

Verso Paper Corp.
Form 10-Q
November 07, 2013

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 September 30, 2013

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

Delaware (State of Incorporation or Organization)	333-142283 (Commission File Number)	56-2597634 (IRS Employer Identification Number)
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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.

Verso Paper Corp.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Verso Paper Holdings LLC	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> 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

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this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Verso Paper Corp. Yes No

Verso Paper Holdings LLC Yes No

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

Verso Paper Corp.

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

Verso Paper Holdings

LLC

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

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

Verso Paper Corp. Yes No

Verso Paper Holdings LLC Yes No

As of October 31, 2013, Verso Paper Corp. had 53,172,484 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.

Entity Names and Organization

Within our organization, Verso Paper Corp. is the ultimate parent entity and the sole member of Verso Paper Finance Holdings One LLC, which is the sole member of Verso Paper Finance Holdings LLC, which is the sole member of Verso Paper Holdings LLC. As used in this report, the term “Verso Paper” refers to Verso Paper Corp.; the term “Verso Finance” refers to Verso Paper Finance Holdings LLC; the term “Verso Holdings” refers to Verso Paper Holdings LLC; and the term for any such entity includes its direct and indirect subsidiaries when referring to the entity’s consolidated financial condition or results. Unless otherwise noted, references to “Verso,” “we,” “us,” and “our” refer collectively to Verso Paper and Verso Holdings. Other than Verso Paper’s common stock transactions, Verso Finance’s debt obligation and related financing costs and interest expense, Verso Holdings’ loan to Verso Finance, and the debt obligation of Verso Holdings’ consolidated variable interest entity to Verso Finance, 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 other similar expressions. Forward-looking statements are based on currently available business, economic, financial, and other information and reflect management’s current beliefs, expectations, and views with respect to future developments and their potential effects on us. Actual results could vary materially depending on risks and uncertainties that may affect us and our business. For a discussion of such risks and uncertainties, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this quarterly report and to Verso Paper’s and Verso Holdings’ other filings with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statement made in this quarterly report to reflect subsequent events or circumstances or actual outcomes.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)	VERSO PAPER		VERSO HOLDINGS	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
ASSETS				
Current assets:				
Cash and cash equivalents	\$9,253	\$61,525	\$9,197	\$61,470
Accounts receivable, net	107,864	100,888	107,991	101,014
Inventories	138,430	131,467	138,430	131,467
Assets held for sale	50	24,867	50	24,867
Prepaid expenses and other assets	9,690	4,026	9,690	3,996
Total current assets	265,287	322,773	265,358	322,814
Property, plant, and equipment, net	741,922	793,031	741,922	793,031
Intangibles and other assets, net	87,151	93,127	110,456	116,432
Total assets	\$1,094,360	\$1,208,931	\$1,117,736	\$1,232,277
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	\$82,767	\$92,079	\$82,767	\$92,079
Accrued liabilities	84,294	120,180	84,405	119,121
Current maturities of long-term debt	13,310	8,501	13,310	—
Liabilities related to assets held for sale	—	176	—	176
Total current liabilities	180,371	220,936	180,482	211,376
Long-term debt	1,257,969	1,248,458	1,281,274	1,187,052
Other liabilities	65,558	61,223	58,783	54,448
Total liabilities	1,503,898	1,530,617	1,520,539	1,452,876
Commitments and contingencies (Note 13)	—	—	—	—
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 53,246,715 shares issued and 53,172,484 outstanding on September 30, 2013, and with 52,951,379 shares issued and 52,896,374 outstanding on December 31, 2012)	533	530	n/a	n/a
Treasury stock -- at cost (74,231 shares on September 30, 2013 and 55,005 shares on December 31, 2012)	(106	)(84	) n/a	n/a
Paid-in-capital	220,505	219,158	231,034	324,562
Retained deficit	(607,217	)(516,017	)(610,584	)(519,888
Accumulated other comprehensive loss	(23,253	)(25,273	)(23,253	)(25,273
Total deficit	(409,538	)(321,686	)(402,803	)(220,599
Total liabilities and equity	\$1,094,360	\$1,208,931	\$1,117,736	\$1,232,277

