

Verso Paper Holdings LLC
Form 10-Q
August 11, 2010

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 June 30, 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)

333-166066
(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
(Registrants' 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 required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Edgar Filing: Verso Paper Holdings LLC - Form 10-Q

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 website, 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

Edgar Filing: Verso Paper Holdings LLC - Form 10-Q

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 July 31, 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.

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,” “intend,” 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.

TABLE OF CONTENTS

		Page
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	<u>Unaudited Condensed Consolidated Balance Sheets</u>	4
	<u>Unaudited Condensed Consolidated Statements of Operations of Verso Paper Corp.</u>	5
	<u>Unaudited Condensed Consolidated Statements of Operations of Verso Paper Holdings LLC</u>	6
	<u>Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity of Verso Paper Corp.</u>	7
	<u>Unaudited Condensed Consolidated Statements of Changes in Member's Equity of Verso Paper Holdings LLC</u>	8
	<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	9
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	10
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	39
Item 4.	<u>Controls and Procedures</u>	42
PART II.	OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	43
Item 1A.	<u>Risk Factors</u>	43
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3.	<u>Defaults Upon Senior Securities</u>	43
Item 4.	<u>(Removed and Reserved)</u>	43
Item 5.	<u>Other Information</u>	43
Item 6.	<u>Exhibits</u>	44

<u>SIGNATURES</u>	45
<u>EXHIBIT INDEX</u>	46

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars, except share and per share amounts)	VERSO PAPER		VERSO HOLDINGS	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 134,841	\$ 152,097	\$ 134,766	\$ 149,762
Accounts receivable - net	128,538	104,263	128,538	104,289
Inventories	134,115	162,401	134,115	162,401
Prepaid expenses and other assets	4,109	11,292	3,801	10,385
Total Current Assets	401,603	430,053	401,220	426,837
Property, plant, and equipment - net	982,926	1,022,622	982,926	1,022,622
Reforestation	13,313	13,357	13,313	13,357
Intangibles and other assets - net	78,898	88,006	77,968	86,896
Goodwill	18,695	18,695	10,551	10,551
Total Assets	\$ 1,495,435	\$ 1,572,733	\$ 1,485,978	\$ 1,560,263
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts payable	\$ 101,259	\$ 103,253	\$ 101,781	\$ 100,995
Accrued liabilities	103,714	116,225	102,890	115,425
Total Current Liabilities	204,973	219,478	204,671	216,420
Long-term debt	1,224,080	1,192,352	1,147,515	1,118,273
Other liabilities	39,344	35,612	31,309	27,577
Total Liabilities	1,468,397	1,447,442	1,383,495	1,362,270
Commitments and contingencies (Note 11)	-	-	-	-
Equity:				
Preferred stock -- par value \$0.01 (20,000,000 shares authorized, 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 June 30, 2010, and 52,374,647 shares issued and outstanding on December 31, 2009)	525	524	n/a	n/a
Paid-in-capital	213,177	212,381	317,819	317,023
Retained deficit	(171,978)	(74,045)	(200,650)	(105,461)
Accumulated other comprehensive loss	(14,686)	(13,569)	(14,686)	(13,569)
Total Equity	27,038	125,291	102,483	197,993
Total Liabilities and Equity	\$ 1,495,435	\$ 1,572,733	\$ 1,485,978	\$ 1,560,263

Edgar Filing: Verso Paper Holdings LLC - Form 10-Q

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

Accounts receivable	\$ 12,548	\$ 7,785	\$ 12,548	\$ 7,785
Accounts payable	646	498	646	498

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of U.S. dollars, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales	\$ 401,047	\$ 298,115	\$ 764,693	\$ 585,189
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	364,458	298,548	701,204	567,488
Depreciation, amortization, and depletion	32,787	33,032	64,929	67,355
Selling, general, and administrative expenses	16,559	14,904	32,828	30,291
Restructuring and other charges	-	103	-	274
Operating loss	(12,757)	(48,472)	(34,268)	(80,219)
Interest income	(23)	(21)	(62)	(79)
Interest expense	31,872	28,497	64,194	55,582
Other income, net	(223)	(66,691)	(467)	(180,008)
Net income (loss)	\$ (44,383)	\$ (10,257)	\$ (97,933)	\$ 44,286
Earnings (loss) per common share				
Basic	\$ (0.85)	\$ (0.20)	\$ (1.87)	\$ 0.85
Diluted	\$ (0.85)	\$ (0.20)	\$ (1.87)	\$ 0.85
Weighted average common shares outstanding				
Basic	52,465,832	52,046,647	52,423,784	52,046,647
Diluted	52,465,832	52,046,647	52,423,784	52,046,647
Included in the financial statement line items above are related-party transactions as follows (Notes 9 and 10):				
Net sales	\$ 38,866	\$ 26,618	\$ 71,020	\$ 53,398
Purchases included in cost of products sold	1,518	964	2,906	2,084

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER HOLDINGS LLC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of U.S. dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales	\$401,047	\$298,115	\$764,693	\$585,189
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	364,458	298,548	701,204	567,488
Depreciation, amortization, and depletion	32,787	33,032	64,929	67,355
Selling, general, and administrative expenses	16,559	14,880	32,776	30,102
Restructuring and other charges	-	103	-	274
Operating loss	(12,757)	(48,448)	(34,216)	(80,030)
Interest income	(23)	(21)	(62)	(79)
Interest expense	30,502	26,598	61,503	51,314
Other income, net	(223)	(46,201)	(468)	(159,518)
Net income (loss)	\$(43,013)	\$(28,824)	\$(95,189)	\$28,253

Included in the financial statement line items above are related-party transactions as follows (Notes 9 and 10):

Net sales	\$38,866	\$26,618	\$71,020	\$53,398
Purchases included in cost of products sold	1,518	964	2,906	2,084

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP.
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE PERIODS ENDED JUNE 30, 2010 AND 2009

(In thousands of U.S. dollars)	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	-	-	-	44,286	-	44,286
Other comprehensive income:						
Net unrealized losses on derivative financial instruments, net of reclassification of \$25.0 million of net losses included in net income	-	-	-	-	14,369	14,369
Defined benefit pension plan:						
Net actuarial loss	-	-	-	-	158	158
Prior service cost amortization	-	-	-	-	436	436
Total other comprehensive income	-	-	-	-	14,963	14,963
Comprehensive income	-	-	-	44,286	14,963	59,249
Equity award expense	-	-	158	-	-	158
Ending Balance - June 30, 2009	52,046	\$ 520	\$ 211,910	\$ (135,762)	\$ (27,308)	\$ 49,360
Beginning Balance - January 1, 2010	52,374	\$ 524	\$ 212,381	\$ (74,045)	\$ (13,569)	\$ 125,291
Net loss	-	-	-	(97,933)	-	(97,933)
Other comprehensive income (loss):						
Net unrealized losses on derivative financial instruments, net of reclassification of \$4.0 million of net losses included in net loss	-	-	-	-	(2,054)	(2,054)
Defined benefit pension plan:						
Net actuarial loss	-	-	-	-	45	45
Prior service cost amortization	-	-	-	-	892	892

Edgar Filing: Verso Paper Holdings LLC - Form 10-Q

Total other						
comprehensive loss	-	-	-	-	(1,117)	(1,117)
Comprehensive loss	-	-	-	(97,933)	(1,117)	(99,050)
Common stock issued						
for restricted stock	90	1	(1)	-	-	-
Stock option exercise	1	-	-	-	-	-
Equity award expense	-	-	797	-	-	797
Ending Balance - June						
30, 2010	52,465	\$ 525	\$ 213,177	\$ (171,978)	\$ (14,686)	\$ 27,038

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER HOLDINGS LLC
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY
 FOR THE PERIODS ENDED JUNE 30, 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	-	(11,158)	-	(11,158)
Net income	-	28,253	-	28,253
Other comprehensive income:				
Net unrealized losses on derivative financial instruments, net of reclassification of \$25.0 million of net losses included in net income	-	-	14,369	14,369
Defined benefit pension plan:				
Net actuarial loss	-	-	158	158
Prior service cost amortization	-	-	436	436
Total other comprehensive income	-	-	14,963	14,963
Comprehensive income	-	28,253	14,963	43,216
Equity award expense	158	-	-	158
Ending Balance - June 30, 2009	\$316,549	\$(153,609)	\$ (27,308)	\$135,632
Beginning Balance - January 1, 2010	\$317,023	\$(105,461)	\$ (13,569)	\$197,993
Net loss	-	(95,189)	-	(95,189)
Other comprehensive income (loss):				
Net unrealized losses on derivative financial instruments, net of reclassification of \$4.0 million of net losses included in net loss	-	-	(2,054)	(2,054)
Defined benefit pension plan:				
Net actuarial loss	-	-	45	45
Prior service cost amortization	-	-	892	892
Total other comprehensive loss	-	-	(1,117)	(1,117)
Comprehensive loss	-	(95,189)	(1,117)	(96,306)
Equity award expense	796	-	-	796
Ending Balance - June 30, 2010	\$317,819	\$(200,650)	\$ (14,686)	\$102,483

See notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)	VERSO PAPER Six Months Ended June 30,		VERSO HOLDINGS Six Months Ended June 30,	
	2010	2009	2010	2009
Cash Flows From Operating Activities:				
Net income (loss)	\$ (97,933)	\$ 44,286	\$ (95,189)	\$ 28,253
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation, amortization, and depletion	64,929	67,355	64,929	67,355
Amortization of debt issuance costs	2,759	2,970	2,579	2,684
Accretion of discount on long-term debt	1,805	208	1,805	208
Gain on early extinguishment of debt	(253)	(34,237)	(254)	(13,747)
(Gain) loss on disposal of fixed assets	(107)	60	(107)	60
Equity award expense	797	158	796	158
Change in unrealized losses on derivatives, net	-	14,174	-	14,174
Other - net	(745)	176	(745)	176
Changes in assets and liabilities:				
Accounts receivable	(24,251)	(31,599)	(24,223)	(31,599)
Inventories	28,287	5,386	28,287	5,386
Prepaid expenses and other assets	12,407	(6,100)	11,807	(6,100)
Accounts payable	(1,993)	(29,009)	785	(28,019)
Accrued liabilities	(7,043)	(26,995)	(9,551)	(30,977)
Net cash provided by (used in) operating activities	(21,341)	6,833	(19,081)	8,012
Cash Flows From Investing Activities:				
Proceeds from sale of fixed assets	268	-	268	-
Capital expenditures	(22,447)	(25,523)	(22,447)	(25,523)
Net cash used in investing activities	(22,179)	(25,523)	(22,179)	(25,523)
Cash Flows From Financing Activities:				
Proceeds from long-term debt	27,438	352,838	27,438	352,838
Debt issuance costs	(1,174)	(9,915)	(1,174)	(9,915)
Repayments of long-term debt	-	(303,241)	-	(302,726)
Cash distributions	-	-	-	(11,158)
Net cash provided by financing activities	26,264	39,682	26,264	29,039
Change in cash and cash equivalents	(17,256)	20,992	(14,996)	11,528
Cash and cash equivalents at beginning of period	152,097	119,542	149,762	119,520
Cash and cash equivalents at end of period	\$ 134,841	\$ 140,534	\$ 134,766	\$ 131,048

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP. AND VERSO PAPER HOLDINGS LLC

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2010, AND DECEMBER 31, 2009, AND FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 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 this quarterly report are the unaudited condensed consolidated financial statements of Verso Paper and Verso Holdings as of June 30, 2010, and for the three-month and six-month periods ended June 30, 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 contained in their Annual Reports on Form 10-K for the year ended December 31, 2009.

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 CodificationTM, 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.

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.

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.

12

Other new accounting pronouncements issued but not effective until after June 30, 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 June 30,		VERSO PAPER Six Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss) available to common shareholders	\$(44,383)	\$(10,257)	\$(97,933)	\$44,286
Weighted average common stock outstanding	52,047	52,047	52,047	52,047
Weighted average restricted stock	419	-	376	-
Weighted average common shares outstanding - basic	52,466	52,047	52,423	52,047
Dilutive shares from stock options	-	-	-	-
Weighted average common shares outstanding - diluted	52,466	52,047	52,423	52,047
Basic earnings (loss) per share	\$(0.85)	\$(0.20)	\$(1.87)	\$0.85
Diluted earnings (loss) per share	\$(0.85)	\$(0.20)	\$(1.87)	\$0.85

For the three months ended June 30, 2010, 1,426,659 weighted average potentially dilutive shares from options with a weighted average exercise price per share of \$2.76 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 six months ended June 30, 2010, 1,301,777 weighted average potentially dilutive shares from options with a weighted average exercise price per share of \$3.35 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 June 30, 2009, 152,233 weighted average potentially dilutive shares from options with a weighted average exercise price per share of \$1.09 were excluded from the diluted earnings per share calculation due to the antidilutive effect such shares would have on the net loss per common share. For the six months ended June 30, 2009, 100,697 weighted average potentially dilutive shares from options with a weighted average exercise price per share of \$1.10 were excluded from the diluted earnings per share calculation as 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.

Inventories by major category include the following:

(In thousands of U.S. dollars)	June 30, 2010	December 31, 2009
Raw materials	\$ 24,972	\$ 28,923
Woodyard logs	3,944	4,463
Work-in-process	19,405	27,472
Finished goods	59,791	75,379
Replacement parts and other supplies	26,003	26,164
Inventories	\$ 134,115	\$ 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 June 30, 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)	Six Months Ended June 30,	
	2010	2009
Asset retirement obligations, January 1	\$ 13,300	\$ 14,028
Accretion expense	411	395
Settlement of existing liabilities	(297)	(1,073)
Adjustment to existing liabilities	807	611
Asset retirement obligations, June 30	\$ 14,221	\$ 13,961

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 both the three-month and six-month periods ended June 30, 2010, interest costs of \$0.3 million were capitalized. For the three-month and six-month periods ended June 30, 2009, interest costs of \$0.2 million and \$0.4 million, respectively, were capitalized.

Depreciation is computed using the straight-line method over the assets' estimated useful lives. Depreciation expense was \$32.1 million and \$63.5 million for the three-month and six-month periods ended June 30, 2010, respectively, compared to \$31.4 million and \$62.9 million for the three-month and six-month periods ended June 30, 2009, respectively.

4. INTANGIBLES AND OTHER ASSETS

Intangibles and other assets consist of the following:

(In thousands of U.S. dollars)	VERSO PAPER		VERSO HOLDINGS	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
Amortizable intangible assets:				
Customer relationships, net of accumulated amortization of \$5.1 million at June 30, 2010, and \$4.6 million at December 31, 2009	\$ 8,145	\$ 8,720	\$ 8,145	\$ 8,720
Patents, net of accumulated amortization of \$0.4 million at June 30, 2010, and \$0.4 million at December 31, 2009	698	755	698	755
Total amortizable intangible assets	8,843	9,475	8,843	9,475
Unamortizable intangible assets:				
Trademarks	21,473	21,473	21,473	21,473
Other assets:				
Financing costs, net of accumulated amortization of \$17.0 million at June 30, 2010, and \$14.3 million at December 31, 2009, for Verso Paper Corp., and net of accumulated amortization of \$15.8 million at June 30, 2010, and \$13.2 million at December 31, 2009, for Verso Paper Holdings LLC	27,644	29,229	26,714	28,119
Deferred major repair	10,234	8,787	10,234	8,787
Deferred software cost, net of accumulated amortization of \$3.1 million at June 30, 2010, and \$2.9 million at December 31, 2009	866	1,354	866	1,354
Replacement parts, net	3,355	3,806	3,355	3,806

Edgar Filing: Verso Paper Holdings LLC - Form 10-Q

Other		6,483	13,882	6,483	13,882
Total other assets		48,582	57,058	47,652	55,948
Intangibles and other assets	\$	78,898	\$ 88,006	\$ 77,968	\$ 86,896

15

Edgar Filing: Verso Paper Holdings LLC - Form 10-Q

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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Intangible amortization	\$287	\$353	\$632	\$707
Software amortization	315	438	670	878

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

(In thousands of U.S. dollars)	
Remainder of 2010	\$632
2011	1,065
2012	915
2013	815
2014	715

5. LONG-TERM DEBT

A summary of long-term debt is as follows:

(In thousands of U.S. dollars)	Original Maturity	June 30, 2010		Fair Value	December 31, 2009	
		Interest Rate	Balance		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 %	330,219	383,250	300,977	357,500
Second Priority Senior Secured Notes - fixed	8/1/2014	9.13 %	337,080	322,754	337,080	321,911
Second Priority Senior Secured Notes - floating	8/1/2014	4.09 %	180,216	153,184	180,216	142,371
Senior Subordinated Notes	8/1/2016	11.38 %	300,000	253,500	300,000	241,500
Total Debt for Verso Paper Holdings LLC			1,147,515	1,112,688	1,118,273	1,063,282
Verso Paper Finance Holdings LLC						
Senior Unsecured Term Loan	2/1/2013	6.68 %	76,565	32,157	74,079	31,113
			\$ 1,224,080	\$ 1,144,845	\$ 1,192,352	\$ 1,094,395

Total Debt For
Verso Paper Corp.

(1) Par value of \$350,000 at June 30, 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 CORP.			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Interest expense	\$30,771	\$27,254	\$61,776	\$53,031
Cash interest paid	2,225	8,193	58,099	47,257
Debt issuance cost amortization (1)	1,405	1,479	2,759	2,981

(In thousands of U.S. dollars)	VERSO PAPER HOLDINGS LLC			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Interest expense	\$29,491	\$25,492	\$59,265	\$49,049
Cash interest paid	2,225	8,193	58,099	47,257
Debt issuance cost amortization (1)	1,315	1,331	2,579	2,684

 (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. During the second quarter of 2009, the Company repurchased \$26.7 million of the term loan for a total purchase price of \$5.7 million, which resulted in a gain of \$20.5 million, net of the write-off of unamortized debt issuance costs. The net gain was recognized in Other income on the condensed consolidated statements of operations. As of June 30, 2009, \$5.2 million was included in Accounts payable on the condensed consolidated balance sheet for repurchases of the term loan that had not settled. 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 \$2.5 million and \$5.8 million of interest payments due in the first six months 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. The additional \$25 million of senior secured notes issued in January 2010 were treated as a single series with and have the same terms as the \$325 million of senior secured notes issued in June 2009. The senior secured notes are secured by substantially all of the property and assets of Verso Holdings and its subsidiaries. The senior secured notes are secured on a ratable and pari passu basis with Verso Holdings' revolving credit facility. The net proceeds of the issuance of the senior secured notes in January 2010, including premium and after deducting underwriting fees and offering expenses, were \$26.3 million.

