



# Third Quarter 2011 Financial Highlights

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# Forward Looking Statements

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## Forward-Looking Statements

The information in this presentation and statements made during this presentation may contain certain forward-looking statements within the meaning of federal securities laws. These statements reflect management's expectations regarding future events and operating performance.

## Risk Factors

These forward-looking statements involve a number of risks and uncertainties. A list of the factors that could cause actual results to differ materially from those expressed in, or underlying, any forward-looking statements can be found in the Company's filings with the Securities and Exchange Commission, such as its annual and quarterly reports. The Company disclaims any obligation to revise or update such statements to reflect the occurrence of events after the date of this presentation.

## Non-GAAP Financial Measures

This presentation refers to non-U.S. GAAP financial information. For a reconciliation to U.S. GAAP financial measures, please refer to the appendix.

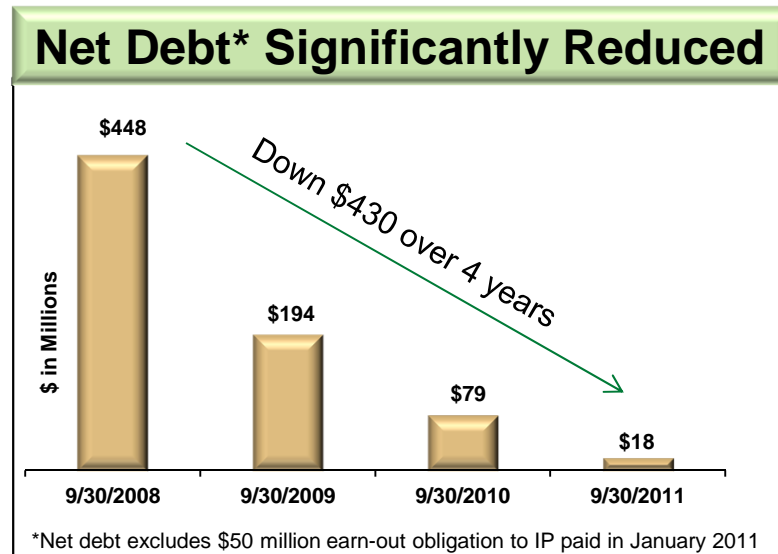
# KapStone: Powerful Free Cash Flow Generator

## 3<sup>rd</sup> Quarter Delivers Substantial Cash Flow

Free Cash Flow of \$38 million in third quarter of 2011, or \$0.79 per diluted share



Free Cash Flow for trailing 12 months of \$108 million, or \$2.27 per diluted share



