

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), and 6058(a) of the Internal Revenue Code (the Code). ► Complete all entries in accordance with the instructions to the Form 5500.	OMB Nos. 1210-0110 1210-0089
		2010
		This Form is Open to Public Inspection

Part I	Annual Report Identification Information
For calendar plan year 2010 or fiscal plan year beginning <u>01/01/2010</u> and ending <u>12/31/2010</u>	
A This return/report is for:	☐ a multiemployer plan; ☐ a multiple-employer plan; or ☒ a single-employer plan; ☐ a DFE (specify) ____
B This return/report is:	☐ the first return/report; ☐ the final return/report; ☐ an amended return/report; ☐ a short plan year return/report (less than 12 months).
C If the plan is a collectively-bargained plan, check here.	☒
D Check box if filing under:	☒ Form 5558; ☐ automatic extension; ☐ the DFVC program; ☐ special extension (enter description)

Part II	Basic Plan Information —enter all requested information
1a Name of plan <u>KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN</u>	1b Three-digit plan number (PN) ► <u>001</u> 1c Effective date of plan <u>01/01/2007</u>
2a Plan sponsor's name and address (employer, if for a single-employer plan) (Address should include room or suite no.) <u>KAPSTONE PAPER AND PACKAGING CORPORATION</u> <u>1101 SKOKIE BLVD STE 300</u> <u>NORTHBROOK, IL 60062-4124</u>	2b Employer Identification Number (EIN) <u>20-2699372</u> 2c Sponsor's telephone number <u>847-239-8809</u> 2d Business code (see instructions) <u>322100</u>

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	<u>Filed with authorized/valid electronic signature.</u>	<u>07/21/2011</u>	<u>THERESE LOWRY</u>
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE	<u>Filed with authorized/valid electronic signature.</u>	<u>07/21/2011</u>	<u>THERESE LOWRY</u>
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500.

Form 5500 (2010)
v.092307.1

3a Plan administrator's name and address (if same as plan sponsor, enter "Same") KAPSTONE PAPER AND PACKAGING CORPORATION 1101 SKOKIE BLVD STE 300 NORTHBROOK, IL 60062-4124	3b Administrator's EIN 20-2699372 3c Administrator's telephone number 847-239-8809
--	---

4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: a Sponsor's name	4b EIN 4c PN
---	-----------------------------------

5 Total number of participants at the beginning of the plan year	5	1621
---	----------	------

6 Number of participants as of the end of the plan year (welfare plans complete only lines 6a , 6b , 6c , and 6d).		
a Active participants.....	6a	1593
b Retired or separated participants receiving benefits.....	6b	0
c Other retired or separated participants entitled to future benefits.....	6c	39
d Subtotal. Add lines 6a , 6b , and 6c	6d	1632
e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits.....	6e	2
f Total. Add lines 6d and 6e	6f	1634
g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item).....	6g	1573
h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested.....	6h	20

7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)	7	
--	----------	--

8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristic Codes in the instructions:
 2E 2F 2G 2J 2K 2R 2S 2T 3H

b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristic Codes in the instructions:

9a Plan funding arrangement (check all that apply) (1) ☒ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor	9b Plan benefit arrangement (check all that apply) (1) ☒ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor
--	--

10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)

a Pension Schedules

- (1) ☒ **R** (Retirement Plan Information)
 (2) ☐ **MB** (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary
 (3) ☐ **SB** (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary

b General Schedules

- (1) ☒ **H** (Financial Information)
 (2) ☐ **I** (Financial Information – Small Plan)
 (3) ☒ ¹ **A** (Insurance Information)
 (4) ☒ **C** (Service Provider Information)
 (5) ☒ **D** (DFE/Participating Plan Information)
 (6) ☐ **G** (Financial Transaction Schedules)

SCHEDULE A (Form 5500) Department of the Treasury Internal Revenue Service <hr/> Department of Labor Employee Benefits Security Administration <hr/> Pension Benefit Guaranty Corporation	Insurance Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA). ► File as an attachment to Form 5500. ► Insurance companies are required to provide the information pursuant to ERISA section 103(a)(2).	OMB No. 1210-0110 <hr/> 2010 <hr/> This Form is Open to Public Inspection
---	---	---

For calendar plan year 2010 or fiscal plan year beginning **01/01/2010** and ending **12/31/2010**

A Name of plan KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN	B Three-digit plan number (PN) ►	001
C Plan sponsor's name as shown on line 2a of Form 5500. KAPSTONE PAPER AND PACKAGING CORPORATION	D Employer Identification Number (EIN) 20-2699372	

Part I	Information Concerning Insurance Contract Coverage, Fees, and Commissions Provide information for each contract on a separate Schedule A. Individual contracts grouped as a unit in Parts II and III can be reported on a single Schedule A.
---------------	---

1 Coverage Information:

(a) Name of insurance carrier
PRINCIPAL LIFE INSURANCE COMPANY

(b) EIN	(c) NAIC code	(d) Contract or identification number	(e) Approximate number of persons covered at end of policy or contract year	Policy or contract year	
				(f) From	(g) To
42-0127290	61271	518835	1634	01/01/2010	12/31/2010

2 Insurance fee and commission information. Enter the total fees and total commissions paid. List in item 3 the agents, brokers, and other persons in descending order of the amount paid.

(a) Total amount of commissions paid	(b) Total amount of fees paid
62140	24790

3 Persons receiving commissions and fees. (Complete as many entries as needed to report all persons).

(a) Name and address of the agent, broker, or other person to whom commissions or fees were paid

LOCKTON FINANCIAL ADVISORS LLC
C/O UMB BK PO BOX 878188
KANSAS CITY MO
KANSAS CITY, MO 00006-4187

(b) Amount of sales and base commissions paid	Fees and other commissions paid		(e) Organization code
	(c) Amount	(d) Purpose	
62140	7738	REFERRAL/SERVICE FEE	3

(a) Name and address of the agent, broker, or other person to whom commissions or fees were paid

LOCKTON FINANCIAL ADVISORS LLC
C/O UMB BANK
P O BOX 878188
KANSAS CITY, MO 64187-8188

(b) Amount of sales and base commissions paid	Fees and other commissions paid		(e) Organization code
	(c) Amount	(d) Purpose	
0	17052	PRORATED INCENTIVE, NOT DEDUCTED FROM PLAN	3

(a) Name and address of the agent, broker, or other person to whom commissions or fees were paid

(b) Amount of sales and base commissions paid	Fees and other commissions paid		(e) Organization code
	(c) Amount	(d) Purpose	

(a) Name and address of the agent, broker, or other person to whom commissions or fees were paid

(b) Amount of sales and base commissions paid	Fees and other commissions paid		(e) Organization code
	(c) Amount	(d) Purpose	

(a) Name and address of the agent, broker, or other person to whom commissions or fees were paid

(b) Amount of sales and base commissions paid	Fees and other commissions paid		(e) Organization code
	(c) Amount	(d) Purpose	

(a) Name and address of the agent, broker, or other person to whom commissions or fees were paid

(b) Amount of sales and base commissions paid	Fees and other commissions paid		(e) Organization code
	(c) Amount	(d) Purpose	

(a) Name and address of the agent, broker, or other person to whom commissions or fees were paid

(b) Amount of sales and base commissions paid	Fees and other commissions paid		(e) Organization code
	(c) Amount	(d) Purpose	

Part II Investment and Annuity Contract Information

Where individual contracts are provided, the entire group of such individual contracts with each carrier may be treated as a unit for purposes of this report.

