KAPSTONE PAPER & PACKAGING CORP
Form 10-K
March 14, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission File No.: 000-51444

KapStone Paper and Packaging Corporation

Name of issuer as specified in its charter

KapStone Paper and Packaging Corporation
1101 Skokie Blvd, Suite 300
Northbrook, Illinois 60062
(address of principal executive offices) (Zip Code)

Delaware	20-2699372
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Title of Each Class	Name of Exchange On Which Registered
Common Stock (Par Value $.0001)	Nasdaq Stock Market, LLC
Warrants to purchase Common Stock	Nasdaq Stock Market, LLC

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

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. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the 18,715,300 shares of Common Stock held by non-affiliates of the registrant on June 29, 2007 was $142,049,127. This calculation was made using a price per share of Common Stock of $7.59, the closing price of the Common Stock on the NASDAQ on June 29, 2007, the last day of the registrant's most recently completed second fiscal quarter of 2007. 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 29, 2008, the number of shares of Common Stock outstanding, excluding 40,000 treasury shares, was 24,009,289.

DOCUMENTS INCORPORATED BY REFERENCE:

The registrant's Definitive Proxy Statement for its 2008 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, Items 10, 11, 12, 13 and 14 hereof.

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Forward Looking Statements.

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us, including the risks set forth in Item 1A. Risk Factors below, that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue," or the negative of such terms or other similar expressions. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those described in our other Securities and Exchange Commission filings. All subsequent written and oral forward-looking statements attributable to KapStone or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. KapStone disclaims any intention or obligation to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

PART I

Item 1. Business

Overview

KapStone Paper and Packaging Corporation, formerly Stone Arcade Acquisition Corporation, ("KapStone" or the "Company") was formed 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.

On August 19, 2005, we consummated our initial public offering of 20,000,000 units with each unit consisting of one share of our common stock and two warrants. Each warrant entitles the holder to purchase one share of our common stock at an exercise price of $5.00 per share. The units sold in our initial public offering were sold at an offering price of $6.00 per unit, generating gross proceeds of $120.0 million. After deducting the underwriting discounts and commissions and the offering expenses, the total net proceeds to us from the offering were approximately $113.2 million, of which $110.9 million was deposited into a trust account and the remaining proceeds of $2.3 million became available to be used to provide for business, legal and accounting due diligence for a prospective business combination and continuing operating expenses.

On January 2, 2007, we consummated the purchase from International Paper Company ("IP") of substantially all of the assets, and the assumption of certain liabilities, of the Kraft Papers Business ("KPB") through our wholly owned subsidiary KapStone Kraft Paper Corporation ("KapStone Kraft"). The assets consisted of an unbleached kraft paper manufacturing facility in Roanoke Rapids, North Carolina, and Ride Rite® Converting, an inflatable dunnage bag manufacturer located in Fordyce, Arkansas, trade accounts receivable and inventories. The liabilities assumed consisted of trade accounts payable, accrued expenses and certain long-term liabilities. The purchase price was $155 million in cash, subject to certain post-closing adjustments, plus two contingent earn-out payments. We obtained a $95 million senior secured credit facility from LaSalle Bank National Association, which was used to fund a portion of the purchase price and will be used as needed for working capital.

Acquisitions

We intend to pursue other acquisition opportunities 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 and have had preliminary discussions with several potential targets. 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 with LaSalle Bank National Association.

Business

General

We produce and sell unbleached kraft paper and lightweight linerboard at our facility in Roanoke Rapids, North Carolina and manufacture and sell inflatable dunnage bags at Ride Rite® Converting, located in Fordyce, Arkansas.

Unbleached kraft

Our unbleached kraft paper business is based in Roanoke Rapids, North Carolina and includes a production facility consisting of an integrated pulp and paper mill that produces unbleached kraft paper and lightweight linerboard. Roanoke Rapids began operations in 1907 and, by 1909, was the first business in the United States to produce kraft pulp using southern pine in the sulphate pulping process.

Roanoke Rapids produces a mix of both unbleached kraft paper and linerboard and currently has an annual production capacity of approximately 440,000 tons. The Company offers a portfolio of paper grades, which are sold to customers who convert the paper into a wide range of products. These products include multiwall bags for agricultural products, pet food, cement and chemicals, grocery bags, and specialty conversion products such as wrapping paper products and rollwrap. The linerboard grades are primarily produced for manufacturing corrugated containers for packaging products.

Softwood pulp used to make unbleached kraft paper and linerboard is produced from a combination of locally sourced roundwood and pine 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. The pulp is screened and washed through a series of washers, and then stored prior to the paper making process. Roanoke Rapids processes softwood pulp using two unbleached kraft paper machines; Paper Machine #3 ("PM3") and Paper Machine #4 ("PM4"), both of which are capable of producing either unbleached kraft paper or linerboard. At the current mix of products, PM3 produces approximately 560 tons of unbleached kraft paper daily, totaling approximately 195,000 tons annually. PM4 produces approximately 600 tons of unbleached kraft paper and linerboard paper daily, totaling approximately 210,000 tons annually. 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.

