

Verso Paper Holdings LLC
Form 10-Q
May 06, 2010

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Verso Paper Corp.
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation
or Organization)

001-34056
(Commission File Number)

75-3217389
(IRS Employer
Identification Number)

Verso Paper Holdings LLC
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation
or Organization)

333-163713
(Commission File Number)

56-2597634
(IRS Employer
Identification Number)

6775 Lenox Center Court, Suite 400
Memphis, Tennessee 38115-4436
(Address, including zip code, of principal executive offices)

(901) 369-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Verso Paper Corp. Yes No
Verso Paper Holdings LLC Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Verso Paper Corp. Yes No
Verso Paper Holdings LLC Yes No

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

Verso Paper Corp.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Verso Paper Holdings LLC
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Verso Paper Corp. Yes No
Verso Paper Holdings LLC Yes No

As of April 30, 2010, Verso Paper Corp had 52,465,832 outstanding shares of common stock, par value \$0.01 per share, and Verso Paper Holdings LLC had one outstanding limited liability company interest.

This Form 10-Q is a combined quarterly report being filed separately by two registrants: Verso Paper Corp. and Verso Paper Holdings LLC.

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References to “Verso Paper” refer to Verso Paper Corp., a Delaware corporation, and its subsidiaries. References to “Verso Finance One” refer to Verso Paper Finance Holdings One LLC and its subsidiaries. Verso Finance One is a direct, wholly-owned subsidiary of Verso Paper. References to “Verso Finance” refer to Verso Paper Finance Holdings LLC, a Delaware limited liability company, and its subsidiaries. Verso Finance is a direct, wholly-owned subsidiary of Verso Finance One. References to “Verso Holdings” refer to Verso Paper Holdings LLC, a Delaware limited liability company, and its subsidiaries. Verso Holdings is a direct, wholly-owned subsidiary of Verso Finance. Unless otherwise noted, references to “Company,” “we,” “us,” and “our” refer to Verso Paper including Verso Holdings, a separate public-reporting company. Other than Verso Paper’s common stock transactions and Verso Finance’s debt obligation and related financing costs and interest expense, the assets, liabilities, income, expenses and cash flows presented for all periods represent those of Verso Holdings in all material respects. Unless otherwise noted, the information provided pertains to both Verso Paper and Verso Holdings.

Forward-Looking Statements

In this quarterly report, all statements that are not purely historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may be identified by the words “believe,” “expect,” “anticipate,” “project,” “plan,” “estimate,” “in” and similar expressions. Forward-looking statements are based on currently available business, economic, financial, and other information and reflect management’s current beliefs, expectations, and views with respect to future developments and their potential effects on us. Actual results could vary materially depending on risks and uncertainties that may affect us and our business. For a discussion of such risks and uncertainties, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this quarterly report and to Verso Paper’s and Verso Holdings’ other filings with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statement made in this quarterly report to reflect subsequent events or circumstances or actual outcomes.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	VERSO PAPER		VERSO HOLDINGS	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
(In thousands of U.S. dollars, except share and per share amounts)				
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 121,067	\$ 152,097	\$ 118,733	\$ 149,762
Accounts receivable - net	105,276	104,263	105,355	104,289
Inventories	163,586	162,401	163,586	162,401
Prepaid expenses and other assets	10,282	11,292	9,375	10,385
Total Current Assets	400,211	430,053	397,049	426,837
Property, plant, and equipment - net	1,000,881	1,022,622	1,000,881	1,022,622
Reforestation	13,371	13,357	13,371	13,357
Intangibles and other assets - net	82,876	88,006	81,855	86,896
Goodwill	18,695	18,695	10,551	10,551
Total Assets	\$ 1,516,034	\$ 1,572,733	\$ 1,503,707	\$ 1,560,263
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts payable	\$ 100,914	\$ 103,253	\$ 98,657	\$ 100,995
Accrued liabilities	88,274	116,225	87,464	115,425
Total Current Liabilities	189,188	219,478	186,121	216,420
Long-term debt	1,221,913	1,192,352	1,146,613	1,118,273
Other liabilities	38,816	35,612	30,780	27,577
Total Liabilities	1,449,917	1,447,442	1,363,514	1,362,270
Commitments and contingencies (Note 11)	-	-	-	-
Equity:				
Preferred stock — par value \$0.01 (20,000,000 shares authorized, no shares issued) no shares issued)	-	-	n/a	n/a
Common stock — par value \$0.01 (250,000,000 shares authorized with 52,465,832 shares issued and outstanding on March 31, 2010, and 52,374,647 shares issued and outstanding on December 31, 2009)	525	524	n/a	n/a
Paid-in-capital	212,739	212,381	317,382	317,023
Retained deficit	(127,595)	(74,045)	(157,637)	(105,461)
Accumulated other comprehensive loss	(19,552)	(13,569)	(19,552)	(13,569)
Total Equity	66,117	125,291	140,193	197,993
Total Liabilities and Equity	\$ 1,516,034	\$ 1,572,733	\$ 1,503,707	\$ 1,560,263

Included in the balance sheet line items above are related-party balances as follows:

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Accounts receivable	\$	8,772	\$	7,785	\$	8,772	\$	7,785
Accounts payable		648		498		648		498