4 Current value of plan's interest under this contract in the general account at year end	4	0
5 Current value of plan's interest under this contract in separate accounts at year end	5	37655142

6 Contracts With Allocated Funds:**a** State the basis of premium rates ▶

b Premiums paid to carrier	6b	
c Premiums due but unpaid at the end of the year	6c	
d If the carrier, service, or other organization incurred any specific costs in connection with the acquisition or retention of the contract or policy, enter amount. Specify nature of costs ▶	6d	

e Type of contract: (1) ☐ individual policies (2) ☐ group deferred annuity
(3) ☐ other (specify) ▶

f If contract purchased, in whole or in part, to distribute benefits from a terminating plan check here ▶ ☐**7** Contracts With Unallocated Funds (Do not include portions of these contracts maintained in separate accounts)

a Type of contract: (1) ☐ deposit administration (2) ☐ immediate participation guarantee
(3) ☐ guaranteed investment (4) ☐ other ▶

b Balance at the end of the previous year	7b	
c Additions: (1) Contributions deposited during the year	7c(1)	
(2) Dividends and credits	7c(2)	
(3) Interest credited during the year	7c(3)	
(4) Transferred from separate account	7c(4)	
(5) Other (specify below)	7c(5)	
▶		
(6) Total additions	7c(6)	
d Total of balance and additions (add b and c(6))	7d	
e Deductions:		
(1) Disbursed from fund to pay benefits or purchase annuities during year	7e(1)	
(2) Administration charge made by carrier	7e(2)	
(3) Transferred to separate account	7e(3)	
(4) Other (specify below)	7e(4)	
▶		
(5) Total deductions	7e(5)	
f Balance at the end of the current year (subtract e(5) from d)	7f	0

Part III Welfare Benefit Contract Information

If more than one contract covers the same group of employees of the same employer(s) or members of the same employee organization(s), the information may be combined for reporting purposes if such contracts are experience-rated as a unit. Where contracts cover individual employees, the entire group of such individual contracts with each carrier may be treated as a unit for purposes of this report.

8 Benefit and contract type (check all applicable boxes)

- a** ☐ Health (other than dental or vision)
 b ☐ Dental
 c ☐ Vision
 d ☐ Life insurance
e ☐ Temporary disability (accident and sickness)
 f ☐ Long-term disability
 g ☐ Supplemental unemployment
 h ☐ Prescription drug
i ☐ Stop loss (large deductible)
 j ☐ HMO contract
 k ☐ PPO contract
 l ☐ Indemnity contract
m ☐ Other (specify) ▶

9 Experience-rated contracts:

a Premiums: (1) Amount received.....	9a(1)		
(2) Increase (decrease) in amount due but unpaid.....	9a(2)		
(3) Increase (decrease) in unearned premium reserve.....	9a(3)		
(4) Earned ((1) + (2) - (3)).....		9a(4)	
b Benefit charges (1) Claims paid.....	9b(1)		
(2) Increase (decrease) in claim reserves.....	9b(2)		
(3) Incurred claims (add (1) and (2)).....		9b(3)	
(4) Claims charged.....		9b(4)	
c Remainder of premium: (1) Retention charges (on an accrual basis) --			
(A) Commissions.....	9c(1)(A)		
(B) Administrative service or other fees.....	9c(1)(B)		
(C) Other specific acquisition costs.....	9c(1)(C)		
(D) Other expenses.....	9c(1)(D)		
(E) Taxes.....	9c(1)(E)		
(F) Charges for risks or other contingencies.....	9c(1)(F)		
(G) Other retention charges.....	9c(1)(G)		
(H) Total retention.....		9c(1)(H)	
(2) Dividends or retroactive rate refunds. (These amounts were ☐ paid in cash, or ☐ credited.).....		9c(2)	
d Status of policyholder reserves at end of year: (1) Amount held to provide benefits after retirement.....		9d(1)	
(2) Claim reserves.....		9d(2)	
(3) Other reserves.....		9d(3)	
e Dividends or retroactive rate refunds due. (Do not include amount entered in c(2).).....		9e	

10 Nonexperience-rated contracts:

a Total premiums or subscription charges paid to carrier.....	10a	
b If the carrier, service, or other organization incurred any specific costs in connection with the acquisition or retention of the contract or policy, other than reported in Part I, item 2 above, report amount.	10b	
Specify nature of costs ▶		

Part IV Provision of Information

11 Did the insurance company fail to provide any information necessary to complete Schedule A? ☐ Yes ☒ No

12 If the answer to line 11 is "Yes," specify the information not provided. ▶

SCHEDULE C (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Service Provider Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA). ▶ File as an attachment to Form 5500.	OMB No. 1210-0110
		2010
		This Form is Open to Public Inspection.
For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010		
A Name of plan KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN	B Three-digit plan number (PN) ▶	001
C Plan sponsor's name as shown on line 2a of Form 5500 KAPSTONE PAPER AND PACKAGING CORPORATION	D Employer Identification Number (EIN) 20-2699372	

Part I	Service Provider Information (see instructions)
---------------	--

You must complete this Part, in accordance with the instructions, to report the information required for **each person** who received, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of monetary value) in connection with services rendered to the plan or the person's position with the plan during the plan year. If a person received **only** eligible indirect compensation for which the plan received the required disclosures, you are required to answer line 1 but are not required to include that person when completing the remainder of this Part.

1 Information on Persons Receiving Only Eligible Indirect Compensation

a Check "Yes" or "No" to indicate whether you are excluding a person from the remainder of this Part because they received only eligible indirect compensation for which the plan received the required disclosures (see instructions for definitions and conditions)..... ☒ Yes ☐ No

b If you answered line 1a "Yes," enter the name and EIN or address of each person providing the required disclosures for the service providers who received only eligible indirect compensation. Complete as many entries as needed (see instructions).

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation
PRINCIPAL LIFE INSURANCE COMPANY
42-0127290

(b) Enter name and EIN or address of person who provided you disclosure on eligible indirect compensation
--

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

PRINCIPAL LIFE INSURANCE COMPANY

42-0127290

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
13 37 50 64	CONTRACT ADMINISTRATOR	153620	Yes ☒ No ☐	Yes ☒ No ☐	1473	Yes ☐ No ☒

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

Part I Service Provider Information (continued)

3 If you reported on line 2 receipt of indirect compensation, other than eligible indirect compensation, by a service provider, and the service provider is a fiduciary or provides contract administrator, consulting, custodial, investment advisory, investment management, broker, or recordkeeping services, answer the following questions for (a) each source from whom the service provider received \$1,000 or more in indirect compensation and (b) each source for whom the service provider gave you a formula used to determine the indirect compensation instead of an amount or estimated amount of the indirect compensation. Complete as many entries as needed to report the required information for each source.