-----See appendix for reconciliations-----



# Third Quarter Financial Results

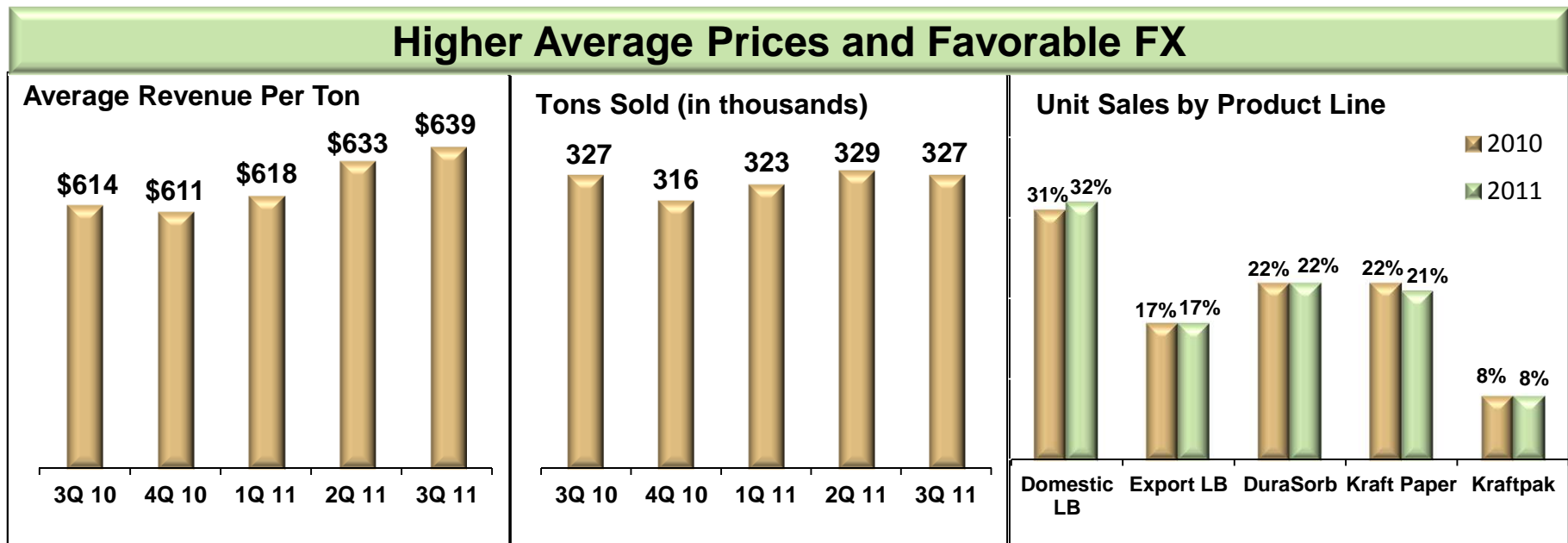
	Third Quarter			
	(\$ in Millions, except per share data)			
	<u>2010</u>	<u>2011</u>	<u>Change</u>	<u>Change</u>
<b>Net Sales</b>	\$ 207	\$ 216	\$ 9	4%
<b>EBITDA</b>	\$ 38	\$ 42	\$ 4	11%
<b>Adj. EBITDA*</b>	\$ 38	\$ 42	\$ 4	11%
<b>Income before Tax</b>	\$ 26	\$ 29	\$ 3	12%
<b>Adj. Income before Tax*</b>	\$ 26	\$ 29	\$ 3	12%
<b>Net Income</b>	\$ 38	\$ 16	\$ (22)	(58)%
<b>Adj. Net Income**</b>	\$ 18	\$ 18	\$ ---	---%
<b>Diluted EPS</b>	\$ 0.82	\$ 0.35	\$(0.47)	(57)%
<b>Adj. Diluted EPS**</b>	\$ 0.39	\$ 0.39	\$ ---	---%

\*Adjusted to exclude non-cash stock compensation (2010 and 2011)

\*\*Adjusted to exclude cellulosic biofuel tax credit (2010) , income tax adjustments (2011) and non-cash stock compensation (2010 and 2011)

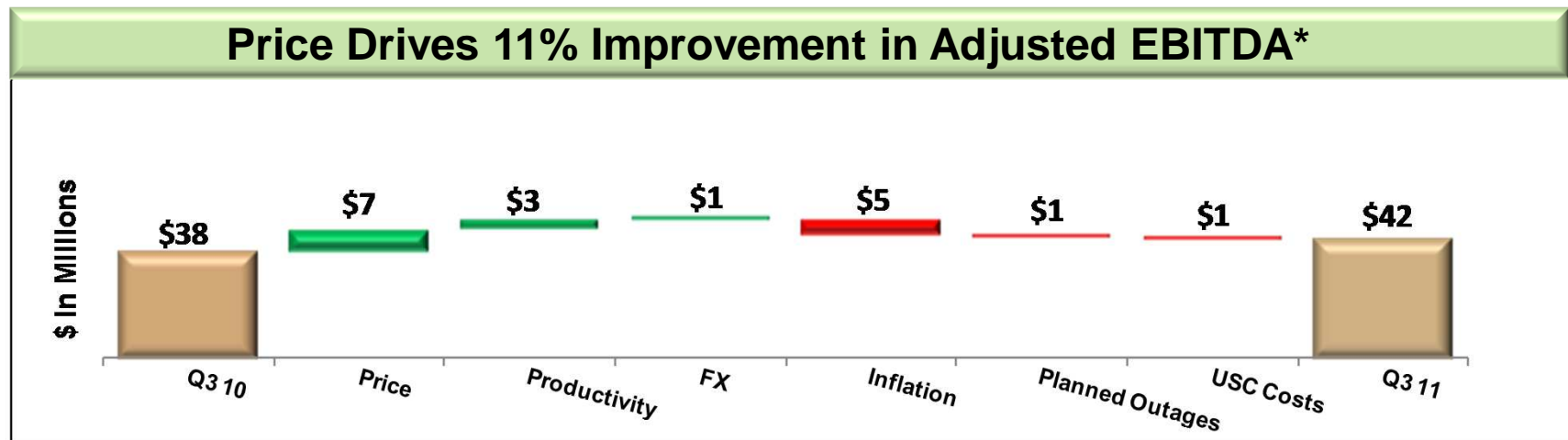
-----See appendix for reconciliations-----