Dunnage bags

Our dunnage bag business, based in Fordyce, Arkansas, produces and sells inflatable paper dunnage bags under the Ride Rite® Converting trademark. The bags are constructed of an internal poly liner encased by multiple layers of high strength unbleached kraft paper or linerboard and are used to secure freight to minimize movement and potential damage of goods and products during transport. Ride Rite® Converting relies on Roanoke Rapids for approximately two-thirds of its supply of unbleached kraft paper. Additionally, the bags have an optional reusable valve design, which allows for the inflation and deflation of the bags for multiple uses. Ride Rite® Converting produces over 230 varieties of its inflatable dunnage bags. In 2007, the dunnage bag segment sold approximately 8.7 million dunnage bags. Ride Rite® Converting products are sold to manufacturers, less-than-trailer-load distributors, and retail regional distribution centers.

Corporate Support

We entered into a transitional services agreement with IP to cover certain services that IP provided to KPB, including information technology and centralized transaction processing. The term of each of the services ranges from six months to approximately 18 months but our goal was to terminate all of the services by December 31, 2007. Due to delays in converting to our own enterprise resource planning system ("ERP"), we will continue to use transitional support services from IP into 2008. The total cost of transferring these services from IP to us, including applicable relocation costs, is estimated by us to be approximately $5.0 million, consisting primarily of the cost of installing a new enterprise resource planning system which will include general ledger, order entry and receivables management, purchasing and payment plus additional modules. The system will support operations in North Carolina and Arkansas as well as corporate headquarters.

Industry Overview

Unbleached Kraft Paper Market

American Forest and Paper Association ("AF&PA") estimates that the U.S. unbleached kraft paper market was approximately 1.55 million tons in 2007. The U.S produced 1.36 million tons while 0.36 million tons were imported and 0.17 million tons were exported. U.S operating rate for 2007 was approximately 94%, unchanged from 2006. The kraft paper industry is comprised of three general product types: (1) Multiwall; (2) Specialty converting (including rollwrap); and (3) Grocery bag and sack.

Linerboard Market

Linerboard is primarily used to manufacture corrugated containers for packaging products. U.S. demand for corrugated boxes and linerboard tends to be driven by industrial production of processed foods and other nondurable goods. AF&PA reported 2007 linerboard production was 25.1 million tons, representing an increase of 1% over 2006. As a result, the capacity utilization has increased by 0.7% to 98.3% as reported by AF&PA in the December 2007 *Statistical Report*. Additionally, unbleached linerboard production capacity is expected to grow by 1.0% in 2008 driven by the conversion and ramp up of an uncoated paper machine to a linerboard machine in 2007.

Dunnage Bags Market

The demand for dunnage bags, which are used to protect products during transportation, is correlated to the general freight transportation industry. The American Trucking Association ("ATA") estimates that nearly 70% of U.S. freight volume, which includes general and bulk freight, is transported by trucks and is forecasted to grow, on average, 2.5% per year through 2016. ATA also estimates that the annual growth rate for freight transported by rail will be 1.9% through 2016. Historically, the nation's freight industry tracked prevailing economic conditions in the United States.

Market Trends

Both the multiwall packaging markets and the grocery bag and sack markets contracted between 2001 and 2006. The multiwall market contracted due to conversion to plastics in certain end-use markets (primarily in the insulation and lawn and garden markets) as well as the transition to 2-ply extensible sack packaging in certain markets (primarily in the cement market) where the package was considered a large percentage in the overall cost of the total product. The March 2007, AF&PA Capacity Survey forecasted an increase of 0.7% in 2008, leveling off in 2009.

In 2006 imports of plastic grocery & retail bags from China made up 80% of the U.S. market share in the grocery and retail markets, displacing paper grocery and retail bags and sacks. In 2007, the

Department of Commerce announced antidumping duties to be imposed on imports of laminated woven sacks from China. The duties will be an important first step for Paper Shipping Sack Manufacturers' Association, Inc. ("PSSMA") members to regain a level playing field and possibly market share.

The lightweight linerboard market has grown over 7% to 2.7 million tons since 2000, and represents a large market compared to the grocery bag and sack market. We will be targeting our lightweight linerboard for specialty independent corrugated and laminated products customers who focus on specialty niche packaging.

Customers

Unbleached kraft

The unbleached kraft segment has over 70 customers, many of which are leading world class converters of kraft paper. Its top three customers accounted for approximately $92.9 million, $100.4 million and $100.8 million of net sales in 2007, 2006 and 2005, or approximately 40.8%, 46.9% and 52.8% of all unbleached kraft revenues generated in 2007, 2006 and 2005, respectively. Altivity Packaging Corporation and Exopack, L.L.C. accounted for 17.1% and 10.4% of consolidated net sales in 2007, respectively, and 20.3% and 11.1% of consolidated net sales in 2006, respectively, and 24.1% and 11.1% of consolidated net sales in 2005, respectively. Hood Packaging accounted for 8.7%, 9.4% and 10.2% of consolidated net sales for 2007, 2006 and 2005, respectively. Kapstone has built long-term relationships with its customers averaging in excess of 25 years. We believe that the risk of losing customers or business with customers is reduced due to the long-term relationships that have been established.

During 2007 and 2006, approximately 76% and 64%, respectively, of Roanoke Rapids' production capacity was under contract with customers. The contracts are typically two years in length, in which pricing moves with the market and price tiers are determined based on volume. Any risk associated with contracted customer volume is minimal due to exit options for both parties and the absence of penalty provisions. The loss of, or reduced sales to, these key customers could result in decreased revenues and adversely impact our cash flows.