(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
PRINCIPAL LIFE INSURANCE COMPANY	13 37 50 64	1473

(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.
PERSHING, LLC 13-2741729	PRINCIPAL SELF DIRECTED BROKERAGE ACCOUNT FEES

(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation

(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.

(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation

(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.

Part II Service Providers Who Fail or Refuse to Provide Information

4 Provide, to the extent possible, the following information for each service provider who failed or refused to provide the information necessary to complete this Schedule.

(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide

Part III **Termination Information on Accountants and Enrolled Actuaries (see instructions)**
(complete as many entries as needed)

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN;
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN;
c Position:	
d Address:	e Telephone:

Explanation:

SCHEDULE D (Form 5500) <small>Department of the Treasury Internal Revenue Service</small> <small>Department of Labor Employee Benefits Security Administration</small>	DFE/Participating Plan Information <p style="text-align: center;">This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA).</p> <p style="text-align: center;">▶ File as an attachment to Form 5500.</p>	<small>OMB No. 1210-0110</small> <hr/> <p style="text-align: center; font-size: 1.2em;">2010</p> <hr/> <p style="text-align: center;">This Form is Open to Public Inspection.</p>		
For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010				
A Name of plan KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN	B Three-digit plan number (PN) ▶	001		
C Plan or DFE sponsor's name as shown on line 2a of Form 5500 KAPSTONE PAPER AND PACKAGING CORPORATION	D Employer Identification Number (EIN) 20-2699372			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;">Part I</td> <td>Information on interests in MTIAs, CCTs, PSAs, and 103-12 IEs (to be completed by plans and DFEs) (Complete as many entries as needed to report all interests in DFEs)</td> </tr> </table>			Part I	Information on interests in MTIAs, CCTs, PSAs, and 103-12 IEs (to be completed by plans and DFEs) (Complete as many entries as needed to report all interests in DFEs)
Part I	Information on interests in MTIAs, CCTs, PSAs, and 103-12 IEs (to be completed by plans and DFEs) (Complete as many entries as needed to report all interests in DFEs)			
a Name of MTIA, CCT, PSA, or 103-12 IE: PRINCIPAL STABLE VALUE FUND				
b Name of sponsor of entity listed in (a): UNION BOND & TRUST COMPANY				
c EIN-PN 93-6274328-001	d Entity code C	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 8026628		
a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN INTL EMERG MARKETS SA-R6				
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY				
c EIN-PN 42-0127290-013	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 2624775		
a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN SMCAP VALUE SEP ACCT-R6				
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY				
c EIN-PN 42-0127290-031	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 290879		
a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN U.S. PROPERTY SEP ACCT-R6				
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY				
c EIN-PN 42-0127290-027	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 232393		
a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN DIVERSIFIED INTL SA-R6				
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY				
c EIN-PN 42-0127290-015	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 589832		
a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN LGCAP S&P 500 INDEX SA-R6				
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY				
c EIN-PN 42-0127290-016	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 1364583		
a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN MIDCAP VALUE I SA-R6				
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY				
c EIN-PN 42-0127290-043	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 675631		

a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN SMCAP S&P 600 INDEX SA-R6		
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY		
c EIN-PN 42-0127290-028	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 485883

a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN MIDCAP S&P 400 IDX SA-R6		
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY		
c EIN-PN 42-0127290-023	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 949295

a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN MIDCAP GROWTH III SA-R6		
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY		
c EIN-PN 42-0127290-026	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 426625

a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN LIFETIME 2010 SEP ACCT-R6		
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY		
c EIN-PN 42-0127290-075	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 3357722

a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN LIFETIME 2020 SEP ACCT-R6		
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY		
c EIN-PN 42-0127290-076	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 13237258

a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN LIFETIME 2030 SEP ACCT-R6		
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY		
c EIN-PN 42-0127290-077	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 9232771

a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN LIFETIME 2040 SEP ACCT-R6		
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY		
c EIN-PN 42-0127290-078	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 3240060

a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN LIFETIME 2050 SEP ACCT-R6		
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY		
c EIN-PN 42-0127290-079	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 734227

a Name of MTIA, CCT, PSA, or 103-12 IE: PRIN LIFETIME STRAT INC SA-R6		
b Name of sponsor of entity listed in (a): PRINCIPAL LIFE INSURANCE COMPANY		
c EIN-PN 42-0127290-080	d Entity code P	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 213209

a Name of MTIA, CCT, PSA, or 103-12 IE:		
b Name of sponsor of entity listed in (a):		
c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)

Part II Information on Participating Plans (to be completed by DFEs)

(Complete as many entries as needed to report all participating plans)

a Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN

SCHEDULE H (Form 5500) <small>Department of the Treasury Internal Revenue Service</small> <small>Department of Labor Employee Benefits Security Administration</small> <small>Pension Benefit Guaranty Corporation</small>	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	OMB No. 1210-0110 <div style="border: 1px solid black; padding: 5px; font-size: 1.2em; font-weight: bold;">2010</div> This Form is Open to Public Inspection
For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010		
A Name of plan KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN	B Three-digit plan number (PN) ►	001
C Plan sponsor's name as shown on line 2a of Form 5500 KAPSTONE PAPER AND PACKAGING CORPORATION	D Employer Identification Number (EIN) 20-2699372	

	Part I Asset and Liability Statement		(a) Beginning of Year	(b) End of Year
1	Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.			
	Assets			
a	Total noninterest-bearing cash	1a		
b	Receivables (less allowance for doubtful accounts):			
	(1) Employer contributions	1b(1)	1972917	2077359
	(2) Participant contributions	1b(2)	332277	437
	(3) Other	1b(3)	0	0
c	General investments:			
	(1) Interest-bearing cash (include money market accounts & certificates of deposit)	1c(1)	0	0
	(2) U.S. Government securities	1c(2)		
	(3) Corporate debt instruments (other than employer securities):			
	(A) Preferred	1c(3)(A)		
	(B) All other	1c(3)(B)		
	(4) Corporate stocks (other than employer securities):			
	(A) Preferred	1c(4)(A)		
	(B) Common	1c(4)(B)	185458	277271
	(5) Partnership/joint venture interests	1c(5)		
	(6) Real estate (other than employer real property)	1c(6)		
	(7) Loans (other than to participants)	1c(7)		
	(8) Participant loans	1c(8)	2295786	3138503
	(9) Value of interest in common/collective trusts	1c(9)	5871379	8026628
	(10) Value of interest in pooled separate accounts	1c(10)	24903683	37655142
	(11) Value of interest in master trust investment accounts	1c(11)		
	(12) Value of interest in 103-12 investment entities	1c(12)		
	(13) Value of interest in registered investment companies (e.g., mutual funds)	1c(13)	3382403	5727523
	(14) Value of funds held in insurance company general account (unallocated contracts)	1c(14)		
	(15) Other	1c(15)		

1d Employer-related investments:

		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)		
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	38943903	56902863