See notes to unaudited condensed consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of U.S. dollars, except per share data)	VERSO PAPER		VERSO HOLDINGS	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2010	2009	2010	2009
Net sales	\$ 363,646	\$ 287,074	\$ 363,646	\$ 287,074
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	336,746	268,940	336,746	268,940
Depreciation, amortization, and depletion	32,142	34,323	32,142	34,323
Selling, general, and administrative expenses	16,269	15,387	16,217	15,222
Restructuring and other charges	-	171	-	171
Operating loss	(21,511)	(31,747)	(21,459)	(31,582)
Interest income	(39)	(58)	(39)	(58)
Interest expense	32,322	27,085	31,001	24,716
Other income, net	(244)	(113,317)	(245)	(113,317)
Net income (loss)	\$ (53,550)	\$ 54,543	\$ (52,176)	\$ 57,077
Earnings (loss) per common share				
Basic	\$ (1.02)	\$ 1.05		
Diluted	\$ (1.02)	\$ 1.05		
Weighted average common shares outstanding				
Basic	52,381,269	52,046,647		
Diluted	52,381,269	52,046,647		
Included in the financial statement line items above are related-party transactions as follows (Notes 9 and 10):				
Net sales	\$ 32,154	\$ 26,780	\$ 32,154	\$ 26,780
Purchases included in cost of products sold	1,388	1,120	1,388	1,120

See notes to unaudited condensed consolidated financial statements.

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VERSO PAPER CORP.
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE PERIODS ENDED MARCH 31, 2010 AND 2009

(In thousands)	Common Shares	Common Stock	Paid-in- Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
Beginning Balance - January 1, 2009	52,046	\$ 520	\$ 211,752	\$ (180,048)	\$ (42,271)	\$ (10,047)
Net income	-	-	-	54,543	-	54,543
Other comprehensive income (loss):						
Net unrealized losses on derivative financial instruments, net of reclassification of \$9.0 million of net losses included in net income	-	-	-	-	(1,165)	(1,165)
Defined benefit pension plan:						
Net actuarial loss	-	-	-	-	79	79
Prior service cost amortization	-	-	-	-	218	218
Total other comprehensive loss	-	-	-	-	(868)	(868)
Comprehensive income (loss)	-	-	-	54,543	(868)	53,675
Equity award expense	-	-	86	-	-	86
Ending Balance - March 31, 2009	52,046	\$ 520	\$ 211,838	\$ (125,505)	\$ (43,139)	\$ 43,714
Beginning Balance - January 1, 2010	52,374	\$ 524	\$ 212,381	\$ (74,045)	\$ (13,569)	\$ 125,291
Net loss	-	-	-	(53,550)	-	(53,550)
Other comprehensive income (loss):						
Net unrealized losses on derivative financial instruments, net of reclassification of \$0.8 million of net losses included in net loss	-	-	-	-	(6,451)	(6,451)
Defined benefit pension plan:						
Net actuarial loss	-	-	-	-	22	22
Prior service cost amortization	-	-	-	-	446	446
Total other comprehensive loss	-	-	-	-	(5,983)	(5,983)
Comprehensive loss	-	-	-	(53,550)	(5,983)	(59,533)
Common stock issued for restricted stock	90	1	(1)	-	-	-
Stock option exercise	1	-	-	-	-	-
Equity award expense	-	-	359	-	-	359

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Ending Balance - March 31, 2010	52,465	\$	525	\$	212,739	\$	(127,595)	\$	(19,552)	\$	66,117
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See notes to unaudited condensed consolidated financial statements.

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VERSO PAPER HOLDINGS LLC
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY
 FOR THE PERIODS ENDED MARCH 31, 2010 AND 2009

(In thousands of U.S. dollars)	Paid-in- Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Member's Equity
Beginning Balance - January 1, 2009	\$ 301,110	\$ (167,135)	\$ (42,271)	\$ 91,704
Parent company contributions	15,281	(3,569)	-	11,712
Cash distributions	-	(239)	-	(239)
Net income	-	57,077	-	57,077
Other comprehensive income (loss):				
Net unrealized losses on derivative financial instruments, net of reclassification of \$9.0 million of net losses included in net income	-	-	(1,165)	(1,165)
Defined benefit pension plan:				
Net actuarial loss	-	-	79	79
Prior service cost amortization	-	-	218	218
Total other comprehensive loss	-	-	(868)	(868)
Comprehensive income (loss)	-	57,077	(868)	56,209
Equity award expense	86	-	-	86
Ending Balance - March 31, 2009	\$ 316,477	\$ (113,866)	\$ (43,139)	\$ 159,472
Beginning Balance - January 1, 2010	\$ 317,023	\$ (105,461)	\$ (13,569)	\$ 197,993
Net loss	-	(52,176)	-	(52,176)
Other comprehensive income (loss):				
Net unrealized losses on derivative financial instruments, net of reclassification of \$0.8 million of net losses included in net loss	-	-	(6,451)	(6,451)
Defined benefit pension plan:				
Net actuarial loss	-	-	22	22
Prior service cost amortization	-	-	446	446
Total other comprehensive loss	-	-	(5,983)	(5,983)
Comprehensive loss	-	(52,176)	(5,983)	(58,159)
Equity award expense	359	-	-	359
Ending Balance - March 31, 2010	\$ 317,382	\$ (157,637)	\$ (19,552)	\$ 140,193

