

Verso Paper Corp.  
Form S-1  
December 20, 2007  
Table of Contents

As filed with the Securities and Exchange Commission on December 20, 2007

Registration No. 333-

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM S-1**  
**REGISTRATION STATEMENT**

*UNDER*  
*THE SECURITIES ACT OF 1933*

---

**VERSO PAPER CORP.**

(Exact names of registrants as specified in its charter)

---

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**2621**  
(Primary Standard Industrial  
Classification Code Number)  
**6775 Lenox Center Court, Suite 400**

**75-3217389**  
(I.R.S. Employer  
Identification No.)

**Memphis, Tennessee 38115-4431**

**(901) 369-4100**

(Address, including zip code, and telephone number, including area code,  
of the registrant's principal executive offices)

---

**Michael A. Jackson**

**President and Chief Executive Officer**

**Verso Paper Corp.**

**6775 Lenox Center Court, Suite 400**

**Memphis, Tennessee 38115-4431**

**(901) 369-4100**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

---

*Copies to:*

**Robert P. Mundy**

**Senior Vice President**

**and Chief Financial Officer**

**6775 Lenox Center Court, Suite 400**

**Memphis, Tennessee 38115-4431**

**(901) 369-4100**

**Raymond Y. Lin, Esq.**

**Dennis D. Lamont, Esq.**

**Latham & Watkins LLP**

**885 Third Avenue**

**New York, New York 10022**

**(212) 906-1200**

---

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

---

**CALCULATION OF REGISTRATION FEE**

Edgar Filing: Verso Paper Corp. - Form S-1

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(2)
Common Stock, par value \$0.01 per share	\$345,000,000	\$10,591.50

(1) Includes shares of common stock issuable upon exercise of the underwriters' option to purchase additional shares of common stock.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

---

**Table of Contents**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to completion, dated December 20, 2007**

**PRELIMINARY PROSPECTUS**

**Shares**

**Common Stock**

This is an initial public offering of shares of common stock by Verso Paper Corp. We are offering \_\_\_\_\_ shares of our common stock.

Prior to the offering, there has been no public market for our common stock. It is currently estimated that the initial public offering price per share of our common stock will be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_. We will apply to list our common stock for quotation on the New York Stock Exchange under the symbol VRS.

**Investing in our common stock involves a high degree of risk. Before buying any of these shares of our common stock, you should carefully consider the risk factors described in Risk Factors beginning on page 15 of this prospectus.**

	<b>Per share</b>	<b>Total</b>
Initial public offering price	\$ _____	\$ _____
Underwriting discounts and commissions	\$ _____	\$ _____
Proceeds, before expenses, to Verso Paper Corp.	\$ _____	\$ _____

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The underwriters may also purchase up to an additional \_\_\_\_\_ shares of our common stock from us at the initial public offering price, less the underwriting discounts and commissions payable by us, to cover over-allotments, if any, within 30 days from the date of this prospectus. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be \$ \_\_\_\_\_ and the total proceeds, before expenses, to us will be \$ \_\_\_\_\_.

The underwriters are offering the shares of our common stock as described in the Underwriting. Delivery of the shares of common stock will be made on or about \_\_\_\_\_, 2008.

**Table of Contents**

**TABLE OF CONTENTS**

<u>Market and Industry Information</u>	ii
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	15
<u>Forward-Looking Statements</u>	24
<u>Use of Proceeds</u>	25
<u>Dividend Policy</u>	25
<u>Capitalization and Cash</u>	26
<u>Dilution</u>	27
<u>Unaudited Pro Forma Condensed Consolidated Financial Data</u>	28
<u>Selected Historical Combined Financial Data</u>	31
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Industry</u>	49
<u>Business</u>	53
<u>Management</u>	66
<u>Compensation Discussion and Analysis</u>	70
<u>Executive Compensation</u>	76
<u>Principal Shareholders</u>	81
<u>Certain Relationships and Related Party Transactions</u>	83
<u>Description of Capital Stock</u>	84
<u>Shares Eligible for Future Sale</u>	86
<u>Material U.S. Federal Income Tax Considerations for Non-U.S. Holders of Our Common Stock</u>	88
<u>Underwriting</u>	91
<u>Legal Matters</u>	96
<u>Experts</u>	96
<u>Where You Can Find More Information</u>	96
<u>Index to Financial Statements</u>	F-1

---

You should rely only on the information contained in this prospectus and any free writing prospectus prepared by or on behalf of us or any information to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document and any free writing prospectus may only be accurate as of their respective dates.