Dunnage bags

The dunnage bags segment sold under Ride Rite® Converting has a customer base consisting of leading distributors of shipping and packing materials, manufacturers, less-than-truckload carriers and retail regional distribution centers. Its top ten customers accounted for $20.3 million of net sales in 2007, $23.2 million of net sales in 2006 and $23.7 million of net sales in 2005, representing 61.8%, 65.0% and 67.1% of Ride Rite® Converting's net sales in 2007, 2006 and 2005, respectively. Three customers exceeded 10% of segment net sales as follows: 13.1%, 13.4% and 10.6% in 2007, respectively; 18.7%, 13.8% and 8.3% in 2006, respectively, and 17.8%, 12.2% and 8.6% in 2005, respectively. In connection with the acquisition, IP entered into an agreement to continue purchasing dunnage bags from Ride Rite® Converting for a period of five years.

In February 2008, KapStone was informed that Sunrise Arkansas, a large customer in our dunnage bag segment, had been purchased by Illinois Tool Works ("ITW"). ITW also owns Shippers Bag Inc., which manufactures dunnage bags and competes directly with Ride Rite ® Converting. ITW management has indicated their intention to continue to purchase dunnage bags from KapStone.

Suppliers

Unbleached kraft

The raw materials needed to process unbleached kraft paper and lightweight linerboard consists primarily of roundwood, woodchips, sawdust, chemicals, coal and fuel oil. We believe that these raw materials are readily available and that there are a number of large suppliers from whom the materials can be bought in the current market. Roanoke Rapids has a large number of suppliers providing the raw materials that are needed to operate the paper mill.

In 2007, 68% of the mill's fiber supply is delivered as committed volume, and in the absence of our affiliation with IP, we have entered into long-term wood supply agreements that comprise approximately 19% of our committed volume. In 2006, 76% of our wood supply was delivered as committed volume, with 35% supplied by other divisions of IP. Two of the largest suppliers, aside from wood suppliers, are Coal Energy Resources, which provides coal, and the Hess Corporation, which supplies No. 6 fuel oil. Roanoke Rapids has long standing relationships with both of these suppliers. Typical contracts for raw materials range from one to three years in length and are at fixed pricing or tied to a documented moving index for each material. As costs for raw materials, supplies, services and labor go up; paper price increases are implemented to recover these rising material costs, when possible. We currently do not use futures contracts or enter into hedging arrangements to manage the risk of fluctuations in coal or fuel prices. Thus, if we cannot pass on the rise in energy or other costs to our customers, such rise in costs will have an adverse effect on our gross profit margins.

For major supplies, we entered into a joint purchasing agreement with IP which enables the continuation of procurement advantages that arise from the economies of scale.

Dunnage bags

Ride Rite® Converting purchases approximately two-thirds of its kraft paper from KapStone's paper mill in Roanoke Rapids, North Carolina. Other key materials such as resin and valves are purchased from a combination of domestic and foreign suppliers.

Sales and Marketing

The sales and marketing team works directly with our technical, manufacturing and product development teams to offer solutions and meet new customer demands and product requirements. We market and sell our products with the help of a national sales force.

Competition

Unbleached kraft

We are one of the leading manufacturers of unbleached kraft paper in North America. Other key U.S. market suppliers are Georgia-Pacific Corporation, Premium One (Tolko and Canfor), Longview Fibre, Delta Natural and Smurfit Stone. A number of other competitors comprise the remainder of North American unbleached kraft paper production.

We believe the key parameters on which North American unbleached kraft suppliers compete are supply reliability, delivered price and product quality. KPB and now Kapstone have longstanding relationships with many of its customers and historically have entered into contracts with initial terms of at least two years. We believe that this is based on our reputation for surety of supply, roll-to-roll consistency, product runnability and high tensile strength.

Dunnage bags

We believe that the two companies that account for the majority of the North American inflatable dunnage bag market are Ride Rite® Converting and Shippers Paper, a division of ITW.

Environmental Regulation

Our operations 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. Environmental permits are required for the operation of our businesses, and are subject to revocation, modification and renewal. Governmental authorities have the power to enforce compliance with environmental requirements and violators are subject to injunctions, civil penalties and criminal fines. Third parties may also have the right to sue to enforce compliance with such regulations.

There were four components of the Environmental Protection Agency's ("EPA") Cluster Rule, with which the Roanoke Rapids mill had to comply. MACT I-Phase 1, MACT 1-Phase 2 and MACT II are complete and the mill is fully compliant with these standards. We use a specially designed software system for process monitoring, reporting and recordkeeping. The fourth component, Boiler MACT, was remanded by the courts to the EPA and states are awaiting further guidance from the EPA. We are not aware of any further actions that will require additional capital outlay.

On April 17, 2007, we achieved compliance with MACT-1 Phase 2 through the Innovations Project, an EPA and State of North Carolina approved project resulting in superior environmental technology and emission control equivalent to or better than the federal minimum requirement. The Roanoke Rapids mill completed installation of hoods on the B- and C-Washer lines to incinerate the collected gasses in the power boiler, and completed "environmentally beneficial projects" as agreed with community leaders and regulators. In conjunction with the above, The Roanoke Rapids mill is permitted to operate its A-Washer line without hoods (uncontrolled emissions) as needed (up to 33,333 air dried pulp tons/year) to support the mill's production capability. The Roanoke Rapids mill is currently permitted to produce 455,000 EPT (equivalent paper tons) annually which is 47,000 tons above 2007 production levels.