See notes to unaudited condensed consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)	VERSO PAPER		VERSO HOLDINGS	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2010	2009	2010	2009
Cash Flows From Operating Activities:				
Net income (loss)	\$ (53,550)	\$ 54,543	\$ (52,176)	\$ 57,077
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Depreciation, amortization, and depletion	32,142	34,323	32,142	34,323
Amortization of debt issuance costs	1,354	1,502	1,264	1,353
Accretion of discount on long-term debt	902	-	902	-
Gain on early extinguishment of debt	(253)	(8,903)	(255)	(8,903)
(Gain) loss on disposal of fixed assets	(59)	56	(59)	56
Equity award expense	359	86	359	86
Change in unrealized losses on derivatives, net	(6,451)	(1,165)	(6,451)	(1,165)
Other – net	431	104	431	104
Changes in assets and liabilities:				
Accounts receivable	(990)	(72,569)	(1,041)	(72,569)
Inventories	(1,184)	(33,143)	(1,184)	(33,143)
Prepaid expenses and other assets	4,594	(2,676)	4,594	(2,676)
Accounts payable	(2,338)	(29,006)	(2,338)	(28,932)
Accrued liabilities	(24,080)	(30,229)	(25,310)	(32,449)
Net cash used in operating activities	(49,123)	(87,077)	(49,122)	(86,838)
Cash Flows From Investing Activities:				
Proceeds from sale of fixed assets	52	14	52	14
Capital expenditures	(8,435)	(11,918)	(8,435)	(11,918)
Net cash used in investing activities	(8,383)	(11,904)	(8,383)	(11,904)
Cash Flows From Financing Activities:				
Proceeds from long-term debt	27,437	-	27,437	-
Debt issuance costs	(961)	-	(961)	-
Repayments of long-term debt	-	(3,568)	-	(3,568)
Cash distributions	-	-	-	(239)
Net cash provided by (used in) financing activities	26,476	(3,568)	26,476	(3,807)
Change in cash and cash equivalents	(31,030)	(102,549)	(31,029)	(102,549)
Cash and cash equivalents at beginning of period	152,097	119,542	149,762	119,520
Cash and cash equivalents at end of period	\$ 121,067	\$ 16,993	\$ 118,733	\$ 16,971

See notes to unaudited condensed consolidated financial statements.

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VERSO PAPER CORP. AND VERSO PAPER HOLDINGS LLC

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2010, AND DECEMBER 31, 2009, AND FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2010 AND 2009

1. BACKGROUND AND BASIS OF PRESENTATION

The accompanying consolidated financial statements for Verso Paper Corp., a Delaware corporation, or “Verso Paper,” include the accounts of Verso Paper and its subsidiaries, and the accompanying consolidated financial statements for Verso Paper Holdings LLC, a Delaware limited liability company, or “Verso Holdings,” include the accounts of Verso Holdings and its subsidiaries. Verso Paper is the direct parent of Verso Paper Finance Holdings One LLC, or “Verso Finance One,” and the indirect parent of Verso Paper Finance Holdings LLC, or “Verso Finance,” and Verso Holdings. Unless otherwise noted, references to “Company,” “we,” “us,” and “our” refer to Verso Paper including Verso Holdings, a separate public-reporting company. Other than Verso Paper’s common stock transactions and Verso Finance’s debt obligation and related financing costs and interest expense, the assets, liabilities, income, expenses and cash flows presented for all periods represent those of Verso Holdings. Unless otherwise noted, the information provided pertains to both Verso Paper and Verso Holdings.

The Company began operations on August 1, 2006, when it acquired the assets and certain liabilities comprising the business of the Coated and Supercalendered Papers Division of International Paper Company, or “International Paper.” The Company was formed by affiliates of Apollo Global Management, LLC, or “Apollo,” for the purpose of consummating the acquisition from International Paper, or the “Acquisition.” Verso Paper went public on May 14, 2008, with an initial public offering, “IPO,” of 14 million shares of common stock.

Verso Paper is a holding company whose subsidiaries operate in the following three segments: coated and supercalendered papers; hardwood market pulp; and other, consisting of specialty papers. The Company’s core business platform is as a producer of coated freesheet, coated groundwood, and uncoated supercalendered papers. These products serve customers in the catalog, magazine, inserts, and commercial print markets.

Included in these financial statements are the unaudited condensed consolidated financial statements of Verso Paper and Verso Holdings as of March 31, 2010, and for the three-month periods ended March 31, 2010 and 2009. The December 31, 2009, condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required annually by accounting principles generally accepted in the United States of America. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments that are necessary for the fair presentation of Verso Paper’s and Verso Holdings’ financial position, results of operations, and cash flows for the interim periods presented. Except as disclosed in the notes to the unaudited condensed consolidated financial statements, such adjustments are of a normal, recurring nature. All material intercompany balances and transactions are eliminated. The results of operations and cash flows for the interim periods presented may not necessarily be indicative of full-year results. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and notes thereto of Verso Paper and Verso Holdings Annual Reports on Form 10-K for the year ended December 31, 2009.

