million voluntary prepayment on its term loan under its then-existing credit agreement using cash generated from operations.

***Other Borrowing***

In 2014 and 2013, the Company entered into financing agreements of \$6.3 million and \$5.1 million, respectively, at an annual interest rate of 1.69 and 1.61 percent, respectively, for its annual property insurance premiums. These agreements required the Company to pay consecutive monthly payments through the term of each financing agreement ending on December 1<sup>st</sup> of each year. The Company entered into a similar agreement in 2015 with quarterly payment terms ending on October 15<sup>th</sup>.

Table of Contents**Debt Covenants**

Under the financial covenants of the Amended and Restated Credit Agreement, the Company must comply on a quarterly basis with a maximum permitted leverage ratio. The leverage ratio is calculated by dividing the Company's debt by its rolling twelve month total earnings before interest expense, taxes, depreciation and amortization and allowable adjustments. The maximum permitted leverage ratio declines over the life of the Amended and Restated Credit Agreement. On December 31, 2014, the maximum permitted leverage ratio was 4.25 to 1.00. On December 31, 2014, the Company was in compliance with a leverage ratio of 2.38 to 1.00.

The Amended and Restated Credit Agreement also includes a financial covenant requiring a minimum fixed charge coverage ratio. This ratio is calculated by dividing the Company's twelve month total earnings before interest expense, taxes, depreciation and amortization and allowable adjustments less cash payments for income taxes and capital expenditures by the sum of our cash interest and required principal payments during the twelve month period. From the closing date of the Amended and Restated Credit Agreement through the quarter ending December 31, 2014, the fixed charge coverage ratio was required to be at least 1.25 to 1.00. On December 31, 2014, the Company was in compliance with the Amended and Restated Credit Agreement with a fixed charge coverage ratio of 7.53 to 1.00.

As of December 31, 2014, Company was also in compliance with all other covenants in the Amended and Restated Credit Agreement.

**Income Taxes**

Income taxes paid, net of refunds, were \$77.5 million, \$4.0 million and \$7.0 million in 2014, 2013 and 2012, respectively. The increase in 2014 is primarily due to higher pre-tax income following the 2013 Longview acquisition, significant tax credit carry-forwards and net operating losses fully utilized through 2013 and bonus depreciation claimed in 2013. The Company expects its 2015 cash tax rate to be approximately 35 percent.

**Sources and Uses of Cash**

Years ended December 31 (\$ in thousands)	2014	2013	2012
Operating activities	\$ 313,198	\$ 298,694	\$ 157,829
Investing activities	(137,232)	(634,945)	(67,551)
Financing activities	(160,466)	332,730	(81,852)
Total change in cash and cash equivalents	\$ 15,500	\$ (3,521)	\$ 8,426

**2014**

Cash and cash equivalents increased by \$15.5 million from December 31, 2013, reflecting \$313.2 million of net cash provided by operating activities, \$137.2 million of net cash used in investing activities and \$160.5 million of net cash used by financing activities.

Net cash provided by operating activities was \$313.2 million, comprised primarily of net income of \$171.9 million and non-cash charges of \$147.4 million. Changes in operating assets and liabilities used \$6.1 million of cash. Net cash provided by operating activities increased by \$14.5 million during the year ended December 31, 2014 compared to 2013 mainly due to a \$44.6 million increase in net income, which was partially offset by \$18.9 million of cash used for working capital and lower non-cash charges of \$11.2 million.

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Net cash used in investing activities was \$137.2 million for capital expenditures. For the year ended December 31, 2014, capital expenditures included \$49.5 million for our Longview operations acquired on July 18, 2013 and \$5.6 million for the completion of the North Charleston, South Carolina paper mill No. 3 paper machine upgrade. Capital expenditures increased by \$40.5 million in 2014 compared to 2013 due to the Longview acquisition and higher strategic capital spending.

Net cash used in financing activities was \$160.5 million and reflects \$325.0 million of voluntary prepayments on the term loans under the Credit Facility, \$8.0 million repayment on the Receivables Credit Facility as a result of a reduction in the Company's eligible receivables, \$3.5 million for principal payments on the term loans, \$1.1 million of fees paid for the Receivables Credit Facility and the First Amendment, and \$0.2 million for cash dividends paid. These amounts were partially offset by \$175.0 million of initial proceeds from Receivables Credit Facility and \$2.4 million of proceeds from share transactions. Net cash provided by financing activities decreased by \$493.2 million in 2014 compared to 2013, primarily due to higher net borrowings in 2013 as a result of the Longview acquisition.