The EPA is continuing the development of new programs and standards such as additional wastewater discharge allocations, water intake structure requirements and national ambient air quality standards. We believe that our operations are in compliance in all material respects with all environmental regulations and are not aware of any pending regulatory agency compliance actions.

Legal Proceedings

We are involved in litigation from time to time in the ordinary course of business. We currently are not aware of any pending or threatened litigation that would be likely to have a material adverse effect on our operations.

Employees

At December 31, 2007, KapStone had approximately 710 employees. Of this amount, approximately 560 employees were covered by collective bargaining agreements with the United Steel Workers. Currently, there are collective bargaining agreements in place with union employees in Roanoke Rapids, North Carolina, through August 31, 2010, and with Ride Rite® Converting union employees through June 30, 2008. There have been no strikes, work stoppages or similar actions in over 50 years. We believe that we have a good relationship with our employees.

In January 2007, upon consummation of the acquisition of KPB, we began hiring a corporate staff to manage the operations. This included a vice president and chief financial officer, a vice president to manage KPB and other corporate staff employees. Additional hiring at the corporate headquarters occurred throughout 2007.

Executive Officers of Registrant

Our executive officers are as follows:

Name	Age	Position
Roger W. Stone	73	Chairman of the Board and Chief Executive Officer
Matthew Kaplan	51	President, Secretary and Director
Andrea K. Tarbox	57	Vice President and Chief Financial Officer
Timothy P. Keneally	60	Vice President and General Manager

Roger W. Stone has been Chairman of the Board since our inception. Mr. Stone was Manager of Stone- Kaplan Investments, LLC, a private investment company, from July 2004 through December 2007. He was Chairman and Chief Executive Officer of Box USA Holdings, Inc., a corrugated box manufacturer, from July 2000 until the sale of that company in July 2004. Mr. Stone was Chairman, President and Chief Executive Officer of Stone Container Corporation, a multinational paper company primarily producing and selling pulp, paper and packaging products, from March 1987 to November 1998 when Stone Container Corporation merged with Jefferson Smurfit Corporation, at which time he became President and Chief Executive Officer of Smurfit-Stone Container Corporation until March 1999. Mr. Stone has served on the board of directors of McDonald's Corporation since 1989. Mr. Stone received a B.S. in Economics from the Wharton School at the University of Pennsylvania. Mr. Stone is the father-in-law of Matthew Kaplan.

Matthew Kaplan has been our President and a member of our board of directors since our inception. Mr. Kaplan was Manager of Stone-Kaplan Investments, LLC, a private investment company, from July 2004 through December 2007. He was President, Chief Operating Officer and a director of Box USA Holdings, Inc., a corrugated box manufacturer, from July 2000 until the sale of the company in July 2004. Mr. Kaplan began his career at Stone Container Corporation in 1979 and was serving as its Senior Vice President and General Manager of North American Operations when Stone Container Corporation merged with Jefferson Smurfit Corporation in November 1998. He was Vice President/General Manager, Container Division with Smurfit-Stone Container Corporation until March 1999. Mr. Kaplan has served on the board of advisors of Victory Packaging since January 2007. In addition, Mr. Kaplan has also served on the board of trustees of Magnetar Spectrum Fund since November 2007. Mr. Kaplan received a B.A. from the Wharton School in Economics from the University of Pennsylvania and an M.B.A. from the University of Chicago. Mr. Kaplan is the son-in-law of Roger W. Stone.

Andrea K. Tarbox was appointed Vice President and Chief Financial Officer in January 2007. Ms. Tarbox has served as a financial consultant to the Company since April 2006. Ms. Tarbox played a key financial role in the acquisition by the Company of the Kraft Papers Business from International Paper Company. From March 2003 through March 2006, Ms. Tarbox served as Chief Financial and Administrative Officer for Uniscribe Professional Services, Inc. From July 1994 until February 2003, Ms. Tarbox was employed by Gartner Inc., last serving as Group Vice President-Finance and Treasurer. Prior to that, Ms. Tarbox had assumed financial positions of increasing responsibility in several global companies including British Petroleum, p.l.c. and Fortune Brands, Inc. Ms. Tarbox began her career with Ernst & Young LLP and is a Certified Public Accountant. Ms. Tarbox earned a B.A. degree in Psychology from Connecticut College, and an M.B.A. from the University of Rhode Island.

Timothy P. Keneally has been our vice president and general manager of the kraft paper business since January 2007. Previously, Mr. Keneally led the International Paper team that assessed the review of strategic alternatives relating to the kraft paper business. He was the lead person in presenting the historical performance of the business and assisted in defining the future strategy for the business. Mr. Keneally has 34 years of experience in the paper and packaging industry. He was with International Paper since the merger of Union Camp Corporation and International Paper in 1999 and was a corporate officer at IP since 1992. Mr. Keneally earned a B.A degree in History from Marist College in Poughkeepsie, NY.

Website Access to Company Reports

The Company's annual reports on Form 10-K, including this Form 10-K, as well as the quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments to those reports are filed electronically with the Securities and Exchange Commission ("SEC") and are also available free of charge through our website, *www.kapstonepaper.com* as soon as reasonably practicable after such material is filed electronically with, or furnished to, the SEC. Also, copies of our annual report will be made available, free of charge, upon written request.