# Net Sales Q3 2011 Versus Q3 2010



- Q3 2011 net sales up \$9 million, or 4%, to \$216 million
  - Higher prices - \$7 million
    - Record average revenue of \$639 per ton, up \$25 per ton since Q3 2010
  - Favorable FX impact - \$2 million

# Adjusted EBITDA\* Q3 2011 Versus Q3 2010



- Adjusted EBITDA of \$42 million for Q3 2011 improved \$4 million over Q3 2010
  - Improved pricing on all products
  - Increased productivity
  - Favorable FX impact due to a stronger Euro
  - Partially offset by:
    - Inflation primarily on caustic soda, wages, and freight-in for wood
    - Higher maintenance due to planned outages at the CHS mill
    - Costs incurred related to USC acquisition
- Adjusted EBITDA margin for Q3 2011 was 19.6%

\*See appendix for reconciliation of adjusted EBITDA to net income

# Sequential Quarter Comparison

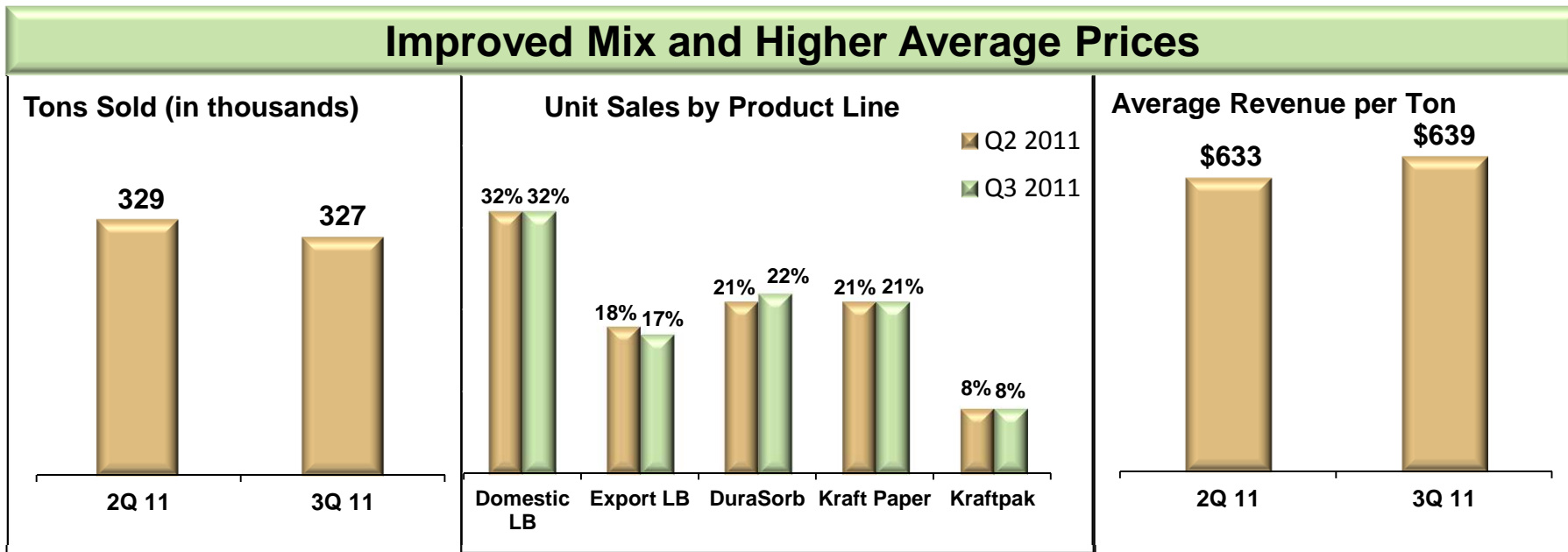
	(\$ in Millions, except per share data)			
	<u>Q2 2011</u>	<u>Q3 2011*</u>	<u>Change</u>	<u>Change</u>
<b>Net Sales</b>	\$ 215	\$ 216	\$ 1	0.5%
<b>EBITDA</b>	\$ 43	\$ 42	\$ (1)	(2)%
<b>Adj. EBITDA</b>	\$ 44	\$ 42	\$ (2)	(5)%
<b>Income before Tax</b>	\$ 30	\$ 29	\$ (1)	(3)%
<b>Adj. Income before Tax*</b>	\$ 30	\$ 29	\$ (1)	(3)%
<b>Net Income</b>	\$ 18	\$ 16	\$ (2)	(11)%
<b>Adj. Net Income**</b>	\$ 19	\$ 18	\$ (1)	(5)%
<b>Diluted EPS</b>	\$ 0.38	\$ 0.35	\$ (0.03)	(8)%
<b>Adj. Diluted EPS</b>	\$ 0.39	\$ 0.39	\$ ---	---%

