UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 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 Number: 001-33494

KapStone Paper and Packaging Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-2699372**
(State or Other Jurisdiction of	(I.R.S. Employer

Incorporation or Organization)	Identification No.)

KapStone Paper and Packaging Corporation

1101 Skokie Blvd., Suite 300

Northbrook, IL 60062

(Address of Principal Executive Offices including zip code)

Registrant s Telephone Number, including area code **(847) 239-8800**

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 x No o

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

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 x	Accelerated filer o
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 x

There were 95,878,370 shares of the Registrant s Common Stock, $0.0001 par value, outstanding at April 23, 2014.

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KAPSTONE PAPER AND PACKAGING CORPORATION

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PART 1. FINANCIAL INFORMATION

ITEM 1. - FINANCIAL STATEMENTS

KAPSTONE PAPER AND PACKAGING CORPORATION

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	March 31, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 23,949	$ 12,967
Trade accounts receivable, less allowance of $775 in 2014 and $682 in 2013	237,727	232,347
Other receivables	11,763	11,399
Inventories	230,840	217,382
Prepaid expenses and other current assets	13,670	6,405
Total current assets	517,949	480,500
Plant, property and equipment, net	1,395,426	1,389,609
Other assets	132,421	129,493
Intangible assets, net	120,328	123,745
Goodwill	527,896	528,515
Total assets	$ 2,694,020	$ 2,651,862
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt	$ 15,013	$ 4,950
Other current borrowings	4,627	
Accounts payable	171,203	159,127
Accrued expenses	47,612	45,885
Accrued compensation costs	37,276	54,871
Accrued income taxes	5,009	
Deferred income taxes	5,445	5,445
Total current liabilities	286,185	270,278
Other liabilities:		
Long-term debt, net of current portion	1,182,579	1,192,413
Pension and postretirement benefits	67,225	69,611
Deferred income taxes	447,401	444,672
Other liabilities	8,504	8,808
Total other liabilities	1,705,709	1,715,504
Commitments and contingencies		
Stockholders equity:		
Preferred stock $0.0001 par value; 1,000,000 shares authorized; no shares issued and outstanding		
Common stock $0.0001 par value; 175,000,000 shares authorized; 95,872,775 shares issued and outstanding (excluding 40,000 treasury shares) at March 31, 2014 and 95,706,212 shares issued and outstanding (excluding 40,000 treasury shares) at December 31, 2013	10	10
Additional paid-in-capital	250,103	246,186
Retained earnings	444,448	412,349
Accumulated other comprehensive income	7,565	7,535
Total stockholders equity	702,126	666,080

Total liabilities and stockholders equity	$	2,694,020	$	2,651,862

See notes to consolidated financial statements.

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KAPSTONE PAPER AND PACKAGING CORPORATION

Consolidated Statements of Comprehensive Income

(In thousands, except share and per share amounts)

(unaudited)

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
Net sales	$	548,952	$	319,813
Cost of sales, excluding depreciation and amortization		383,248		224,946
Depreciation and amortization		32,709		17,224
Freight and distribution expenses		40,732		27,920
Selling, general, and administrative expenses		34,145		19,128
Other operating income				202
Operating income		58,118		30,797
Foreign exchange loss		24		311
Interest expense, net		9,229		2,601
Income before provision for income taxes		48,865		27,885
Provision for income taxes		16,766		9,426
Net income	$	32,099	$	18,459
Other comprehensive income, net of tax Pension and postretirement plan reclassification adjustments:				
Amortization (accretion) of prior service costs		32		(11)
Amortization of net (gain) / loss		(2)		48
Other comprehensive income, net of tax		30		37
Total comprehensive income, net of tax	$	32,129	$	18,496
Weighted average number of shares outstanding:				
Basic		95,720,328		95,004,020
Diluted		97,315,766		96,492,418
Net income per share:				
Basic	$	0.34	$	0.19
Diluted	$	0.33	$	0.19

See notes to consolidated financial statements.

