

KAPSTONE PAPER & PACKAGING CORP

Form 10-Q

November 03, 2010

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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 September 30, 2010

- 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
(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 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 Exchange Act 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 No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

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

There were 46,009,382 shares of the Registrant's Common Stock, \$0.0001 par value, outstanding as of October 27, 2010, excluding 40,000 shares held as treasury shares.

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Table of Contents**PART 1. FINANCIAL INFORMATION****ITEM 1. - FINANCIAL STATEMENTS****KapStone Paper and Packaging Corporation****Consolidated Balance Sheets****(In thousands, except share and per share amounts)**

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 41,617	\$ 2,440
Trade accounts receivable, less allowances of \$1,303 in 2010 and \$1,217 in 2009	72,425	58,408
Other receivables	2,893	16,487
Inventories	71,836	61,377
Refundable and prepaid income taxes	980	13,757
Prepaid expenses and other current assets	3,897	1,690
Restricted cash		2,500
Deferred income taxes	5,917	5,604
Total current assets	199,565	162,263
Plant, property and equipment, net	462,504	470,278
Other assets	4,235	4,935
Intangible assets, net	23,548	26,198
Goodwill	4,811	5,449
Total assets	\$ 694,663	\$ 669,123
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt	\$ 18,835	\$ 18,630
Borrowings under revolving credit facility		7,400
Other current borrowings	644	
Accounts payable	51,966	52,147
Accrued expenses	20,832	20,800
Accrued compensation costs	16,164	7,719
Total current liabilities	108,441	106,696
Other liabilities:		
Long-term debt, net of current portion	97,157	121,031
Pension and post-retirement benefits	6,663	5,949
Deferred income taxes	19,663	38,577
Other liabilities	59,377	48,080
Total other liabilities	182,860	213,637
Stockholders equity:		

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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; 46,009,382 shares issued and outstanding (40,000 treasury shares outstanding) at September 30, 2010 and 45,418,074 issued and outstanding (40,000 treasury shares outstanding) at December 31, 2009		5		5
Additional paid-in capital		223,440		219,828
Retained earnings		180,896		129,046
Accumulated other comprehensive loss		(979)		(89)
Total stockholders' equity		403,362		348,790
Total liabilities and stockholders' equity	\$	694,663	\$	669,123

See notes to consolidated financial statements

Table of Contents**KapStone Paper and Packaging Corporation****Consolidated Statements of Income****(In thousands, except share and per share amounts)****(unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 207,493	\$ 170,335	\$ 583,111	\$ 467,412
Cost of sales, excluding depreciation and amortization	142,212	86,812	419,197	271,650
Freight and distribution expenses	20,161	16,262	56,279	42,755
Selling, general and administrative expenses	7,631	7,105	23,672	23,292
Depreciation and amortization	11,129	13,664	33,624	40,761
Gain/(loss) on sale of business		(278)		16,417
Other operating income	250	285	760	733
Operating income	26,610	46,499	51,099	106,104
Foreign exchange gain/(loss)	301	175	(597)	48
Interest income	9		27	1
Interest expense	1,319	5,353	4,257	16,097
Income before provision (benefit) for income taxes	25,601	41,321	46,272	90,056
Provision (benefit) for income taxes	(12,765)	15,649	(5,578)	35,160
Net income	\$ 38,366	\$ 25,672	\$ 51,850	\$ 54,896
Weighted-average number of shares outstanding:				
Basic	45,984,422	36,548,515	45,795,023	31,096,354
Diluted	47,049,913	36,940,773	46,892,468	31,355,785
Net income per share:				
Basic	\$ 0.83	\$ 0.70	\$ 1.13	\$ 1.77
Diluted	\$ 0.82	\$ 0.69	\$ 1.11	\$ 1.75

See notes to consolidated financial statements

Table of Contents**KapStone Paper and Packaging Corporation****Consolidated Statements of Cash Flows****(In thousands)****(unaudited)**

	Nine Months Ended September 30,	
	2010	2009
Operating activities		
Net income	\$ 51,850	\$ 54,896
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	33,624	40,761
Stock based compensation expense	2,833	1,686
Amortization of debt issuance costs	1,797	4,210
Loss on disposal of fixed assets	628	756
Deferred income taxes	(18,730)	13,750
Gain on sale of dunnage bag business		(16,417)
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(14,017)	9,081
Other receivables	13,594	(12,100)
Inventories	(10,459)	23,242
Refundable and prepaid income taxes	12,777	13,124
Prepaid expenses and other current assets	(2,207)	(1,445)
Other assets	(624)	(1,041)
Accounts payable	(181)	(5,102)
Accrued expenses and other	11,806	3,386
Accrued compensation costs	8,445	(4,997)
Net cash provided by (used in) operating activities	91,136	123,790
Investing activities		
CKD acquisition	638	1,000
KPB earn-out		(3,977)
Proceeds from sale of dunnage bag business		34,898
Restricted cash	2,500	(2,500)
Capital expenditures	(23,829)	(18,656)
Net cash provided by (used in) investing activities	(20,691)	10,765
Financing activities		
Proceeds from revolving credit facility	76,700	64,300
Repayments on revolving credit facility	(84,100)	(76,700)
Repayments of long-term debt	(25,293)	(208,093)
Proceeds from other current borrowings	2,564	
Repayments on other current borrowings	(1,920)	
Payment of withholding taxes on vested restricted stock awards	(624)	
Proceeds from the exercises of warrants into common stock		85,217
Proceeds from the exercises of stock options	777	
Excess tax benefits from stock based compensation	447	
Proceeds from employee stock purchase plan	70	
Debt issuance costs		(370)

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Other	111	
Net cash provided by (used in) financing activities	(31,268)	(135,646)
Net increase (decrease) in cash and cash equivalents	39,177	(1,091)
Cash and cash equivalents-beginning of period	2,440	4,165
Cash and cash equivalents-end of period	\$ 41,617	\$ 3,074

See notes to consolidated financial statements