Item 1A. Risk Factors

You should carefully consider the following risk factors, together with the other information contained in this annual report on Form 10-K, in evaluating us and our business before making an investment decision regarding our securities. If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. The risks listed below are not the only risks that we face.

Risks associated with our business

If the benefits of our KPB acquisition do not meet the expectations of the marketplace, or financial or industry analysts, the market price of our common stock may decline.

We acquired KPB on January 2, 2007. The market price of our common stock may decline if KPB does not perform as expected, or we do not otherwise achieve the perceived benefits of the acquisition as rapidly as, or to the extent anticipated by, the marketplace, or financial or industry analysts. Accordingly, investors may experience a loss as a result of a decreasing stock price and we may not be able to raise future capital, if necessary, in the equity markets.

We are dependent upon key management executives whose loss may adversely impact our business.

Our success depends significantly on the efforts and abilities of Roger Stone, Chief Executive Officer, and Matthew Kaplan, President. The loss of services of one or both of these individuals could have a material adverse effect on our business.

In addition, we depend on the expertise, experience and continued services of KPB's management. The loss of such management, or an inability to attract or retain other key individuals, could materially adversely affect us. We seek to compensate management, as well as other employees, through competitive salaries, bonuses and other incentive plans, but there can be no assurance that these programs will allow us to retain key management executives or hire new key employees.

Our operations may not be able to generate sufficient cash flows to meet KapStone's debt service obligations.

KapStone's ability to make payments on its indebtedness depends on its ability to generate cash from operations. The business may not generate sufficient cash flow from operations to enable it to repay KapStone's indebtedness and to fund other liquidity needs, including capital expenditure requirements. The indebtedness incurred by KapStone under the credit facility bears interest at variable rates, and therefore if interest rates increase, KapStone's debt service requirements will increase. In such case, KapStone may need to refinance or restructure all or a portion of its indebtedness on or before maturity. KapStone may not be able to refinance any of its indebtedness, including the new credit facility, on commercially reasonable terms, or at all. KapStone's expected debt service obligation is estimated to be approximately $2.7 million in interest payments for 2008, which will be reduced each year in accordance with debt amortization payments, if made. In addition, debt service requirements will also include principal payments of $6.4 million and the mandatory prepayments of $13.2 million in 2008, principal payments of $6.3 million in 2009 and 2010 and $20.3 million of principal payments in 2011 in the fifth and final year of the facility. If KapStone cannot service or refinance its indebtedness, it 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.

A default under KapStone's indebtedness may have a material adverse effect on our business and our financial condition.

In the event of a default under KapStone's credit facility, the lenders generally would be able to declare all of such 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 all of the assets of the Company and, in the event of a default under that facility the lenders generally would be entitled to seize the collateral. Moreover, upon the occurrence of an event of default under the credit facility, the commitment of the lenders to make any further loans would be terminated. Accordingly, a default under any debt instrument, unless cured or waived, would likely have a material adverse effect on our business and our results of operations and financial condition.

Servicing debt could limit funds available for other purposes.

We use cash from our operations to pay the principal and interest on our debt. These payments limit funds available for other purposes, including expansion of our operations through acquisitions, funding future capital expenditures and the payment of dividends.

KapStone's credit facility contains restrictive covenants that limit its liquidity and corporate activities. KapStone's credit facility imposes operating and financial restrictions that limit KapStone's ability to:

- incur additional indebtedness;
- create additional liens on its assets;
- make investments;
- engage in mergers or acquisitions;
- pay dividends; and
- sell any assets outside the ordinary course of business.

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

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 intend to pursue other acquisition opportunities in an effort to diversify our investments and/or grow our business. Any business acquired by us may cause it to be affected by numerous risks inherent

in the acquired business's operations. If we acquire a business in an industry characterized by a high level of risk, we may be affected by the currently unascertainable risks of that industry. Although our management will endeavor to evaluate the risks inherent in a particular industry or target business, we cannot assure you that we will be able to properly ascertain or assess all of the significant risk factors.

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 reduce the equity interest of 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 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 it seeks to consummate a subsequent acquisition, you will not be asked to vote on any such proposed acquisition and no redemption rights in connection with any such acquisition will exist.

If we fail to maintain effective systems for disclosure controls and internal control over financial reporting, we may be unable to comply with the requirements of Section 404 of the Sarbanes Oxley Act of 2002 in a timely manner.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test the effectiveness of its internal controls over financial reporting in accordance with an established internal control framework and to report on its conclusion as to the effectiveness of its internal controls. It also requires an independent registered public accounting firm to test our internal controls over financial reporting and report on the effectiveness of such controls for our fiscal year ending December 31, 2007 and subsequent years. It may cost us more than we expect to comply with these controls and procedure related requirements. If we discover areas of our internal controls that need improvement, we cannot be certain that any remedial measures taken will ensure that we implement and maintain adequate internal controls over financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could harm our operating results or cause us to fail to meet our reporting obligations.

Our operations are dependent upon certain operating agreements with IP.

We are dependent upon IP for certain operational support services as well as certain supply and purchase arrangements. In this regard, we rely upon a transition services agreement for support, rely upon IP (or buyers of certain IP businesses) to supply pulpwood, residual woodchips, sawdust, valve and chucks and containers, and rely upon IP (or buyers of certain IP businesses) to purchase unbleached rollwrap base paper, crude tall oil, black liquor soap, crude sulfate turpentine and dunnage bags from us.