Liabilities

g Benefit claims payable	1g	0	
h Operating payables	1h	0	
i Acquisition indebtedness	1i	0	
j Other liabilities	1j	0	
k Total liabilities (add all amounts in lines 1g through 1j)	1k	0	0

Net Assets

l Net assets (subtract line 1k from line 1f)	1l	38943903	56902863
---	-----------	----------	----------

Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income**a Contributions:**

		(a) Amount	(b) Total
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)	5668441	
(B) Participants	2a(1)(B)	7800204	
(C) Others (including rollovers)	2a(1)(C)	1102603	
(2) Noncash contributions	2a(2)	0	
(3) Total contributions. Add lines 2a(1)(A) , (B) , (C) , and line 2a(2)	2a(3)		14571248

b Earnings on investments:**(1) Interest:**

(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)	0	
(B) U.S. Government securities	2b(1)(B)	0	
(C) Corporate debt instruments	2b(1)(C)	0	
(D) Loans (other than to participants)	2b(1)(D)	0	
(E) Participant loans	2b(1)(E)	139796	
(F) Other	2b(1)(F)	0	
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		139796

(2) Dividends: (A) Preferred stock	2b(2)(A)	0	
(B) Common stock	2b(2)(B)	4266	
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)	79125	
(D) Total dividends. Add lines 2b(2)(A) , (B) , and (C)	2b(2)(D)		83391

(3) Rents	2b(3)		0
-----------------	--------------	--	---

(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)	0	
(B) Aggregate carrying amount (see instructions)	2b(4)(B)	0	
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		0

		(a) Amount	(b) Total
2b (5) Unrealized appreciation (depreciation) of assets: (A) Real estate.....	2b(5)(A)	0	
(B) Other	2b(5)(B)	26091	
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		26091
(6) Net investment gain (loss) from common/collective trusts	2b(6)		274738
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		4779154
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		0
(9) Net investment gain (loss) from 103-12 investment entities	2b(9)		0
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds).....	2b(10)		464610
c Other income.....	2c		0
d Total income. Add all income amounts in column (b) and enter total.....	2d		20339028

Expenses

e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	2219638	
(2) To insurance carriers for the provision of benefits	2e(2)	0	
(3) Other	2e(3)	1568	
(4) Total benefit payments. Add lines 2e(1) through (3)	2e(4)		2221206
f Corrective distributions (see instructions)	2f		182
g Certain deemed distributions of participant loans (see instructions).....	2g		0
h Interest expense.....	2h		0
i Administrative expenses: (1) Professional fees	2i(1)	0	
(2) Contract administrator fees	2i(2)	158680	
(3) Investment advisory and management fees	2i(3)	0	
(4) Other	2i(4)	0	
(5) Total administrative expenses. Add lines 2i(1) through (4)	2i(5)		158680
j Total expenses. Add all expense amounts in column (b) and enter total.....	2j		2380068

Net Income and Reconciliation

k Net income (loss). Subtract line 2j from line 2d	2k		17958960
l Transfers of assets:			
(1) To this plan.....	2l(1)		0
(2) From this plan	2l(2)		0

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☐ Unqualified (2) ☐ Qualified (3) ☒ Disclaimer (4) ☐ Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)? ☒ Yes ☐ No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: WOLF AND COMPANY LLP

(2) EIN: 36-2985665

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

- 4** CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete 4j and 4l. MTIAs also do not complete 4l.

During the plan year:

	Yes	No	Amount
a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.).....		X	0
b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.).....		X	0
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)		X	0
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.).....		X	0
e Was this plan covered by a fidelity bond?.....	X		5000000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?		X	
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.).....	X		
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.).....		X	
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?.....		X	
l Has the plan failed to provide any benefit when due under the plan?		X	
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.).....		X	
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.			

- 5a** Has a resolution to terminate the plan been adopted during the plan year or any prior plan year?
If yes, enter the amount of any plan assets that reverted to the employer this year ☐ Yes ☒ No Amount:

- 5b** If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)

5b(2) EIN(s)	5b(3) PN(s)

SCHEDULE R (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Retirement Plan Information This schedule is required to be filed under section 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code). ▶ File as an attachment to Form 5500.	OMB No. 1210-0110 2010 This Form is Open to Public Inspection.
---	--	--

For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010

A Name of plan <u>KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN</u>	B Three-digit plan number (PN) ▶ <u>001</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>KAPSTONE PAPER AND PACKAGING CORPORATION</u>	D Employer Identification Number (EIN) <u>20-2699372</u>

Part I	Distributions
---------------	----------------------

All references to distributions relate only to payments of benefits during the plan year.

1 Total value of distributions paid in property other than in cash or the forms of property specified in the instructions.....	1	<u>0</u>
2 Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits): EIN(s): <u>42-0127290</u>		
Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.		
3 Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year.....	3	

Part II	Funding Information (If the plan is not subject to the minimum funding requirements of section 412 of the Internal Revenue Code or ERISA section 302, skip this Part)
----------------	--

4 Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)?.....	☐ Yes	☐ No	☐ N/A
If the plan is a defined benefit plan, go to line 8.			
5 If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. Date: Month _____ Day _____ Year _____ If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.			
6 a Enter the minimum required contribution for this plan year	6a		
b Enter the amount contributed by the employer to the plan for this plan year	6b		
c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount).....	6c		
If you completed line 6c, skip lines 8 and 9.			
7 Will the minimum funding amount reported on line 6c be met by the funding deadline?	☐ Yes	☐ No	☐ N/A
8 If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change?.....	☐ Yes	☐ No	☐ N/A

Part III	Amendments
-----------------	-------------------

9 If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box(es). If no, check the "No" box.....	☐ Increase	☐ Decrease	☐ Both	☐ No
--	-----------------------------------	-----------------------------------	-------------------------------	-----------------------------

Part IV	ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.
----------------	---

10 Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan?.....	☐ Yes	☐ No
11 a Does the ESOP hold any preferred stock?	☐ Yes	☐ No
b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.)	☐ Yes	☐ No
12 Does the ESOP hold any stock that is not readily tradable on an established securities market?	☐ Yes	☐ No

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500.

Schedule R (Form 5500) 2010
v.092308.1

Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

- 14** Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:

a The current year	14a	
b The plan year immediately preceding the current plan year	14b	
c The second preceding plan year	14c	

- 15** Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:

a The corresponding number for the plan year immediately preceding the current plan year	15a	
b The corresponding number for the second preceding plan year	15b	

- 16** Information with respect to any employers who withdrew from the plan during the preceding plan year:

a Enter the number of employers who withdrew during the preceding plan year	16a	
b If item 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers	16b	

- 17** If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

Part VI Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans

- 18** If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

- 19** If the total number of participants is 1,000 or more, complete items (a) through (c)

- a** Enter the percentage of plan assets held as:

Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____%

- b** Provide the average duration of the combined investment-grade and high-yield debt:

☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more

- c** What duration measure was used to calculate item 19(b)?

☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify): _____

**KapStone Paper and
Packaging Corporation
401(k) Plan**

**Financial Statements,
Supplemental Schedule
and
Independent Auditor's Report
For the Year Ended
December 31, 2010**

Wolf & Company LLP
Certified Public Accountants

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Financial Statements:	
Statements of Net Assets Available for Benefits	2
Statements of Changes in Net Assets Available for Benefits	3
Notes to Financial Statements	4-12
Supplemental Schedule:	
Schedule H, Line 4i - Schedule of Assets (Held at End of Year)	13

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
KapStone Paper and Packaging Corporation 401(k) Plan

We were engaged to audit the accompanying statements of net assets available for benefits of KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN as of December 31, 2010 and 2009, the related statements of changes in net assets available for benefits for the years then ended, and the supplemental schedule as of December 31, 2010. These financial statements and supplemental schedule are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 5, which was certified by Principal Life Insurance Company, the trustee of the Plan, except for comparing such information with the related information included in the financial statements and the supplemental schedule. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained certifications from the trustee as of December 31, 2010 and 2009, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedule taken as a whole. The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Oakbrook Terrace, Illinois
July 15, 2011

Wolf & Company LLP

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	December 31,	
	2010	2009
Investments, at fair value:		
Registered investment companies	\$ 6,004,793	\$ 3,567,731
Common/collective trust	8,026,628	5,871,379
Pooled separate accounts	<u>37,655,143</u>	<u>24,903,683</u>
Total investments	<u>51,686,564</u>	<u>34,342,793</u>
Receivables:		
Employee contributions	437	332,277
Employer contributions	2,077,359	1,972,917
Notes receivable from participants	<u>3,138,503</u>	<u>2,295,786</u>
Total receivables	<u>5,216,299</u>	<u>4,600,980</u>
Adjustments from fair value for interest in common/collective trust relating to fully benefit-responsive investment contracts	<u>(160,654)</u>	<u>(39,408)</u>
Net assets available for benefits	<u>\$ 56,742,209</u>	<u>\$ 38,904,365</u>

See accompanying notes to financial statements and independent auditor's report.

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	For the Year Ended December 31,	
	2010	2009
Additions to net assets attributed to:		
Investment income:		
Dividends	\$ 83,391	\$ 64,144
Net appreciation in fair value of investments	<u>5,423,477</u>	<u>6,000,266</u>
	<u>5,506,868</u>	<u>6,064,410</u>
 Interest from notes receivable participants	 <u>139,796</u>	 <u>110,402</u>
 Contributions:		
Participants	7,800,204	7,433,371
Employer	5,668,441	4,036,782
Rollover	<u>1,102,603</u>	<u>469,010</u>
	<u>14,571,248</u>	<u>11,939,163</u>
 Total additions	 <u>20,217,912</u>	 <u>18,113,975</u>
 Deductions from net assets attributed to:		
Benefits paid to participants	2,221,388	2,085,999
Administrative expenses	<u>158,680</u>	<u>120,752</u>
 Total deductions	 <u>2,380,068</u>	 <u>2,206,751</u>
 Net increase	 17,837,844	 15,907,224
 Net assets available for benefits:		
Beginning of year	<u>38,904,365</u>	<u>22,997,141</u>
 End of year	 <u>\$ 56,742,209</u>	 <u>\$ 38,904,365</u>

See accompanying notes to financial statements and independent auditor's report.

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
NOTES TO FINANCIAL STATEMENTS

1. Description of Plan

The following description of the KapStone Paper and Packaging Corporation 401(k) Plan (the Plan) provides only general information. Participants should refer to the plan document for a more complete description of the Plan's provisions.

General – The Plan is a defined contribution plan covering all employees of the KapStone Paper and Packaging Corporation (the Company). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended by subsequent legislation. The Plan was adopted on January 1, 2007.

Contributions – Each year participants may contribute up to 85% of annual compensation as defined in the Plan. Roth elective deferral contributions and pre-tax elective deferral contributions are both counted in the maximum deferral limit. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Eligible compensation for any plan year shall not exceed the maximum provided by the Internal Revenue Code. Age 50 and over participants can contribute an additional \$5,500 in 2010 and 2009. A participant's account may include contributions made to another plan and transferred to the Plan as part of a rollover contribution. The Plan currently offers various pooled separate accounts, mutual funds, and a stable value fund as investment options for participants. Additional and discretionary contributions are computed in accordance with the terms of the Plan and may be made at the discretion of the Company.

For salaried and non-bargained hourly employees, the Company may match 100% up to 4% of pay, plus 50% from 5% of pay up to 6% of pay. For Roanoke Rapids Mill bargaining employees, the Company may match up to 50% of the first \$2,400 of employee contributions for the plan year. For Charleston bargaining employees, the Company may match 100% up to 3% of pay, plus 50% from 4% of pay up to 5% of pay.

Participant Accounts – Each participant's account is credited with the participant's contribution and allocations of a) the Company's contribution, b) Plan earnings, and c) charged with an allocation of administrative expense. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Payment of Benefits – If a participant retires, the balance of the participant's account is payable at his/her option in either a lump sum or a rollover into a qualified plan or IRA unless the participant's balance in the Plan is less than \$1,000, in which case the participant will receive a lump-sum distribution. If the balance is between \$1,000 and \$5,000, Principal automatically establishes an IRA account for the employee. Upon death or termination of a participant, the trustee of the Plan advises the beneficiary or participant of the various methods of distribution of the participant's account available to the participant or his/her beneficiary.

Notes Receivable from Participants – Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their account balance. The participant must sign a promissory note for the loan. The participant may be granted two loans during any one-year period, and only two loans may be outstanding at a time. The loan period cannot exceed five years, unless the proceeds of the loans are used to purchase a primary residence which shall not exceed fifteen years, and the loans bear interest at rates commensurate with current interest rates used by the lending industry. The interest rates for the outstanding loans range from 4.25% to 9.25% at December 31, 2010.

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
NOTES TO FINANCIAL STATEMENTS

1. Description of Plan (Cont.)

Vesting – Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Company's contribution portion of their accounts plus actual earnings for Roanoke Rapids hourly and Fordyce hourly employees and the Company RSA matching contribution for salaried and non-bargained hourly employees is based on years of continuous service as follows:

<u>Years of Service</u>	<u>Percentage</u>
Less than 3	0%
3 or more	100%

All other participants are immediately vested in the Company's contribution portion of their accounts plus actual earnings thereon.

Forfeitures – Forfeitures are first applied to plan expenses, and any remaining amounts will reduce the earliest employer contributions made after the forfeitures are determined. At December 31, 2010 and 2009, there were no unallocated plan assets resulting from forfeited nonvested accounts. Forfeitures of \$5,793 and \$25,823 were used to reduce administrative expenses in 2010 and 2009, respectively.

2. Summary of Significant Accounting Policies

Basis of Accounting – The financial statements of the Plan have been prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the reporting period. Actual results may differ from those estimates.

Fully Benefit-Responsive Investment Contract – Investment contracts held by a defined-contribution plan are reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Plan invests in investment contracts through a collective trust. The statement of net assets available for benefits presents the fair value of the investment in the collective trust as well as the adjustment of the investment in the collective trust from fair value to contract value relating to the investment contracts. The statement of changes in net assets available for benefits is prepared on the contract basis.

