

Verso Paper Holdings LLC
Form 10-Q
November 03, 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 September 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)

333-142283
(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 29, 2010, Verso Paper Corp had 52,467,101 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	VERSO PAPER		VERSO HOLDINGS	
	September 30,	December 31,	September 30,	December 31,
(In thousands of U.S. dollars, except share and per share amounts)	2010	2009	2010	2009
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 121,063	\$ 152,097	\$ 120,987	\$ 149,762
Accounts receivable - net	136,781	104,263	136,781	104,289
Inventories	126,790	162,401	126,790	162,401
Prepaid expenses and other assets	7,623	11,292	7,316	10,385
Total Current Assets	392,257	430,053	391,874	426,837
Property, plant, and equipment - net	970,831	1,022,622	970,831	1,022,622
Reforestation	13,651	13,357	13,651	13,357
Intangibles and other assets - net	77,740	88,006	76,900	86,896
Goodwill	18,695	18,695	10,551	10,551
Total Assets	\$ 1,473,174	\$ 1,572,733	\$ 1,463,807	\$ 1,560,263
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts payable	\$ 117,421	\$ 103,253	\$ 117,943	\$ 100,995
Accrued liabilities	83,881	116,225	83,029	115,425
Total Current Liabilities	201,302	219,478	200,972	216,420
Long-term debt	1,226,345	1,192,352	1,148,473	1,118,273
Other liabilities	38,644	35,612	30,609	27,577
Total Liabilities	1,466,291	1,447,442	1,380,054	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 52,467,101 shares issued and outstanding on September 30, 2010, and 52,374,647 shares issued and outstanding on December 31, 2009)	525	524	n/a	n/a
Paid-in-capital	213,611	212,381	318,252	317,023
Retained deficit	(191,110)	(74,045)	(218,356)	(105,461)
Accumulated other comprehensive loss	(16,143)	(13,569)	(16,143)	(13,569)

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Total Equity	6,883	125,291	83,753	197,993
Total Liabilities and Equity	\$ 1,473,174	\$ 1,572,733	\$ 1,463,807	\$ 1,560,263

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

Accounts receivable	\$ 19,709	\$ 7,785	\$ 19,709	\$ 7,785
Accounts payable	783	498	783	498

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,	
(In thousands of U.S. dollars, except per share data)	2010	2009	2010	2009
Net sales	\$ 432,939	\$ 394,663	\$ 1,197,632	\$ 979,852
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	371,907	338,592	1,073,111	906,080
Depreciation, amortization, and depletion	31,642	33,229	96,571	100,584
Selling, general, and administrative expenses	16,437	15,085	49,265	45,376
Restructuring and other charges	-	369	-	643
Operating income (loss)	12,953	7,388	(21,315)	(72,831)
Interest income	(32)	(76)	(94)	(155)
Interest expense	32,188	34,318	96,382	89,900
Other income, net	(71)	(70,349)	(538)	(250,357)
Net income (loss)	\$ (19,132)	\$ 43,495	\$ (117,065)	\$ 87,781
Earnings (loss) per common share				
Basic	\$ (0.36)	\$ 0.84	\$ (2.23)	\$ 1.69
Diluted	\$ (0.36)	\$ 0.83	\$ (2.23)	\$ 1.69
Weighted average common shares outstanding				
Basic	52,466,467	52,082,299	52,438,168	52,058,662
Diluted	52,466,467	52,116,036	52,438,168	52,066,085
Included in the financial statement line items above are related-party transactions as follows (Notes 9 and 10):				
Net sales	\$ 58,645	\$ 42,293	\$ 129,665	\$ 95,691
Purchases included in cost of products sold	1,632	1,271	4,538	3,355

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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	\$432,939	\$394,663	\$1,197,632	\$979,852
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	371,907	338,592	1,073,111	906,080
Depreciation, amortization, and depletion	31,642	33,229	96,571	100,584
Selling, general, and administrative expenses	16,436	15,040	49,212	45,142
Restructuring and other charges	-	369	-	643
Operating income (loss)	12,954	7,433	(21,262)	(72,597)
Interest income	(32)	(71)	(94)	(150)
Interest expense	30,763	32,733	92,266	84,047
Other income, net	(71)	(60,344)	(539)	(219,862)
Net income (loss)	\$(17,706)	\$35,115	\$(112,895)	\$63,368

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

Net sales	\$58,645	\$42,293	\$129,665	\$95,691
Purchases included in cost of products sold	1,632	1,271	4,538	3,355

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIODS ENDED SEPTEMBER 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	-	-	-	87,781	-	87,781
Other comprehensive income:						
Net unrealized losses on derivative financial instruments, net of reclassification of \$34.0 million of net losses included in net income	-	-	-	-	23,146	23,146
Defined benefit pension plan:						
Net actuarial loss	-	-	-	-	239	239
Prior service cost amortization	-	-	-	-	654	654
Total other comprehensive income	-	-	-	-	24,039	24,039
Comprehensive income	-	-	-	87,781	24,039	111,820
Common stock issued for restricted stock	328	4	(4)	-	-	-
Equity award expense	-	-	265	-	-	265
Ending Balance - September 30, 2009	52,374	\$ 524	\$ 212,013	\$ (92,267)	\$ (18,232)	\$ 102,038
Beginning Balance - January 1, 2010	52,374	\$ 524	\$ 212,381	\$ (74,045)	\$ (13,569)	\$ 125,291
Net loss	-	-	-	(117,065)	-	(117,065)
Other comprehensive income (loss):						
Net unrealized losses on derivative financial instruments, net of reclassification of \$5.9 million of net losses included in net loss	-	-	-	-	(3,980)	(3,980)

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Defined benefit pension plan:						
Net actuarial loss	-	-	-	-	68	68
Prior service cost amortization	-	-	-	-	1,338	1,338
Total other comprehensive loss	-	-	-	-	(2,574)	(2,574)
Comprehensive loss	-	-	-	(117,065)	(2,574)	(119,639)
Common stock issued for restricted stock	91	1	(1)	-	-	-
Stock option exercise	2	-	2	-	-	2
Equity award expense	-	-	1,229	-	-	1,229
Ending Balance - September 30, 2010	52,467	\$ 525	\$ 213,611	\$ (191,110)	\$ (16,143)	\$ 6,883

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 SEPTEMBER 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	-	(12,157)	-	(12,157)
Net income	-	63,368	-	63,368
Other comprehensive income:				
Net unrealized losses on derivative financial instruments, net of reclassification of \$34.0 million of net losses included in net income	-	-	23,146	23,146
Defined benefit pension plan:				