During the second quarter of 2009, the Company repurchased and retired \$23.5 million of Verso Holdings' second priority senior secured floating-rate notes due August 1, 2014, and recognized a gain of \$11.6 million, net of the write-off of unamortized debt issuance costs. For the six months ended June 30, 2009, the Company repurchased and retired \$35.5 million of these notes and recognized a gain of \$20.5 million, net of the write-off of unamortized debt issuance costs. In addition, the Company recognized a loss of \$0.8 million related to the de-designation of the interest rate swap hedging the interest payments on the retired debt. The results were recognized in Other income, net on the condensed consolidated statements 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). For the three months and six months ended June 30, 2010, the Company made contributions of \$1.5 million attributable to the 2010 plan year. The Company made an additional contribution of \$1.5 million in July 2010 attributable to the 2010 plan year. For the three months ended June 30, 2009, the Company made contributions of \$1.5 million attributable to the 2009 plan year. For the six months ended June 30, 2009, contributions totaled \$2.1 million, with \$1.9 million attributable to the 2009 plan year and \$0.2 million attributable to the 2008 plan year. The Company expects to make additional contributions of \$2.0 million in 2010, with \$0.5 million related to the 2009 plan year and \$1.5 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.

The following table summarizes the components of net periodic expense:

(In thousands of U.S. dollars)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Components of net periodic benefit cost:				
Service cost	\$ 1,527	\$ 1,592	\$ 3,054	\$ 3,184
Interest cost	522	381	1,044	762
Expected return on plan assets	(463)	(309)	(925)	(618)
Amortization of prior service cost	446	218	892	436
Actuarial loss	23	79	45	158
Net periodic benefit cost	\$ 2,055	\$ 1,961	\$ 4,110	\$ 3,922

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 June 30, 2010.

(In thousands of U.S. dollars)	Total	Level 1	Level 2 (1)	Level 3
Assets				
Corporate/Government bond fund	\$11,867	\$-	\$11,867	\$-
Large capital equity	5,713	-	5,713	-
International equity	3,535	-	3,535	-
Small capital equity	1,025	-	1,025	-
Fixed income fund	1,105	-	1,105	-
Total assets at fair value on June 30, 2010	\$23,245	\$-	\$23,245	\$-

 (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. For the three months ended June 30, 2010, such contributions to the plan totaled approximately \$0.8 million compared to no contributions made in the three months ended June 30, 2009. For the first half of 2010, such contributions to the plan totaled approximately \$1.7 million compared to \$1.2 million for the first half of 2009.

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. 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 second quarter of 2009, the Company repurchased an additional \$23.5 million of the hedged notes and de-designated the remainder of the interest rate swap. During the three months and six months ended June 30, 2009, \$0.6 million and \$0.8 million of losses, respectively, were recognized in Other income, net on the condensed consolidated statements of operations. 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 six months ended June 30, 2010, \$0.3 million of losses were recognized in Other income, net. The swap expired on February 1, 2010.

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

(dollars in thousands)	June 30, 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	4,468,278	\$ 85	\$ 3,901	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 June 30, 2010	At December 31, 2009	June 30, 2010	Six Months Ended 2009	
Derivatives designated as hedging instruments under FASB ASC 815					
Short-term, fixed price energy swaps (1)	\$ (3,807)	\$ (1,514)	\$ (3,714)	\$ (23,431)	Cost of products sold
Interest rate swaps, receive-variable, pay-fixed (1)	-	(281)	(281)	(1,594)	Interest expense

(1) Net losses at June 30, 2010 are expected to be reclassified from Accumulated other comprehensive income into earnings within the next 13 months.

Gain (Loss) Recognized on Derivative	Gain (Loss) Recognized on Derivative (Ineffective Portion)	Location of Gain (Loss) on Statements
Six Months Ended June 30,		

Edgar Filing: Verso Paper Holdings LLC - Form 10-Q

(dollars in thousands)	2010	2009	2010	2009	of Operations
Derivatives designated as hedging instruments under FASB ASC 815					
Short-term, fixed price energy swaps	\$ (48)	\$ (2,782)	\$ (17)	\$ (57)	Cost of products sold
Derivatives not designated as hedging instruments under FASB ASC 815					
Interest rate swaps, receive-variable, pay-fixed	-	(784)	-	-	Interest expense/ Other income, net

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.

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 June 30, 2010				
Assets:				
Deferred compensation assets (1)	\$1,350	\$1,350	\$-	\$-
Regional Greenhouse Gas Initiative carbon credits (1)	243	-	243	-
Commodity swaps (1)	85	-	85	-
Liabilities:				
Commodity swaps (1)	\$3,901	\$-	\$3,901	\$-
Deferred compensation liabilities (1)	1,350	1,350	-	-
At December 31, 2009				
Assets:				
Deferred compensation assets (1)	\$643	\$643	\$-	\$-
Regional Greenhouse Gas Initiative carbon credits (1)	248	-	248	-
Commodity swaps (1)	560	-	560	-
Liabilities:				
Commodity swaps (1)	\$2,132	\$-	\$2,132	\$-
Interest rate swaps (2)	1,573	-	1,573	-
Deferred compensation liabilities (1)	643	643	-	-

(1) Based on observable market data.

(2) Based on observable inputs for the liability (interest rates and yield curves observable at specific intervals).

The Company did not record any impairment charges on long-lived assets and no significant events requiring non-financial assets and liabilities to be measured at fair value occurred (subsequent to initial recognition) during the six months ended June 30, 2010 or 2009.

9. RELATED PARTY TRANSACTIONS

The Company had net sales to International Paper of \$38.8 million and \$71.0 million for the three-month and six-month periods ended June 30, 2010, respectively, compared to \$26.6 million and \$53.4 million for the three-month and six-month periods ended June 30, 2009, respectively. International Paper and its divisions and subsidiaries (including xpedx and Central Lewmar LLC), is our largest customer and accounted for approximately 9% of our net sales in the first half of 2010 and 2009. The Company had purchases from International Paper, included in cost of products sold, of \$1.5 million and \$2.9 million for the three-month and six-month periods ended June 30, 2010, respectively, compared to \$1.0 million and \$2.1 million for the three-month and six-month periods ended June 30, 2009, respectively.

Subsequent to the Acquisition, the Company entered into a management consulting agreement with Apollo relating to the provision of certain financial and strategic advisory services and consulting services. Upon consummation of Verso Paper's IPO in 2008, Apollo terminated the annual fee arrangement under the management agreement for its consulting and advisory services. The management consulting agreement, however, remains in effect and will expire on August 1, 2018.

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 through the accumulation of the outstanding principal amount. Verso Finance elected to exercise the PIK option for \$2.5 million and \$5.8 million of interest payments due in the first six months of 2010 and 2009, respectively. Verso Finance has no independent operations; consequently, all cash flows used to service its remaining debt obligation will need to be received via distribution from Verso Holdings. Verso Holdings made no distributions to Verso Finance for the six months ended June 30, 2010 and made negligible distributions to Verso Finance in the first six months of 2009. Verso Holdings has no obligation to make distributions to Verso Finance. During the first half of 2009, Verso Holdings contributed \$10.0 million to Verso Finance One to fund purchases of Verso Finance's term loan. For the six months ended June 30, 2009, Verso Finance One purchased \$26.7 million of the term loan for a total purchase price of \$5.7 million. As of June 30, 2010, Verso Holdings had \$0.5 million in accounts payable due to Verso Paper. During the first half of 2009, Verso Holdings paid \$1.1 million of expenses on behalf of Verso Paper. During the first quarter of 2009, Verso Paper pushed down the assets, liabilities, and equity of Verso Fiber Farm LLC to Verso Paper LLC using a carryover basis.

10. RESTRUCTURING AND OTHER CHARGES

Restructuring and other charges are comprised of transition and other non-recurring costs associated with the Acquisition and carve out of our operations from those of International Paper, including consulting and legal fees, and other one-time costs related to us operating as a stand-alone business. There were no restructuring charges in the first half of 2010, compared to \$0.1 million and \$0.3 million of restructuring charges for the three-month and six-month periods ended June 30, 2009, respectively.

11. COMMITMENTS AND CONTINGENCIES

Bucksport Energy LLC — The Company has a joint ownership interest with Bucksport Energy LLC, an unrelated third party, in a cogeneration power plant producing steam and electricity. The plant was built in 2000 and is located at and supports the Bucksport mill. Each co-owner owns an undivided proportional share of the plant's assets. The Company owns 28% of the steam and electricity produced by the plant. The Company may purchase its remaining electrical needs from the plant at market rates. The Company is obligated to purchase the remaining 72% of the steam output from the plant at fuel cost plus a contractually fixed fee per unit of steam. Power generation and operating expenses are divided on the same basis as ownership. The Company has cash which is restricted in its use and may be used only to fund the ongoing energy operations of this investment. As of June 30, 2010, the Company had \$0.2 million of restricted cash included in Other assets in the accompanying condensed consolidated balance sheets.

Alternative Fuel Tax Credit — Until December 31, 2009, the United States government provided an excise tax credit for companies that use alternative fuel mixtures in their businesses equal to \$0.50 per gallon of alternative fuel contained in the mixture. In January and February 2009, the Internal Revenue Service certified that the Company's operations at its Androscoggin and Quinnesec mills qualified for the alternative fuel mixture tax credit. Accordingly, during the six months ended June 30, 2009, the Company recognized \$143.6 million of alternative fuel mixture tax credits for the period from September 2008 through June 2009, including a receivable of \$18.4 million for claims pending at June 30, 2009. These credits were recognized in Other income, net on the condensed consolidated statement of operations, net of \$1.2 million of associated expenses. At December 31, 2009, \$10.4 million for claims pending was recognized in Accounts receivable – net on the condensed consolidated balance sheets. The tax credit, as it relates to liquid fuels derived from biomass, expired on December 31, 2009. Therefore, we did not recognize any benefit from this tax credit in the first half of 2010 and no receivables were outstanding as of June 30, 2010.