**2013**

Cash and cash equivalents decreased by \$3.5 million from December 31, 2012, reflecting \$298.7 million of net cash provided by operating activities and \$332.7 million of net cash provided by financing activities, offset by cash used in investing activities of \$634.9 million.

Net cash provided by operating activities was \$298.7 million due to non-cash charges of \$158.6 million, net income of \$127.3 million and changes in operating assets and liabilities of \$12.8 million. Net cash provided by operating activities increased by \$140.9 million during the year ended December 31, 2013 compared to 2012 mainly due to higher non-cash charges of \$69.0 million, higher net income of \$64.8 million and \$7.1 million of cash provided by changes in operating assets and liabilities.

Net cash used in investing activities includes \$538.2 million for the Longview acquisition and \$96.7 million of capital expenditures. For the year ended December 31, 2013, capital expenditures included \$10.2 million for the new manufacturing facility in Aurora, IL and \$22.2 million for Longview. Net cash used in investing activities increased by \$567.4 million in 2013 compared to 2012, primarily due to the Longview acquisition.

Net cash provided by financing activities totaled \$332.7 million, reflecting \$1,275.0 million of borrowings under the Credit Facility, partially offset by the \$812.8 million payoff of the Company's prior credit facility and Longview's senior notes assumed in the acquisition, \$63.5 million of short-term borrowing repayments, a \$40.0 million voluntary prepayment, \$19.7 million of debt issuance costs for the Amended and Restated Credit Agreement and a \$11.2 million scheduled principal payment. Net cash provided by financing activities increased by \$414.6 million in 2013 compared to 2012, mainly due to higher net borrowings in 2013 due to the Longview acquisition.

***Future Cash Needs***

We expect that cash on hand at December 31, 2014 and cash generated from operating activities in 2015 and, if needed, the ability to draw from our \$400.0 million Revolver and our \$300.0 million accordion provision under our Credit Facility, if available, will be sufficient to meet anticipated cash needs, which primarily consists of \$21.2 million of interest payments on our term loans, approximately \$135.0 million of expected capital expenditures, \$38.4 million of dividends, \$1.1 million of pension plan funding and any additional working capital needs.

At December 31, 2014, the Company had no borrowings under the Revolver and had \$395.7 million of remaining revolver availability net of outstanding letters of credit.

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On a long term basis, we expect that cash generated from operating activities and, if needed, the ability to draw from our Revolver and accordion provision, if available, will be sufficient to meet long term obligations. Our long term obligations primarily consist of \$1.1 billion of debt service and interest (which includes a \$513.2 million final payment on our term loan A-1 and \$167.0 million on our Receivable Credit Facility in July 2018 and a final payment on our term loan A-2 in July 2020 of \$231.1 million), capital expenditures of \$110.0 to \$125.0 million annually, annual defined benefit pension plan contributions, dividends, and working capital needs and acquisitions.

**Off-Balance Sheet Arrangements**

We have not entered into any off-balance sheet financing arrangements. The Company established a variable interest entity in connection with the Receivables Credit Facility. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

**Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates. We believe our critical accounting policies are those described below. The Company's audit committee has reviewed the policies listed below. For a detailed discussion of these and other accounting policies, see Note 2 "*Significant Accounting Policies*" of the Notes to the Consolidated Financial Statements.

***Revenue Recognition***

The Company recognizes revenue in accordance with Accounting Standards Codification ("ASC") 605, *Revenue Recognition*. Revenue is recognized when the customer takes title and assumes the risks and rewards of ownership. Sales with terms designated f.o.b. (free on board) shipping point are recognized at the time of shipment. For sales transactions with terms f.o.b. destination, revenue is recorded when the product is delivered to the customer's site and when title and risk of loss are transferred. Sales on consignment are recognized in revenue at the earlier of the month that the goods are consumed or after a period of time subsequent to receipt by the customer as specified by contract terms. Incentive rebates are typically paid in cash and are netted against revenue on an accrual basis as qualifying purchases are made by the customer to earn and thereby retain the rebate.

