

KAPSTONE PAPER & PACKAGING CORP
Form DEF 14A
April 20, 2012

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

KAPSTONE PAPER AND PACKAGING CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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April 18, 2012

Dear Stockholder:

This year's Annual Meeting of Stockholders will be held on Wednesday, May 16, 2012 at 11:00 a.m., Central Daylight Savings Time, at 1033 Skokie Boulevard, Suite 100, Northbrook, Illinois. You are cordially invited to attend.

The Notice of Annual Meeting of Stockholders and a Proxy Statement, which describe the formal business to be conducted at the meeting, follow this letter.

After reading the Proxy Statement, please make sure to vote your shares by promptly dating, signing, and returning the enclosed proxy card or attending the annual meeting in person. Regardless of the number of shares you own, your careful consideration of, and vote on, the matters before the Company's stockholders are important.

A copy of the Company's 2011 Annual Report is also enclosed.

I look forward to seeing you at the Annual Meeting.

Very truly yours,

Roger W. Stone
Chairman and Chief Executive Officer

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 16, 2012

To the Stockholders:

The Annual Meeting of Stockholders of KapStone Paper and Packaging Corporation ("KapStone" or the "Company"), will be held on Wednesday, May 16, 2012, at 11:00 a.m., Central Daylight Savings Time, at 1033 Skokie Boulevard, Suite 100, Northbrook, Illinois, for the following purposes:

1. To vote upon the election of the three Class C directors identified in the proxy statement that accompanies this notice, each to hold office for a three-year term and until his respective successor is elected and qualified. The Board of Directors has nominated the following persons for election as Class C directors at the meeting: Jonathan R. Furer, Matthew H. Paull, Roger W. Stone.
2. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2012.
3. To hold a non-binding vote to approve the Company's executive compensation.
4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Stockholders of record at the close of business on April 16, 2012, are entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. For ten days prior to the Annual Meeting, a complete list of the stockholders of record on April 16, 2012, will be available at the Company's principal offices for examination during ordinary business hours by any stockholder for any purpose relating to the meeting.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" ALL DIRECTOR NOMINEES, AND "FOR" PROPOSALS 2 AND 3.

By Order of the Board of Directors,

Roger W. Stone
Chairman and Chief Executive Officer

Northbrook, Illinois
April 18, 2012

IMPORTANT: Please promptly fill in, date, sign and return the enclosed proxy card in the accompanying pre-paid envelope to ensure that your shares are represented at the meeting. You may revoke your proxy before it is voted. If you attend the meeting, you may choose to vote in person even if you have previously sent in your proxy card.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders To Be Held on May 16, 2012

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The Company's Proxy Statement for the 2012 Annual Meeting of Stockholders and the Annual Report to Stockholders for the fiscal year ended December 31, 2011, are available at www.ir.kapstonepaper.com

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PROXY SUMMARY

This summary contains highlights about our Company and the upcoming 2012 Annual Meeting of Stockholders. This summary does not contain all of the information that you should consider in advance of the meeting, and we encourage you to read the entire Proxy Statement carefully before voting.

GOVERNANCE HIGHLIGHTS

Board of Directors

9 directors; 7 are independent;

All Committee members are independent;

Executive sessions at each regularly scheduled Board meeting;

Annual Board and Committee self-assessments;

Stock ownership requirements for each non-employee director;

No former employees serve as directors.

Stockholder Interests

No stockholder rights plan;

A no-hedging policy applicable to employees and directors;

Stock ownership requirements for Named Executive Officers;

Annual advisory vote to approve compensation of Named Executive Officers;

Annual advisory vote to ratify independent auditor.

EXECUTIVE COMPENSATION HIGHLIGHTS

We believe that compensation for executives should be determined according to a competitive framework taking into account the financial performance of the Company, individual contributions and the external market in which the Company competes for executive talent. The Company relies on the following elements of compensation:

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Base salary;

Annual performance-based cash bonus awards;

Long-term incentive compensation in the form of stock options and restricted stock units.

The Compensation Committee utilized the assistance of Frederic W. Cook & Co., an executive compensation consulting company, to assist in evaluating executive compensation programs and in evaluating executive officers' compensation compared to an established peer group of similar companies.