Until \_\_\_\_\_, 2008 (25 days after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

**Table of Contents**

**MARKET AND INDUSTRY INFORMATION**

Market data and other statistical information used throughout this prospectus are based on independent industry publications, government publications, reports by market research firms or other published independent sources. Some data are also based on our good faith estimates which are derived from our review of internal surveys, as well as the independent sources listed above. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness. Industry prices for coated paper provided in this prospectus are, unless otherwise expressly noted, derived from Resource Information Systems, Inc., or RISI, data. North American data included in this prospectus that has been derived from RISI only includes data from the United States and Canada. U.S. industry pricing data included in this prospectus has been derived from RISI data; this data represents pricing from the eastern United States only (as defined by RISI). Also, any reference to (i) grade No. 3, grade No. 4 and grade No. 5 coated paper relates to 60 lb. weight, 50 lb. weight and 34 lb. weight, respectively, (ii) lightweight coated groundwood paper refers to groundwood paper grades that are a 36 lb. basis weight or less, and (iii) ultra-lightweight coated groundwood paper refers to groundwood paper grades that are a 30 lb. basis weight or less.

**Table of Contents**

**PROSPECTUS SUMMARY**

*This summary highlights important information about our business from this prospectus. Please review this prospectus in its entirety, including Risk Factors and our financial statements and the related notes, before you decide to invest. Unless otherwise noted, the terms the company, Verso Paper, we, us, our and Successor refer collectively to Verso Paper Corp., a Delaware corporation, and its subsidiaries after giving effect to the consummation of the Merger as described under Prospectus Summary The Merger. References to the Division or Predecessor refer to the Coated and Supercalendered Papers Division of International Paper Company.*

**Our Company**

We are a leading North American supplier of coated papers to catalog and magazine publishers. The market for coated paper, which is comprised of coated groundwood paper and coated freesheet paper, is one of the most attractive segments of the paper industry due to its prospects for volume growth, continued improvement in pricing and the high value-added nature of its products. Coated paper is used primarily in media and marketing applications, including catalogs, magazines and commercial printing applications, which include high-end advertising brochures, annual reports and direct mail advertising. We are North America's second largest producer of coated groundwood paper, which is used primarily for catalogs and magazines. We are also North America's lowest cost producer of coated freesheet paper, which is used primarily for annual reports, brochures and magazine covers. In addition to coated paper, we have a strategic presence in supercalendered, or SC, paper, which is primarily used for retail inserts. We also produce and sell market pulp, which is used in the manufacture of printing and writing paper grades and tissue products.

Our primary product lines include coated groundwood paper, coated freesheet paper, SC paper and pulp. Our net sales by product line for the twelve months ended September 30, 2007, are illustrated below:

**Net Sales by Product Line**

**for the twelve months ended September 30, 2007 (dollars in millions)**

We sell and market our products to approximately 100 customers which comprise 650 end-user accounts. We have long-standing relationships with many leading magazine and catalog publishers, commercial printers, specialty retail merchandisers and paper merchants. We reach our end-users through several distribution channels, including direct sales, commercial printers, paper merchants and brokers. The majority of our products are sold via contracts we maintain with our customers, which generally specify the volumes to be sold to the customer over the contract term, as well as the pricing parameters for those sales. Having a large portion of

## **Table of Contents**

our sales volume under contract allows us to plan our production runs well in advance, optimizing production over our integrated mill system and thereby increasing overall efficiency and reducing our costs. Our key customers include leading magazine publishers, such as Condé Nast Publications, National Geographic and Time Inc.; leading catalog producers, such as Avon and Sears Holdings; leading commercial printers, such as Quad Graphics and RR Donnelley & Sons; and leading paper merchants and brokers, such as Unisource, xpedx, A.T. Clayton & Co. and Clifford Paper.