The Company recognizes revenue from the sale of shaft horsepower, generated by its cogeneration facility, and energy sales on a gross basis and is included in net sales.

Freight charged to customers is recognized in net sales.

***Goodwill and Intangibles***

Certain business acquisitions have resulted in the recording of goodwill. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities based on estimated fair value, with any remaining purchase price recorded as goodwill. Goodwill is considered an indefinite lived intangible asset and as such is not amortized. At December 31, 2014, we have goodwill of \$533.9 million. In conjunction with the Longview acquisition the Company's goodwill increased by \$308.3 million, see Note 3 "*Longview Acquisition*" of the Notes to Consolidated Financial Statements.

***Goodwill Valuations***

We evaluate goodwill using a qualitative assessment to determine whether it is more likely than not that the fair value of any reporting unit is less than its carrying amount. If we determine that the

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fair value of the reporting unit may be less than its carrying amount, we evaluate goodwill using a two-step impairment test. Otherwise, we conclude that no impairment is indicated and we do not perform the two-step impairment test.

In conducting a qualitative assessment, the Company analyzes a variety of events or factors that may influence the fair value of the reporting unit, including, but not limited to: the results of prior quantitative tests performed; changes in the carrying amount of the reporting unit; actual and projected operating results; relevant market data for both the Company and its peer companies; industry outlooks; macroeconomic conditions; liquidity; changes in key personnel; and the Company's competitive position. Significant judgment is used to evaluate the totality of these events and factors to make the determination of whether it is more likely than not that the fair value of the reporting unit is less than its carrying value.

If the qualitative assessment concludes that the two-step impairment test is necessary, we first compare the book value of a reporting unit, including goodwill, with its fair value. The fair value is estimated based on a market approach and a discounted cash flow analysis, also known as the income approach, and is reconciled back to the current market capitalization for the Company to ensure that the implied control premium is reasonable. If the book value of a reporting unit exceeds its fair value, we perform the second step to estimate an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The difference between the total fair value of the reporting unit and the fair value of all the assets and liabilities other than goodwill is the implied fair value of that goodwill. The amount of impairment loss is equal to the excess of the book value of the goodwill over the implied fair value of that goodwill.

***Evaluating Goodwill Results and Significant Assumptions***

Based on the favorable results of the qualitative assessment conducted as of October 1, 2014, there was no goodwill impairment charge recorded in 2014.

For our three reporting units our qualitative assessment included a review of the events and factors outlined above. Significant weight was provided to the following factors, as we determined that these items have the most significant impact on the fair value of this reporting unit.

**Market valuation** This factor best reflects a market participant view of the Company. The substantial increase of approximately \$500 million from the prior year is directly attributable to the improved legacy performance, Longview integration, and is a positive indicator of no impairment.

**Actual 2014 operating performance vs. expectations** the Company's ability to execute and deliver performance in excess of projections during 2014 reflects management's ability to adapt to market conditions and deliver record operating results.

The discount rate used for the last performed quantitative assessment in 2012 was 10.5 percent. Since then the Company estimates that the discount rate has decreased to 9.0 percent in 2014 based on analysis prepared with the assistance of a third party. An overall decrease in the discount rate has a favorable impact to fair values of the reporting units.

**Better expected future performance** partially due to a full year realization of the \$50 per ton 2014 kraft paper selling price increase and productivity improvements from the Company's 2014 strategic capital expenditures.

Intangible assets acquired in a business combination or asset purchase are initially valued at the fair market value using generally accepted valuation methods appropriate for the type of the intangible asset. Definite-lived intangible assets are amortized over their estimated useful lives and are reviewed

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for impairment if indicators of impairment arise. The evaluation of the impairment is based upon a comparison of the carrying amount of the intangible asset to the estimated future undiscounted cash flows expected to be generated by the asset. If the estimated undiscounted future cash flows are less than the carrying amount of the assets, the asset is considered to be impaired. If impaired, the intangible asset is written down to estimated fair market value.