\*Adjusted to exclude non-cash stock compensation

\*\*Adjusted to exclude income tax adjustments and non-cash stock compensation

-----See appendix for reconciliations-----

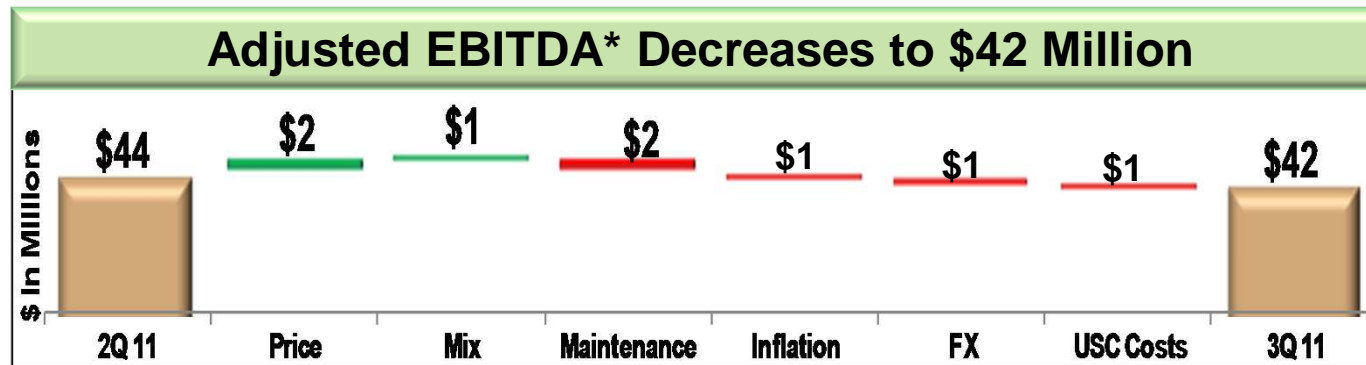
# Net Sales Q3 2011 Versus Q2 2011



- Q3 2011 net sales up \$1 million to \$216 million
  - Higher prices - \$2 million
    - Up \$6 per ton since Q2 2011
  - Improved product mix - \$1 million
    - Higher percentage of DuraSorb® sales
  - Lower volume - \$2 million
    - Partly due to impact of Hurricane Irene



# Adjusted EBITDA\* Q3 2011 Versus Q2 2011



- Adjusted EBITDA decreased \$2 million in Q3 2011 to \$42 million
  - Higher maintenance costs due to planned outages at Charleston
  - Inflation on caustic soda and energy costs
  - Currency transaction losses due to a stronger US Dollar
  - USC acquisition costs
  - Partially offset by higher prices and improved mix