Investment Valuation and Income Recognition – Investments held in pooled and separate accounts are reported at fair value based on quoted market prices of each fund's underlying investments. Shares of registered investment companies are valued at quoted market prices which represent the net asset value of shares held by the Plan. The Stable Value Fund is valued based on information reported by Principal Life Insurance Company. Participant loans are valued at cost which approximate fair value.

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (Cont.)

Investment Valuation and Income Recognition (cont.) –

The Plan provides for investments that, in general, are exposed to various risks such as interest rates, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amount reported in the statement of net assets available for benefits.

Purchases and sales of securities are reflected on a trade-date basis. The realized gains or losses on the sale of securities are based on average cost. Income from investments is recorded as earned on the accrual basis.

Reporting Participant Loans – In September 2010, the Financial Accounting Standards Board (FASB) issued guidance in Accounting Standards Codification No. 962, *Plan Accounting – Defined Contribution Pension Plans*, amending the reporting and disclosure requirements related to participant loans for defined contribution pension plans. The guidance requires that loans issued to participants be reported as notes receivable, segregated from plan investments, and be measured at their unpaid principal balances plus accrued but unpaid interest. This guidance was effective for reporting periods ending after December 15, 2010, and is to be applied retrospectively to all periods presented. The adoption of this guidance by the Plan resulted in a reclassification from investments to notes receivable from participants of \$3,138,503 and \$2,295,786 as of December 31, 2010 and 2009, respectively. Adoption had no effect on the Plan's net assets available for benefits.

Fair Value Measurements – In January 2010, the FASB issued guidance in Accounting Standards Codification No. 820, *Fair Value Measurements and Disclosures*, amending the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between fair value measurement hierarchy levels, including the reasons for and the timing of the transfers. The new accounting guidance also clarifies existing disclosure requirements regarding the level of disaggregation of fair value measurements and disclosure of significant inputs and valuation techniques utilized. The Plan adopted these disclosure requirements in 2010. Additionally, beginning in 2011, the guidance requires separate presentation of purchases, sales, issuances, and settlements in the Level 3 reconciliation table. The Plan intends on adopting these disclosure requirements in 2011.

Payment of Benefits – Benefits are recorded when paid.

Administrative Expenses – Certain administrative expenses are paid by the Company on behalf of the Plan. They are not material to the financial statements. Additionally, certain employees of the Plan provide administrative and trustee services to the Plan and are not reimbursed by the Plan for such services.

Notes Receivable from Participants – Notes receivable from participants are reported at their unpaid principal balance plus any accrued but unpaid interest, with no allowance for credit losses, as repayments of principal and interest are received through payroll deductions.

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
NOTES TO FINANCIAL STATEMENTS

3. Investments

The following investments represent 5% or more of the Plan's net assets.

	<u>2010</u>	<u>2009</u>
Stable Value Fund	\$ 8,026,628	\$ 5,871,379
Principal Lifetime 2010 Fund	3,357,722	2,253,640
Principal Lifetime 2020 Fund	13,237,258	8,701,430
Principal Lifetime 2030 Fund	9,232,771	5,896,743
Principal Lifetime 2040 Fund	3,240,060	1,976,359
International Emerging Markets Fund	*	2,360,825

*Denotes investment does not represent 5% or more of Plan's net assets.

During 2010 and 2009, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

	<u>2010</u>	<u>2009</u>
Registered investment companies	\$ 490,831	\$ 618,812
Common/collective trust	153,490	117,467
Pooled separate accounts	<u>4,779,156</u>	<u>5,263,987</u>
	<u>\$ 5,423,477</u>	<u>\$ 6,000,266</u>

4. Fair Value Measurements

Generally accepted accounting principles provide a uniform framework for the definition, measurement and disclosure of fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The financial accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The financial accounting standards describe three levels of inputs that may be used to measure fair value:

- Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2:* Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3:* Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements (Cont.)

The fair value of registered investment companies and publicly traded equities is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

The fair value of participation units held by the Plan in pooled separate accounts is based on their net asset values, as reported by Principal and as supported by the unit prices of actual purchase and sale transactions occurring as of or close to the financial statement date.

The pooled separate accounts invest mainly in domestic stocks and mutual funds. The fair value of the mutual funds are publicly quoted pricing Level 1 inputs, and the majority of the underlying securities have observable Level 1 quoted pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation (IDC). While the underlying assets values are quoted prices, the NAV of a separate account is not publicly quoted and therefore contain other observable Level 2 inputs.

A certain pooled separate account invests mainly in commercial real estate and includes mortgage loans which are backed by the associated properties. These underlying real estate investments have unobservable Level 3 pricing inputs.

The net asset value of the common/collective trust (Stable Value Fund) is based on the market value of its underlying investments. This fund contains synthetic investment contracts comprised of both underlying investment and contractual components which have observable Level 1 and Level 2 pricing inputs, including quoted prices for similar assets in active and non-active markets.

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements (Cont.)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		<u>Fair Value</u>		
December 31, 2010:				
Registered investment companies:				
Large U.S. equity funds	\$ 1,968,029	\$ 1,968,029	\$ -	\$ -
Small/mid U.S. equity funds	814,316	814,316	-	-
International equity funds	799,903	799,903	-	-
Fixed income funds	2,137,159	2,137,159	-	-
Other	285,388	285,388	-	-
	<u>6,004,795</u>	<u>6,004,795</u>	<u>-</u>	<u>-</u>
Pooled separate accounts:				
Large U.S. equity funds	1,364,583	-	1,364,583	-
Small/mid U.S. equity funds	2,828,313	-	2,828,313	-
International equity funds	3,214,607	-	3,214,607	-
Balanced/asset allocation funds	30,015,247	-	30,015,247	-
Fixed income funds	232,393	-	-	232,393
	<u>37,655,143</u>	<u>-</u>	<u>37,422,750</u>	<u>232,393</u>
Common/collective trust:				
Stable value fund	8,026,628	-	8,026,628	-
Total	<u>\$51,686,566</u>	<u>\$ 6,004,795</u>	<u>\$45,449,378</u>	<u>\$ 232,393</u>

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements (Cont.)

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
December 31, 2009:				
Registered investment companies:				
Large U.S. equity funds	\$ 1,167,435	\$ 1,167,435	\$ -	\$ -
Small/mid U.S. equity funds	555,014	555,014	-	-
International equity funds	580,957	580,957	-	-
Fixed income funds	1,067,744	1,067,744	-	-
Other	196,581	196,581	-	-
	<u>3,567,731</u>	<u>3,567,731</u>	<u>-</u>	<u>-</u>
Pooled separate accounts:				
Large U.S. equity funds	986,520	-	986,520	-
Small/mid U.S. equity funds	1,513,246	-	1,513,246	-
International equity funds	2,746,814	-	2,746,814	-
Balanced/asset allocation funds	19,326,707	-	19,326,707	-
Fixed income funds	330,396	-	-	330,396
	<u>24,903,683</u>	<u>-</u>	<u>24,573,287</u>	<u>330,396</u>
Common/collective trust:				
Stable value fund	5,871,379	-	5,871,379	-
	<u>5,871,379</u>	<u>-</u>	<u>5,871,379</u>	<u>-</u>
Total	<u>\$34,342,793</u>	<u>\$ 3,567,731</u>	<u>\$30,444,666</u>	<u>\$ 330,396</u>

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements (Cont.)

