

Stone Arcade Acquisition CORP
Form PRER14A
November 07, 2006

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934
(Amendment No. 2)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

Stone Arcade Acquisition Corporation

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
None

(2) Aggregate number of securities to which transaction applies:
None

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
Calculated based on the purchase price of \$155,000,000 in cash delivered at the closing of the transaction

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(4) Proposed maximum aggregate value of transaction:
\$155,000,000

(5) Total fee paid:
\$16,585

ý Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

STONE ARCADE ACQUISITION CORPORATION

c/o Stone-Kaplan Investments, LLC
One Northfield Plaza, Suite 480
Northfield, Illinois 60093

To the Stockholders of Stone Arcade Acquisition Corporation:

You are cordially invited to attend a special meeting of the stockholders of Stone Arcade Acquisition Corporation, or Stone, relating to the proposed acquisition of substantially all of the assets of the Kraft Papers Business, or KPB, a division of International Paper Company, or IP, which will be held at 10:00 a.m., Central time, on _____, 2006, at the offices of Stone, located at One Northfield Plaza, Suite 480, Northfield, IL 60093.

At this important meeting, you will be asked to consider and vote upon the following proposals:

the adoption and approval of the transactions contemplated by the Purchase Agreement, dated as of June 23, 2006, among Stone, KapStone Kraft Paper Corporation, a wholly-owned subsidiary of Stone, or KapStone Kraft, and IP we call this proposal the acquisition proposal;

the approval of an amendment to Stone's certificate of incorporation to change Stone's name to "KapStone Paper and Packaging Corporation" we call this proposal the name change amendment proposal;

the approval of an amendment to Stone's certificate of incorporation to remove the preamble and sections A through D, inclusive, of Article SIXTH from the certificate of incorporation after the closing of the acquisition, as these provisions will no longer be applicable to Stone, and to redesignate section E of Article SIXTH as Article SIXTH we call this proposal the Article SIXTH amendment proposal; and

the approval of Stone's 2006 Incentive Plan we call this proposal the incentive plan proposal.

The approval of the foregoing proposals requires the affirmative vote of:

a majority of those shares of Stone's common stock issued in its initial public offering, which we call IPO shares, that are voted at the meeting to adopt the acquisition proposal;

a majority of the issued and outstanding shares of Stone's common stock to adopt the name change amendment proposal;

a majority of the issued and outstanding shares of Stone's common stock to adopt the Article SIXTH amendment proposal; and

a majority of the shares of Stone's common stock represented in person or by proxy and entitled to vote at the meeting to adopt the incentive plan proposal.

Adoption by Stone stockholders of the acquisition proposal is not conditioned upon the adoption of the name change amendment proposal, the Article SIXTH amendment proposal or the incentive plan proposal. However, the adoption of the name change amendment proposal, the Article SIXTH amendment proposal and the incentive plan proposal are conditioned upon the adoption of the acquisition proposal.

As provided in Stone's certificate of incorporation, each Stone stockholder (other than an officer or director of Stone) who holds shares of common stock issued in Stone's initial public offering, which we call IPO shares, has the right to vote against the acquisition proposal and at the same time demand that Stone redeem such stockholder's shares for cash equal to such stockholder's pro rata portion of the trust account which contains a substantial portion of the net proceeds of Stone's initial public offering. These IPO shares will be redeemed for cash only if the acquisition is completed. If holders of 4,000,000 or more IPO shares, which represents 20% or more of the total number of IPO shares, vote against the acquisition and demand redemption of their shares for their pro rata portion of the trust account, then, in accordance with Stone's

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certificate of incorporation and the terms governing the trust account, Stone will not consummate the acquisition. If Stone does not consummate a business combination by the later of February 19, 2007, or August 19, 2007 in the event that a letter of intent, an agreement in principle or a definitive agreement to complete a business combination was executed but not consummated by February 19, 2007, then, pursuant to Article SIXTH of Stone's certificate of incorporation, and in accordance with Section 281(b) of the Delaware General Corporation Law, Stone will adopt a plan of dissolution and as soon as reasonably possible after dissolution make liquidating distributions from the trust account to its stockholders. Prior to exercising

redemption rights, Stone stockholders should verify the market price of Stone's common stock as they may receive higher proceeds from the sale of their common stock in the public market than from exercising their redemption rights. Stone's shares of common stock are quoted on the Over-the-Counter Bulletin Board under the symbol "SCDE." On _____, 2006, the last sale price of Stone's common stock was \$ _____. As of the same date, the beneficial value per share of the amounts held in the trust account (which amount approximately equals the amount receivable upon exercise of redemption rights) was approximately \$ _____.

Stone's initial stockholders, who are Stone's current officers and directors, have agreed to vote their 5,000,000 shares of Stone common stock acquired prior to Stone's initial public offering, representing an aggregate of 20% of the outstanding shares of Stone common stock, in accordance with the vote of the majority of the IPO shares voted at the meeting with respect to the acquisition proposal. In addition, Stone's Chief Executive Officer intends to vote 500,000 shares of common stock acquired by him in Stone's initial public offering, representing 2% of the outstanding shares of Stone common stock, and 2.5% of the outstanding IPO shares, "FOR" the adoption of the acquisition proposal. Stone's officers and directors, including Stone's Chief Executive Officer, intend to vote all of their shares of Stone common stock, representing an aggregate of 22% of the outstanding shares of Stone common stock, "FOR" each of the name change amendment proposal, the Article SIXTH amendment proposal and the incentive plan proposal. To date, only Mr. Stone owns IPO shares through his purchase of units, consisting of 500,000 IPO shares and 1,000,000 warrants, in the initial public offering. None of the other officers or directors of Stone acquired units, or IPO shares, in the initial public offering or in the aftermarket.