***Pension Benefits***

The Company provides pension benefits to certain employees and accounts for these benefits in accordance with ASC 715, *Compensation Retirement Benefits*. For financial reporting purposes, assumptions are developed through consultations with investment advisors and actuaries for expected long-term rate of return on plan assets, discount rates and mortality rates. There is authoritative guidance on how to select most of these assumptions, however, management exercises judgment when deciding on the final assumptions used for valuation purposes. We evaluated the assumptions for the year ended December 31, 2014 and we believe they are within accepted industry ranges, although an increase or decrease in the assumptions or economic events outside our control could have a direct impact on future recorded obligations and reported net earnings. A summary of key assumptions for 2014, 2013 and 2012 is as follows:

	<b>Pension Benefits Actuarial Assumptions</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Weighted-average discount rate assumption used to determine PBO at December 31,	4.24%	5.11%	4.11%
Weighted-average actuarial assumptions for net expense:			
Discount rate	5.11%	4.77%	4.64%
Long-term rate of return on plan assets	6.98%	6.25%	6.50%

The measurement date for our plan is year-end as of December 31. Accordingly, at the end of each year; we determine the discount rate to be used to discount pension liabilities to its present value. This rate is adjusted to match the duration of the liabilities associated with the pension plan. The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of the year. The Company's estimate of its projected benefit obligation ("PBO") is highly dependent on changes in market interest rates. In estimating this rate at the end of 2014, we reviewed rates of return on relevant market indices and concluded that the Fidelity Bond Modeler is consistent with observable market conditions and industry standards for developing spot rate curves. The impact of the change in market interest rates during 2014 from the prior year resulted in a \$66.3 million increase to our December 31, 2014 projected benefit obligation ("PBO") and was recorded through "Accumulated other comprehensive income / (loss)," a component of "Stockholders' Equity" in the Consolidated Balance Sheets.

A significant element in determining our net periodic benefit income is the expected return on plan assets. For 2014, we had assumed that the expected long-term rate of return on plan assets would be 6.98 percent, or \$44.1 million. This expected return on plan assets is included in the net periodic benefit income for the year ended December 31, 2014. As a result of the combined effect of valuation changes in both the equity and bond markets, the actual return on plan assets was approximately 5.8 percent, or \$37.9 million in 2014. The difference between the expected return and the actual return on plan assets is reflected on the Consolidated Balance Sheets through charges to "Accumulated other comprehensive income / (loss)." As of December 31, 2014 and 2013, the fair value of plan assets is \$647.5 million and \$645.5 million, respectively.

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In addition to the change from the prior year in discount rates, we adopted new U.S. mortality tables in 2014 for purposes of determining our mortality assumption used in the defined benefit plan's liability calculation. The new assumptions were based on the Society of Actuary's recent mortality experience study and reflect future mortality improvement. Based on our experience and in consultation with our actuaries, we utilized a base RP-2014 with MP-2014 projection scale and appropriate collar adjustments. In 2013, we utilized the RP-2000 mortality tables. The updated mortality assumption resulted in an increase to the projected benefit obligation of \$27.8 million as of the end of 2014 and was recorded through "Accumulated other comprehensive income / loss," a component of "Stockholders' Equity" in the Consolidated Balance Sheets.

As of December 31, 2014 and 2013, we determined the discount rate for our plan to be 4.24 percent and 5.11 percent, respectively, and used these rates to measure the PBO at the end of each respective year end. The decrease in the discount rate, the change to the updated mortality assumption, and overall plan experience has increased the PBO, by \$91.5 million to \$669.2 million as of December 31, 2014 from \$577.7 million as of December 31, 2013. The Plan's unfunded status was \$21.7 million as of December 31, 2014 compared to a surplus of \$67.8 million as of December, 31 2013.

We recognized net periodic pension income of \$5.0 million in 2014, compared to \$1.3 million of net periodic pension expense in 2013. For the year ended December 31, 2015, we estimate net periodic pension income to approximate \$6.1 million reflecting a discount rate of 4.24 percent and an expected return on plan assets of 6.5 percent.

***Income Taxes***

The Company accounts for income taxes under the liability method in accordance with ASC 740, *Income Taxes*. Accordingly, deferred income taxes are provided for the future tax consequences attributable to differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Deferred tax assets and liabilities are measured using tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company recognizes the benefit of tax positions when it is more likely than not to be sustained on its technical merits. The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes. As of December 31, 2014, the Company does not have any valuation allowances.

**Recent Accounting Pronouncements**

See Note 2 "*Significant Accounting Policies*" in the Notes to Consolidated Financial Statements for a discussion of recent accounting pronouncements.