Changes in fair value of assets measured on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2010 and 2009, are as follows:

	<u>Pooled Separate Accounts</u>
January 1, 2009	\$ 374,991
Purchases, sales, issuances and settlements (net)	102,978
Realized losses	(1,759)
Unrealized losses	<u>(145,814)</u>
December 31, 2009	330,396
Purchases, sales, issuances and settlements (net)	(134,629)
Realized losses	(84,912)
Unrealized gains	<u>121,538</u>
December 31, 2010	<u>\$ 232,393</u>

5. Information Certified by the Trustee of the Plan

The plan administrator has elected the method of annual reporting compliance permitted by Section 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, Principal Life Insurance Company, the trustee of the Plan, has certified to the completeness and accuracy of all investments reflected on the accompanying statements of net assets available for benefits as of December 31, 2010 and 2009, the schedule of assets (held at end of year) as of December 31, 2010, and the related investment activity reflected in the statements of changes in net assets available for benefits for the years ended December 31, 2010 and 2009.

6. Related Party Transactions

Certain Plan investments are units in pooled separate accounts managed by Principal. Principal is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. Fees paid by the Plan during 2010 for legal, accounting, and other professional services rendered by parties-in-interest were based on customary and reasonable rates for such services.

7. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants would become 100% vested in their employer contributions.

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
NOTES TO FINANCIAL STATEMENTS

8. Tax Status

The Plan obtained its latest determination letter on September 15, 2009, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. However, the plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code; therefore, no provision for income taxes has been included in the Plan's financial statements.

9. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2010 and 2009 to the Form 5500:

	<u>2010</u>	<u>2009</u>
Net assets available for benefits per the financial statements	\$ 56,742,209	\$ 38,904,365
Adjustment from fair value to contract value of common/collective trust relating to fully benefit-responsive investment contracts	<u>160,654</u>	<u>39,408</u>
Form 5500	<u>\$ 56,902,863</u>	<u>\$ 38,943,773</u>

The following is a reconciliation of the increase in net assets available for benefits per the financial statements for the years ended December 31, 2010 and 2009 to the Form 5500:

	<u>2010</u>	<u>2009</u>
Increase in net assets available for benefits per the financial statements	\$ 17,837,844	\$ 15,907,224
Adjustment from fair value to contract value for interest in common/collective trust relating to fully benefit-responsive investment contracts	<u>121,116</u>	<u>265,061</u>
Increase in net assets available for benefits per the Form 5500	<u>\$ 17,958,960</u>	<u>\$ 16,172,285</u>

10. Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to agree with the 2010 presentation with no effect on net assets available for benefits.

11. Subsequent Events

Subsequent events have been evaluated through July 15, 2011, the date these financial statements were available for issuance.

SUPPLEMENTAL SCHEDULE

KAPSTONE PAPER AND PACKAGING CORPORATION 401(K) PLAN
 EIN: 20-2699372 Plan Number: 001
SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 December 31, 2010

(a)	(b) Identity of Issue	(c) Description of Assets	(d) Cost	(e) Current Value
	Morley Financial Services, Inc.	Common/collective trust: Stable Value Fund	**	\$ 8,026,628
		Pooled separate accounts:		
*	Principal Life Insurance Company	Lifetime 2010 Fund	**	3,357,722
*	Principal Life Insurance Company	Lifetime 2020 Fund	**	13,237,258
*	Principal Life Insurance Company	Lifetime 2030 Fund	**	9,232,771
*	Principal Life Insurance Company	Lifetime 2040 Fund	**	3,240,060
*	Principal Life Insurance Company	Lifetime 2050 Fund	**	734,227
*	Principal Life Insurance Company	Lifetime Str Inc Fund	**	213,209
*	Principal Life Insurance Company	Goldman Sachs Asset Mgt Value I Fund	**	675,631
*	Principal Life Insurance Company	International Emerging Markets Fund	**	2,624,775
*	Principal Life Insurance Company	Diversified International Fund	**	589,832
*	Principal Life Insurance Company	U.S. Property Fund	**	232,393
*	Principal Life Insurance Company	Large Cap S&P 500 Index Fund	**	1,364,583
*	Principal Life Insurance Company	Mid Cap S&P 400 Index Fund	**	949,295
*	Principal Life Insurance Company	Small Cap S&P 600 Index Fund	**	485,883
*	Principal Life Insurance Company	Small Cap Value Fund	**	290,879
*	Principal Life Insurance Company	Turner Mellon Capital Mgt - Mid Cap Growth III Fund	**	426,625
				<u>37,655,143</u>
		Registered investment companies:		
	Fidelity Management & Research	Adv Small Cap Fund	**	814,316
	Capital Research and Mgmt Co	Growth Fund of America Fund	**	1,379,372
	Capital Research and Mgmt Co	New Persp Fund	**	799,903
*	Principal Life Insurance Company	Principal Self-Dir Broker Account Fund	**	285,386
	PIMCO	Total Return Fund	**	2,137,159
	Allianz Global Inv Fund Mgmt	NFJ Dividend Value Fund	**	588,657
				<u>6,004,793</u>
	Participant loans	Interest rates between 4.25% and 9.25%	N/A	3,138,503
				<u>\$ 54,825,067</u>

*Indicates a party-in-interest.

**Costs omitted for participant-directed investments.

See independent auditor's report.

SCHEDULE H, line 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)

KAPSTONE PAPER AND PACKAGING CORPORATION
 401(K) PLAN
 EIN 20 2699372
 PLAN NUMBER 001
 PLAN YEAR 01/01/2010 TO 12/31/2010

(A)	(B) Identity of issuer, borrower, lessor or similar party.	(C) Description of investment including maturity date, rate of interest, collateral, par or maturity value.	(D) Cost	(E) Current Value
	Allianz	Registered Investment Company Allianz NFJ Div Value A Fund	\$ 0.00	\$ 588,656.70
	The American Funds	Registered Investment Company Am Fds Grth Fd of Am R4 Fund	\$ 0.00	\$ 1,379,371.86
	American Funds Service Company	Registered Investment Company Am Fds New Persp R4 Fund	\$ 0.00	\$ 799,902.81
	AEROVIRONMENT INC	Corporate Stock - Common AEROVIRONMENT INC COM	\$ 0.00	\$ 5,366.00
	AMERICAN INTERNATIONAL GROUP, INC.	Corporate Stock - Common AMERICAN INTL GROUP INC COM NEW	\$ 0.00	\$ 8,585.38
	BIODEL INC	Corporate Stock - Common BIODEL INC COM	\$ 0.00	\$ 183.00
	CELL THERAPEUTICS INC.	Corporate Stock - Common CELL THERAPEUTICS INC COM NO PAR	\$ 0.00	\$ 5,533.40
	CHESAPEAKE ENERGY CORP	Corporate Stock - Common CHESAPEAKE ENERGY CORP	\$ 0.00	\$ 2,591.00
	CITIGROUP INC	Corporate Stock - Common CITIGROUP INC COM	\$ 0.00	\$ 17,501.00
	DRYSHIPS INC	Corporate Stock - Common DRYSHIPS INC COM SHS	\$ 0.00	\$ 549.00
	E*TRADE FINANCIAL CORPORATION	Corporate Stock - Common E TRADE FINL CORP COM NEW	\$ 0.00	\$ 4,800.00
	ENERGY CONVERSION DEVICES, INC.	Corporate Stock - Common ENERGY CONVERSION DEVICES INC	\$ 0.00	\$ 460.00
	EXCEL MARITIME CARRIERS LTD	Corporate Stock - Common EXCEL MARITIME CARRIERS LTD ISIN#LR00087	\$ 0.00	\$ 548.05
	Fidelity Investments	Registered Investment Company Fidelity Adv Small Cap A Fund	\$ 0.00	\$ 814,315.71
	FEDERATED INVESTORS, INC.	Registered Investment Company FEDERATED CAPITAL RESERVES	\$ 0.00	\$ 8,117.16