IP is the exclusive supplier of corrugated containers to us. We currently believe that containers and the other materials supplied by IP as described above are readily available from other sources on the open market. However, in the event that IP, or any other supplier of key materials, for any reason fails to meet our supply requirements, the loss of supply could prevent us from meeting our scheduled product deliveries and/or lead to increases in the prices of such supplies, which could have a material adverse effect on our operating results and financial condition.

We have agreed to supply to IP 100% of IP's requirements of dunnage bags. Also, we agreed to supply to IP, the buyer of IP's beverage packaging business and the buyer of IP's coated paper business, 100% of each of their requirements of unbleached rollwrap paper. Any reduction in market prices or in the volume of products to be purchased by such parties, whether due to decreased demand, adverse market conditions or otherwise, could have a potential adverse effect on our operating results and financial condition. In addition, if we are unable to supply to such parties their requirements of the foregoing products, such parties would have the right to obtain their requirements from other suppliers, which could have a material adverse effect on our operating results and financial condition.

If we fail to extend or renegotiate the collective bargaining agreements with the United Steelworkers Union 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 the United Steelworkers Union. The Company is a party to collective bargaining contracts which represent approximately 80% of its employees at Roanoke Rapids and Ride Rite® Converting. 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 are collective bargaining agreements in effect with respect to Roanoke Rapids through August 31, 2010, and with respect to Ride Rite® Converting through June 30, 2008. If we fail to extend or renegotiate our collective bargaining agreements, if disputes with the union arise, or if the unionized workers engage in a strike or other work stoppage, we could incur higher ongoing labor costs or experience a significant disruption of operations, which could have a material adverse effect on our business and results of operations. The impact of future negotiations, including changes in wages and benefit levels that are collectively bargained for as part of the overall contracts with the unions, could have a material impact on our financial results.

A few customers account for a significant portion of our revenues.

During the year ended December 31, 2007, the top ten customers accounted for 62% of consolidated net sales. These customers were in the unbleached kraft operating segment. Our largest customer, Altivity Packaging Corporation, formerly Smurfit Stone, accounted for 17.1% of consolidated net sales in 2007. The second largest customer for 2007, Exopack LLP, accounted for 10.4% of consolidated net sales. Contracts with clients typically have a two-year term and pricing is market-indexed, based on volume and do not contain any penalty provisions. Three customers in the dunnage bag segment had sales exceeding 10% of segment net sales, but less than 10% of consolidated net sales. The loss of or reduced sales to these key customers could result in decreased revenues and earnings and adversely impact cash flows.

In February 2008, KapStone was informed that Sunrise Arkansas, a large customer in our dunnage bag segment, had been purchased by ITW. ITW also owns Shippers Bag Inc., which manufactures dunnage bags and competes directly with Ride Rite® Converting. ITW management has indicated their intention to continue to purchase dunnage bags from KapStone.

The Roanoke Rapids facility consists of a single paper mill from which all of its kraft paper and linerboard products are manufactured. If the equipment at the mill malfunctions, we may be unable to manufacture ours products.

The Company relies on a single paper mill with two papermaking machines to produce its kraft paper and linerboard products. The mill operates 24 hours a day, seven days a week, and with this high rate of utilization, the ability to recover from unplanned outages is limited. Further, since the Roanoke Rapids facility relies solely on two papermaking machines, any breakdown in one or both machines could result in an interruption in production at the mill and we may be unable to fulfill our product delivery obligations to our customers. Our failure to produce and deliver our products could lead to cancellation of customer contracts, which could adversely affect our results of operations, financial condition and relationship with out customers.

Although IP has agreed to indemnify us with respect to environmental liabilities that were assumed, we may incur significant remediation and other costs if such losses exceed the cap on indemnification or occur after the expiration of the indemnification period.

The Roanoke Rapids facility operated as an industrial facility for many years prior to the enactment of environmental legislation that would have required certain pollution prevention concepts to be addressed at the facility. Due to its long history of industrial operations, the possibility of onsite and offsite environmental impact to the soil and groundwater may present a heightened risk of liability for contamination. The overall indemnification by IP for certain losses includes assumed environmental liabilities, subject to a $1.0 million threshold and a cap of $15.0 million. IP's indemnification for assumed environmental liabilities will survive for three years. However, with respect to environmental claims, the cap described above will be reduced by $1.8 million every six months during the three year survival period. Because we are unable to presently make a determination as to whether the environmental impact, if any, would be widespread or significant, the negotiated cap and survival period may not be sufficient to cover future losses. Further, if we are required to make significant expenditures for remediation and other costs that exceed the cap, the cost of such efforts may have a significant negative impact on our results of operations and financial condition.

The impact of severe weather on roundwood availability could result in unfavorable wood pricing.

Historically, our paper mill controlled company-owned stumpage consisting of all-weather loggable tracts. This provided a buffer from large market pricing swings during weather events which resulted in reduced roundwood availability. While the Company believes its current fiber procurement strategy contains provisions to minimize the impact of such events, in the absence of company-owned stumpage, we could be more susceptible to market pricing spikes, which could have a negative impact on our results of operations and financial condition.

Our project to initiate implementation of a new information system could adversely affect our results of operations and cash flows.