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2. RECENT ACCOUNTING DEVELOPMENTS

ASC Topic 105, Generally Accepted Accounting Principles. In 2009 the Financial Accounting Standards Board, or “FASB”, issued an accounting pronouncement establishing the FASB Accounting Standards Codification™, or “ASC,” as the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles, or “GAAP.” Rules and interpretive releases of the Securities and Exchange Commission, or “SEC,” under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the ASC carries an equal level of authority. All non-grandfathered, non-SEC accounting literature not included in the ASC is superseded and deemed non-authoritative. The Company’s adoption of the provisions of ASC Topic 105, Generally Accepted Accounting Principles, for the quarterly period ended September 30, 2009, had no impact on the Company’s financial condition, results of operations, or cash flows.

ASC Topic 350, Intangibles – Goodwill and Other. New authoritative accounting guidance (ASC Topic 350-30-65) under ASC Topic 350, Intangibles – Goodwill and Other, provides direction on factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent is to better match the useful life of the recognized intangible asset to the period of the expected cash flows used to measure its fair value. The Company’s adoption of the new guidance under ASC Topic 350, effective January 1, 2009, did not have a material impact on the Company’s consolidated financial statements.

ASC Topic 715, Compensation – Retirement Benefits. New authoritative accounting guidance (ASC Topic 715-20-65) under ASC Topic 715, Compensation – Retirement Benefits, requires more detailed disclosures about employers’ pension plan assets. New disclosures will include more information on investment strategies, major categories of plan assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of plan assets. The Company’s adoption of the new guidance under ASC Topic 715, for the year ended December 31, 2009, had no impact on the Company’s financial condition, results of operations, or cash flows.

ASC Topic 805, Business Combinations. New authoritative accounting guidance (ASC Topic 805-10-65) under ASC Topic 805, Business Combinations, establish principles and requirements for how an acquirer recognizes and measures identifiable assets acquired, liabilities assumed and noncontrolling interests; recognizes and measures goodwill acquired in a business combination or gain from a bargain purchase; and establishes disclosure requirements. The Company adopted the new guidance under ASC Topic 805 effective January 1, 2009, and will apply these provisions to any future acquisitions.

ASC Topic 810, Consolidation. New authoritative accounting guidance (ASC Topic 810-10-65) under ASC Topic 810, Consolidation, establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The Company’s adoption of the new guidance under ASC Topic 810, effective January 1, 2009, did not have a material impact on the Company’s consolidated financial statements.

ASC Topic 815, Derivatives and Hedging. New authoritative accounting guidance (ASC Topic 815-10-65) under ASC Topic 815, Derivatives and Hedging, changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under ASC Topic 815, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. Since this new guidance under ASC Topic 815 only affects disclosure requirements, the Company’s adoption of these requirements, effective January 1, 2009, had no impact on the Company’s financial condition, results of operations, or cash flows.

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ASC Topic 820, Fair Value Measurements and Disclosures. New authoritative accounting guidance (ASC Topic 820-10-15) under ASC Topic 820, Fair Value Measurements and Disclosures, delayed the effective date of ASC Topic 820-10 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until 2009. ASC Topic 820 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. The Company's adoption of the new guidance under ASC Topic 820, effective January 1, 2009, did not have a material impact on the Company's consolidated financial statements.

Further new authoritative accounting guidance (Accounting Standards Update, or "ASU", No. 2009-05) under ASC Topic 820, provides clarification that in circumstances in which a quoted price in an active market for the identical liabilities is not available, a reporting entity is required to measure fair value using one or more of the techniques provided for in this update. The Company's adoption of the new guidance under ASC Topic 820, effective October 1, 2009, did not have a material impact on the Company's consolidated financial statements.

Additionally, new authoritative accounting guidance (ASU No. 2010-06) under ASC Topic 820 provides guidance relating to fair value measurement disclosures. Specifically, companies will be required to separately disclose significant transfers into and out of Level 1 and Level 2 measurements in the fair value hierarchy and the reasons for those transfers. For Level 3 fair value measurements, the new guidance requires a gross presentation of activities within the Level 3 roll forward. Additionally, the FASB clarified existing fair value measurement disclosure requirements relating to the level of disaggregation, inputs, and valuation techniques. This guidance is effective for interim or annual reporting periods beginning after December 15, 2009, except for the detailed Level 3 disclosures, which are effective for interim or annual reporting periods beginning after December 15, 2010. Since this new guidance only affects disclosure requirements, the Company's adoption of the initial requirements, for the quarterly period ended March 31, 2010, had no impact on the Company's financial condition, results of operations, or cash flows, and the adoption of the remaining provisions is expected to have no impact on the Company's financial condition, results of operations, or cash flows.

ASC Topic 825, Financial Instruments. New authoritative accounting guidance (ASC Topic 825-10-65) under ASC Topic 825, Financial Instruments, increases the frequency of fair value disclosures from an annual basis to a quarterly basis. The guidance relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet at fair value. Since this new guidance under ASC Topic 825 only affects disclosure requirements, the Company's adoption of these requirements, for the quarterly period ended June 30, 2009, had no impact on the Company's consolidated financial statements.