After careful consideration, Stone's board of directors has determined that the acquisition proposal is fair and in the best interest of Stone and its stockholders. As required by Stone's certificate of incorporation, Stone's board of directors has also determined that the KPB assets to be acquired have a fair market value equal to at least 80% of Stone's net assets, inclusive of the amount in the trust account. Stone's board of directors has determined that the name change amendment proposal, the Article SIXTH amendment proposal and the incentive plan proposal are in the best interests of Stone's stockholders. Stone's board of directors unanimously recommends that you vote or give instruction to vote "FOR" the adoption of the acquisition proposal, the name change amendment proposal, the Article SIXTH amendment proposal and the incentive plan proposal.

Enclosed is a notice of special meeting and proxy statement containing detailed information concerning the acquisition proposal and the transactions contemplated thereby as well as detailed information concerning the name change amendment proposal, the Article SIXTH amendment proposal and the incentive plan proposal.

Your vote is important. Whether or not you plan to attend the special meeting, we urge you to read this material carefully, sign, date and return the enclosed proxy card as soon as possible in the envelope provided. If you sign and return the proxy card but do not give instructions on how to vote your shares, your shares will be voted as recommended by Stone's board "FOR" the adoption of the acquisition proposal, the name change amendment proposal, the Article SIXTH amendment proposal and the incentive plan proposal.

I look forward to seeing you at the meeting.

Sincerely,

Roger Stone,
Chairman of the Board and
Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has determined if this proxy statement is truthful or complete. Any representation to the contrary is a criminal offense.

See "Risk Factors" beginning on page 23 for a discussion of various factors that you should consider in connection with the acquisition proposal.

This proxy statement is dated _____, 2006 and is first being mailed to Stone stockholders on or about _____, 2006.

STONE ARCADE ACQUISITION CORPORATION

c/o Stone-Kaplan Investments, LLC
One Northfield Plaza, Suite 480
Northfield, Illinois 60093

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON _____, 2006**

To the Stockholders of Stone Arcade Acquisition Corporation:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders, including any adjournments or postponements thereof, of Stone Arcade Acquisition Corporation, or Stone, a Delaware corporation, will be held at 10:00 a.m., Central time, on _____, 2006, at the offices of Stone, located at One Northfield Plaza, Suite 480, Northfield, IL 60093:

to consider and vote upon the adoption and approval of the transactions contemplated by the Purchase Agreement, dated as of June 23, 2006, among Stone, KapStone Kraft Paper Corporation, a wholly-owned subsidiary of Stone, or KapStone Kraft, and International Paper Company, or IP we call this proposal the acquisition proposal;

to consider and vote upon an amendment to Stone's certificate of incorporation to change Stone's name to "KapStone Paper and Packaging Corporation" we call this proposal the name change amendment proposal;

to approve an amendment to Stone's certificate of incorporation to remove the preamble and sections A through D, inclusive, of Article SIXTH from the certificate of incorporation after the closing of the acquisition, as these provisions will no longer be applicable to Stone, and to redesignate section E of Article SIXTH as Article SIXTH we call this proposal the Article SIXTH amendment proposal; and

to consider and vote upon Stone's 2006 Incentive Plan we call this proposal the incentive plan proposal.

These items of business are described in the attached proxy statement, which we encourage you to read in its entirety before voting. Only holders of record of Stone's common stock at the close of business on November 17, 2006 are entitled to receive notice of, and to vote at, the Stone special meeting and any and all adjournments thereof. Stone will not transact any other business at the special meeting except for business properly brought before the special meeting or any adjournment or postponement of it by Stone's board of directors.

Your vote is important. Please sign, date and return your proxy card as soon as possible to make sure that your shares are represented at the special meeting. If you are a stockholder of record of Stone common stock, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct your broker or bank on how to vote your shares. If you abstain from voting or do not instruct your broker or bank how to vote your shares it will have no effect on the acquisition proposal, but will have the same effect as voting against the name change amendment proposal and the Article SIXTH amendment proposal. If you do not instruct your broker or bank how to vote on the incentive plan proposal, it will have no effect on the incentive plan proposal. However, if you abstain from voting on the incentive plan proposal it will have the same effect as a vote against the incentive plan proposal.

Stone's board of directors unanimously recommends that you vote "FOR" the adoption of each proposal listed above.