Best practices associated with our executive compensation programs include:

Stock ownership requirements;

Capped performance-based cash bonus awards;

Clawback provisions;

No employment agreements;

Benchmarking

No severance arrangements.

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Management Proposals:	Board Vote Recommendation	Page Reference
Election of three directors, each for a three-year term	FOR each director nominee	9
Vote to ratify appointment of Ernst & Young LLP as independent auditor for 2012	FOR	38
Advisory vote to approve executive compensation	FOR	39

Election of Directors (Proposal No. 1)

The following table provides summary information about our nominees for election to the Board of Directors. Additional information for all directors, including nominees, may be found beginning on page 9 of this Proxy Statement.

Name	Director Since	Occupation	Independent
Jonathan R. Furer	2005	Managing member of private equity firm	X
Matthew H. Paull	2010	Former Senior Executive Vice President and CFO of McDonald's Corporation	X
Roger W. Stone	2005	Chairman and CEO of KapStone	

Vote to Ratify Appointment of Independent Auditor (Proposal No. 2)

We are asking stockholders to ratify the appointment of Ernst & Young LLP as independent auditor for 2012. Set forth below is information about its fees in 2011 and 2010.

Type of Fees	2011	2010
Audit fees	\$ 1,841,809	\$ 1,413,275
Audit-related fees for acquisition due diligence	442,522	
Tax fees	271,908	163,988
All other fees		
Total	\$ 2,556,239	\$ 1,577,263

Advisory Vote to Approve Executive Compensation (Proposal No. 3)

We are asking stockholders to cast an advisory, nonbinding vote to approve compensation awarded to our Named Executive Officers. Additional information regarding our executive compensation may be found beginning on page 23 in this Proxy Statement.

Table of Contents**BOARD COMMITTEES**

The Board has established three standing committees: Audit, Compensation, and Nominating and Governance. All of the members of the Committees are independent. Committee charters are available on the Company's website at www.kapstonepaper.com.

Committee	Current Members	Primary responsibilities	Number of 2011 Meetings
Audit	S. Jay Stewart* John M. Chapman Brian R. Gamache Matthew H. Paull	Oversee integrity of financial statements	8
		Oversee financial reporting process	
		Review systems of internal audit function	
		Review performance of independent registered public accountants	
		Pre-approve all audit and permitted non-audit services	
		Oversee compliance with ethics policies and legal and regulatory requirements	
		Oversee risk	
Compensation	Jonathan R. Furer* John M. Chapman Ronald J. Gidwitz Matthew Paull S. Jay Stewart David P. Storch	Determine compensation of CEO and other Named Executive Officers	3
		Provide guidance on Company's compensation and benefit programs	

Nominating and
Governance

Brian R. Gamache*
Jonathan R. Furer
Ronald J. Gidwitz
David P. Storch

3

Assist Board in identifying prospective director nominees

Oversee Board performance evaluation process

Monitor the composition of the Board and its committees

Oversee Corporate Governance Guidelines

*

Committee Chairperson

Board and Committee Meetings

Directors are expected to attend the Annual Meeting of Stockholders, all Board meetings, and meetings of the Committees on which they serve. At each regularly scheduled Board meeting, our independent directors meet in executive session. Each director attended over 75% of the total number of meetings of the Board and relevant Committees. All directors attended the 2011 Annual Meeting of Stockholders.

Director Compensation

The Governance Committee recommends to the Board the form and amount of compensation for non-employee directors. Only non-employee directors are paid for their service on the Board. In 2012, each non-employee director will receive the following:

A quarterly retainer of \$10,250;

A fee of \$1,500 for each Board meeting and each Committee meeting attended;

Reimbursement of reasonable expenses to attend Board and Committee meetings;

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Grant of stock options and restricted stock units with a grant date value of approximately \$54,000 (each option vests 50% on the second anniversary of the grant date and the remaining 50% on the third anniversary of the grant date; restricted stock units vest on the third anniversary of the grant date).

Audit, Compensation, and Nominating and Governance Committee chairpersons will receive an additional quarterly fee of \$2,500, \$1,500 and \$1,500 respectively.