Table of ContentsContractual Obligations

The following table summarizes our contractual obligations as of December 31, 2014, (\$000s):

Contractual Obligations	Total	Payments Due by Period					
		2015	2016	2017	2018	2019	Thereafter
Long-term debt(1)	\$ 895,238	\$	\$	\$ 90,563	\$ 573,563	\$	\$ 231,112
Receivable credit facility(1)	167,000				167,000		
Interest on long-term debt(2)	83,679	21,156	21,208	20,643	12,738	5,163	2,771
Operating lease obligations(3)	89,227	12,219	15,708	13,365	8,273	7,463	32,199
Purchase obligations(4)	201,552	36,063	31,289	28,183	24,097	19,665	62,255
Minimum pension plan funding(5)	1,108	1,108					
<b>Total</b>	<b>\$ 1,437,804</b>	<b>\$ 70,546</b>	<b>\$ 68,205</b>	<b>\$ 152,754</b>	<b>\$ 785,671</b>	<b>\$ 32,291</b>	<b>\$ 328,337</b>

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- (1) These obligations are reflected on our Consolidated Balance Sheets at December 31, 2014, in long-term debt net of current portion, as appropriate. See Note 9 "Pension and Postretirement Benefits" in the Notes to Consolidated Financial Statements.
- (2) Assumes debt is carried to full term. Debt bears interest at variable rates and the amounts above assume future interest will be incurred at the rates in effect on December 31, 2014. These obligations are not reflected on our Consolidated Balance Sheets at December 31, 2014.
- (3) These obligations are not reflected on our Consolidated Balance Sheet at December 31, 2014. See Note 13 in the Notes to Consolidated Financial Statements.
- (4) Purchase obligations are agreements to purchase goods that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased. These obligations are not reflected on our Consolidated Balance Sheets at December 31, 2014. See Note 13 in the Notes to Consolidated Financial Statements regarding the Company's purchase obligation relating to the Long Term Fiber Supply with MWV/Plum Creek.
- (5) The Company's defined benefit retirement plans requires a minimum pension plan contribution of approximately \$1.1 million in 2015 and was determined in consultation with our actuary in accordance with ERISA guidelines. See Note 9 in the Notes to Consolidated Financial Statements.

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

Market risk is the sensitivity of income to changes in interest rates, commodity prices and foreign currency changes. The Company is exposed to the following types of market risk: interest rates, commodity prices and foreign currency.

Interest Rates

Under our Amended and Restated Credit Agreement, at December 31, 2014 we had an outstanding Credit Facility consisting of two term loans totaling approximately \$895.2 million and the Revolver totaling \$400 million. Depending on the type of borrowing, the applicable interest rate under the Credit Facility is calculated at a per annum rate equal to (a) LIBOR plus an applicable margin or (b) the base rate that is calculated as (i) the greatest of (x) the prime rate, (y) the federal funds effective rate plus 0.50% or (z) a daily rate equal to one month LIBOR plus 1% plus (ii) an applicable margin. The unused portion of the Revolver is also subject to an unused fee that is calculated at a per annum rate (the "Unused



Fee Rate").

The applicable margin for borrowings under the Credit Facility and the Unused Fee Rate will be determined by reference to the pricing grid based on the Company's total leverage ratio. Under such

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pricing grid, the applicable margins for Term Loan A-1 and Revolver ranges from 1.0% to 2.0% for Eurodollar loans and from 0.0% to 1.0% for base rate loans and the Unused Fee Rate ranges from 0.25% to 0.40%. The applicable margins for Term Loan A-2 ranges from 1.25% to 2.25% for Eurodollar loans and from 0.25% to 1.25% for base rate loans. At December 31, 2014 the weighted average interest rate of the term loans was 1.98 percent.

Under our Receivables Credit Facility, at December 31, 2014 we have \$167.0 million outstanding. The outstanding capital of each investment in the Receivables interests shall accrue yield for each day at a rate per annum equal to the sum of (a) for any day, the one-month Eurodollar rate for U.S. dollar deposits plus (b) the applicable margin. At December 31, 2014 the interest rate of the Receivables Credit Facility was 0.9 percent.