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net sales	\$374,876	\$373,004	\$1,038,481	\$1,113,561
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	305,718	301,833	891,465	962,298
Depreciation, amortization, and depletion	26,333	28,138	78,620	91,338
Selling, general, and administrative expenses	18,028	17,499	56,004	56,247
Restructuring charges	145	97,018	1,327	96,997
Total operating expenses	350,224	444,488	1,027,416	1,206,880
Other operating income	—	—	(3,971))—
Operating income (loss)	24,652	(71,484)	) 15,036	(93,319)
Interest income	(6)	) (3)	) (20)	) (7)
Interest expense	34,360	33,284	103,460	98,631
Other loss (income), net	70	(21)	) 2,776	7,472
Loss before income taxes	(9,772)	) (104,744)	) (91,180)	) (199,415)
Income tax expense (benefit)	11	(45)	) 20	(105)
Net loss	\$(9,783)	) \$(104,699)	) \$(91,200)	) \$(199,310)
Loss per common share				
Basic	\$(0.18)	) \$(1.98)	) \$(1.72)	) \$(3.77)
Diluted	(0.18)	) (1.98)	) (1.72)	) (3.77)
Weighted average common shares outstanding (in thousands)				
Basic	53,172	52,907	53,108	52,834
Diluted	53,172	52,907	53,108	52,834

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net loss	\$(9,783)	) \$(104,699)	) \$(91,200)	) \$(199,310)
Other comprehensive income (loss):				
Derivative financial instruments:				
Effective portion of net unrealized losses	—	—	—	(1,365)
Reclassification of accumulated other comprehensive loss to net loss	64	409	309	5,564
Defined benefit pension plan amortization of net loss and prior service cost	570	1,105	1,711	2,234
Other	—	—	—	119
Other comprehensive income	634	1,514	2,020	6,552
Comprehensive loss	\$(9,149)	) \$(103,185)	) \$(89,180)	) \$(192,758)

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER HOLDINGS LLC
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net sales	\$374,876	\$373,004	\$1,038,481	\$1,113,561
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	305,718	301,833	891,465	962,298
Depreciation, amortization, and depletion	26,333	28,138	78,620	91,338
Selling, general, and administrative expenses	18,028	17,499	56,004	56,196
Restructuring charges	145	97,018	1,327	96,997
Total operating expenses	350,224	444,488	1,027,416	1,206,829
Other operating income	—	—	(3,971))—
Operating income (loss)	24,652	(71,484)	) 15,036	(93,268)
Interest income	(384)	) (381)	) (1,156)	) (1,143)
Interest expense	34,721	32,043	103,979	94,953
Other loss (income), net	70	(21)	) 2,776	7,472
Net loss	\$(9,755)	) \$(103,125)	) \$(90,563)	) \$(194,550)

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER HOLDINGS LLC
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net Loss	\$(9,755)	) \$(103,125)	) \$(90,563)	) \$(194,550)
Other comprehensive income (loss):				
Derivative financial instruments:				
Effective portion of net unrealized losses	—	—	—	(1,365)
Reclassification of accumulated other comprehensive loss to net loss	64	409	309	5,564
Defined benefit pension plan amortization of net loss and prior service cost	570	1,105	1,711	2,234
Other	—	—	—	119
Other comprehensive income	634	1,514	2,020	6,552
Comprehensive loss	\$(9,121)	) \$(101,611)	) \$(88,543)	) \$(187,998)

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(Dollars and shares in thousands)	Common Shares	Common Stock	Treasury Shares	Treasury Stock	Paid-in-Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
Balance - December 31, 2011	52,631	\$526	(26)	\$(53)	\$ 216,485	\$(342,188)	\$(28,658)	\$(153,888)
Net loss	—	—	—	—	—	(199,310)	—	(199,310)
Other comprehensive income	—	—	—	—	—	—	6,552	6,552
Common stock issued for restricted stock, net	320	4	(29)	(31)	(4)	—	—	(31)
Equity award expense	—	—	—	—	2,250	—	—	2,250
Balance - September 30, 2012	52,951	\$530	(55)	\$(84)	\$ 218,731	\$(541,498)	\$(22,106)	\$(344,427)
Balance - December 31, 2012	52,951	\$530	(55)	\$(84)	\$ 219,158	\$(516,017)	\$(25,273)	\$(321,686)
Net loss	—	—	—	—	—	(91,200)	—	(91,200)
Other comprehensive income	—	—	—	—	—	—	2,020	2,020
Common stock issued for restricted stock, net	296	3	(19)	(22)	(3)	—	—	(22)
Equity award expense	—	—	—	—	1,350	—	—	1,350
Balance - September 30, 2013	53,247	\$533	(74)	\$(106)	\$ 220,505	\$(607,217)	\$(23,253)	\$(409,538)

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER HOLDINGS LLC

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	Paid-in-Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Member's Equity (Deficit)	
(Dollars in thousands)					
Balance - December 31, 2011	\$321,110	\$(353,636)	\$(28,658)	\$(61,184))
Cash distributions	—	(82)	)—	(82))
Contribution from parent	18	—	—	18	
Net loss	—	(194,550))—		