We operate 11 paper machines at four mills located in Maine, Michigan and Minnesota. The mills have a combined annual production capacity of 1,726,000 tons of coated paper, 102,000 tons of SC paper and 874,000 tons of kraft pulp, of which 616,000 tons is consumed internally and the remainder is sold as market pulp. Over our integrated mill footprint, the total volume of pulp purchased from third parties is approximately balanced by the amount of pulp that we sell to the market. As a result, our business is generally insulated from fluctuations to earnings caused by fluctuations in the price of pulp. Our facilities are strategically located within close proximity to major publication printing customers, which affords us the ability to more quickly and cost-effectively deliver our products. Our facilities also benefit from convenient and cost-effective access to northern softwood fiber, which is required for the production of lightweight and ultra-lightweight coated groundwood papers, two of the more attractive grades of coated paper.

### **Industry Overview**

Based on 2006 sales, the size of the global coated paper industry is estimated to be approximately \$48 billion, or 53 million tons of coated paper demand, including approximately \$13 billion in North America, or 14 million tons of coated paper demand. In North America, coated papers are classified by brightness and fall into five grades, labeled No. 1 to No. 5, with No. 1 having the highest brightness level and basis weight and No. 5 having the lowest brightness level and basis weight. Papers graded No. 1, No. 2 and No. 3 are typically coated freesheet grades. No. 4 and No. 5 papers are predominantly grades containing groundwood. Coated groundwood grades are the preferred grades for catalogs and magazines, while coated freesheet is more commonly used in commercial print applications. The coating process adds a smooth uniform finish to the paper, which produces superior color and print definition. As a result, major uses of coated papers include the printing of catalogs, magazines, annual reports, directories and advertising materials. Demand is generally driven by North American advertising and print media trends, which in turn have historically been highly correlated with growth in Gross Domestic Product, or GDP.

The following key trends are currently affecting the North American coated paper industry:

***Growing consumption/demand.*** Coated paper demand is primarily driven by advertising and print media usage, which in turn tends to be correlated with GDP growth in the United States. North American coated paper consumption, which was 13.6 million tons in 2006, has grown at a 4.1% compound annual growth rate since 2001, while the U.S. gross domestic product grew at a rate of 2.7% per year over the same period.

***Reductions in production capacity and supply.*** In North America, supply is determined primarily by North American-based coated paper production and is supplemented by imports from Europe and Asia. As a result of developments outlined below, both of these determinants of North American coated paper supply are exhibiting favorable trends, leading to tight coated paper supply and a stable longer term supply outlook.

In the second half of 2007, in response to high input costs, the continued appreciation of the Canadian dollar, and poor selling conditions, our North American competitors announced the closure of approximately 0.9 million tons of coated groundwood production capacity and 0.1 million tons of coated freesheet production capacity. The closures represent approximately 15% and 2% of North American production capacity for coated, groundwood and coated freesheet, respectively. The majority of these announced closures were Canadian



---

**Table of Contents**

facilities, which have been at a cost disadvantage to U.S.-based mills due to the appreciation of the Canadian dollar. In addition, there have been no recent announced capacity additions in North America. We estimate that the construction of a state-of-the-art coated paper manufacturing mill requires a lead time of at least three years and costs in excess of \$400 million. The combination of recent capacity curtailments and the lack of any currently announced capacity additions provides for a favorable supply outlook over the next three to four years.

Since North American coated paper consumption exceeds North American coated paper production capacity, imports have been an important source of supply for the North American coated paper market, though they are of differing importance for coated groundwood and coated freesheet. For instance, coated freesheet imports, which comprised 21% of North American supply in 2006, are approximately twice as important to North American supply as are coated groundwood imports, which comprised approximately 14% of North American supply in 2006. A recent trend in the North American coated paper market has been a stabilization in imports. The volume of coated paper imports from Europe and Asia is a function of (i) worldwide supply and demand for coated paper, (ii) the exchange rate of the U.S. dollar relative to other currencies, especially the Euro, (iii) market prices in North America and other markets, and (iv) the cost of ocean-going freight. According to RISI, from 2001 to 2006, coated paper imports into North America increased from 1.1 million tons to 2.4 million tons. However, several worldwide trends have prompted 2007 imports, as estimated by RISI, to decrease to 1.9 million tons. These trends include: the shutdown of 0.7 million tons of coated paper capacity in Europe, which improves the balance of European supply and demand; the continued strengthening of the Euro and depreciation of the U.S. dollar; and the continued increases in freight rates. All of these factors make exporting to North America less attractive to foreign producers.