By Order of the Board of Directors,

Roger Stone, Chairman of the Board and
Chief Executive Officer

_____, 2006

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SUMMARY OF THE MATERIAL TERMS OF THE ACQUISITION

The parties to the Purchase Agreement are Stone Arcade Acquisition Corporation, or Stone, KapStone Kraft Paper Corporation, or KapStone Kraft, and International Paper Company, or IP. See the section entitled "*The Acquisition Proposal.*"

Stone, through KapStone Kraft, will purchase the assets and assume certain liabilities of the Kraft Papers Business, or KPB, a division of IP, which consists of IP's Roanoke Rapids, North Carolina facility, which we refer to herein as Roanoke Rapids, and Ride Rite® Converting, located in Fordyce, Arkansas. See the section entitled "*The Acquisition Proposal.*"

Roanoke Rapids is a pulp and paper mill that produces unbleached kraft paper and lightweight linerboard. Ride Rite® Converting converts unbleached kraft paper into inflatable dunnage bags. See the section entitled "*Information about KPB.*"

KapStone Kraft will enter into certain ancillary agreements, including a transition services agreement whereby IP will provide certain operational support after the closing, and certain supply and purchase agreements with IP and other third parties. See the section entitled "*The KPB Purchase Agreement Ancillary Agreements.*"

As a condition to the closing of the acquisition KapStone Kraft must have obtained from LaSalle Bank, N.A. a senior secured credit facility in the amount of \$95,000,000 to be used to fund a portion of the purchase price of the acquisition. See the section entitled "*Acquisition Financing.*"

The consideration for the purchase of the assets of KPB is \$155,000,000 in cash, payable at closing (subject to a working capital adjustment described herein), plus two contingent earn-out payments, (A) of up to \$35,000,000 and (B) \$25,000,000, based on KPB's annual earnings before interest, income taxes, depreciation and amortization, or EBITDA, during the five year period immediately following the acquisition, and assumption of approximately \$4,800,000 in long-term liabilities. See the sections entitled "*The KPB Purchase Agreement Contingent Earn-Out Payments*" and "*The KPB Purchase Agreement Assumed Liabilities.*"

The contingent earn-out payment A is equal to 5.3 times the average annual EBITDA of KPB for the five years immediately following the acquisition, less \$165,000,000, with a provision that such payment may not exceed \$35,000,000 or be a negative amount. The contingent payment B will be earned, on an "all or none" basis, if the average annual EBITDA of KPB for the five year period immediately following the acquisition equals or exceeds \$49,200,000. See the section entitled "*The KPB Purchase Agreement Purchase Price Contingent Earn-Out Payments.*"

The \$155,000,000 cash payment at closing is 4.8 times KPB's EBITDA for the fiscal year ended December 31, 2005.

In the event Stone pays all of the contingent earn-out payment A of \$35,000,000 (but none of contingent earn-out payment B), the purchase price paid will be no more than 5.0 times the average EBITDA for the five year period immediately following the acquisition.

In the event Stone pays all of the contingent earn-out payment A of \$35,000,000 and contingent earn-out payment B of \$25,000,000, the purchase price paid will be no more than 4.4 times the average EBITDA for the five year period immediately following the acquisition.

The closing of the acquisition is subject to the satisfaction by each party of various conditions prior to closing. See the section entitled "*The KPB Purchase Agreement Conditions to the Completion of the Acquisition.*"

Non-GAAP Financial Measures

This proxy statement contains disclosure of EBITDA, which is a non-GAAP financial measure within the meaning of Regulation G promulgated by the Securities and Exchange Commission. Stone's management believes that EBITDA, or earnings before interest, income taxes, depreciation and amortization, is an appropriate measure for evaluating operating performance and liquidity, because it reflects the resources available for strategic opportunities including, among others, investments in the business and strategic acquisitions. The disclosure of EBITDA may not be comparable to similarly titled measures reported by other companies. EBITDA should be considered in addition to, and not as a substitute for, or superior to, operating income, cash flows, revenue, or other measures of financial performance prepared in accordance with generally accepted accounting principles. In addition, EBITDA will be used in determining the contingent earn-out payments payable in connection with acquisition of KPB.

**QUESTIONS AND ANSWERS ABOUT
THE PROPOSALS**

Q. What is being voted on?

A. There are four proposals that you are being asked to vote on. The first proposal is to approve the transactions contemplated by the Purchase Agreement providing for the acquisition of the KPB assets. This first proposal is called the acquisition proposal. See page .

The second proposal is to adopt an amendment to Stone's certificate of incorporation to change Stone's name to "KapStone Paper and Packaging Corporation." This second proposal is called the name change amendment proposal. See page .

The third proposal is to adopt an amendment to Stone's certificate of incorporation to eliminate certain provisions of Article SIXTH that will no longer be applicable to Stone after the consummation of the acquisition. This third proposal is called the Article SIXTH amendment proposal. See page .

The fourth proposal is to adopt Stone's 2006 Incentive Plan. This fourth proposal is called the incentive plan proposal. See page .

Q. Who is entitled to vote?

A. Only holders of record of Stone's common stock at the close of business on November 17, 2006, are entitled to receive notice of, and to vote at, the Stone special meeting and any and all adjournments thereof. Warrant holders are not entitled to vote.

Q. Why is Stone proposing the acquisition proposal?

A. Stone was organized to effect a business combination with an operating business in the paper, packaging, forest products or related industries. Under the terms of its certificate of incorporation, prior to completing a business combination, Stone must submit the transaction to its stockholders for approval. Stone has negotiated the terms of a business combination with IP with respect to the acquisition of the KPB assets. Stone is now submitting the transaction to its stockholders for their approval.