ASC Topic 855, Subsequent Events. New authoritative accounting guidance (ASU No. 2010-09) under ASC Topic 855, Subsequent Events, removes the requirement for SEC filers to disclose the date through which an entity has evaluated subsequent events. This change removes potential conflicts with current SEC guidance. ASU No. 2010-09 also clarifies the intended scope of the reissuance disclosure provisions. ASU No. 2010-09 was effective upon issuance and had no impact on the Company's consolidated financial statements.

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Additionally, new authoritative accounting guidance (ASC Topic 855-10) under ASC Topic 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC Topic 855 defines (1) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (3) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The Company's adoption of the new guidance under ASC Topic 855, for the quarterly period ended June 30, 2009, had no impact on the Company's consolidated financial statements.

Other new accounting pronouncements issued but not effective until after March 31, 2010, are not expected to have a significant effect on our consolidated financial statements.

3. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

Earnings Per Share — Verso Paper computes earnings per share by dividing net income (loss) by the weighted average number of common shares outstanding for each period. Diluted earnings per share are calculated similarly, except that the dilutive effect of the assumed exercise of potentially dilutive securities is included. In accordance with ASC Topic 260, Earnings Per Share, unvested restricted stock awards issued by Verso Paper contain nonforfeitable rights to dividends and qualify as participating securities. No dividends have been declared or paid in 2010 or 2009. The following table provides a reconciliation of basic and diluted earnings (loss) per common share:

(In thousands, except per share data)	VERSO PAPER	
	Three Months Ended March 31,	
	2010	2009
Net income (loss) available to common shareholders	\$ (53,550)	\$ 54,543
Weighted average common stock outstanding	52,047	52,047
Weighted average restricted stock	334	-
Weighted average common shares outstanding - basic	52,381	52,047
Dilutive shares from stock options	-	-
Weighted average common shares outstanding - diluted	52,381	52,047
Basic earnings (loss) per share	\$ (1.02)	\$ 1.05
Diluted earnings (loss) per share	\$ (1.02)	\$ 1.05

For the three months ended March 31, 2010, 1,158,000 weighted average potentially dilutive shares from options with a weighted average exercise price per share of \$3.40 were excluded from the diluted earnings per share calculation due to the antidilutive effect such shares would have on net loss per common share. For the three months ended March 31, 2009, 67,000 weighted average potentially dilutive shares from options with a weighted average exercise price per share of \$1.12 were excluded from the diluted earnings per share calculation because including such shares would have been antidilutive.

Inventories and Replacement Parts and Other Supplies — Inventory values include all costs directly associated with manufacturing products: materials, labor, and manufacturing overhead. These values are presented at the lower of

cost or market. Costs of raw materials, work-in-progress, and finished goods are determined using the first-in, first-out method. Replacement parts and other supplies are stated using the average cost method.

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Inventories by major category include the following:

(In thousands of U.S. dollars)	March 31, 2010	December 31, 2009
Raw materials	\$ 27,498	\$ 28,923
Woodyard logs	8,268	4,463
Work-in-process	22,103	27,472
Finished goods	79,662	75,379
Replacement parts and other supplies	26,055	26,164
Inventories	\$ 163,586	\$ 162,401

Asset Retirement Obligations — In accordance with ASC Topic 410, Asset Retirement and Environmental Obligations, a liability and an asset are recorded equal to the present value of the estimated costs associated with the retirement of long-lived assets where a legal or contractual obligation exists. The liability is accreted over time, and the asset is depreciated over its useful life. The Company's asset retirement obligations under this standard relate to closure and post-closure costs for landfills. Revisions to the liability could occur due to changes in the estimated costs or timing of closure or possible new federal or state regulations affecting the closure.

On March 31, 2010, the Company had \$0.8 million of restricted cash included in Other assets in the accompanying condensed consolidated balance sheet related to an asset retirement obligation in the state of Michigan. This cash deposit is required by the state and may only be used for the future closure of a landfill. The following table presents an analysis related to the Company's asset retirement obligations included in Other liabilities in the accompanying balance sheets:

(In thousands of U.S. dollars)	Three Months Ended March 31,	
	2010	2009
Asset retirement obligations, January 1	\$ 13,300	\$ 14,028
Accretion expense	204	202
Settlement of existing liabilities	(155)	(61)
Adjustment to existing liabilities	807	611
Asset retirement obligations, March 31	\$ 14,156	\$ 14,780

In addition to the above obligations, the Company may be required to remove certain materials from its facilities, or to remediate in accordance with current regulations that govern the handling of certain hazardous or potentially hazardous materials. At this time, any such obligations have an indeterminate settlement date, and the Company believes that adequate information does not exist to reasonably estimate any such potential obligations. Accordingly, the Company will record a liability for such remediation when sufficient information becomes available to estimate the obligation.

Property, Plant, and Equipment — Property, plant, and equipment is stated at cost, net of accumulated depreciation. Interest is capitalized on projects meeting certain criteria and is included in the cost of the assets. The capitalized interest is depreciated over the same useful lives as the related assets. Expenditures for major repairs and improvements are capitalized, whereas normal repairs and maintenance are expensed as incurred. For the quarter ended March 31, 2010, interest costs capitalized were negligible compared to \$0.2 million of interest costs capitalized for the quarter ended March 31, 2009.