Thilmany, LLC — In connection with the Acquisition, the Company assumed a twelve-year supply agreement with Thilmany, LLC, or "Thilmany," for the specialty paper products manufactured on paper machine no. 5 at the Androscoggin mill. The agreement requires Thilmany to pay the Company a variable charge for the paper purchased and a fixed charge for the availability of the no. 5 paper machine. The Company is responsible for the machine's routine maintenance and Thilmany is responsible for any capital expenditures specific to the machine. Thilmany has the right to terminate the agreement if certain events occur.

The Company is involved in legal proceedings incidental to the conduct of its business. The Company does not believe that any liability that may result from these proceedings will have a material adverse effect on its financial statements.

12. INFORMATION BY INDUSTRY SEGMENT

The Company operates in three operating segments: coated and supercalendered papers; hardwood market pulp; and other, consisting of specialty papers. The Company operates in one geographic segment, the United States. 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.

The following table summarizes the industry segment data for the three-month and six-month periods ended June 30, 2010 and 2009:

	VERSO PAPER CORP.			
	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands of U.S. dollars)	2010	2009	2010	2009
Net Sales:				
Coated and supercalendered	\$316,795	\$256,746	\$619,573	\$512,723
Hardwood market pulp	41,572	28,084	78,986	45,758
Other	42,680	13,285	66,134	26,708
Total	\$401,047	\$298,115	\$764,693	\$585,189
Operating Income (Loss):				
Coated and supercalendered	\$(21,425)	(36,621)	\$(47,095)	(57,173)
Hardwood market pulp	13,536	(9,862)	21,168	(18,749)
Other	(4,868)	(1,989)	(8,341)	(4,297)
Total	\$(12,757)	\$(48,472)	\$(34,268)	\$(80,219)
Depreciation, Amortization, and Depletion:				
Coated and supercalendered	\$25,281	\$27,496	\$51,089	\$56,398
Hardwood market pulp	4,688	4,555	9,341	8,869
Other	2,818	981	4,499	2,088
Total	\$32,787	\$33,032	\$64,929	\$67,355
Capital Spending:				
Coated and supercalendered	\$11,258	\$10,966	\$17,569	\$21,274
Hardwood market pulp	2,251	2,023	3,924	3,364
Other	503	616	954	885
Total	\$14,012	\$13,605	\$22,447	\$25,523

(In thousands of U.S. dollars)	VERSO PAPER HOLDINGS LLC			
	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2010	2009	2010	2009
Net Sales:				
Coated and supercalendered	\$316,795	\$256,746	\$619,573	\$512,723
Hardwood market pulp	41,572	28,084	78,986	45,758
Other	42,680	13,285	66,134	26,708
Total	\$401,047	\$298,115	\$764,693	\$585,189
Operating Income (Loss):				
Coated and supercalendered	(21,425)	(36,597)	(47,043)	(56,984)
Hardwood market pulp	13,536	(9,862)	21,168	(18,749)
Other	(4,868)	(1,989)	(8,341)	(4,297)
Total	\$(12,757)	\$(48,448)	\$(34,216)	\$(80,030)
Depreciation, amortization, and depletion:				
Coated and supercalendered	\$25,281	\$27,496	\$51,089	\$56,398
Hardwood market pulp	4,688	4,555	9,341	8,869
Other	2,818	981	4,499	2,088
Total	\$32,787	\$33,032	\$64,929	\$67,355
Capital Spending:				
Coated and supercalendered	\$11,258	\$10,966	\$17,569	\$21,274
Hardwood market pulp	2,251	2,023	3,924	3,364
Other	503	616	954	885
Total	\$14,012	\$13,605	\$22,447	\$25,523

13. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Presented below are Verso Holdings' consolidating balance sheets, statements of operations, and statements of cash flows, as required by Rule 3-10 of Regulation S-X of the Securities Exchange Act of 1934, as amended. The consolidating financial statements have been prepared from Verso Holdings' financial information on the same basis of accounting as the consolidated financial statements. Investments in our subsidiaries are accounted for under the equity method. Accordingly, the entries necessary to consolidate Verso Holdings' subsidiaries that guaranteed the obligations under the debt securities described below are reflected in the Intercompany Eliminations column.

Verso Holdings, the "Parent Issuer," and its direct, wholly-owned subsidiary, Verso Paper Inc., the "Subsidiary Issuer," are the issuers of 11½% senior secured fixed rate notes due 2014, 9 % second-priority senior secured fixed rate notes due 2014, second-priority senior secured floating rate notes due 2014, and 11 % senior subordinated notes due 2014 (collectively, the "Notes"). The Notes are jointly and severally guaranteed on a full and unconditional basis by the Parent Issuer's 100% owned subsidiaries, excluding the Subsidiary Issuer and Bucksport Leasing LLC, collectively, the "Guarantor Subsidiaries." All subsidiaries other than the Guarantor Subsidiaries are minor.

Verso Paper Holdings LLC
Condensed Consolidating Balance Sheet
June 30, 2010

(In thousands of U.S. dollars)	Parent Issuer	Subsidiary Issuer	Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
ASSETS					
Current assets	\$-	\$-	\$401,220	\$-	\$401,220
Property, plant, and equipment, net	-	-	982,926	-	982,926
Intercompany receivable	1,222,839	-	-	(1,222,839)	-
Investment in subsidiaries	75,769	-	-	(75,769)	-
Non-current assets	-	-	101,832	-	101,832
Total assets	\$1,298,608	\$-	\$1,485,978	\$(1,298,608)	\$1,485,978
LIABILITIES AND MEMBER'S EQUITY					
Current liabilities	\$48,610	\$-	\$156,061	\$-	\$204,671
Intercompany payable	-	-	1,222,839	(1,222,839)	-
Long-term debt	1,147,515	-	-	-	1,147,515
Other long-term liabilities	-	-	31,309	-	31,309
Member's equity	102,483	-	75,769	(75,769)	102,483
Total liabilities and member's equity	\$1,298,608	\$-	\$1,485,978	\$(1,298,608)	\$1,485,978

Verso Paper Holdings LLC
Condensed Consolidating Balance Sheet
December 31, 2009

(In thousands of U.S. dollars)	Parent Issuer	Subsidiary Issuer	Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
ASSETS					
Current assets	\$ -	\$ -	\$ 426,837	\$ -	\$ 426,837
Property, plant, and equipment, net	-	-	1,022,622	-	1,022,622
Intercompany receivable	1,195,660	-	-	(1,195,660)	-
Investment in subsidiaries	169,874	-	-	(169,874)	-
Non-current assets	-	-	110,804	-	110,804
Total assets	\$ 1,365,534	\$ -	\$ 1,560,263	\$ (1,365,534)	\$ 1,560,263
LIABILITIES AND MEMBER'S EQUITY					
Current liabilities	\$ 49,268	\$ -	\$ 167,152	\$ -	\$ 216,420
Intercompany payable	-	-	1,195,660	(1,195,660)	-
Long-term debt	1,118,273	-	-	-	1,118,273
Other long-term liabilities	-	-	27,577	-	27,577
Member's equity	197,993	-	169,874	(169,874)	197,993
Total liabilities and member's equity	\$ 1,365,534	\$ -	\$ 1,560,263	\$ (1,365,534)	\$ 1,560,263

Verso Paper Holdings LLC
Condensed Consolidating Statements of Operations
Three Months Ended June 30, 2010

(In thousands of U.S. dollars)	Parent Issuer	Subsidiary Issuer	Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
Net sales	\$-	\$-	\$401,047	\$ -	\$401,047
Cost of products sold (exclusive of depreciation, amortization, and depletion)	-	-	364,458	-	364,458
Depreciation, amortization, and depletion	-	-	32,787	-	32,787
Selling, general, and administrative expenses	-	-	16,559	-	16,559
Interest income	(30,795)	-	(23)	30,795	(23)
Interest expense	30,795	-	30,502	(30,795)	30,502
Other income, net	-	-	(223)	-	(223)
Equity in net loss of subsidiaries	(43,013)	-	-	43,013	-
Net loss	\$(43,013)	\$-	\$(43,013)	\$ 43,013	\$(43,013)

Verso Paper Holdings LLC
Condensed Consolidating Statements of Operations
Six Months Ended June 30, 2010

(In thousands of U.S. dollars)	Parent Issuer	Subsidiary Issuer	Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
Net sales	\$ -	\$ -	\$ 764,693	\$ -	\$ 764,693
Cost of products sold (exclusive of depreciation, amortization, and depletion)	-	-	701,204	-	701,204
Depreciation, amortization, and depletion	-	-	64,929	-	64,929
Selling, general, and administrative expenses	-	-	32,776	-	32,776
Interest income	(61,288)	-	(62)	61,288	(62)
Interest expense	61,288	-	61,503	(61,288)	61,503
Other income, net	(255)	-	(468)	255	(468)
Equity in net loss of subsidiaries	(95,189)	-	-	95,189	-
Net loss	\$ (94,934)	\$ -	\$ (95,189)	\$ 94,934	\$ (95,189)