Q. What vote is required in order to adopt the acquisition proposal?

A. Adoption of the acquisition proposal requires the affirmative vote of a majority of the IPO shares voted at the meeting. However, notwithstanding adoption of the acquisition proposal, the acquisition will only proceed if holders of no more than 20% of the IPO shares exercise their redemption rights. See page . No vote of the warrant holders is necessary to adopt the acquisition proposal, and, accordingly, Stone is not asking the warrant holders to vote on the acquisition proposal. Adoption of the acquisition proposal is not conditioned upon the adoption of the name change amendment proposal, the Article SIXTH amendment proposal or the incentive plan proposal. See page .

Q. Why is Stone proposing the name change amendment proposal?

A. Stone believes that the name "KapStone Paper and Packaging Corporation" better reflects the business it will conduct after the acquisition, and will enable industry and financial market participants to better associate Stone with its operating business.

Q. What vote is required to adopt the name change amendment proposal?

A. Adoption of the name change amendment proposal requires the affirmative vote of a majority of the issued and outstanding shares of Stone's common stock. No vote of the warrant holders is necessary to adopt the name change amendment proposal, and, accordingly,

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Stone is not asking the warrant holders to vote on the name

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change amendment proposal. Adoption of the name change amendment proposal is conditioned upon the adoption of the acquisition proposal, but is not conditioned on adoption of the Article SIXTH amendment proposal or the incentive plan proposal. See page .

Q.

Why is Stone proposing the Article SIXTH amendment proposal?

A.

The Article SIXTH amendment proposal allows the revision of Stone's certificate of incorporation to reflect the adoption of the acquisition proposal by removing language that would no longer apply after the acquisition.

Q.

What vote is required to adopt the Article SIXTH amendment proposal?

A.

Adoption of the Article SIXTH amendment proposal requires the affirmative vote of a majority of the issued and outstanding shares of Stone's common stock. No vote of the warrant holders is necessary to adopt the Article SIXTH amendment proposal, and, accordingly, Stone is not asking the warrant holders to vote on the Article SIXTH amendment proposal. Adoption of the Article SIXTH amendment proposal is conditioned upon the adoption of the acquisition proposal, but is not conditioned upon adoption of the name change amendment proposal or the incentive plan proposal. See page .

Q.

Why is Stone proposing the 2006 Incentive Plan proposal?

A.

Stone is proposing the incentive plan to enable it to attract, retain and reward its directors, officers, employees and consultants using equity-based incentives following the acquisition. The incentive plan has been approved by Stone's board of directors and will be effective upon consummation of the acquisition.

Q.

What vote is required to adopt the 2006 Incentive Plan proposal?

A.

Adoption of the incentive plan proposal requires the affirmative vote of a majority of the shares of Stone's common stock represented in person or by proxy and entitled to vote at the special meeting. No vote of the warrant holders is necessary to adopt the incentive plan proposal, and, accordingly, Stone is not asking the warrant holders to vote on the incentive plan proposal. Adoption of the incentive plan proposal is conditioned upon the adoption of the acquisition proposal, but is not conditioned upon the adoption of the name change amendment proposal or the Article SIXTH amendment proposal. See page .

Q.

Does the Stone board recommend voting in favor of the acquisition proposal, the name change amendment, the amendment of Article SIXTH and the incentive plan proposal?

A.

Yes. After careful consideration of the terms and conditions of the Purchase Agreement, the amendments to the certificate of incorporation and the incentive plan, the board of directors of Stone has determined that the acquisition and the transactions contemplated thereby, and the amendments to the certificate of incorporation and adoption of the incentive plan are fair and in the best interest of Stone and its stockholders. The Stone board of directors unanimously recommends that the Stone stockholders vote **FOR** each of (i) the acquisition proposal, (ii) the name change amendment, (iii) the Article SIXTH amendment, and (iv) the incentive plan proposal. The members of Stone's board of directors have interests in the acquisition that are different from, or in addition to, your interests as a stockholder. For a description of such interests, please see the section entitled "*Summary of the Proxy Statement Interests of Stone's Directors and Officers in the Acquisition.*"

For a description of the factors considered by Stone's board of directors in making its determination to approve the acquisition, see the section entitled "*The Acquisition Proposal Factors Considered by the Stone Board in Approving the Acquisition.*"

Q.

Do I have the right to redeem my shares for cash?

A.

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If you hold shares of common stock issued in Stone's initial public offering, which we call IPO shares, then you have the right to vote against the acquisition proposal and demand that Stone redeem your shares for your pro

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rata portion of the trust account in which a substantial portion of the net proceeds of Stone's initial public offering are held. We refer to the right to vote against the acquisition and demand redemption of your shares for your pro rata portion of the trust account as your redemption rights. However, if the holders of 4,000,000 or more IPO shares, representing 20% or more of the total number of IPO shares, exercise their redemption rights, then, in accordance with the terms of Stone's certificate of incorporation and the documents governing the trust account, Stone will not consummate the acquisition and your shares will not be redeemed. Warrant holders do not have redemption rights. See page .

Q.

How do I exercise my redemption rights?

A.

If you wish to exercise your redemption rights, you must vote against the acquisition and at the same time affirmatively demand that Stone redeem your shares for cash. You will not have an opportunity to remedy an improper exercise of your redemption rights. If, notwithstanding your vote, the acquisition is completed, then you will be entitled to receive your pro rata share of the trust account in which a substantial portion of the net proceeds of Stone's initial public offering are held, including your pro rata share of any interest earned thereon through the date of the special meeting. Based on the amount of cash held in the trust account at November , 2006, you will be entitled to redeem each share that you hold for approximately \$. If you exercise your redemption rights, then you will be exchanging your shares for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the closing date of the acquisition and then tender your stock certificate to Stone. If the acquisition is not completed, your shares will not be redeemed for cash. See page .