Changes in market rates may impact the base or LIBOR rate under all borrowings. For instance, if the bank's LIBOR rate was to increase or decrease by one percentage point (1.0%), our annual interest expense would change by approximately \$10.8 million based upon our expected future monthly term loan balances per our existing repayment schedule.

Commodity Prices

We are exposed to price fluctuations of certain commodities used in production. Key materials and energy used in the production process include roundwood and woodchips, recycled fiber (OCC), containerboard, fuel oil, natural gas, electricity and caustic soda. We generally purchase these materials and energy at market prices, and do not use forward contracts or other financial instruments to hedge our exposure to price risk related to these commodities. We have one contract to purchase coal at fixed prices through December 31, 2015.

We are exposed to price fluctuations in the price of our finished goods. The prices we charge for our products are primarily based on market conditions.

Foreign Currency

We are exposed to currency fluctuations as we invoice certain European customers in Euros. As of December 31, 2014 and 2013 the Company did not have any foreign currency forward contracts and foreign exchange forward contracts outstanding.

As of December 31, 2014, trade accounts receivable denominated in Euros totaled \$5.8 million.

**Item 8. Financial Statements and Supplementary Data**

Financial statements are attached hereto beginning on Page F-1.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

Disclosure Controls and Procedures.

An evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2014 was made by our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

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**Internal Control over Financial Reporting.**

*Management Annual Report on Internal Control over Financial Reporting.* Our management's report on internal control over financial reporting is set forth on page F-2 of this report.

*Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item is incorporated by reference from our definitive proxy statement to be filed on or about March 31, 2015 with the Securities and Exchange Commission ("SEC").

Additional information required by this Item (i) with respect to members of our Board of Directors will be contained in the Company's Proxy Statement to be filed with the SEC on or about March 31, 2015 under the caption "Proposal 1 Election of Directors," (ii) with respect to our executive officers will be contained in the Company's Proxy Statement under the caption "Executive Officers," (iii) with respect to our audit committee will be contained in the Company's Proxy Statement under the caption "Governance Structure What Committees has the Board Established?," (iv) with respect to compliance under Section 16(a) of the Securities Exchange Act of 1934 will be contained in Company's Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," and (v) with respect to our code of ethics will be contained in the Company's Proxy Statement under the caption "Code of Ethics," and is incorporated herein by this reference.

KapStone adopted a code of ethics that applies to its CEO and CFO, as well as all other officers and employees of the Company and its affiliates. This code of ethics, entitled "Code of Conduct and Ethics", is posted on the Company's website at [www.kapstonepaper.com](http://www.kapstonepaper.com) under "Governance." The Code of Conduct and Ethics is administered by the Chief Compliance Officer of the Company. Any amendment to, or waiver of, a provision of the code of ethics that applies to the CEO, CFO, or persons performing similar functions will be disclosed on the Company's website under "Governance." We will also provide a copy of the Code of Conduct and Ethics without charge at the written request of any shareholder of record. Requests for copies may be directed to the Chief Compliance Office at our corporate headquarters.

**Item 11. Executive Compensation**

The information required by this Item will be contained in the Company's Proxy Statement to be filed with the SEC on or about March 31, 2015 under the captions "Executive Compensation," "Summary Compensation Table," "Grants of Plan-Based Awards," "Governance Structure," "Outstanding Equity Awards at 2014 Fiscal Year End," "Potential Payments upon Termination or Change-in-Control," and "2014 Director Compensation" and is incorporated herein by this reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item will be contained in the Company's Proxy Statement to be filed with the SEC on or about March 31, 2015 under the captions "Stock Ownership Securities

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Authorized for Issuance Under Equity Compensation Plan", "Stock Ownership Security Ownership of Management" and "Stock Ownership Security Ownership of Certain Beneficial Stockholders" and is incorporated herein by this reference.

**Item 13. Certain Relationships and Related Persons Transactions and Director Independence**

The information required by this Item will be contained in the Company's Proxy Statement to be filed with the SEC on or about March 31, 2015 under the captions "Certain Relationships and Related Person Transactions," and "Governance Structure" is incorporated herein by this reference.

**Item 14. Principal Accountant Fees and Services**

The information required by this Item will be contained in the Company's Proxy Statement to be filed with the SEC on or about March 31, 2015 under the caption "Independent Registered Public Accounting Firm" and is incorporated herein by this reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a)

(1) *Financial Statements*

An index to Consolidated Financial Statements appears on page F-1.