SCHEDULE H, line 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)

KAPSTONE PAPER AND PACKAGING CORPORATION
401(K) PLAN
EIN 20 2699372
PLAN NUMBER 001
PLAN YEAR 01/01/2010 TO 12/31/2010

(A)	(B) Identity of issuer, borrower, lessor or similar party.	(C) Description of investment including maturity date, rate of interest, collateral, par or maturity value.	(D) Cost	(E) Current Value
	FOSTER WHEELER AG	Corporate Stock - Common FOSTER WHEELER AG COM ISIN#CH0018666781	\$ 0.00	\$ 13,808.00
	FUELCELL ENERGY, INC.	Corporate Stock - Common FUELCELL ENERGY INC COM	\$ 0.00	\$ 9,355.50
	GENERAL ELECTRIC COMPANY (GE)	Corporate Stock - Common GENERAL ELECTRIC CO COM	\$ 0.00	\$ 65,844.00
	HAUPPAUGE DIGITAL INC.	Corporate Stock - Common HAUPPAUGE DIGITAL INC COM	\$ 0.00	\$ 224.00
	HOVANIAN ENTERPRISES, INC.	Corporate Stock - Common HOVANIAN ENTERPRISES INC CL A COM	\$ 0.00	\$ 409.00
	J. P. MORGAN CHASE & CO.	Corporate Stock - Common JP MORGAN CHASE & CO COM ISIN#US46625H10	\$ 0.00	\$ 3,436.02
	MEADWESTVACO CORP.	Corporate Stock - Common MEADWESTVACO CORP COM	\$ 0.00	\$ 104,640.00
*	Principal Life Insurance Company	Pooled Separate Accounts Prin Diversified Intl SA-R6	\$ 0.00	\$ 589,831.76
*	Principal Life Insurance Company	Pooled Separate Accounts Prin Intl Emerg Markets SA-R6	\$ 0.00	\$ 2,624,775.12
*	Principal Life Insurance Company	Pooled Separate Accounts Prin LgCap S&P 500 Index SA-R6	\$ 0.00	\$ 1,364,582.97
*	Principal Life Insurance Company	Pooled Separate Accounts Prin LifeTime Strat Inc SA-R6	\$ 0.00	\$ 213,209.27
*	Principal Life Insurance Company	Pooled Separate Accounts Prin LifeTime 2010 Sep Acct-R6	\$ 0.00	\$ 3,357,721.75
*	Principal Life Insurance Company	Pooled Separate Accounts Prin LifeTime 2020 Sep Acct-R6	\$ 0.00	\$ 13,237,258.04
*	Principal Life Insurance Company	Pooled Separate Accounts Prin LifeTime 2030 Sep Acct-R6	\$ 0.00	\$ 9,232,770.53
*	Principal Life Insurance Company	Pooled Separate Accounts Prin LifeTime 2040 Sep Acct-R6	\$ 0.00	\$ 3,240,059.80

SCHEDULE H, line 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)

KAPSTONE PAPER AND PACKAGING CORPORATION
 401(K) PLAN
 EIN 20 2699372
 PLAN NUMBER 001
 PLAN YEAR 01/01/2010 TO 12/31/2010

(A)	(B) Identity of issuer, borrower, lessor or similar party.	(C) Description of investment including maturity date, rate of interest, collateral, par or maturity value.	(D) Cost	(E) Current Value
*	Principal Life Insurance Company	Pooled Separate Accounts Prin LifeTime 2050 Sep Acct-R6	\$ 0.00	\$ 734,226.87
*	Principal Life Insurance Company	Pooled Separate Accounts Prin MidCap Growth III SA-R6	\$ 0.00	\$ 426,625.21
*	Principal Life Insurance Company	Pooled Separate Accounts Prin MidCap S&P 400 Idx SA-R6	\$ 0.00	\$ 949,294.74
*	Principal Life Insurance Company	Pooled Separate Accounts Prin MidCap Value I SA-R6	\$ 0.00	\$ 675,630.99
*	Principal Life Insurance Company	Pooled Separate Accounts Prin SmCap S&P 600 Index SA-R6	\$ 0.00	\$ 485,882.83
*	Principal Life Insurance Company	Pooled Separate Accounts Prin SmCap Value Sep Acct-R6	\$ 0.00	\$ 290,879.10
*	Principal Life Insurance Company	Pooled Separate Accounts Prin U.S. Property Sep Acct-R6	\$ 0.00	\$ 232,392.83
	Union Bond & Trust Company	Common/Collective Trust Principal Stable Value Fund	\$ 0.00	\$ 8,026,628.00
	PIMCO Funds	Registered Investment Company PIMCO Total Return R Fund	\$ 0.00	\$ 2,137,158.56
	QUANTA SERVICES, INC.	Corporate Stock - Common QUANTA SVCS INC COM	\$ 0.00	\$ 3,486.00
	SOMAXON PHARMACEUTICALS INC CO	Corporate Stock - Common SOMAXON PHARMACEUTICALS INC COM	\$ 0.00	\$ 315.00
	SPRINT FON GROUP	Corporate Stock - Common SPRINT NEXTEL CORP FON SHS	\$ 0.00	\$ 1,269.00
	SUNTECH POWER HOLDINGS CO. LTD.	Corporate Stock - Common SUNTECH PWR HLDGS COLTD SHS ISIN#US86800	\$ 0.00	\$ 2,403.00
	TRINA SOLAR LTD	Corporate Stock - Common TRINA SOLAR LTD SPON ADR	\$ 0.00	\$ 14,052.00
	TRINITY INDUSTRIES INC.	Corporate Stock - Common TRINITY INDS INC COM	\$ 0.00	\$ 10,644.00

SCHEDULE H, line 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)

KAPSTONE PAPER AND PACKAGING CORPORATION
401(K) PLAN
EIN 20 2699372
PLAN NUMBER 001
PLAN YEAR 01/01/2010 TO 12/31/2010

[illegible]