Prior to exercising redemption rights, Stone stockholders should verify the market price of Stone's common stock as they may receive higher proceeds from the sale of their common stock in the public market than from exercising their redemption rights. Stone's shares of common stock are listed on the Over-the-Counter Bulletin Board under the symbol "SCDE."

Q.

What is Stone acquiring in the acquisition?

A.

Stone, through a wholly-owned subsidiary formed by it for the purpose of the acquisition, will acquire substantially all of the assets and assume certain limited liabilities of KPB, a division of IP. The assets being acquired consist principally of a facility in Roanoke Rapids, North Carolina, which is North America's leading manufacturer of unbleached kraft paper, the Ride Rite® Converting facility, based in Fordyce, Arkansas, a leading manufacturer of inflatable dunnage bags used to secure freight during transport, and the net working capital associated with the operation of these two facilities. The liabilities that are being assumed, include the current liabilities included in the calculation of the net working capital, union employee benefits related obligations and projected costs related to the future closing of that portion of a landfill being acquired in the transaction that was used by KPB prior to the acquisition. See page .

Q.

How much is Stone paying for KPB?

A.

Stone is paying IP \$155,000,000 in cash (subject to a working capital adjustment), plus two contingent earn-out payments of up to \$35,000,000 and of \$25,000,000, based on KPB's annual earnings before interest, income taxes, depreciation and amortization, or EBITDA, during the five years immediately following the acquisition. See page .

Q.

How is Stone paying for the acquisition?

A.

Stone intends to use the proceeds of its initial public offering, which includes approximately \$ as of November , 2006, including interest, held in the trust account, together with borrowings from a \$95,000,000 senior secured credit facility to be obtained in connection with the acquisition, to acquire the KPB assets, to pay transaction expenses and to pay holders of IPO shares who exercise their redemption rights.

Q.

What will I receive in the acquisition?

A.

You will not receive any cash or other property in the acquisition, but instead you will continue to hold your shares of Stone common stock. As a result of the acquisition and related transactions, Stone will own, through KapStone Kraft, the KPB assets.

Q.

Is Stone issuing any shares of common stock in the acquisition?

A.

No.

Q.

What happens to the funds deposited in the trust account after consummation of the acquisition?

A.

Upon consummation of the acquisition, any funds remaining in the trust account after payment of amounts to stockholders exercising their redemption rights, and after funding the acquisition, will be released for general corporate purposes and the trust account will cease to exist.

Q.

What will the structure of the company be after the acquisition?

A.

Immediately following the acquisition and related transactions, KapStone Kraft will own the KPB assets as a wholly-owned subsidiary of Stone.

Q.

Who will manage the acquired business?

A.

Following the acquisition, KPB will continue to be managed by its existing management under the supervision of Roger Stone and Matthew Kaplan, who are Stone's officers, as well as any other persons as may be hired by Stone from time to time. See page .

Q.

What happens if the acquisition is not consummated?

A.

If the acquisition is not consummated, Stone will continue to search for an operating company or assets to acquire. However, if Stone does not consummate a business combination by February 19, 2007, or by August 19, 2007 if a letter of intent, agreement in principle or definitive agreement is executed but a business combination is not consummated by February 19, 2007, Stone will, pursuant to Article SIXTH of its certificate of incorporation, and in accordance with Section 281(b) of the Delaware General Corporation Law, adopt a plan of dissolution. As soon as reasonably possible after dissolution, the net proceeds of Stone's initial public offering held in the trust account, plus any interest earned thereon, as well as the net proceeds from the disposition of any other assets, will be distributed pro rata to Stone's common stockholders holding IPO shares.

Q.

When do you expect the acquisition to be completed?

A.

It is currently anticipated that the acquisition will be completed, or closed, at the end of the month following the Stone special meeting on , 2006.

Q.

If I am not going to attend the Stone special meeting in person, should I return my proxy card instead?

A.

Yes. After carefully reading and considering the information contained in this document, please fill out and sign your proxy card. Then, return the enclosed proxy card in the return envelope as soon as possible, so that your shares may be represented at the Stone special meeting. See page .

Q.

What will happen if I abstain from voting or fail to instruct my broker to vote?

A.

An abstention or the failure to instruct your broker how to vote, also known as a broker non-vote, will not be considered a vote cast at the meeting with respect to the acquisition proposal and therefore, will have no effect on the acquisition proposal. An abstention or broker non-vote will not enable you to elect to have your shares

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redeemed for your pro rata portion of the trust account. To exercise your redemption rights, you must vote against the acquisition proposal and affirmatively elect redemption of your shares by checking the appropriate box, or directing your broker to check the appropriate box, on the proxy card and ensure that the proxy card is delivered prior to the Stone special meeting.

An abstention will have the same effect as a vote against the name change amendment proposal, the Article SIXTH amendment proposal and the incentive plan proposal. A broker non-vote will have the same effect as a vote against the name change proposal and the Article SIXTH amendment proposal, but will have no effect on the incentive plan proposal. See page .