\*See appendix for reconciliation of adjusted EBITDA to net income

# Tax Notes

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- Income tax provision for Q3 2011 was \$12.1 million
  - Based on a full year estimated rate of 39.9% versus a credit of 12.1% a year ago
    - 2010 rate included a \$20.7 million benefit related to the Cellulosic Biofuel credit
    - Lower expected benefit from the domestic manufacturing deduction and discrete item related to filing 2010 tax returns
- Federal cash tax rate expected to be less than 1% for 2011
- September 30, 2011 balance sheet includes \$69 million accrued for taxes and interest on AFTC
  - KS has been advised and doesn't believe AFTC is taxable as it is similar to an excise tax refund
  - IRS audit of 2009 tax year is expected to be completed in Q1 2012

## **Summary of Key Assumptions for Q4 2011**

- Inclusion of USC operations for two months including related transaction, start-up costs and purchase accounting adjustments
- Cash interest expense expected to be \$1 million higher than Q3 2011 due to acquisition debt
- Minimal benefit in Q4 from \$50 per ton price increase for kraft paper effective September 12, 2011
  - Fully realized in Q1 2012
- Input costs expected to be relatively stable

# Summary of Key Assumptions for Q4 2011

- Planned outages
  - Approximately \$5 million higher maintenance expense over Q3 2011
  - Lost production of about 12,000 tons
  
- Capex for 2011 estimated to be \$41 million
  - Approximately \$25 million is maintenance related
  - Remainder of Capex spending for strategic or cost reduction projects
  
- Effective tax rate expected to be approximately 39.5%

# APPENDIX

# Supplemental Information

**GAAP to Non-GAAP Reconciliations**  
(\$ in thousands, except share and per share amounts)  
(unaudited)

	<u>Quarter Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Net Income (GAAP) to EBITDA (Non-GAAP) to Adjusted EBITDA (Non-GAAP):</b>				
Net income (GAAP)	\$ 16,495	\$ 38,366	\$ 49,785	\$ 51,850
Interest expense, net	617	772	1,944	2,433
Amortization of debt issuance costs	419	538	1,266	1,797
Provision for income taxes	12,110	(12,765)	33,038	(5,578)
Depreciation and amortization	11,960	11,129	36,529	33,624
<b>EBITDA (Non-GAAP)</b>	<b><u>\$ 41,601</u></b>	<b><u>\$ 38,040</u></b>	<b><u>\$ 122,562</u></b>	<b><u>\$ 84,126</u></b>
Alternative fuel mixture tax credits	-	-	-	(22,195)
Stock-based compensation expense	705	676	3,226	2,833
<b>Adjusted EBITDA (Non-GAAP)</b>	<b><u>\$ 42,306</u></b>	<b><u>\$ 38,716</u></b>	<b><u>\$ 125,788</u></b>	<b><u>\$ 64,764</u></b>
<b>Net Income (GAAP) to Adjusted Net Income (Non-GAAP):</b>				
Net income (GAAP)	\$ 16,495	\$ 38,366	\$ 49,785	\$ 51,850
Income tax adjustments	1,262	-	1,262	-
Cellulosic Biofuel tax credit	-	(20,660)	-	(20,660)
Alternative fuel mixture tax credits	-	-	-	(14,737)
Stock-based compensation expense	407	449	1,939	1,881
<b>Adjusted Net Income (Non-GAAP)</b>	<b><u>\$ 18,164</u></b>	<b><u>\$ 18,155</u></b>	<b><u>\$ 52,986</u></b>	<b><u>\$ 18,334</u></b>

