

Verso Paper Holdings LLC
Form 10-Q
November 14, 2012

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, 2012

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)

333-142283
(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)

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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. 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

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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, 2012, Verso Paper Corp. had 52,896,374 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 similar expressions. Forward-looking statements are based on currently available business, economic, financial, and other information and reflect management’s current beliefs, expectations, and views with respect to future developments and their potential effects on us. Actual results could vary materially depending on risks and uncertainties that may affect us and our business. For a discussion of such risks and uncertainties, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this quarterly report and to Verso Paper’s and Verso Holdings’ other filings with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statement made in this quarterly report to reflect subsequent events or circumstances or actual outcomes.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	VERSO PAPER		VERSO HOLDINGS	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
(Dollars in thousands, except per share amounts)				
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 10,184	\$ 94,869	\$ 10,129	\$ 94,795
Accounts receivable, net	114,101	128,086	114,227	128,213
Inventories	140,985	166,876	140,985	166,876
Prepaid expenses and other assets	8,050	3,239	7,930	3,238
Total current assets	273,320	393,070	273,271	393,122
Property, plant, and equipment, net	818,716	934,699	818,716	934,699
Reforestation	12,899	13,671	12,899	13,671
Intangibles and other assets, net	87,596	80,035	110,902	102,950
Total assets	\$ 1,192,531	\$ 1,421,475	\$ 1,215,788	\$ 1,444,442
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	\$ 93,232	\$ 109,683	\$ 93,955	\$ 110,589
Accrued liabilities	100,834	140,756	99,937	139,682
Current maturities of long-term debt	89,204	-	-	-
Total current liabilities	283,270	250,439	193,892	250,271
Long-term debt	1,198,614	1,262,459	1,221,919	1,201,077
Other liabilities	55,074	62,465	46,973	54,278
Total liabilities	1,536,958	1,575,363	1,462,784	1,505,626
Commitments and contingencies (Note 12)	-	-	-	-
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 52,951,379 shares issued and 52,896,374 outstanding on September 30, 2012, and 52,630,965 shares issued and 52,605,314 outstanding on December 31, 2011)	530	526	n/a	n/a
Treasury stock -- at cost (55,005 shares on September 30, 2012 and 25,651 shares on December 31, 2011)	(84)	(53)	n/a	n/a
Paid-in-capital	218,731	216,485	323,378	321,110
Retained deficit	(541,498)	(342,188)	(548,268)	(353,636)
Accumulated other comprehensive loss	(22,106)	(28,658)	(22,106)	(28,658)
Total deficit	(344,427)	(153,888)	(246,996)	(61,184)
Total liabilities and equity	\$ 1,192,531	\$ 1,421,475	\$ 1,215,788	\$ 1,444,442

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share amounts)	2012	2011	2012	2011
Net sales	\$373,004	\$456,836	\$1,113,561	\$1,272,207
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	301,833	375,554	962,298	1,066,562
Depreciation, amortization, and depletion	28,138	31,190	91,338	94,182
Selling, general, and administrative expenses	17,499	19,490	56,247	59,791
Restructuring and other charges	97,018	-	96,997	-
Total operating expenses	444,488	426,234	1,206,880	1,220,535
Operating income (loss)	(71,484)	30,602	(93,319)	51,672
Interest income	(3)	(12)	(7)	(79)
Interest expense	33,284	30,859	98,631	94,800
Other (income) loss, net	(21)	(44)	7,472	26,047
Loss before income taxes	(104,744)	(201)	(199,415)	(69,096)
Income tax expense (benefit)	(45)	146	(105)	144
Net loss	\$(104,699)	\$(347)	\$(199,310)	\$(69,240)
Loss per common share				
Basic	\$(1.98)	\$(0.01)	\$(3.77)	\$(1.32)
Diluted	(1.98)	(0.01)	(3.77)	(1.32)
Weighted average common shares outstanding (in thousands)				
Basic	52,907	52,620	52,834	52,592
Diluted	52,907	52,620	52,834	52,592

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Net Loss	\$(104,699)	\$(347)	\$(199,310)	\$(69,240)
Other comprehensive income (loss):				
Derivative financial instruments:				
Effective portion of net unrealized losses	-	(4,295)	(1,365)	(5,632)
Reclassification from accumulated other comprehensive loss to net loss	409	633	5,564	2,488
Defined benefit pension plan amortization of net loss and prior service cost	1,105	392	2,234	1,177
Other	-	3	119	6

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Other comprehensive income (loss)	1,514	(3,267)	6,552	(1,961)
Comprehensive loss	\$(103,185)	\$(3,614)	\$(192,758)	\$(71,201)

See notes to unaudited condensed consolidated financial statements.

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VERSO PAPER HOLDINGS LLC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales	\$ 373,004	\$ 456,836	\$ 1,113,561	\$ 1,272,207
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	301,833	375,554	962,298	1,066,562
Depreciation, amortization, and depletion	28,138	31,190	91,338	94,182
Selling, general, and administrative expenses	17,499	19,489	56,196	59,739
Restructuring and other charges	97,018	-	96,997	-
Total operating expenses	444,488	426,233	1,206,829	1,220,483
Operating income (loss)	(71,484)	30,603	(93,268)	51,724
Interest income	(381)	(391)	(1,143)	(1,215)
Interest expense	32,043	29,757	94,953	91,572
Other (income) loss, net	(21)	(44)	7,472	25,896
Net income (loss)	\$ (103,125)	\$ 1,281	\$ (194,550)	\$ (64,529)

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Loss	\$(103,125)	\$1,281	\$(194,550)	\$(64,529)
Other comprehensive income (loss):				
Derivative financial instruments:				
Effective portion of net unrealized losses	-	(4,295)	(1,365)	(5,632)
Reclassification from accumulated other comprehensive loss to net loss	409	633	5,564	2,488
Defined benefit pension plan amortization of net loss and prior service cost	1,105	392	2,234	1,177
Other	-	3	119	6
Other comprehensive income (loss)	1,514	(3,267)	6,552	(1,961)
Comprehensive loss	\$(101,611)	\$(1,986)	\$(187,998)	\$(66,490)

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, 2012 AND 2011

(Dollars and shares in thousands)	Common Shares	Common Stock	Treasury		Paid-in- Capital	Total Retained Deficit	Accumulated	Total Stockholders' Equity (Deficit)
			Shares	Stock			Other Comprehensive Income (Loss)	
Balance - December 31, 2010	52,467	\$ 525	-	\$ -	\$ 214,050	\$ (205,127)	\$ (16,254)	\$ (6,806)
Net loss	-	-	-	-	-	(69,240)	-	(69,240)
Other comprehensive loss	-	-	-	-	-	-	(1,961)	(1,961)
Common stock issued for restricted stock, net	158	1	(26)	(53)	(1)	-	-	(53)
Stock option exercise	6	-	-	-	16	-	-	16
Equity award expense	-	-	-	-	1,829	-	-	1,829
Balance - September 30, 2011	52,631	\$ 526	(26)	\$ (53)	\$ 215,894	\$ (274,367)	\$ (18,215)	\$ (76,215)
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)

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, 2012 AND 2011

	Accumulated Other Comprehensive	Total Member's
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Paid-in-

Retained