Q. What do I do if I want to change my vote?

A. Send a later-dated, signed proxy card to Stone's Chief Executive Officer prior to the date of the special meeting or attend the special meeting in person, revoke your proxy and vote. You may also revoke your proxy by sending a notice of revocation to Stone's Chief Executive Officer at the address of Stone's corporate headquarters. See page .

Q. If my shares are held in "street name" by my broker, will my broker vote my shares for me?

A. With respect to the acquisition proposal and the incentive plan proposal, your broker can only vote your shares if you provide instructions on how to vote. If you do not instruct your broker on how to vote on those matters, your broker may not vote for you, and this will be a broker non-vote. With respect to the name change amendment proposal and the Article SIXTH amendment proposal, if you do not instruct your broker how to vote on these matters, your broker may vote for you. You should instruct your broker to vote your shares, following the directions provided by your broker. To exercise your redemption rights, you must affirmatively elect redemption of your shares by directing your broker to check the appropriate box on the proxy card and ensure that the proxy card is delivered prior to the Stone special meeting. See page .

Q. Who will pay for this proxy solicitation?

A. Stone has retained Morrow & Co., Inc. to aid in the solicitation of proxies. Morrow & Co., Inc. will receive a fee of approximately \$5,500, as well as reimbursement for certain costs and out of pocket expenses incurred by them in connection with their services, all of which will be paid by Stone. In addition, officers and directors may solicit proxies by mail, telephone, telegraph and personal interview, for which no additional compensation will be paid, though they may be reimbursed for their out-of-pocket expenses. Stone will bear the cost of preparing, assembling and mailing the enclosed form of proxy, this Proxy Statement and other material which may be sent to stockholders in connection with this solicitation. Stone may reimburse brokerage firms and other nominee holders for their reasonable expenses in sending proxies and proxy material to the beneficial owners of our shares. See page .

Q. Who can help answer my questions?

A. If you have questions about the solicitation of proxies, you may write, e-mail or call Morrow & Co., Inc., 470 West Avenue 3rd Floor, Stamford, CT 06902, E-mail: Stone.info@morrowco.com. Banks and brokerage firms, please call (203) 658-9400. Stockholders, please call (800) 607-0088.

SUMMARY OF THE PROXY STATEMENT

The following discusses in summary form selected information from this proxy statement, but does not contain all of the information that is important to you. The proposals are described in greater detail elsewhere in this document. You should carefully read this entire document, including the Purchase Agreement attached as *Annex A* to this proxy statement and the other documents to which this proxy statement refers you. The Purchase Agreement is the legal document that governs the acquisition. It is also described in detail elsewhere in this proxy statement.

The Acquisition Proposal

On June 23, 2006, Stone, Stone's wholly-owned subsidiary, KapStone Kraft Paper Corporation, or KapStone Kraft, and International Paper Company, or IP, entered into a Purchase Agreement. The Purchase Agreement provides for the acquisition of substantially all of the assets of the Kraft Papers Business, or KPB, a division of IP, consisting of an unbleached kraft paper manufacturing facility in Roanoke Rapids, North Carolina and Ride Rite® Converting, an inflatable dunnage bag manufacturer located in Fordyce, Arkansas, for a cash purchase price of \$155,000,000, plus two contingent earn-out payments of up to \$35,000,000 and of \$25,000,000, based on KPB's annual earnings before interest, income taxes, depreciation and amortization, or EBITDA, during the five years immediately following the acquisition, and the assumption of approximately \$4,800,000 in long-term liabilities. The purchase price payable on the closing date will be adjusted dollar-for-dollar to the extent KPB's estimated working capital as of such date is greater or less than \$42,637,709. Unless KPB's working capital is disputed in accordance with the dispute resolution provisions set forth in the Purchase Agreement, the final determination of KPB's working capital, as of the date of closing, will be made within 90 days of closing. The purchase price will be increased or decreased, as the case may be, dollar-for-dollar to the extent the final working capital is greater or less than the estimated closing date working capital amount. Such increase or decrease, together with interest at six percent per annum, will be paid within 10 days of the final determination.

Stone will use the proceeds of its initial public offering, including funds held in the trust account (\$ _____ as of November _____, 2006, including interest), and borrowings from a \$95,000,000 credit facility to be obtained in connection with the acquisition to fund the purchase price, redemption price, transaction expenses, investment banking and finance fees and working capital. See "*The KPB Purchase Agreement Purchase Price*" on page _____.

The approximately \$ _____ held in the trust account as of November _____, 2006 (net of taxes) together with any additional interest earned thereon as of the closing date will be used in the following manner and priority:

up to approximately \$22,676,166 will be paid to holders of IPO shares who elect to have their shares redeemed;

\$90,000,000 will be used to fund the acquisition of the KPB assets;

assuming the maximum redemption by the holders of IPO shares of approximately 19.99% of the IPO shares, the balance of approximately \$932,314 will remain as working capital; and

assuming no redemption by the holders of IPO shares, the balance of approximately \$23,608,480 will remain as working capital.

In addition to the trust account funds, KapStone Kraft will utilize its new credit facility in the following manner:

up to \$65,000,000 will be paid to IP for the balance of the KPB acquisition purchase price;

approximately \$3,000,000 will be used to pay transaction expenses and a finance fee;

\$1,200,000 will be paid to Morgan Joseph & Co., Inc., the managing underwriter of Stone's IPO, as an investment banking fee; and

the balance will remain available to be used for working capital.