Verso Paper Holdings LLC
Condensed Consolidating Statements of Operations
Three Months Ended June 30, 2009

(In thousands of U.S. dollars)	Parent Issuer	Subsidiary Issuer	Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
Net sales	\$-	\$-	\$298,115	\$-	\$298,115
Cost of products sold (exclusive of depreciation, amortization, and depletion)	-	-	298,548	-	298,548
Depreciation, amortization, and depletion	-	-	33,032	-	33,032
Selling, general, and administrative expenses	-	-	14,880	-	14,880
Restructuring and other charges	-	-	103	-	103
Interest and dividend income	(26,516)	-	(21)	26,516	(21)
Interest expense	26,516	-	26,598	(26,516)	26,598
Other income, net	22,650	-	(46,201)	(22,650)	(46,201)
Equity in net loss of subsidiaries	(28,824)	-	-	28,824	-
Net loss	\$(51,474)	\$-	\$(28,824)	\$ 51,474	\$(28,824)

Verso Paper Holdings LLC
Condensed Consolidating Statements of Operations
Six Months Ended June 30, 2009

(In thousands of U.S. dollars)	Parent Issuer	Subsidiary Issuer	Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
Net sales	\$ -	\$ -	\$ 585,189	\$ -	\$ 585,189
Cost of products sold (exclusive of depreciation, amortization, and depletion)	-	-	567,488	-	567,488
Depreciation, amortization, and depletion	-	-	67,355	-	67,355
Selling, general, and administrative expenses	-	-	30,102	-	30,102
Restructuring and other charges	-	-	274	-	274
Interest and dividend income	(50,834)	-	(79)	50,834	(79)
Interest expense	50,834	-	51,314	(50,834)	51,314
Other income, net	13,747	-	(159,518)	(13,747)	(159,518)
Equity in net income of subsidiaries	28,253	-	-	(28,253)	-
Net income	\$ 14,506	\$ -	\$ 28,253	\$ (14,506)	\$ 28,253

Verso Paper Holdings LLC
Condensed Consolidating Statements of Cash Flows
Six Months Ended June 30, 2010

(In thousands of U.S. dollars)	Parent Issuer	Subsidiary Issuer	Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
Net cash used in operating activities	\$ -	\$ -	\$ (19,081)	\$ -	\$ (19,081)
Cash flows from investing activities:					
Proceeds from sale of fixed assets	-	-	268	-	268
Capital expenditures	-	-	(22,447)	-	(22,447)
Net cash used in investing activities	-	-	(22,179)	-	(22,179)
Cash flows from financing activities:					
Debt issuance costs	(1,174)	-	-	-	(1,174)
Advances to subsidiaries	(26,264)	-	26,264	-	-
Proceeds from long-term debt	27,438	-	-	-	27,438
Net cash provided by financing activities	-	-	26,264	-	26,264
Change in cash and cash equivalents	-	-	(14,996)	-	(14,996)
Cash and cash equivalents at beginning of period	-	-	149,762	-	149,762
Cash and cash equivalents at end of period	\$ -	\$ -	\$ 134,766	\$ -	\$ 134,766

Verso Paper Holdings LLC
Condensed Consolidating Statements of Cash Flows
Six Months Ended June 30, 2009

(In thousands of U.S. dollars)	Parent Issuer	Subsidiary Issuer	Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
Net cash provided by operating activities	\$ -	\$ -	\$ 8,012	\$ -	\$ 8,012
Cash flows from investing activities:					
Capital expenditures	-	-	(25,523)	-	(25,523)
Investment in subsidiaries	(21,363)	-	21,363	-	-
Return of investment in subsidiaries	11,158	-	(11,158)	-	-
Net cash used in investing activities	(10,205)	-	(15,318)	-	(25,523)
Cash flows from financing activities:					
Debt issuance costs	(9,915)	-	-	-	(9,915)
Cash distributions	(11,158)	-	-	-	(11,158)
Advances to subsidiaries	(342,922)	-	342,922	-	-
Repayment of advances to subsidiaries	324,088	-	(324,088)	-	-
Proceeds from long-term debt	352,838	-	-	-	352,838

Edgar Filing: Verso Paper Holdings LLC - Form 10-Q

Payments on long-term debt	(302,726)	-	-	-	(302,726)
Net cash provided by financing activities	10,205	-	18,834	-	29,039
Change in cash and cash equivalents	-	-	11,528	-	11,528
Cash and cash equivalents at beginning of period	-	-	119,520	-	119,520
Cash and cash equivalents at end of period	\$ -	\$ -	\$ 131,048	\$ -	\$ 131,048

30

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading North American supplier of coated papers to catalog and magazine publishers. Coated paper is used primarily in media and marketing applications, including catalogs, magazines, and commercial printing applications such as high-end advertising brochures, annual reports, and direct mail advertising. We are one of North America's largest producers of coated groundwood paper which is used primarily for catalogs and magazines. We are also a low cost producer of coated freesheet paper which is used primarily for annual reports, brochures, and magazine covers. In addition, we have a strategic presence in supercalendered paper which is primarily used for retail inserts and specialty papers. We also produce and sell market kraft pulp which is used to manufacture printing and writing paper grades and tissue products.

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and notes thereto included elsewhere in this quarterly report. All assets, liabilities, income, expenses and cash flows presented for all periods represent those of Verso Paper's indirect, wholly-owned subsidiary, Verso Holdings, in all material respects, except for Verso Paper's common stock transactions and Verso Finance's debt obligation and related financing costs and interest expense. Unless otherwise noted, the information provided pertains to both Verso Paper and Verso Holdings.

Financial Summary

Coated paper shipments for the second quarter of 2010 increased 4% compared to the first quarter of 2010 and improved significantly, increasing 41%, compared to the second quarter of 2009. Year over year market conditions have improved due to an improving economy, permanent and temporary capacity reductions in the industry, and new product development initiatives. Coated paper prices for the second quarter of 2010 increased 1.0% from the first quarter of 2010 as we began to implement previously announced price increases totaling \$70 to \$90 per ton. However, coated paper prices for the second quarter of 2010 were below last year's second quarter levels as prices declined throughout 2009 due to weak demand resulting from the global economic recession.

Our net sales for the second quarter of 2010 increased \$103.0 million, or 34.5%, as sales volume grew 36.0% compared to last year's second quarter. Compared to the first quarter of 2010, net sales for the second quarter of 2010 increased 10.3% as sales volume grew 6.9%. The average sales price for all of our products decreased 1.1% from the second quarter of 2009; however, on a sequential quarter basis our average sales price for all of our products increased 3.2% as coated paper prices began to increase and the average sales price for pulp continued to rise. Verso's gross margin was 9.1% for the second quarter of 2010 compared to (0.1)% for the same period in 2009. The improvement in our gross margin reflects no market-related downtime taken in the second quarter of 2010 compared to over 153,000 tons of market downtime taken in the second quarter of 2009, which resulted in \$33.5 million of unabsorbed costs.

We continue to assess and implement, as appropriate, various cost reduction initiatives. Our company-wide cost reduction program produced approximately \$10 million of savings during the second quarter of 2010. Management expects this program to yield an additional \$31 million in cost reductions over the next twelve months and continues to search for and develop additional cost savings opportunities. Included in this program are productivity improvements, material usage reductions, energy usage reductions, labor cost savings, material and chemical substitution, and workforce planning improvements.

We also continue to develop and execute our renewable energy strategies. In the first half of 2010, we received \$2.1 million in reimbursements from a \$9.3 million American Recovery and Reinvestment Act of 2009 grant for the deployment of waste energy recovery technologies. In addition, we announced the launch of a \$43 million renewable energy project at our mill in Quinnesec, Michigan, which will position the mill to meet more than 95% of its energy needs using renewable biomass sources.

Included in our results for the second quarter and first half of 2009 were \$37.8 million and \$142.4 million, respectively, in pre-tax net benefits from alternative fuel mixture tax credits provided by the U.S. government for our use of black liquor in alternative fuel mixtures. Since the tax credit, as it relates to liquid fuels derived from biomass, expired on December 31, 2009, we did not recognize any benefit from this tax credit in 2010. Additionally, for the second quarter and first half of 2009, we recognized \$25.5 million and \$34.2 million, respectively, in pre-tax net gains from the early retirement of debt at a discount.

Results of Operations

The following tables provide the results of operations of Verso Paper and Verso Holdings for the periods indicated.

(In thousands of U.S. dollars)	VERSO PAPER CORP.			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net sales	\$ 401,047	\$ 298,115	\$ 764,693	\$ 585,189
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	364,458	298,548	701,204	567,488
Depreciation, amortization, and depletion	32,787	33,032	64,929	67,355
Selling, general, and administrative expenses	16,559	14,904	32,828	30,291
Restructuring and other charges	-	103	-	274
Operating loss	(12,757)	(48,472)	(34,268)	(80,219)
Interest income	(23)	(21)	(62)	(79)
Interest expense	31,872	28,497	64,194	55,582
Other income, net	(223)	(66,691)	(467)	(180,008)
Net income (loss)	\$ (44,383)	\$ (10,257)	\$ (97,933)	\$ 44,286

VERSO PAPER HOLDINGS LLC

(In thousands of U.S. dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales	\$401,047	\$298,115	\$764,693	\$585,189
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	364,458	298,548	701,204	567,488
Depreciation, amortization, and depletion	32,787	33,032	64,929	67,355
Selling, general, and administrative expenses	16,559	14,880	32,776	30,102
Restructuring and other charges	-	103	-	274
Operating loss	(12,757)	(48,448)	(34,216)	(80,030)
Interest income	(23)	(21)	(62)	(79)
Interest expense	30,502	26,598	61,503	51,314
Other income, net	(223)	(46,201)	(468)	(159,518)
Net income (loss)	\$(43,013)	\$(28,824)	\$(95,189)	\$28,253

Second Quarter of 2010 Compared to Second Quarter of 2009

Net Sales. Net sales for the second quarter of 2010 increased 34.5% to \$401.1 million from \$298.1 million in the second quarter of 2009 primarily due to a 36.0% increase in total sales volume, which reflects the improved economic conditions. The average sales price per ton for all of our products decreased 1.1% from the second quarter of 2009.