Depreciation is computed using the straight-line method over the assets' estimated useful lives. Depreciation expense was \$31.4 million and \$31.5 million, respectively, for the quarters ended March 31, 2010 and 2009.

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4. INTANGIBLES AND OTHER ASSETS

Intangibles and other assets consist of the following:

(In thousands of U.S. dollars)	VERSO PAPER		VERSO HOLDINGS	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
Amortizable intangible assets:				
Customer relationships, net of accumulated amortization of \$4.9 million at March 31, 2010, and \$4.6 million at March 31, 2009	\$ 8,403	\$ 8,720	\$ 8,403	\$ 8,720
Patents, net of accumulated amortization of \$0.4 million at March 31, 2010, and \$0.4 million at March 31, 2009	727	755	727	755
Total amortizable intangible assets	9,130	9,475	9,130	9,475
Unamortizable intangible assets:				
Trademarks	21,473	21,473	21,473	21,473
Other assets:				
Financing costs, net of accumulated amortization of \$15.6 million at March 31, 2010, and \$14.3 million at March 31, 2009, for Verso Paper Corp., and net of accumulated amortization of \$14.5 million at March 31, 2010, and \$13.2 million at March 31, 2009, for Verso Paper Holdings LLC	28,837	29,229	27,816	28,119
Deferred major repair	6,778	8,787	6,778	8,787
Deferred software cost, net of accumulated amortization of \$2.8 million at March 31, 2010, and \$2.9 million at March 31, 2009	1,077	1,354	1,077	1,354
Replacement parts, net	3,588	3,806	3,588	3,806
Other	11,993	13,882	11,993	13,882
Total other assets	52,273	57,058	51,252	55,948
Intangibles and other assets	\$ 82,876	\$ 88,006	\$ 81,855	\$ 86,896

Amounts reflected in depreciation, amortization, and depletion expense related to intangibles and other assets are as follows:

(In thousands of U.S. dollars)	Three Months Ended	
	March 31, 2010	March 31, 2009
Intangible amortization	\$ 345	\$ 354
Software amortization	355	440

The estimated future amortization expense for intangible assets over the next five years is as follows:

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(In thousands of U.S. dollars)

Remainder of 2010	\$	949
2011		1,065
2012		915
2013		815
2014		715

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5. LONG-TERM DEBT

A summary of long-term debt is as follows:

(In thousands of U.S. dollars)	Original Maturity	Interest Rate	March 31, 2010		December 31, 2009	
			Balance	Fair Value	Balance	Fair Value
Verso Paper Holdings LLC						
First Priority Revolving Credit Facility	8/1/2012	-	\$ -	\$ -	\$ -	\$ -
Senior Secured Notes - fixed (1)	7/1/2014	11.50%	329,317	378,000	300,977	357,500
Second Priority Senior Secured Notes - fixed	8/1/2014	9.13%	337,080	326,968	337,080	321,911
Second Priority Senior Secured Notes - floating	8/1/2014	4.00%	180,216	153,634	180,216	142,371
Senior Subordinated Notes	8/1/2016	11.38%	300,000	261,750	300,000	241,500
Total Debt for Verso Paper Holdings LLC			1,146,613	1,120,352	1,118,273	1,063,282
Verso Paper Finance Holdings LLC						
Senior Unsecured Term Loan	2/1/2013	6.57%	75,300	31,626	74,079	31,113
Total Debt For Verso Paper Corp.			\$ 1,221,913	\$ 1,151,978	\$ 1,192,352	\$ 1,094,395

(1) Par value of \$350,000 at March 31, 2010, and \$325,000 at December 31, 2009.

The Company determines the fair value of its long-term debt based on market information and a review of prices and terms available for similar obligations.

Amounts included in interest expense related to long-term debt and amounts of cash interest payments on long-term debt are as follows:

(In thousands of U.S. dollars)	VERSO PAPER Three Months Ended March 31,		VERSO HOLDINGS Three Months Ended March 31,	
	2010	2009	2010	2009
Interest expense	\$ 31,005	\$ 25,777	\$ 29,774	\$ 23,557
Cash interest paid	55,874	39,064	55,874	39,064
Debt issuance cost amortization (1)	1,354	1,502	1,264	1,353

(1) Amortization of debt issuance cost is included in interest expense.

Verso Finance has a senior unsecured term loan which matures on February 1, 2013. The term loan allows Verso Finance to pay interest either in cash or in-kind, or "PIK," through the accumulation of the outstanding principal amount. Verso Finance elected to exercise the PIK option for \$1.2 million and \$2.9 million of interest payments due in the first quarter of 2010 and 2009, respectively.