Another important distinction is in the penetration of Asian coated paper imports. Coated groundwood is less penetrated by Asian imports than is coated freesheet, as production of coated groundwood is dependent upon cost effective access to northern softwood fiber, which is not as prevalent in Asia. For example, through September 2007, Asian producers supplied about 180,000 tons of North America's coated groundwood supply, or approximately 4% of North American coated groundwood supply. Over the same time period, Asian producers supplied about 500,000 tons of North America's coated freesheet supply, or approximately 12% of North American coated freesheet supply.

As a result of capacity closures in the North American coated paper industry, the lack of any currently announced capacity additions and the stabilization of imports of coated paper into the United States, we believe that supply should be stable for the near future.

***Favorable operating rates.*** According to RISI, the average operating rate for North American coated paper manufacturers, which measures the ratio of shipments from producers in a particular region to capacity of producers in the same region, rose from 85% in 2001 to 92% in 2006, as shipments increased more than capacity during this time period. Following the recently announced reductions in North American production, 2006 coated paper operating rates would have been 100% on a pro forma basis, reflecting the current balance of supply and demand. Historically, high operating rates have resulted in increasing prices for coated paper. Because of expected increases in North American demand, no major forecasted North American capacity additions and an expected stabilization of imports, the average operating rate is expected to remain above 95% through 2009.

***Improving pricing.*** As a result of the trends identified above, coated paper pricing in the United States has recently been strengthening. During the second quarter of 2007, we announced a \$60 per ton price increase on all coated paper grades, effective July 1. In reflection of the beginning of this price increase, our weighted average paper prices rose from \$797 per ton in the second quarter of 2007 to \$807 per ton in the second half of 2007. We expect our weighted average paper prices to continue to increase as we continue to realize this price increase during 2008. In addition, we announced another two price increases in the second half of 2007, totaling a further \$125 per ton on coated groundwood grades of paper and another \$70 per ton on coated freesheet grades of paper. We began implementing one of these price increases in October and will begin implementing the other price

## **Table of Contents**

increase in January. In reflection of these pricing trends, RISI forecasts that U.S. prices for grade No. 5 coated paper, 34 lb. weight, an industry benchmark for coated paper pricing, will rise from \$918 per ton in the second half of 2007 to \$980 per ton in the fourth quarter of 2007, to an average of \$1,053 per ton for 2008 and then to an average of \$1,090 per ton for 2009.

### **Our Competitive Strengths**

We believe that our competitive strengths include the following:

***Well positioned to benefit from strengthening coated paper market fundamentals.*** We believe that we are well positioned to benefit from improving fundamentals in the coated paper industry, which are inherently linked to the balance of supply and demand. Since the second quarter of 2004, supply has decreased due to a reduction in production capacity in both North America and in Europe, which was caused primarily by the closure of less efficient coated paper mills by our competitors. These closures were generally the result of a combination of higher energy prices, changes in Canadian dollar and Euro exchange rates and other inflationary factors. According to RISI, North American producers have announced the shutdown of approximately 1.0 million tons of coated paper capacity in the second half of 2007, which represents approximately 8% of North American coated paper capacity. Based on favorable demand and a supply trends, RISI projects that North American coated paper operating rates are expected to increase from 92% in 2006 to 95% in 2009. We believe the higher operating rates will enable us to continue to benefit from improving industry fundamentals.

***A leading manufacturer of coated paper products in North America.*** We are one of the largest coated paper manufacturers in North America based on production capacity. Within the overall North American coated paper market, we have a leading market share in North American coated groundwood production capacity. In addition, we are North America's lowest cost producer of coated freesheet. Our size provides us with economies of scale and enables us to optimize production across our integrated mill system to provide a broad spectrum of products, while also providing us the operational flexibility to adapt to our customers' specific coated paper needs.

***Leading positions in the industry's most attractive segments and products.*** We are a leading supplier of coated papers to North American catalog and magazine publishers. The catalog and magazine end-user segments are among the most attractive within the coated papers industry due to their long-term growth prospects, favorable industry dynamics, blue-chip customer base and emphasis on product innovation and development. We maintain the leading positions in the catalog and magazine end-user segments, with estimated segment shares of approximately 23% and 14%, respectively.