Net sales for our coated and supercalendered papers segment increased 23.4% in the second quarter of 2010 to \$316.8 million from \$256.7 million for the same period in 2009 as the positive impact of a 40.7% increase in paper sales volume was partially offset by a 12.3% decrease in the average paper sales price per ton. Average sales prices for coated papers decreased steadily throughout 2009 in response to weak demand. On a sequential quarter basis, average sales prices for coated papers increased 1.0% as we began to implement price increases.

Net sales for our market pulp segment increased 48.0% to \$41.6 million in the second quarter of 2010 from \$28.1 million for the same period in 2009. This improvement reflects an 88.7% increase in average sales price per ton, the effects of which were partially offset by a 21.5% decline in sales volume, compared to the second quarter of 2009.

Net sales for our other segment increased 221.3% to \$42.7 million in the second quarter of 2010 from \$13.3 million in the second quarter of 2009. The improvement in 2010 is due to a 255.4% increase in sales volume, reflecting the continued development of new paper product offerings for our customers. Average sales price per ton decreased 9.6% compared to the second quarter of 2009, primarily due to changes in the mix of products being sold.

Cost of sales. Cost of sales, including depreciation, amortization, and depletion, was \$397.2 million in the second quarter of 2010 compared to \$331.5 million for the same period in 2009, primarily reflecting the increase in sales volume. Our gross margin, excluding depreciation, amortization, and depletion, was 9.1% for the second quarter of 2010 compared to (0.1)% for the second quarter of 2009. The compression in gross margin during the second quarter of 2009 reflects \$33.5 million of unabsorbed costs resulting from over 153,000 tons of market downtime. Depreciation, amortization, and depletion expenses were \$32.8 million in the second quarter of 2010 compared to \$33.0 million in the second quarter of 2009.

Selling, general, and administrative. Selling, general, and administrative expenses were \$16.6 million in the second quarter of 2010 compared to \$14.9 million for the same period in 2009.

Interest expense. Interest expense for the second quarter of 2010 was \$31.9 million compared to \$28.5 million for the same period in 2009. The increase in interest expense was primarily due to higher interest rates on outstanding debt in the second quarter of 2010.

Other income. Other income was \$0.3 million for the second quarter of 2010, compared to \$66.7 million for the second quarter of 2009. Included in the results for 2009 were \$37.8 million in pre-tax net benefits from alternative fuel mixture tax credits provided by the U.S. government for our use of black liquor in alternative fuel mixtures. Since the tax credit, as it relates to liquid fuels derived from biomass, expired on December 31, 2009, we did not recognize any benefit from this tax credit in the second quarter of 2010. Verso also recognized \$25.5 million in pre-tax net gains from the early retirement of debt at a discount in the second quarter of 2009.

First Six Months of 2010 Compared to First Six Months of 2009

Net Sales. Net sales for the six months ended June 30, 2010, increased 30.7% to \$764.7 million from \$585.2 million as total sales volume increased 42.4% compared to last year, reflecting improved economic conditions. This increase was partially offset by an 8.3% decline in the average sales price per ton for all of our products, primarily reflecting the decline of coated paper prices throughout 2009.

Net sales for our coated and supercalendered papers segment increased 20.8% to \$619.6 million for the six months ended June 30, 2010, from \$512.7 million for the six months ended June 30, 2009. This improvement reflects a 43.3% increase in paper sales volume, while the average paper sales price per ton for the six months ended June 30, 2010, decreased 15.7% compared to the same period last year.

Net sales for our market pulp segment increased 72.6% to \$79.0 million for the six months ended June 30, 2010, from \$45.8 million for the same period in 2009. This increase was due to a 62.1% increase in average sales price per ton combined with a 6.5% increase in sales volume compared to the six months ended June 30, 2009.

Net sales for our other segment increased 147.6% to \$66.1 million for the six months ended June 30, 2010, from \$26.7 million for the six months ended June 30, 2009. The improvement in 2010 is due to a 174.9% increase in sales volume, reflecting the development of new paper product offerings for our customers. Partially offsetting this increase was a 9.9% decrease in the average sales price per ton compared to the six months ended June 30, 2009.

Cost of sales. Cost of sales, including depreciation, amortization, and depletion, increased 20.7% to \$766.1 million for the six months ended June 30, 2010, compared to \$634.8 million for the same period last year, primarily reflecting the increase in sales volume. Our gross margin, excluding depreciation, amortization, and depletion, was 8.3% for the six months ended June 30, 2010, compared to 3.0% for the six months ended June 30, 2009, reflecting \$64.8 million of unabsorbed costs resulting from approximately 290,000 tons of market downtime taken during the six months ended June 30, 2009. Depreciation, amortization, and depletion expenses were \$64.9 million for the six months ended June 30, 2010, compared to \$67.3 million for the six months ended June 30, 2009.

Selling, general, and administrative. Selling, general, and administrative expenses were \$32.8 million for the six months ended June 30, 2010, compared to \$30.3 million for the same period in 2009.

Interest expense. Interest expense for the six months ended June 30, 2010 was \$64.2 million compared to \$55.6 million for the same period in 2009. The increase in interest expense was primarily due to higher interest rates on outstanding debt in 2010.

Other income. Other income was \$0.5 million for the six months ended June 30, 2010 compared to \$180.0 million for the six months ended June 30, 2009. Included in the results for 2009 were \$142.4 million in net benefits from alternative fuel mixture tax credits provided by the U.S. government for our use of black liquor in alternative fuel mixtures and \$34.2 million in net gains related to the early retirement of debt.

Seasonality

We are exposed to fluctuations in quarterly net sales volumes and expenses due to seasonal factors. These seasonal factors are common in the coated paper industry. Typically, the first two quarters are our slowest quarters due to lower demand for coated paper during this period. Our third quarter is generally our strongest quarter, reflecting an increase in printing related to end-of-year magazines, increased end-of-year direct mailings, and holiday season catalogs. Our working capital and accounts receivable generally peak in the third quarter, while inventory generally peaks in the second quarter in anticipation of the third quarter season. We expect our seasonality trends to continue for the foreseeable future.

Liquidity and Capital Resources

We rely primarily upon cash flow from operations and borrowings under our revolving credit facility to finance operations, capital expenditures, and fluctuations in debt service requirements. We believe that our ability to manage cash flow and working capital levels, particularly inventory and accounts payable, will allow us to meet our current and future obligations, make scheduled principal and interest payments, and provide funds for working capital, capital expenditures, and other needs of the business for at least the next twelve months. However, given the uncertainty of the current economic environment, no assurance can be given that we will be able to generate sufficient cash flows from operations or that future borrowings will be available under our revolving credit facility in an amount sufficient to fund our liquidity needs. As of June 30, 2010, \$151.8 million was available for future borrowing under our revolving credit facility. As we focus on managing our expenses and cash flows, we continue to assess and implement, as appropriate, various earnings enhancement and expense reduction initiatives. Management has developed a company-wide cost reduction program which produced approximately \$10 million of savings in the second quarter of 2010, and \$19 million in the first half of 2010, compared to approximately \$16 million in the second quarter of 2009, and \$26 million in the first half of 2009. Management expects this program to yield an additional \$31 million in cost reductions over the next twelve months and continues to search for and develop additional cost savings measures.

Net cash flows from operating activities. Verso Paper's net cash used in operating activities of \$21.3 million for the six months ended June 30, 2010, was primarily attributable to net losses of \$97.9 million net of non-cash depreciation, amortization, depletion and accretion charges of \$69.5 million. Net cash provided by operating activities of \$6.8 million for the six months ended June 30, 2009, was primarily due net income of \$44.3 million for the six months ended June 30, 2009, which includes \$142.4 million in net benefits from alternative fuel mixture tax credits, partially offset by changes in working capital, which included a decline in accounts payable and accrued liabilities and an increase in accounts receivable. The decline in accounts payable was related to the large amount of market-related machine downtime taken in response to challenging market conditions. Additionally, the increase in accounts receivable was primarily due to accruals for alternative fuel mixture tax credits. The tax credit, as it relates to liquid fuels derived from biomass, expired on December 31, 2009. Verso Holdings' net cash used in operating activities was \$19.1 million for the six months ended June 30, 2010, compared to net cash provided by operating activities of \$8.0 million for the six months ended June 30, 2009. Verso Holdings' operating cash flows are the same as those of Verso

Paper in all material respects.

35

Net cash flows from investing activities. For the six months ended June 30, 2010, Verso Paper used \$22.2 million of net cash in investing activities due to investments in capital expenditures, compared to \$25.5 million of net cash used in investing activities for the six months ended June 30, 2009, due to investments in capital expenditures. Verso Holdings' investing cash flows are the same as those of Verso Paper.