On January 15, 2010, Verso Holdings issued \$25.0 million aggregate principal amount of its 11.5% senior secured notes due July 1, 2014 under the same indenture that it issued \$325.0 million aggregate principal amount of the 11.5% senior secured notes in June 2009. These \$25 million of notes issued in January 2010 were treated as a single series with and have the same terms as the \$325 million of notes issued under the indenture in June 2009. The notes are secured by substantially all of the property and assets of Verso Holdings. The notes are secured on a ratable and pari passu basis with Verso Holdings' senior secured revolving credit facility. The net proceeds of the notes issued in January 2010 including premium and after deducting underwriting fees and offering expenses, were \$26.5 million.

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In the first quarter of 2009, the Company repurchased and retired \$12.0 million of Verso Holdings' second priority senior secured floating-rate notes due August 1, 2014, and recognized a gain of \$8.9 million, net of the write-off of unamortized debt issuance costs. In addition, the Company recognized a loss of \$0.2 million related to the de-designated portion of the swap hedging the interest payments on the retired debt. These results were recognized in Other income, net on the condensed consolidated statement of operations.

6. RETIREMENT PLANS

Pension Plan

The Company maintains a defined benefit pension plan that provides retirement benefits to hourly employees hired prior to July 1, 2004, at the Androscoggin, Bucksport, and Sartell mills. These employees generally are eligible to participate in the plan upon completion of one year of service and attainment of age 21. Employees hired on or after July 1, 2004, who are not eligible for this pension plan, receive an additional company contribution to their savings plan (see "Other Benefits" discussion below). The pension plan provides defined benefits based on years of credited service times a specified flat dollar benefit rate.

The Company makes contributions that are sufficient to fully fund its actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act (ERISA). The Company made no contributions in the first quarter of 2010 and made a contribution of \$1.5 million in April 2010 attributable to the 2010 plan year. In the first quarter of 2009, the Company made contributions of \$0.2 million attributable to the 2008 plan year. The Company expects to make additional contributions of \$3.4 million in 2010, with \$0.5 million related to the 2009 plan year and \$2.9 million related to the 2010 plan year.

The Company's primary investment objective is to ensure, over the long-term life of the pension plan, an adequate pool of sufficiently liquid assets to support the benefit obligations. In meeting this objective, the pension plan seeks to achieve a high level of investment return through long-term stock and bond investment strategies, consistent with a prudent level of portfolio risk. Any volatility in investment performance compared to investment objectives should be explainable in terms of general economic and market conditions. It is not contemplated at this time that any derivative instruments will be used to achieve investment objectives. The expected return on plan assets assumption for 2010 will be 7.50 percent. The expected long-term rate of return on plan assets reflects the weighted-average expected long-term rates of return for the broad categories of investments currently held in the plans (adjusted for expected changes), based on historical rates of return for each broad category, as well as factors that may constrain or enhance returns in the broad categories in the future. The expected long-term rate of return on plan assets is adjusted when there are fundamental changes in expected returns in one or more broad asset categories and when the weighted-average mix of assets in the plans changes significantly.

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The following table summarizes the components of net periodic expense:

(In thousands of U.S. dollars)	Three Months Ended	
	March 31,	
	2010	2009
Components of net periodic benefit cost:		
Service cost	\$ 1,527	\$ 1,592
Interest cost	522	381
Expected return on plan assets	(462)	(309)
Amortization of prior service cost	446	218
Actuarial loss	22	79
Net periodic benefit cost	\$ 2,055	\$ 1,961

The Company adopted ASC Topic 715-20-65, effective December 31, 2009, which requires more detailed disclosures about employers' pension plan assets, including additional fair value disclosures about employers' pension and postretirement benefit plan assets consistent with the guidance contained in ASC Topic 820.

ASC Topic 820 provides a common definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions used to value the assets or liabilities (see Note 8 – Fair Value of Financial Instruments for more detail).

The following table sets forth by level, within the fair value hierarchy, the pension plan's assets at fair value as of March 31, 2010.

(In thousands of U.S. dollars)	Total	Level 1	Level 2 (1)	Level 3
Assets				
Corporate/Government bond fund	\$ 10,771	\$ -	\$ 10,771	\$ -
Large capital equity	6,241	-	6,241	-
International equity	3,853	-	3,853	-
Small capital equity	1,117	-	1,117	-
Fixed income fund	1,011	-	1,011	-
Total assets at fair value on March 31, 2010	\$ 22,993	\$ -	\$ 22,993	\$ -

(1) Based on the net asset value of units held by the plan at quarter end.

Other Benefits

The Company sponsors a 401(k) plan to provide salaried and hourly employees an opportunity to accumulate personal funds and to provide additional benefits for retirement. Contributions may be made on a before-tax basis to the plan. As determined by the provisions of the plan, the Company matches the employees' basic voluntary contributions; however, on April 3, 2009, in response to the challenging economic conditions, the Company suspended its matching contributions to the 401(k) plan for exempt and non-exempt salaried employees. Effective January 2, 2010, the Company reinstated matching contributions for exempt and non-exempt salaried employees in accordance with the formula previously in effect (70% of the first 4% of the participant's compensation contributed to the plan, plus 60% of the next 4% of the participant's compensation contributed to the plan). Such contributions to the plan totaled approximately \$0.9 million for the first quarter of 2010 compared to \$1.2 million in the first quarter of 2009.