# Supplemental Information

**GAAP to Non-GAAP Reconciliations**  
(\$ in thousands, except share and per share amounts)  
(unaudited)

	<u>Quarter Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Basic EPS (GAAP) to Adjusted Basic EPS (Non-GAAP):</b>				
Basic EPS (GAAP)	\$ 0.36	\$ 0.83	\$ 1.08	\$ 1.13
Income tax adjustments	0.03	–	0.03	–
Cellulosic Biofuel tax credit	–	(0.45)	–	(0.45)
Alternative fuel mixture tax credits	–	–	–	(0.32)
Stock-based compensation expense	0.01	0.01	0.04	0.04
<b>Adjusted Basic EPS (Non-GAAP)</b>	<b><u>\$ 0.40</u></b>	<b><u>\$ 0.39</u></b>	<b><u>\$ 1.15</u></b>	<b><u>\$ 0.40</u></b>
<b>Diluted EPS (GAAP) to Adjusted Diluted EPS (Non-GAAP):</b>				
Diluted earnings per share (GAAP)	\$ 0.35	\$ 0.82	\$ 1.05	\$ 1.11
Income tax adjustments	0.03	–	0.03	–
Cellulosic Biofuel tax credit	–	(0.44)	–	(0.44)
Alternative fuel mixture tax credits	–	–	–	(0.31)
Stock-based compensation expense	0.01	0.01	0.04	0.04
<b>Adjusted Diluted EPS (Non-GAAP)</b>	<b><u>\$ 0.39</u></b>	<b><u>\$ 0.39</u></b>	<b><u>\$ 1.12</u></b>	<b><u>\$ 0.40</u></b>

# Supplemental Information

## Net Debt and Debt to Equity Ratio (In thousands) (unaudited)

<u>Calculation of Net Debt</u>	<u>Quarter Ended</u>				
	<u>9/30/2011</u>	<u>6/30/2011</u>	<u>3/31/2011</u>	<u>12/31/2010</u>	<u>9/30/2010</u>
Current portion of LT debt	\$ 18,835	\$ 18,835	\$ 18,835	\$ 18,835	\$ 18,835
Other borrowings	623	1,038	1,656	-	644
Borrowings on revolving line of credit	-	-	-	-	-
Long term debt, net	78,924	84,030	88,331	92,857	97,157
Unamortized debt issuance costs	2,221	2,612	3,020	3,203	3,612
	<u>100,603</u>	<u>106,515</u>	<u>111,842</u>	<u>114,895</u>	<u>120,248</u>
Less cash and restricted cash	<u>(82,342)</u>	<u>(49,822)</u>	<u>(22,478)</u>	<u>(67,358)</u>	<u>(41,617)</u>
<b>Total Net Debt (non GAAP)</b>	<b><u>\$ 18,261</u></b>	<b><u>\$ 56,693</u></b>	<b><u>\$ 89,364</u></b>	<b><u>\$ 47,537</u></b>	<b><u>\$ 78,631</u></b>
<b>Decrease (increase) during the quarter</b>	<b><u>\$ 38,432</u></b>	<b><u>\$ 32,671</u></b>	<b><u>\$ (41,827)</u></b>	<b><u>\$ 31,094</u></b>	<b><u>\$ 27,677</u></b>
<u>Debt to Equity ratio calculation</u>					
Net debt	\$ 18,261	\$ 56,693	\$ 89,364	\$ 47,537	\$ 78,631
Equity	\$ 473,389	\$ 455,257	\$ 435,967	\$ 418,634	\$ 403,062
<b>Ratio</b>	<b><u>3.9%</u></b>	<b><u>12.5%</u></b>	<b><u>20.5%</u></b>	<b><u>11.4%</u></b>	<b><u>19.5%</u></b>



# Supplemental Information

## Cash Flow From Operations and Adjusted Free Cash Flow (In thousands) (unaudited)

	<u>2011</u> <u>30-Sep</u>	<u>2011</u> <u>30-Jun</u>	<u>2011</u> <u>31-Mar</u>	<u>2010</u> <u>31-Dec</u>	<u>2010</u> <u>30-Sep</u>
<b>Cash flow from operations (GAAP)</b>	\$ 50,952	\$ 40,638	\$ 12,454	\$ 44,940	\$ 33,140
Less capital expenditures	<u>(13,348)</u>	<u>(8,236)</u>	<u>(4,678)</u>	<u>(14,489)</u>	<u>(8,325)</u>
<b>Adjusted free cash flow (Non-GAAP)</b>	<u>\$ 37,604</u>	<u>\$ 32,402</u>	<u>\$ 7,776</u>	<u>\$ 30,451</u>	<u>\$ 24,815</u>
Average diluted shares outstanding	47,494,425	47,416,400	47,454,574	47,238,832	47,049,913
<b>Adjusted free cash flow per share</b>	<u>\$ 0.79</u>	<u>\$ 0.68</u>	<u>\$ 0.16</u>	<u>\$ 0.64</u>	<u>\$ 0.53</u>