Net cash flows from financing activities. Verso Paper's net cash provided by financing activities was \$26.3 million for the six months ended June 30, 2010, reflecting \$26.3 million in proceeds from the issuance of \$25.0 million in senior secured notes including premium and net of underwriting fees and issuance costs. This compares to net cash provided by financing activities of \$39.7 million for the six months ended June 30, 2009, reflecting \$289.0 million in proceeds from the issuance of \$325.0 million in senior secured notes net of discount, underwriting fees, and issuance costs and \$18.9 million in draws on our revolving credit facility, partially offset by principal payments and debt repurchases of \$268.2 million on long-term debt. Verso Holdings' net cash provided by financing activities was \$26.3 million for the six months ended June 30, 2010, compared to net cash provided by financing activities of \$29.0 million for the six months ended June 30, 2009. Verso Holdings' financing cash flows are principally the same as those of Verso Paper. However, in 2009, Verso Holdings made additional cash distributions of \$10.0 million to Verso Finance One in order to accommodate additional repurchases of debt and paid \$1.1 million of expenses on behalf of Verso Paper.

Indebtedness. As of June 30, 2010, Verso Paper's aggregate indebtedness was \$1,224.1 million, net of \$19.8 million of unamortized discounts. As of June 30, 2010, Verso Holdings' aggregate indebtedness was \$1,147.5 million, net of \$19.8 million of unamortized discounts.

On June 30, 2010, Verso Holdings' funded indebtedness consisted of the following:

- \$200 million revolving credit facility maturing in 2012, under which no amounts were outstanding, \$32.4 million in letters of credit were issued, and \$151.8 million was available for future borrowing as of June 30, 2010. The borrowing capacity under our revolving credit facility has been reduced by \$15.8 million as a result of the bankruptcy of Lehman Commercial Paper, Inc., "Lehman." As a result of Lehman's inability to fulfill its obligation under the revolving credit facility, we do not expect that Lehman will fund its pro rata share of any future borrowing requests.
 - \$350 million aggregate principal amount of 11½% senior secured fixed rate notes due 2014;
 - \$337 million aggregate principal amount of 9 % second priority senior secured fixed rate notes due 2014;
 - \$180 million aggregate principal amount of second priority senior secured floating rate notes due 2014; and
 - \$300 million aggregate principal amount of 11 % senior subordinated fixed rate notes due 2016.

The revolving credit facility bears interest at a rate equal to LIBOR plus 3.00% and/or Prime plus 2.00%. Verso Holdings is required to pay a commitment fee to the lenders under the revolving credit facility in respect of unutilized commitments at a rate equal to 0.50% per annum and customary letter of credit and agency fees. The revolving credit facility is secured by first priority security interests in, and mortgages on, substantially all tangible and intangible assets of Verso Holdings and each of its direct and indirect subsidiaries. It is also secured by first priority pledges of all the equity interests owned by Verso Holdings in its subsidiaries. The obligations under the revolving credit facility are unconditionally guaranteed by Verso Finance and, subject to certain exceptions, each of its direct and indirect subsidiaries. On June 3, 2009, the credit agreement was amended and restated to provide for the issuance of the 11½% senior secured notes due 2014 (see below), which are secured on a ratable and pari passu basis with the revolving credit facility. The amendment also, among other things, increased the applicable margin for the interest rate on borrowings under the revolving credit facility to 3.0% for Eurodollar loans and 2.0% for base rate loans and

eliminated the requirement to maintain a net first-lien secured debt to Adjusted EBITDA ratio, providing us with additional business flexibility.

On June 11, 2009, Verso Holdings issued \$325.0 million aggregate principal amount of 11½% senior secured notes due 2014. The senior secured notes pay interest semi-annually. The senior secured notes are secured by substantially all of the property and assets of Verso Holdings and each of its direct and indirect subsidiaries. The notes are secured on a ratable and pari passu basis with the revolving credit facility. The net proceeds, after deducting the discount, underwriting fees, and issuance costs, were \$288.6 million, which funds were used to repay in full \$252.9 million outstanding on Verso Holdings' first priority term loan and to temporarily reduce the debt outstanding under the revolving credit facility by \$35.0 million. On January 15, 2010, Verso Holdings issued an additional \$25.0 million aggregate principal amount of the senior secured notes under the same indenture. The additional senior secured notes were treated as a single series with and have the same terms as the senior secured notes issued in June 2009. The net proceeds including premium, after deducting underwriting fees and offering expenses, were \$26.3 million.

The 9 % second priority senior secured fixed rate notes due 2014 pay interest semi-annually. The second priority senior secured floating rate notes bear interest at a rate equal to LIBOR plus 3.75% and pay interest quarterly. As of June 30, 2010, the interest rate was 4.09%. The 11 % senior subordinated notes pay interest semi-annually. The second priority senior secured fixed rate and floating rate notes have the benefit of a second priority security interest in the collateral securing the revolving credit facility, while the senior subordinated notes are unsecured.

Additionally, Verso Finance has \$76.6 million aggregate principal amount outstanding on its senior unsecured floating-rate term loan which matures in 2013. The term loan allows Verso Finance to pay interest either in cash or in-kind through the accumulation of the outstanding principal amount. The term loan bears interest at a rate equal to LIBOR plus 6.25% on interest payments made in cash and LIBOR plus 7.00% for interest paid in-kind, or "PIK," and added to the principal balance. The weighted-average interest rate in effect on June 30, 2010, on the term loan was 6.68%. Verso Finance elected to exercise the PIK option for \$2.5 million of interest payments due in the first half of 2010.

As a holding company, Verso Paper's investments in its operating subsidiaries constitute substantially all of its operating assets. Consequently, Verso Paper's subsidiaries conduct all of its consolidated operations and own substantially all of its operating assets. Verso Paper's principal source of the cash it needs to pay its debts is the cash that its subsidiaries generate from their operations and their borrowings. Verso Paper's subsidiaries are not obligated to make funds available to it. The terms of the revolving credit facility and the indentures governing the outstanding notes of Verso Paper's subsidiaries significantly restrict its subsidiaries from paying dividends and otherwise transferring assets to Verso Paper. Furthermore, Verso Paper's subsidiaries will be permitted under the terms of the revolving credit facility and the indentures to incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends, or the making of loans by such subsidiaries to Verso Paper. Although the terms of the debt agreements of Verso Paper's subsidiaries do not restrict its operating subsidiaries from obtaining funds from their respective subsidiaries to fund their operations and payments on indebtedness, there can be no assurance that the agreements governing the current and future indebtedness of its subsidiaries will permit its subsidiaries to provide Verso Paper with sufficient dividends, distributions or loans to fund its obligations or pay dividends to its stockholders.

We may elect to retire our outstanding debt in open market purchases, privately negotiated transactions, or otherwise. These repurchases may be funded through available cash from operations and borrowings under our revolving credit facility. Such repurchases are dependent on prevailing market conditions, the Company's liquidity requirements, contractual restrictions, and other factors.

Covenant Compliance

The credit agreement and the indentures governing our notes contain affirmative covenants as well as restrictive covenants which limit our ability to, among other things, incur additional indebtedness; pay dividends or make other distributions; repurchase or redeem our stock; make investments; sell assets, including capital stock of restricted subsidiaries; enter into agreements restricting our subsidiaries' ability to pay dividends; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; enter into transactions with our affiliates; and incur liens. These covenants can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. As of June 30, 2010, we were in compliance in all material respects with the covenants in our debt agreements.

Critical Accounting Policies

Our accounting policies are fundamental to understanding management's discussion and analysis of financial condition and results of operations. Our consolidated condensed financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industry in which we operate. The preparation of the financial statements requires management to make certain judgments and assumptions in determining accounting estimates. Accounting estimates are considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and different estimates reasonably could have been used in the current period, or changes in the accounting estimate are reasonably likely to occur from period to period, that would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations.

Management believes the following critical accounting policies are both important to the portrayal of our financial condition and results of operations and require subjective or complex judgments. These judgments about critical accounting estimates are based on information available to us as of the date of the financial statements.

Accounting standards whose application may have a significant effect on the reported results of operations and financial position, and that can require judgments by management that affect their application, include the following: ASC Topic 450, Contingencies, ASC Topic 360, Property, Plant, and Equipment, ASC Topic 350, Intangibles – Goodwill and Other, and ASC Topic 715, Compensation – Retirement Benefits.

Impairment of long-lived assets and goodwill. Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances that indicate that the carrying value of the assets may not be recoverable, as measured by comparing their net book value to the estimated undiscounted future cash flows generated by their use.

Goodwill and other intangible assets are accounted for in accordance with ASC Topic 350. Intangible assets primarily consist of trademarks, customer-related intangible assets and patents obtained through business acquisitions. Impairment is the condition that exists when the carrying amount of these assets exceed their implied fair value. An impairment evaluation of the carrying amount of goodwill and other intangible assets with indefinite lives is conducted annually or more frequently if events or changes in circumstances indicate that an asset might be impaired. The Company has identified the following trademarks as intangible assets with an indefinite life: Influence®, Liberty®, and Advocate®. Goodwill is evaluated at the reporting unit level and has been allocated to the “Coated” segment. The valuation as of October 1, 2009, indicated no impairment of goodwill or trademarks assigned indefinite lives.

The evaluation for impairment is performed by comparing the carrying amount of these assets to their estimated fair value. If impairment is indicated, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is generally determined on the basis of discounted future cash flows. Management believes the accounting estimates associated with determining fair value as part of the impairment test is a critical accounting estimate because estimates and assumptions are made about the Company’s future performance and cash flows. While management uses the best information available to estimate future performance and cash flows, future adjustments to management’s projections may be necessary if economic conditions differ substantially from the assumptions used in making the estimates.