(a)

(2) *Financial Statement Schedules*

Certain financial statement schedules have been omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

(b)

*Exhibits.*

The following Exhibits are filed as part of this report:

<b>Exhibit No.</b>	<b>Description</b>
2.1	Agreement and Plan of Merger, dated as of September 22, 2011, by and among KapStone Kraft Paper Corporation, U.S. Corrugated Acquisition Inc., Pine Merger Corp., Dennis Dorian Mehiel, for purposes of Section 10.3, and Dennis Mehiel, for purposes of Section 10.3 and as the Representative. Incorporated by reference to the Registrant's Current Report on Form 8-K filed on September 22, 2011.
2.2	Stock Purchase Agreement dated as of June 10, 2013, by and among KapStone Kraft Paper Corporation, Longview Fibre Paper and Packaging, Inc., Brookfield Capital Partners II (NR) L.P., Brookfield Capital Partners II (PC) L.P., Brookfield Capital Partners II L.P. and KapStone Paper and Packaging Corporation. Incorporated by reference to the Registrant's Current Report on Form 8-K filed on June 10, 2013.
3.1	Restated Certificate of Incorporation of KapStone Paper and Packaging Corporation (as amended through January 2, 2007). Incorporated by reference to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2009, filed on March 10, 2010.
3.2	Amended and Restated By-laws. Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 19, 2014.
4.1	Specimen Common Stock Certificate. Incorporated by reference to the Registrant's Registration Statement on Form S-1/A (File No. 333-124601) filed on June 14, 2005.



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<b>Exhibit No.</b>	<b>Description</b>
10.1*	2006 Incentive Plan amended and restated as of May 18, 2012. Incorporated by reference to the Registrant's Annual Report filed on Form 10-K filed on March 4, 2013.
10.2*	Performance Incentive Plan of KapStone Paper and Packaging Corporation. Incorporated by reference to the Registrant's Current Report on Form 8-K filed on April 14, 2008.
10.3*	Form of Restricted Stock Unit Agreement. Incorporated by reference to the Registrant's Current Report on Form 8-K filed on April 14, 2008.
10.4*	Restricted Stock Unit Agreement Amendment November 28, 2012 issued on or about May 27, 2012 between KapStone Paper and Packaging Corporation and Grantee. Incorporated by reference to the Registrant's Form 10-K filed on March 4, 2013.
10.5*	2014 Incentive Plan. Incorporated by reference to Annex A to Registrant's Definitive Proxy Statement filed on April 1, 2014.
10.6*	KapStone Paper and Packaging Corporation Deferred Compensation Plan and the Adoption Agreement for the KapStone Paper and Packaging Corporation Deferred Compensation Plan. Incorporated by reference to the Registrant's Current Report on Form 8-K filed on December 16, 2014.
10.7	Long-Term Fiber Supply Agreement, dated July 1, 2008, by and among MeadWestvaco Forestry LLC and KapStone Charleston Kraft LLC (with certain confidential information deleted there from). Incorporated by reference to the Registrant's Current Report on Form 8-K filed on July 2, 2008.
10.8	Amended and Restated Credit Agreement dated as of July 18, 2013, by and among KapStone Paper and Packaging Corporation, KapStone Kraft Paper Corporation, as Borrower, the subsidiaries of Borrower named therein, as Guarantors, the lenders named therein, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and Barclays Bank PLC and Wells Fargo Bank, National Association, as co-Syndication Agents. Incorporated by reference to the Registrant's Form 8-K filed on July 18, 2013.
10.9	First Amendment to Amended and Restated Credit Agreement, dated as of April 2, 2014, by and among KapStone Kraft Paper Corporation, as Borrower, KapStone Paper and Packaging Corporation and the other Guarantors party thereto, the Lenders party thereto and Bank of America N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. Incorporated by reference to the Registrant's Form 8-K filed on April 4, 2014.
10.10	Second Amendment to Amended and Restated Credit Agreement dated as of August 15, 2014, by and among KapStone Paper and Packaging Corporation, KapStone Kraft Paper Corporation, as Borrower, the subsidiaries of KapStone Paper and Packaging Corporation named therein, as Guarantors, the lenders named therein and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. Incorporated by reference to the Registrant's Form 10-Q filed on October 29, 2014