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At the close of the transaction, in addition to liabilities incurred during the normal course of operations that will be reflected in the working capital that is being acquired as accounts payable and accrued liabilities, Stone will also assume long-term liabilities of \$3,015,000 for union employee benefits related obligations and \$1,797,000 related to

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the projected future cost of closing that portion of a landfill being acquired in the transaction that was used by KPB prior to the acquisition. None of the liabilities being assumed or any fees will be paid from the trust account funds.

Stone, KapStone Kraft and IP plan to complete the acquisition at the end of the month following the Stone special meeting or at such other time or place as the parties agree, provided that:

Stone's stockholders have approved the acquisition proposal;

holders of no more than 20% of the IPO shares, vote against the acquisition proposal AND properly elect to exercise their right to have their shares redeemed for cash;

KapStone Kraft has obtained the debt financing described in the commitment letter from LaSalle Bank, N.A.; and

the other conditions specified in the Purchase Agreement have been satisfied or waived.

The Purchase Agreement is included as *Annex A* to this document. We encourage you to read the Purchase Agreement in its entirety. It is the legal document that governs the acquisition.

The Parties

Stone and KapStone Kraft

Stone is a blank check company organized as a corporation under the laws of the State of Delaware on April 15, 2005 that was formed to effect a business combination with a suitable operating business in the paper, packaging, forest products and related industries. On August 19, 2005, Stone successfully consummated an initial public offering of its equity securities from which it derived net proceeds of approximately \$113,236,000. \$110,854,000 of the net proceeds of the initial public offering were placed in a trust account and will be released to Stone in connection with the consummation of the acquisition. The balance of the net proceeds of \$2,382,000 is being used by Stone to pay the expenses incurred in its pursuit of a business combination. A portion of the interest earned on the trust account has been released to Stone for the payment of taxes on interest earned on the proceeds held in trust. Other than its initial public offering and the pursuit of a business combination, Stone has not engaged in any business to date. If Stone does not consummate a business combination by the later of February 19, 2007, or August 19, 2007, in the event that a letter of intent, an agreement in principle or a definitive agreement to complete a business combination was executed but not consummated by February 19, 2007, then, pursuant to Article SIXTH of its certificate of incorporation, Stone's officers must take all actions necessary in accordance with the Delaware General Corporation Law to dissolve and liquidate Stone within 60 days.

KapStone Kraft is a Delaware corporation formed solely for purposes of this acquisition.

The mailing address of the principal executive office of Stone and KapStone Kraft is c/o Stone-Kaplan Investments, LLC, One Northfield Plaza, Suite 480, Northfield, Illinois 60093, and the companies' telephone number is (847) 441-0929.

IP and KPB

IP is the world's largest paper and forest products company with operations in 40 countries. IP is a market leader in the production of uncoated free sheets used in copiers, envelopes and forms, and is also a leading producer of linerboard and bleached paperboard widely used in various packaging applications. IP's forest products division sells lumber and structural panels. IP's common stock is listed on the New York Stock Exchange under the symbol "IP."

KPB is the Kraft Papers Business, which is a division of IP and is comprised of IP's operations at Roanoke Rapids, North Carolina and Ride Rite® Converting in Fordyce, Arkansas. KPB's Roanoke Rapids facility is the leading producer of unbleached kraft paper in North America and also produces lightweight linerboard. Ride Rite® Converting manufactures inflatable dunnage bags which are used to secure freight during transport thereby minimizing damage to goods and products.

The mailing address of IP's and KPB's principal executive offices is 6410 Poplar Avenue, Memphis, Tennessee 38197, and their telephone number is (901) 419-7000.

Past Transactions between IP and Stone's Officers and Affiliates

In July 2000, Messrs. Stone and Kaplan and certain of their affiliates purchased an approximately 33% indirect ownership interest in Box USA Holdings, Inc., a company engaged in the full service conversion of corrugated packaging materials. A fund affiliated with Messrs. Chapman, Furer and Rahman, Stone's other directors, was a co-investor in Box USA. In July 2004, Box USA was sold to IP at an enterprise valuation of \$405,000,000 which was paid in cash and a \$15,000,000 note payable by IP to the Box USA shareholders. In connection with such sale, Messrs. Stone and Kaplan entered into non-competition agreements with IP that expire in July 2007. Under the terms of these agreements, they are prohibited from participating or owning a significant equity interest in any company in the corrugated packaging and containerboard business. The consummation of the acquisition by Stone of KPB's assets will terminate these non-competition agreements. None of the assets of Box USA that were acquired by IP in that transaction are being purchased by Stone pursuant to this business combination. Messrs. Stone and Kaplan have not, at any time, held any management or advisory positions with IP, and no officer or director of Stone is, or within the past two years was, an affiliate of IP or any of IP's subsidiaries.

The Certificate of Incorporation Amendments

Stone is proposing an amendment to its certificate of incorporation to change its name to "KapStone Paper and Packaging Corporation" upon consummation of the acquisition and to eliminate certain provisions that are applicable to Stone only prior to its completion of a business combination. Stone believes that the name "KapStone Paper and Packaging Corporation" better reflects the business it will conduct after the acquisition, and will enable industry and financial market participants to more closely associate Stone with its operating business. Separately, as amended, Article SIXTH of Stone's certificate of incorporation will address only its classified board of directors, with existing provisions that relate to it as a blank check company being deleted.