Risk Oversight

The Board's involvement in risk oversight involves both the Audit Committee and the full Board. Risk oversight is a standing agenda item at each Audit Committee meeting. The Committee receives reports from the Company's Director of Internal Audit and independent registered public accountants at each Audit Committee meeting. The Company's Vice President and Chief Financial Officer and Vice President and Controller both provide reports to the Committee regarding risk factors, including, but not limited to, risks pertaining to credit and liquidity. The General Counsel keeps the Audit Committee abreast of issues pertaining to litigation, regulatory matters, and compliance. The Chairman of the Audit Committee reports on the activities of the Committee regarding risk at each meeting of the full Board. Other committees of our Board may also practice risk oversight related directly to such committee's responsibilities. In addition, each regularly scheduled meeting of the Board includes a report from the Company's Chief Executive Officer, Chief Operating Officer and its Vice President and General Manager regarding operating risks at each facility, and the industry as a whole.

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KapStone Paper and Packaging Corporation

1101 Skokie Boulevard
Suite 300
Northbrook, Illinois 60062

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

The accompanying proxy is being solicited by the Board of Directors (the "Board") of KapStone Paper and Packaging Corporation (the "Company" or "KapStone") and contains information related to the Annual Meeting of Stockholders to be held on Wednesday, May 16, 2012, at 11:00 a.m., Central Daylight Savings Time, or any adjournment or postponement thereof, for the purposes described in the accompanying Notice of Annual Meeting. The Annual Meeting will be held at 1033 Skokie Boulevard, Suite 100, Northbrook, Illinois. This Proxy Statement was filed with the Securities and Exchange Commission (the "SEC") and is first being sent or given to stockholders on April 20, 2012.

FREQUENTLY ASKED QUESTIONS

What am I voting on?

You will be voting on:

The election of three (3) directors to serve on the Board;

The ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accountants;

Advisory approval of the Company's executive compensation;

Other matters properly brought before the meeting.

How does the Board recommend that I vote?

The Company's Board recommends that you vote:

FOR each of the director nominees;

FOR ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accountants for the fiscal year ending December 31, 2012;

FOR the approval of the non-binding resolution relating to the Company's compensation of the Company's named executive officers as disclosed in the Compensation, Discussion and Analysis section and accompanying compensation tables and related narratives contained in this Proxy Statement.

Who is entitled to vote at the meeting?

Holders of record of the Company's Common Stock at the close of business on April 16, 2012, (the "Record Date") will be entitled to vote. As of the close of business on the Record Date, there were 46,586,808 shares of Common Stock outstanding and entitled to vote.

How many votes am I entitled to?

You are entitled to one vote for each share of Common Stock that you own.

How do I vote shares held in my name?

You may vote in person at the annual meeting or by proxy. If you properly complete and sign the enclosed proxy card, the shares held in your name will be voted as you direct. If you sign and return

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the proxy card but do not include voting instructions, the shares held in your name will be voted FOR the three nominee directors named in this Proxy Statement, FOR the ratification of Ernst & Young LLP as the Company's independent registered public accountants, and FOR the approval of the Say on Pay resolution.

Can I change my vote after I return my proxy card?

You may change your vote or revoke your proxy at any time before the polls close at the annual meeting by taking any of the following actions:

Delivering a later dated proxy;

Giving written notice to the Company's Secretary;

Voting in person at the annual meeting.

How do I vote my shares held by my broker?

If your shares are held in street name, you must either direct your broker as to how to vote your shares, or vote in person at the annual meeting. In order to vote in person the shares held by your broker, you will need to obtain a proxy from your broker to vote at the meeting.

How many votes must be present to constitute a quorum?

A quorum is the presence at the annual meeting in person or by proxy of a majority of the outstanding Common Stock. There needs to be a quorum in order for the annual meeting to be held. Broker non-votes and proxies received but marked as abstentions will count for purposes of establishing a quorum. Broker non-votes occur when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power for the particular matter and has not received voting instructions from the beneficial owner.

May my shares be voted if I do not provide my proxy?

If your shares are held in street name, they may be voted on matters that the New York Stock Exchange (the "NYSE") considers "routine" even if you do not instruct your broker how to vote your shares. Accordingly, if you do not instruct your broker how to vote your shares, your broker can vote your shares to approve the appointment of Ernst & Young LLP as the Company's independent registered accountants, but your broker cannot vote your shares on the election of directors or the approval of the Say on Pay resolution.

What vote is required to approve each proposal, assuming a quorum is present at the Annual Meeting?