Pension Benefit Obligations. We offer various pension plans to employees. The calculation of the obligations and related expenses under these plans requires the use of actuarial valuation methods and assumptions, including the expected long-term rate of return on plan assets, discount rates, projected future compensation increases, health care cost trend rates, and mortality rates. Actuarial valuations and assumptions used in the determination of future values of plan assets and liabilities are subject to management judgment and may differ significantly if different assumptions are used.

Contingent liabilities. A liability is contingent if the outcome or amount is not presently known, but may become known in the future as a result of the occurrence of some uncertain future event. We estimate our contingent liabilities based on management’s estimates about the probability of outcomes and their ability to estimate the range of exposure. Accounting standards require that a liability be recorded if management determines that it is probable that a loss has occurred and the loss can be reasonably estimated. In addition, it must be probable that the loss will be confirmed by some future event. As part of the estimation process, management is required to make assumptions about matters that are by their nature highly uncertain.

The assessment of contingent liabilities, including legal contingencies, asset retirement obligations, and environmental costs and obligations, involves the use of critical estimates, assumptions, and judgments. Management’s estimates are based on their belief that future events will validate the current assumptions regarding the ultimate outcome of these exposures. However, there can be no assurance that future events will not differ from management’s assessments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from fluctuations in our paper prices, interest rates, energy prices, and commodity prices for our inputs.

Paper Prices

Our sales, which we report net of rebates, allowances, and discounts, are a function of the number of tons of paper that we sell and the price at which we sell our paper. The coated paper industry is cyclical, which results in changes in both volume and price. Paper prices historically have been a function of macro-economic factors, which influence supply and demand. Price has historically been substantially more variable than volume and can change significantly over relatively short time periods.

We are primarily focused on serving two end-user segments: catalogs and magazines. Coated paper demand is primarily driven by advertising and print media usage. Advertising spending and magazine and catalog circulation tend to correlate with GDP in the United States - they rise with a strong economy and contract with a weak economy.

The majority of our products are sold under contracts with our customers; however, coated freesheet paper is sold without a contract more often than coated groundwood paper. Our contracts generally specify the volumes to be sold to the customer over the contract term, as well as the pricing parameters for those sales. Most of our contracts are negotiated on an annual basis, with only a few having terms extending beyond one year. Typically, our contracts provide for quarterly price adjustments based on market price movements. The large portion of contracted sales allows us to plan our production runs well in advance, optimizing production over our integrated mill system and thereby reducing costs and increasing overall efficiency.

We reach our end-users through several channels, including printers, brokers, paper merchants, and direct sales to end-users. We sell and market our products to approximately 100 customers. During the six months ended June 30, 2010, no single customer accounted for more than 10% of our total net sales.

Interest Rates

We have issued fixed- and floating-rate debt in order to manage our variability to cash flows from interest rates. Borrowings under the revolving credit facility, the second priority senior secured floating rate notes, and Verso Finance's senior unsecured term loan accrue interest at variable rates; however, there were no amounts outstanding under the revolving credit facility as of June 30, 2010. A 100 basis point increase in quoted interest rates on Verso Paper's outstanding floating-rate debt as of June 30, 2010, would increase annual interest expense by \$2.6 million (of which \$0.8 million is attributable to Verso Finance's senior unsecured term loan on which we have elected to pay interest in kind). A 100 basis point increase in quoted interest rates on Verso Holdings' outstanding floating-rate notes as of June 30, 2010, would increase annual interest expense by \$1.8 million. While we may enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

Derivatives

In the normal course of business, we utilize derivatives contracts as part of our risk management strategy to manage our 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. We have an Energy Risk Management Policy which was adopted by our board of directors and is monitored by an Energy Risk Management Committee composed of our senior management. In addition, we have an Interest Rate Risk Committee which was formed to monitor our Interest Rate Risk Management Policy.

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. We manage 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 or interest rates. We manage market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken.

We do not hedge the entire exposure of our operations from commodity price volatility for a variety of reasons. To the extent that we do not hedge against commodity price volatility, our results of operations may be affected either favorably or unfavorably by a shift in the future price curve. As of June 30, 2010, we had net unrealized losses of \$3.8 million on open commodity contracts with maturities of one to 13 months. These derivative instruments 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. A 10% decrease in commodity prices would have a negative impact of approximately \$2.2 million on the fair value of such instruments. This quantification of exposure to market risk does not take into account the offsetting impact of changes in prices on anticipated future energy purchases.

Commodity Prices

We are subject to changes in our cost of sales caused by movements underlying commodity prices. The principal components of our cost of sales are chemicals, wood, energy, labor, maintenance, and depreciation, amortization, and depletion. Costs for commodities, including chemicals, wood, and energy, are the most variable component of our cost of sales because their prices can fluctuate substantially, sometimes within a relatively short period of time. In addition, our aggregate commodity purchases fluctuate based on the volume of paper that we produce.

Chemicals. Chemicals utilized in the manufacturing of coated papers include latex, starch, calcium carbonate, and titanium dioxide. We purchase these chemicals from a variety of suppliers and are not dependent on any single supplier to satisfy our chemical needs. We expect imbalances in supply and demand to periodically create volatility in prices for certain chemicals.

Wood. Our costs to purchase wood are affected directly by market costs of wood in our regional markets and indirectly by the effect of higher fuel costs on logging and transportation of timber to our facilities. While we have in place fiber supply agreements that ensure a substantial portion of our wood requirements, purchases under these agreements are typically at market rates.

Energy. We produce a large portion of our energy requirements, historically producing approximately 50% of our energy needs for our coated paper mills from sources such as waste wood and paper, hydroelectric facilities, chemicals from our pulping process, our own steam recovery boilers, and internal energy cogeneration facilities. Our external energy purchases vary across each of our mills and include fuel oil, natural gas, coal, and electricity. While our internal energy production capacity mitigates the volatility of our overall energy expenditures, we expect prices for energy to remain volatile for the foreseeable future and our energy costs to increase in a high energy cost environment. As prices fluctuate, we have some ability to switch between certain energy sources in order to minimize costs. We utilize derivatives contracts as part of our risk management strategy to manage our exposure to market fluctuations in energy prices.

Off-Balance Sheet Arrangements

None.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in reports that we file and submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There are inherent limitations to the effectiveness of any disclosure controls and procedures, including the possibility of human error or the circumvention or overriding of the controls and procedures, and even effective disclosure controls and procedures can provide only reasonable assurance of achieving their objectives. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2010. Based upon this evaluation, and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2010.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the fiscal quarter ended June 30, 2010, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in legal proceedings incidental to the conduct of our business. We do not believe that any liability that may result from these proceedings will have a material adverse effect on our financial statements.

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors affecting us from those set forth in “Part I – Item 1A. Risk Factors” in our Annual Reports on Form 10-K for the year ended December 31, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. (Removed and Reserved)

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following exhibits are included with this report:

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Verso Paper Corp.(1)
3.2	Amended and Restated Bylaws of Verso Paper Corp.(1)
3.3	Certificate of Formation of Verso Paper Holdings LLC filed June 6, 2006, as amended by Certificates of Amendment filed June 13, 2006, June 23, 2006, and June 26 2006.(2)
3.4	Amended and Restated Limited Liability Company Agreement of Verso Paper Holdings LLC dated as of January 25, 2007.(2)
12	Computation of Ratio of Earnings to Fixed Charges for Verso Paper Holdings LLC.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.
32.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(b) under Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of United States Code.
32.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(b) under Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of United States Code.

(1) Incorporated by reference to Verso Paper Corp.'s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on December 20, 2007, as amended (Registration Statement No. 333-148201).

(2) Incorporated by reference to Verso Paper Holding LLC's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission on March 12, 2008.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 11, 2010

VERSO PAPER CORP.

By:

/s/ Michael A. Jackson
Michael A. Jackson
President and Chief Executive
Officer

By:

/s/ Robert P. Mundy
Robert P. Mundy
Senior Vice President and Chief
Financial Officer

Date: August 11, 2010

VERSO PAPER HOLDINGS LLC

By:

/s/ Michael A. Jackson
Michael A. Jackson
President and Chief Executive
Officer

By:

/s/ Robert P. Mundy
Robert P. Mundy
Senior Vice President and Chief
Financial Officer

EXHIBIT INDEX

The following exhibits are included with this report:

Exhibit

Number Description

- | | |
|------|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Verso Paper Corp.(1) |
| 3.2 | Amended and Restated Bylaws of Verso Paper Corp.(1) |
| 3.3 | Certificate of Formation of Verso Paper Holdings LLC filed June 6, 2006, as amended by Certificates of Amendment filed June 13, 2006, June 23, 2006, and June 26 2006.(2) |
| 3.4 | Amended and Restated Limited Liability Company Agreement of Verso Paper Holdings LLC dated as of January 25, 2007.(2) |
| 12 | Computation of Ratio of Earnings to Fixed Charges for Verso Paper Holdings LLC. |
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934. |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934. |
| 32.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14(b) under Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of United States Code. |
| 32.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14(b) under Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of United States Code. |

(1) Incorporated by reference to Verso Paper Corp.'s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on December 20, 2007, as amended (Registration Statement No. 333-148201).

(2) Incorporated by reference to Verso Paper Holding LLC's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission on March 12, 2008.