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7. DERIVATIVE INSTRUMENTS AND HEDGES

In the normal course of business, the Company utilizes derivatives contracts as part of its risk management strategy to manage its exposure to market fluctuations in energy prices and interest rates. These instruments are subject to credit and market risks in excess of the amount recorded on the balance sheet in accordance with generally accepted accounting principles. Controls and monitoring procedures for these instruments have been established and are routinely reevaluated. Credit risk represents the potential loss that may occur because a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. The Company manages credit risk by entering into financial instrument transactions only through approved counterparties. Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in commodity prices. The Company manages market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken.

Derivative instruments are recorded on the balance sheet as other assets or other liabilities measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied. For a cash flow hedge accounted for under ASC Topic 815, Derivatives and Hedging, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in Accumulated other comprehensive income and subsequently reclassified to earnings as the hedged transaction impacts net income. Any ineffective portion of a cash flow hedge is recognized currently in earnings. Cash flows from derivative contracts are reported as operating activities on the consolidated statements of cash flows.

The Company enters into short-term, fixed-price energy swaps as hedges designed to mitigate the risk of changes in commodity prices for future purchase commitments. These fixed-price swaps involve the exchange of net cash settlements, based on changes in the price of the underlying commodity index compared to the fixed price offering, at specified intervals without the exchange of any underlying principal. The Company has designated its energy hedging relationships as cash flow hedges under ASC Topic 815 with net gains or losses attributable to effective hedging recorded in Accumulated other comprehensive income and any ineffectiveness recognized in Cost of products sold. Amounts recorded in Accumulated other comprehensive income are expected to be reclassified into cost of products sold in the period in which the hedged cash flows affect earnings.

In February 2008, the Company entered into a \$250 million notional value receive-variable, pay-fixed interest rate swap hedging the cash flow exposure of the quarterly variable-rate interest payments due to changes in the benchmark interest rate (three-month LIBOR) on its second priority senior secured floating-rate notes. The swap matured in February 2010. During the first quarter of 2009, the Company repurchased \$12.0 million of the hedged notes and de-designated the portion of the swap hedging the interest payments on this portion of the debt. During the three months ended March 31, 2009, \$0.2 million of losses were recognized in Other income, net on the condensed consolidated statement of operations related to the de-designated portion of the swap. By the end of 2009, the Company had repurchased \$69.8 million of the hedged notes and de-designated the interest-rate swap in full. During the three months ended March 31, 2010, \$0.3 million of losses were recognized in Other income, net.

The following table presents information about the volume and fair value amounts of the Company's derivative instruments.

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(dollars in thousands)	March 31, 2010			December 31, 2009			Balance Sheet Location
	Notional Amount	Fair Value Measurements		Notional Amount	Fair Value Measurements		
		Derivative Asset	Derivative Liability		Derivative Asset	Derivative Liability	
Derivatives designated as hedging instruments under FASB ASC 815							
Short-term, fixed price energy swaps - MMBtu's	5,348,111	\$ -	\$ 8,281	5,430,707	\$ 560	\$ 2,132	Other assets/ Accrued liabilities
Derivatives not designated as hedging instruments under FASB ASC 815							
Interest rate swaps, receive-variable, pay-fixed	\$ -	-	-	\$ 250,000	-	1,573	Other liabilities

The following tables present information about the effect of the Company's derivative instruments on Accumulated other comprehensive income and the condensed consolidated statements of operations.

(dollars in thousands)	Gain (Loss) Recognized in Accumulated OCI		Gain (Loss) Reclassified from Accumulated OCI		Location of Gain (Loss) on Statements of Operations
	At March 31, 2010	At December 31, 2009	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	
Derivatives designated as hedging instruments under FASB ASC 815					
Short-term, fixed price energy swaps (1)	\$ (8,231)	\$ (1,514)	\$ (493)	\$ (8,448)	Cost of products sold
Interest rate swaps, receive-variable, pay-fixed (1)	-	(281)	(281)	(570)	Interest expense

(1) Net losses at March 31, 2010 are expected to be reclassified from Accumulated other comprehensive income into earnings within the next 12 months.

(dollars in thousands)	Gain (Loss) Recognized on Derivative		Gain (Loss) Recognized on Derivative (Ineffective Portion)		Location of Gain (Loss) on Statements of Operations
	2010	2009	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	
Derivatives designated as hedging instruments under FASB ASC 815					
	\$ (429)	\$ (2,109)	\$ (24)	\$ (20)	Cost of products sold

Short-term, fixed price energy
swaps

Derivatives not designated as
hedging instruments under FASB
ASC 815

Interest rate swaps, receive-variable, pay-fixed	-	(195)	-	-	Interest expense/ Other income, net
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8. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. On January 1, 2008, the Company adopted ASC Topic 820 as it relates to financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis, and adopted ASC Topic 820 as it relates to nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis as of January 1, 2009. The adoption of these provisions of ASC Topic 820 did not have a material impact on the Company's consolidated financial statements.

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The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions used to value the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management’s own assumption about the inputs used in pricing the asset or liability at the measurement date.

The following table summarizes the balances of assets and liabilities measured at fair value on a recurring basis:

(In thousands of U.S. dollars)	Total	Level 1	Level 2	Level 3
At March 31, 2010				
Assets:				