We are in the process of implementing a new enterprise resource planning information system. The objective is to standardize and streamline business processes and improve support for our growing business. Risks associated with the implementation include, but are not limited to:

- a significant deployment of capital and a significant use of management and employee time;
- the possibility that the software vendor may not be able to complete the project as planned;
- the possibility that the timeline, costs or complexities related to the new system implementation will be greater than expected;
- the possibility that the software, once implemented, does not work as planned;
- the possibility that benefits from the new system may be lower or take longer to realize than expected;
- the possibility that disruptions from the implementation may make it difficult for us to maintain relationships with our respective customers, employees or suppliers; and
- limitations on the availability and adequacy of the proprietary software or consulting, training and project management services, as well as our ability to retain key personnel assigned to the project.

We can provide no assurance that the implementation process will be successful or will occur as planned and without disruption to operations. Difficulties associated with the design and implementation of the new information system could adversely affect our business, our results of operations and our cash flows.

Our executive officers and directors control a substantial percentage of our common stock and warrants and thus may influence certain actions requiring a stockholder vote.

At December 31, 2007, our executive officers and directors owned 7,360,100 shares of our common stock, or 29% of our total issued and outstanding common stock and held warrants to purchase an additional 4,806,500 shares of our common stock. Accordingly, our executive officers and directors may have considerable 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 two 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 considerable influence regarding the outcome.

Some of our executive officers and directors may in the future become affiliated with entities engaged in business activities similar to those intended to be conducted by us and, accordingly, may have conflicts of interest in determining to which entity a particular business opportunity should be presented.

Some of our executive officers and directors may in the future become affiliated with entities, including "blank check" companies, engaged in business activities similar to those conducted by us. Additionally, our executive officers and directors may become aware of business opportunities which may be appropriate for presentation to us as well as the other entities to which they have fiduciary obligations. Accordingly, they may have conflicts of interest in determining to which entity a particular business opportunity should be presented.

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 a target company's 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, as well as foreign currency exchange rates. The foregoing factors could materially and adversely impact sales and profitability of a target company with which we might seek a business combination.

Difficulty obtaining timber at favorable prices, or at all, may negatively impact companies in the packaging industry.

Wood fiber is the principal raw material in many parts of the packaging industry. Wood fiber is a commodity, and prices historically have been cyclical. 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. These reductions have caused the closure of plywood and lumber operations in some of the geographic areas in which a target company might operate. 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 natural and man made causes, thereby reducing supply and increasing prices.

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 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 legal and political conditions in those countries as well as transportation difficulties.

An increase in the cost of purchased energy or chemicals would lead to higher manufacturing costs, thereby reducing margins.

Energy is a significant raw material in the paper, packaging, forest products and related industries. Energy prices, particularly for electricity, natural gas and fuel oil, have been volatile in recent years and currently exceed historical averages. These fluctuations have historically impacted manufacturing costs of companies in these industries, often contributing to earnings volatility. Recent significant increases in energy prices can be expected to adversely impact businesses in these industries. In addition, we could be materially adversely impacted by supply disruptions.

Paper, packaging and forest products companies face strong competition.

The paper, packaging, forest products and related industries are highly fragmented, and we face competition from numerous competitors, domestic as well as foreign. Some of our competitors will be large, 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, packaging, forest products and related industries 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. While we would seek to adapt our product offerings to changes in market demand, we cannot assure you that any efforts will be successful or sufficient.

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

Companies in the 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, site remediation, forestry operations and endangered species habitats. We may incur substantial expenditures to maintain compliance with applicable environmental laws and regulations. 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 KapStone's Common Stock and Warrants

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.

Shares available for future issuance, conversion and exercise could have an adverse effect on the earnings per share and the market price of our common stock.

Any future issuance of equity securities, including upon exercise of outstanding warrants and stock options, could dilute the interests of our existing stockholders and could substantially decrease the trading price of our common stock. As of February 29, 2008, we have outstanding warrants to purchase 39.7 million shares of our common stock. In addition, in connection with our initial public offering, we issued to the representative of the underwriter an option to purchase 1,000,000 units which, if exercised, would result in the issuance of an additional 1,000,000 shares of common stock and 2,000,000 warrants.

We may choose to redeem our outstanding warrants at a time that is disadvantageous to our warrant holders.

Subject to there being a current prospectus under the Securities Act of 1933 with respect to the shares of common stock issuable upon exercise of the warrants issued as a part of the units in our initial public offering, during the entire period between any notice of redemption and the actual redemption date, we may redeem the warrants at any time after the warrants become exercisable, in whole and not in part, at a price of $.01 per warrant, upon a minimum of 30 days prior written notice of redemption, if and only if, the last sales price of our common stock equals or exceeds $8.50 per share for any 20 trading days within a 30 trading day period ending three business days before the notice of redemption is sent. Redemption of the warrants could force the warrant holders (i) to exercise the warrants and pay the exercise price therefore at a time when it may be disadvantageous for the holders to do so, (ii) to sell the warrants at the then current market price when they might otherwise wish to hold the warrants, or (iii) to accept the nominal redemption price which, at the time the warrants are called for redemption, is likely to be substantially less than the market value of the warrants.

Although we currently have an effective registration statement covering the issuance of the shares underlying the warrants issued in our initial public offering at the time that the warrant holders exercise their warrants, we cannot guarantee that a registration statement will continue to be effective, in which case the warrant holders may not be able to exercise their warrants.