The 2006 Incentive Plan Proposal

The 2006 Incentive Plan, which reserves 3,000,000 shares of Stone's common stock for issuance in accordance with the plan's terms, has been established to enable Stone to attract, retain, motivate and provide additional incentives to certain directors, officers, employees, consultants and advisors, whose contributions are essential to its growth and success by enabling them to participate in its long-term growth through the exercise of stock options and the ownership of its stock. The plan is attached as *Annex C* to this proxy statement. Stone encourages you to read the plan in its entirety.

Stone Insider Stock Ownership

At the close of business on the record date, Roger Stone, Matthew Kaplan, John Chapman, Jonathan Furer and Muhit Rahman, who together comprise all of Stone's directors and officers, together with their affiliates, beneficially owned 5,500,000 shares of Stone common stock, or 22% of the outstanding shares of Stone common stock. Of such shares, 5,000,000 were purchased by Stone's officers and directors prior to Stone's initial public offering for \$0.005 per share for an aggregate purchase price of \$25,000. The remaining 500,000 shares were purchased by Mr. Stone in the initial public offering for \$6.00 per unit, for an aggregate purchase price of \$3,000,000. These shares, without taking into account any discount that may be associated with certain restrictions on these shares, have a market value of approximately \$ based on Stone's common stock price of \$ per share as of November , 2006. Other than the IPO shares held by Mr. Stone, which will participate in any liquidating distributions made from the trust account, Stone's officers and directors will not receive any value associated with their share ownership in the event that a business combination is not consummated.

Stone's executive officers and directors also hold warrants to purchase 4,500,000 shares of common stock, of which 3,500,000 warrants were purchased in the aftermarket following the initial public offering during the 40-day

period between September 14, 2005 and November 7, 2005 pursuant to a discretionary order that was submitted to Morgan Joseph immediately following the initial public offering, and the remaining 1,000,000 warrants were purchased by Mr. Stone as part of his purchase of 500,000 units in the initial public offering. These warrants, without taking into account any discount that may be associated with certain restrictions on transfer, collectively have a market value of approximately \$ based on Stone's warrant price of \$ per warrant as of November , 2006. The 3,500,000 warrants purchased in the aftermarket were purchased at prices ranging from \$0.3991 per warrant to \$0.60 per warrant, for an aggregate purchase price of \$1,821,806. The remaining 1,000,000 warrants are owned by Mr. Stone as part of the 500,000 units he purchased in the initial public offering for \$6.00 per unit, for an aggregate purchase price of \$3,000,000. The warrants held by Stone's officers and directors and their affiliates and associates (as well as all other warrants) will expire and become worthless if the acquisition is not approved and Stone fails to consummate an alternative business combination by the later of February 19, 2007, or August 19, 2007, in the event that a letter of intent, an agreement in principle or a definitive agreement to complete a business combination was executed but not consummated by February 19, 2007, pursuant to Stone's certificate of incorporation.

The following table sets forth information with respect to the aftermarket warrant purchases made by Stone's officers and directors during the 40-day period commencing September 14, 2005 and ending November 7, 2005:

Name	Aggregate Number of Warrants	Price Range		Aggregate Purchase Price
Roger Stone	962,500	\$	0.3991	\$ 500,997
Matthew Kaplan	962,500	\$	0.3991	\$ 500,997
John Chapman	525,000	\$	0.3991	\$ 273,271
Jonathan Furer	525,000	\$	0.3991	\$ 273,271
Muhit Rahman	525,000	\$	0.3991	\$ 273,271

Mr. Stone is currently Chairman of Stone's board of directors and Chief Executive Officer of Stone. Mr. Kaplan is currently President of Stone. Messrs. Chapman, Furer and Rahman are directors of Stone. For more information on beneficial ownership of Stone's common stock by executive officers, directors and 5% stockholders, see page .

Special Meeting of Stone's Stockholders

The special meeting of the stockholders of Stone will be held at 10:00 a.m., Central time, on , 2006, at the offices of Stone, located at One Northfield Plaza, Suite 480, Northfield, IL 60093.

Voting Power; Record Date

You will be entitled to vote or direct votes to be cast at the special meeting if you owned shares of Stone common stock at the close of business on November 17, 2006, which is the record date for the special meeting. You will have one vote for each share of Stone common stock you owned at the close of business on the record date. Stone warrants do not have voting rights.

At the close of business on , 2006, there were 25,000,000 shares of Stone common stock outstanding, 20,000,000 of which were issued in Stone's initial public offering.

With respect to the acquisition proposal, Stone's initial stockholders, who are Stone's officers and directors, have agreed to vote their 5,000,000 shares of Stone common stock acquired prior to Stone's initial public offering, representing an aggregate of 20% of the outstanding shares of Stone common stock, in accordance with the vote of the majority of the IPO shares voted at the meeting, and intend to vote such shares "FOR" all other proposals that have been approved by Stone's board of directors. In addition, Stone's CEO intends to vote 500,000 shares of common stock that are part of the 500,000 units acquired by him in Stone's initial public offering, representing 2% of the outstanding shares of Stone common stock, and 2.5% of the shares issued in Stone's initial public offering, "FOR" the adoption of the acquisition proposal and all other proposals that have been approved by Stone's board