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KAPSTONE PAPER AND PACKAGING CORPORATION

Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Operating activities		
Net income	$ 32,099	$ 18,459
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32,709	17,224
Stock-based compensation expense	2,918	2,345
Pension and postretirement	(4,080)	203
Excess tax benefit from stock-based compensation	(2,221)	(386)
Amortization of debt issuance costs	1,452	726
Loss on disposal of fixed assets	979	18
Deferred income taxes	3,323	4,906
Changes in assets and liabilities:		
Trade accounts receivable, net	(5,380)	(25,160)
Other receivables	(364)	3,798
Inventories	(13,458)	2,812
Prepaid expenses and other current assets	(5,044)	220
Other assets	(1,278)	(136)
Accounts payable	5,497	(7,605)
Accrued expenses and other liabilities	4,305	1,854
Accrued compensation costs	(17,595)	(4,087)
Accrued income taxes	5,089	446
Net cash provided by operating activities	38,951	15,637
Investing activities		
Capital expenditures	(32,420)	(16,832)
Net cash used in investing activities	(32,420)	(16,832)
Financing activities		
Proceeds from revolving credit facility	56,500	49,500
Repayments on revolving credit facility	(56,500)	(60,800)
Payment on long-term debt	(1,175)	
Proceeds from other current borrowings	6,300	3,731
Repayments on other current borrowings	(1,673)	(1,012)
Payment of withholding taxes on stock awards	(1,641)	(12)
Proceeds from exercises of stock options	214	362
Proceeds from shares issued to ESPP	205	170
Excess tax benefit from stock-based compensation	2,221	386
Net cash provided by (used in) financing activities	4,451	(7,675)
Net increase (decrease) in cash and cash equivalents	10,982	(8,870)
Cash and cash equivalents-beginning of period	12,967	16,488
Cash and cash equivalents-end of period	$ 23,949	$ 7,618

See notes to consolidated financial statements.

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KAPSTONE PAPER AND PACKAGING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

(unaudited)

1. Financial Statements

The accompanying unaudited consolidated financial statements of KapStone Paper and Packaging Corporation (the Company, we, us, our or KapStone) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. For further information, refer to the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2013.

2. Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update (ASU) No. 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU No. 2013-11). ASU No. 2013-11 amends the guidance within Accounting Standards Codification (ASC) Topic 740, Income Taxes , to require entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The Company adopted ASU No. 2013-11 beginning in the first quarter of 2014 with no impact on the consolidated financial statements.

3. Longview Acquisition

On July 18, 2013, the Company 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 1.3 million tons of containerboard and kraft paper annually. Longview also owns seven converting facilities located in the Pacific Northwest.

The excess of the purchase price over the aggregate estimated fair value of net assets acquired was allocated to goodwill. The purchase price allocation is preliminary subject to final review of acquired asset valuations and related deferred income taxes and is expected to be finalized in the quarter ended June 30, 2014.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of December 31, 2013, as well as adjustments (referred to as measurement period adjustments):

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	Amounts Recognized as of Acquisition Date (as Adjusted) (1)	Measurement Period Adjustments (2)	Amounts Recognized as of Acquisition Date (as Adjusted)
Deposit for redemption of senior notes	$ 507,520	$	$ 507,520
Trade accounts receivable	104,929		104,929
Inventories	106,805		106,805
Prepaid expenses and other current assets	2,554		2,554
Plant, property and equipment	800,663	(118)	800,545
Pension asset	112,141		112,141
Other receivables and assets	11,863		11,863
Intangible assets	77,600		77,600
Accounts payable	(71,663)		(71,663)
Accrued expenses	(17,630)	80	(17,550)
Accrued compensation costs	(19,385)	61	(19,324)
Debt	(507,520)		(507,520)
Pension and post retirement benefits	(68,105)		(68,105)
Deferred income taxes	(294,086)	596	(293,490)
Other noncurrent liabilities	(2,862)		(2,862)
Goodwill	302,935	(619)	302,316
Total acquisition consideration	$ 1,045,759	$	$ 1,045,759

(1) As previously reported in the Notes to Consolidated Financial Statements included in our 2013 Form 10-K.

(2) The measurement period adjustments mostly relate to revisions of deferred income tax balances.

4. Annual Planned Maintenance Outage

Annual planned maintenance outage costs for the three months ended March 31, 2014 and 2013 totaled $14.8 million and $4.7 million, respectively, and are included in cost of sales. The increase in outage costs in the quarter ended March 31, 2014 reflect $5.6 million of outage costs at the North Charleston, South Carolina paper mill as a result of downtime incurred during the upgrade of the No. 3 paper machine and $5.1 million at the Longview, Washington paper mill.