Holders of the warrants issued in our initial public offering will be able to receive shares upon exercise of the warrants only if (i) a current registration statement under the Securities Act of 1933 relating to the shares of common stock underlying the warrants is then effective and (ii) such shares are qualified for sale or exempt from qualification under the applicable securities laws of the states in which the various holders of warrants reside. Although we currently have a current registration statement covering the shares underlying the warrants to the extent required by federal securities laws, we cannot give assurance that we will be able to maintain the effectiveness of such registration statement. In addition, some states may not permit us to register the shares issuable upon exercise of our warrants for sale. Since we have no obligation to net cash settle the warrants in the absence of an effective registration statement, the value of the warrants will be greatly reduced if a registration statement covering the shares issuable upon the exercise of the warrants is not kept current or if the securities are not qualified, or exempt from qualification, in the states in which the holders of warrants reside. Holders of warrants who reside in jurisdictions in which the shares underlying the warrants are not qualified and in which there is no exemption will be unable to exercise their warrants and would either have to sell their warrants in the open market or allow them to expire unexercised. If and when the warrants become redeemable by us, we may exercise our redemption right even if we are unable to qualify the underlying securities for sale under all applicable state securities laws. In light of the foregoing, the warrants may expire worthless and a purchaser of units may have paid the full unit purchase price solely for the share component of the units.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We maintain our corporate offices in Northbrook, Illinois. KapStone moved its headquarters in November 2007 by leasing office space near its previous corporate headquarters located in Northfield, Illinois. KapStone leases approximately 12,000 square feet of office space to serve as its headquarters for a term ending May 30, 2015.

Unbleached kraft Roanoke Rapids facility

The Roanoke Rapids facility is located on over 1,800 acres of land along the Roanoke River in Roanoke Rapids, North Carolina. The facility is an integrated pulp and paper mill, consisting of two papermaking machines, a single-line woodyard, a batch digester operation, three brown stock washer lines, one recovery boiler, one power boiler and a turbine generator. The facility is a 24-hour per day operation and typically operates 365 days per year, except for scheduled annual planned maintenance. The facility has approximately 670 acres dedicated to landfill. We believe that the facility is in good operating condition and is suited for the purposes for which it is presently being used and provides significant ability for potential plant and landfill expansion.

We ship our products directly from Roanoke Rapids as well as from public warehouses.

Dunnage bags Ride Rite® Converting

Ride Rite® Converting is located in Fordyce, Arkansas, approximately 70 miles south of Little Rock. The facility consists of two buildings that house the main offices, production lines and warehousing space of 155,000 square feet. Ride Rite® Converting is located on over 20 acres of land that is leased from the town of Fordyce. The current lease term ends in 2017, with options to renew for up to nine years. The facility includes two converting production lines that operate 24 hours a day, five days a week to process unbleached kraft paper, lightweight linerboard, extensible paper and poly bags into Ride Rite® Converting inflatable dunnage bags. We believe that the facilities are in good operating condition and are suited for the purposes for which they are presently being used.

Item 3. Legal Proceedings

To the knowledge of management, there is no litigation currently pending or contemplated against us or any of our officers or directors in their capacity as such.

Disclosure of Certain Tax Penalties

The Company has no tax penalties owing to the Internal Revenue Service.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

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

The Company's common stock and warrants have been traded on the NASDAQ Global Market since May 29, 2007 under the symbols "KPPC" and "KPPCW", respectively. Previously, KapStone's common stock and warrants were traded on the Over-the-Counter Bulletin Board under the symbols "SCDE" and "SCDEW," respectively, since September 14, 2005. KapStone's units are traded on the Over-the-Counter Bulletin Board under the symbol "KPPCU.OB." The following table sets forth the high and low bid information for the Company's securities from the commencement of trading through December 31, 2007, as reported by the various exchanges where its securities are traded. The quotations reflect inter-dealer prices, are without retail markup, markdowns or commissions, and may not represent actual transactions.

		2006		2007	
		Low	High	Low	High
Common Stock	1st	$ 5.32	$ 5.68	$ 6.10	$ 6.95
	2nd	$ 5.48	$ 5.70	$ 6.42	$ 7.79
	3rd	$ 5.45	$ 5.78	$ 6.16	$ 7.75
	4th	$ 5.62	$ 6.49	$ 6.68	$ 7.40
Warrants	1st	$ 0.37	$ 0.74	$ 1.50	$ 2.04
	2nd	$ 0.40	$ 0.67	$ 1.62	$ 2.90
	3rd	$ 0.44	$ 0.83	$ 1.66	$ 2.80
	4th	$ 0.82	$ 1.75	$ 1.80	$ 2.40
Units	1st	$ 6.10	$ 7.30	$ 9.19	$ 11.00
	2nd	$ 6.20	$ 6.95	$ 10.00	$ 13.55
	3rd	$ 6.35	$ 7.29	$ 9.85	$ 13.40
	4th	$ 7.10	$ 10.00	$ 10.60	$ 12.15

Number of Holders of Common Stock.

The number of holders of record of our common stock on February 29, 2008 was eight. However, the total number of beneficial holders is unknown as the majority of our common stock is held in street name through CEDE & Co.

Dividends.

There were no cash dividends or other cash distributions made by us during the fiscal years 2007 or 2006. The Company's credit facility prohibits the declaration or payment of cash dividends. The Company does not expect to pay dividends in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans.

Plan Category	**Number of Securities to be issued upon exercise of outstanding options, warrants and Rights (a)**	**Weighted-Average Exercise price of outstanding options, warrants and Rights (b)**	**Securities remaining available for the future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**