It will depend on each proposal.

For Proposal One: Stockholders will elect the three director nominees receiving the greatest number of votes.

For Proposal Two: The affirmative vote of the holders of a majority of the shares of Common Stock represented at the meeting and entitled to vote is required for the ratification of Ernst & Young LLP as the Company's independent registered public accountants.

For Proposal Three: The affirmative vote of the holders of a majority of the shares of Common Stock represented at the meeting and entitled to vote is required for approval of the compensation of our named executive officers. Because the vote is advisory, it will not be binding on the Board or the Company. However, the Board will review the voting results and take them into consideration when making future decisions regarding executive compensation.

Table of Contents***How are we soliciting this proxy?***

We have retained Phoenix Advisory Partners to aid in the solicitation of proxy materials for a fee of \$6,000 plus expenses. In addition, the Company may solicit stockholder proxies by mail and through certain of its directors, officers and employees. The Company will bear all costs of soliciting proxies, including, upon request, reimbursing brokers forwarding proxy materials to the beneficial owners of Common Stock.

How can I contact the Board?

Anyone desiring to communicate directly with the Board or the non-management directors, individually or as a group, may do so by written communication addressed to them at KapStone Paper and Packaging Corporation, 1101 Skokie Boulevard., Suite 300, Northbrook, IL 60062, Attention: Secretary. Relevant communications will be forwarded by the Secretary to the appropriate directors depending on the facts and circumstances outlined in the communication.

SECURITY OWNERSHIP OF MANAGEMENT

The following table shows the amount of the Company's Common Stock beneficially owned, unless otherwise indicated, by the Company's directors, the named executive officers, and the directors and executive officers as a group as of March 31, 2012. Except as otherwise specified, the named beneficial owner has sole voting and investment power over the shares listed. The total number of shares of Common Stock outstanding is 46,546,808.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership of Common Stock(1)	Options Currently Exercisable or Exercisable within 60 days	Restricted Stock Units Vesting within 60 days(3)	Percentage of Common Stock
Roger W. Stone(2)	3,737,345	541,088	53,217	8.03%
Matthew Kaplan	2,194,082	541,088	53,217	4.71%
John M. Chapman	564,314	70,386		1.21%
Jonathan R. Furer	870,386	70,386		1.87%
Brian R. Gamache	12,974	2,974		0.03%
Ronald J. Gidwitz	45,805	25,805		0.10%
Matthew H. Paull	6,000			0.01%
S. Jay Stewart	80,386	70,386		0.17%
David P. Storch	12,974	2,974		0.03%
Andrea K. Tarbox	176,788	128,071	19,217	0.38%
Timothy P. Keneally	142,333	87,271	19,217	0.31%
All directors and executive officers as a group (eleven individuals)	7,843,387	1,540,429	144,868	16.85%

(1) Includes options currently exercisable or exercisable within 60 days and restricted stock units vesting within 60 days.

(2) 1,573,400 shares of Common Stock are owned by Mr. Stone's family foundation of which Mr. Stone is director and has sole voting control and investment discretion over such shares, and 66,235 shares of Common Stock held by the Roger W. Stone 2009 GRAT dated June 3, 2009. On March 14, 2012, Mr. Stone made gifts to two irrevocable trusts for the benefit of his descendants. The aggregate amount of the gifts was 382,043 shares of Common Stock. In addition, on that date, Mr. Stone contributed 573,065 shares of Common Stock to a partnership without retention of beneficial ownership, direct or indirect, over such shares, in return for a limited partner interest.

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The business address of Mr. Stone and each of these entities is KapStone Paper and Packaging Corporation, 1101 Skokie Boulevard, Suite 300, Northbrook, IL 60062.

(3)

Restricted stock units (RSUs) granted under the Company's Amended and Restated 2006 Incentive Plan do not have voting rights and are converted into shares of Common Stock when the vesting period lapses. Messrs. Stone and Kaplan each have 79,959 RSUs that do not vest within 60 days of March 31, 2012. Ms. Tarbox and Mr. Keneally each have 19,217 RSUs that do not vest within 60 days of March 31, 2012. Messrs. Chapman, Furer, Gamache, Gidwitz, Paull, Stewart, and Storch each have 5016 RSUs that do not vest within 60 days of March 31, 2012.

SECURITY OWN