5. Inventories

Inventories consist of the following at March 31, 2014 and December 31, 2013, respectively:

	(unaudited) March 31, 2014	December 31, 2013

Raw materials	$	90,955	$	83,136
Work in process		3,466		3,293
Finished goods		62,469		58,336
Replacement parts and supplies		68,629		66,842
Inventory at FIFO costs		225,519		211,607
LIFO inventory reserves		5,321		5,775
Inventories	$	230,840	$	217,382

The cost for the Longview inventories is determined on a last-in, first-out method except for replacement parts and supplies inventories, which are valued using the average cost method. As of March 31, 2014, Longview s inventories included in the Consolidated Balance Sheets were $110.4 million.

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6. Short-term Borrowings and Long-term Debt

As of March 31, 2014, the Company has current availability of $395.0 million under the Revolver.

As of March 31, 2014, the Credit Facility had two term loans outstanding totaling $1.223 billion with and weighted average interest rate of 2.25%.

Debt Covenants

The Amended and Restated Credit Agreement contains, among other provisions, covenants with which we must comply. The covenants limit our ability to, among other things, incur indebtedness, create additional liens on our assets, make investments, engage in mergers and acquisitions, pay dividends and sell any assets outside the normal course of business.

As of March 31, 2014, the Company was in compliance with all applicable covenants in the Amended and Restated Credit Agreement.

Fair Value of Debt

At March 31, 2014, the fair value of the Company s debt approximates the carrying value of $1.2 billion as the variable interest rates re-price frequently at current market rates. The debt was valued using Level 2 inputs in the fair value hierarchy which are significant observable inputs including quoted prices for debt of similar terms and maturities.

Other Borrowing

In 2014 and 2013, the Company entered into short-term financing agreements of $6.3 million and $3.7 million, respectively, at an annual interest rate of 1.69 and 1.56 percent, respectively, for its annual property insurance premiums. The agreements require the Company to pay consecutive monthly payments through the term of each financing agreement ending on December 1st. As of March 31, 2014 and March 31, 2013, there was $4.6 million and $2.7 million, respectively, outstanding under the current agreement which is included in Other current borrowings on the Consolidated Balance Sheets.

7. Income Taxes

The Company s effective income tax rate for the three months ended March 31, 2014 and 2013 was 34.3 percent and 33.8 percent, respectively. The 2013 rate included a favorable discrete adjustment for a 2012 R&D tax credit. The differences between the effective income tax rate and the federal statutory tax rate for the quarters ended March 31, 2014 and 2013 are due to the impact of state tax, net of the federal benefit and the expected domestic manufacturing deduction.

The gross unrecognized tax benefits, including interest, as of March 31, 2014 and December 31, 2013 were $0.7 million. Unrecognized tax benefits of $0.7 million are included in Other liabilities on the Consolidated Balance Sheets.

In the normal course of business, the Company is subject to examination by taxing authorities. The Company s open federal tax years are 2010 through 2013. Open tax years for acquired companies are 2009 through 2011 relating to the USC acquisition and 2011 through 2013 relating to the Longview acquisition. The Internal Revenue Service is currently examining the Company s income tax return for 2012, the USC income tax return for 2009, and the Longview tax returns for 2011 through 2013.

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8. Net Income per Share

Basic and diluted net income per share is calculated as follows (In thousands, except for share and per share data):

	Three Months Ended March 31, 2014	2013
Net income	$ 32,099	$ 18,459
Weighted-average number of common shares for basic net income per share	95,720,328	95,004,020
Incremental effect of dilutive common stock equivalents:		
Unexercised stock options	1,211,848	932,120
Unvested restricted stock awards	383,590	556,278
Weighted-average number of shares for diluted net income per share	97,315,766	96,492,418
Net income per share - basic	$ 0.34	$ 0.19
Net income per share - diluted	$ 0.33	$ 0.19

Approximately 47,000 shares of unexercised stock options were outstanding at March 31, 2014 but were not included in the computation of diluted earnings per share because the options were anti-dilutive.

On December 11, 2013, the board of directors declared a two-for-one stock split in the form of a stock dividend on the Company s common stock. To implement the stock split, shares of common stock were distributed on January 7, 2014 to all shareholders of record as of the close of business on December 23, 2013. All shares and earnings per share amounts for the three months ended March 31, 2013 have been restated to reflect this change.

9. Pension Plan and Post-Retirement Benefits

Defined Benefit Plans

Net pension (benefit) / cost recognized for the three months ended March 31, 2014 and 2013 for the Pension Plans are as follows:

	Three Months Ended March 31, 2014	2013
Service cost for benefits earned during the quarter	$ 2,449	$ 1,119
Interest cost on projected benefit obligations	7,180	297
Expected return on plan assets	(11,031)	(308)
Amortization of net loss		72
Amortization of prior service cost	101	33

Net pension (benefit) / cost - Company plan		(1,301)		1,213
Net pension cost - multi -employer plan		84		18
Total net pension (benefit) / cost	$	(1,217)	$	1,231

The year-over-year change in total net pension benefit is a result of an overfunded plan resulting from the Longview acquisition.

KapStone funds the Pension Plans according to IRS funding requirements. Based on those requirements, KapStone funded $1.5 million for the three months ended March 31, 2014 and expects to fund an additional $2.4 million to the Pension Plans in 2014.

Defined Contribution Plan

All full-time employees are eligible for a 401(k) Defined Contribution Plan (Contribution Plan). The Company s monthly contributions are based on the matching of employee contributions or based on a

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union negotiated formula. For the three months ended March 31, 2014 and 2013, the Company recognized expense of $4.2 million and $2.9 million, respectively, for the Company contributions to these plans.

10. Stock-Based Compensation

In the quarter ended March 31, 2014, the compensation committee of the board of directors approved stock awards to executive officers, certain employees and directors. The 2014 awards included 441,415 stock option grants and 156,787 restricted stock units.

The Company accounts for stock-based awards in accordance with ASC 718, *Compensation Stock Compensation*, which requires that the cost resulting from all share-based payment transactions be recognized as compensation cost over the vesting period based on the fair value of the instrument on the date of grant.

Total stock-based compensation expense related to the stock option and restricted stock unit grants for the three months ended March 31, 2014 and 2013 is as follows:

	Three Months Ended March 31,			
	2014		2013	
Stock option compensation expense	$	1,524	$	1,249
Restricted stock unit compensation expense		1,394		1,096
Total stock-based compensation expense	$	2,918	$	2,345

Total unrecognized stock-based compensation cost related to the stock option grants and restricted stock units as of March 31, 2014 and December 31, 2013 is as follows:

	March 31, 2014		December 31, 2013	
Unrecognized stock option compensation expense	$	5,141	$	2,250
Unrecognized restricted stock unit compensation expense		5,726		2,535
Total unrecognized stock-based compensation expense	$	10,867	$	4,785

As of March 31, 2014, total unrecognized compensation cost related to non-vested stock options and restricted stock units is expected to be recognized over a weighted average period of 2.2 years and 2.5 years, respectively.

Stock Options

Stock option awards vest as follows: 50% after two years and the remaining 50% after three years or upon a grantee of such stock options attaining the age 65. The stock options awarded in 2014 have a contractual term of ten years and are subject to forfeiture should the recipient terminate his or her employment with the Company for certain reasons prior to vesting in his or her awards, or the occurrence of certain other events such as termination with cause. The exercise price of these stock options is based on the closing market price of our common stock on the date of grant ($30.40 is the weighted average price for the 2014 awards described above) and compensation expense is recorded on an accelerated basis over the awards vesting periods.

The weighted average fair value of the stock options granted in March 2014 and 2013 was $10.36 and $5.41, respectively. The fair value was calculated using the Black-Scholes option-pricing model based on the market price at the grant date and the weighted average assumptions specific to the underlying options. In the quarter ended March 31, 2014, the expected term used by the Company is based on the historical average life of stock option awards. The expected volatility assumption is based on the volatility of our common stock from the same time period as the expected term of the stock options. The risk-free interest rate was selected based upon yields of U.S. Treasury issues with a term similar to the expected life of the stock options.

The assumptions utilized for calculating the fair value of stock options during the period are as follows:

	Three Months Ended March 31,	
	2014	**2013**
Stock Options Black-Scholes assumptions (weighted average):		
Expected volatility	39.93%	50.19%
Expected life (years)	4.30	4.00
Risk-free interest rate	1.34%	0.57%
Expected Dividend yield	%	%

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The following table summarizes stock options amounts and activity:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Intrinsic Value (dollars in thousands)
Outstanding at January 1, 2014	2,514,382	$		