In addition to being focused on the most attractive end-user segments, our product portfolio is also concentrated on the most attractive products in both the paper industry, in general, and the coated paper segment, specifically. According to RISI, coated papers are the fastest growing portion of the paper industry, with North American coated paper demand expected to grow at a 2.5% compound annual growth rate from 2007 through 2009, compared to a negative demand growth rate of 3.9% for newsprint and a 0% demand growth rate for uncoated freesheet paper. In addition, we are specifically focused on the fastest growing portions of the coated paper market. For example, we are one of three major North American-based producers of ultra-lightweight coated groundwood paper. According to the American Forest and Paper Association, ultra-lightweight coated groundwood paper is a coated paper product group that has experienced higher growth than the coated paper market in general, with shipments growing at a compound annual growth rate of approximately 6% since 2003. We expect this disproportionate growth in shipments to continue, as customers are increasingly demanding lower basis weight products in order to reduce their freight and postage costs. In addition to being one of the fastest

## **Table of Contents**

growing coated paper segments, ultra-lightweight coated papers sell for higher prices and yield higher margins than their higher basis weight counterparts. We believe that we have a competitive advantage in ultra-lightweight coated paper grades due to our investment in specialized equipment and our development of proprietary manufacturing processes.

***Strong relationships with attractive customer base.*** We have long-standing relationships with leading publishers, commercial printers, retail merchandisers and paper merchants. Our relationships with our ten largest coated paper customers average more than 20 years. We believe our sales strategy, which includes both direct sales to our larger customers and sales to merchants, who then resell our products, has reduced selling costs and enhanced customer service. Our strong relationships with the leading customers in the catalog and magazine end-user segments provide us with a significant competitive advantage. For example, these customers have historically had stable and on-going paper needs, which has allowed us to optimize our mill system to supply orders on an efficient and cost-effective basis. Furthermore, due to the premium printing requirements of these end-users, we have been able to shift our product mix towards higher value-added grades, such as lightweight and ultra-lightweight coated groundwood and grade No. 4 coated groundwood. In addition, greater than 60% of our net sales in 2006 were made pursuant to contracts we maintain with our customers. Our 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. Our relationships with our key customers also allow us to maintain operating rates that are in excess of industry levels. For example, according to RISI, average operating rates for coated paper producers were 92% in 2006, while our operating rates were 94% in the same period.

***Well-invested, low cost manufacturing facilities.*** According to Pöyry, a leading paper industry consulting firm, our coated paper mills are among the most efficient and lowest cost coated paper mills globally based on the cash cost of delivery to Chicago. We attribute our manufacturing efficiency, in part, to the significant historical investments made in our mills. From 1985 to 2006, our former parent, International Paper, invested over \$1.7 billion in growth capital expenditures for new machines, rebuilds, productivity enhancements and capacity expansions. In addition to investing substantial amounts of capital in our business, our former parent improved the cost position of our system by closing over 500,000 tons of higher cost coated paper capacity. As a result of the investment and capacity closures by our former parent, we are the owners of well-invested, low-cost production assets. Further, most of our paper production is at mills with integrated pulp production and energy co-generation facilities, which reduces our exposure to price volatility for energy and purchased pulp, two of our largest cost inputs. As we sell approximately the same amount of pulp as we purchase across our integrated production system, we are generally insulated from changes in pulp prices.

In addition, we have meaningfully reduced our costs by consolidating operations and focusing on operational efficiency. For example, through Realizable-GAP, or R-GAP, our continuous process improvement program, we have implemented focused programs to optimize raw materials sourcing and usage, reduce repair costs and control overhead to generate ongoing sustainable cost savings. We will continue to utilize the proprietary R-GAP program, as well as lean six sigma and other management tools, to drive further cost reductions and operating improvements in our mill system.

***Efficient and integrated supply chain with unique service solutions.*** Coated paper customers have become increasingly focused on supply chain efficiency, cost reduction and lead time minimization. Our Internet-based ordering platform, WebExpress, simplifies ordering, tracking and invoicing, and is part of our strategy to continually reduce the cost to serve our customer base. In addition, we operate Nextier Solutions, an Internet-based system designed for collaborative production planning, procurement and inventory management processes throughout the supply chain. Our customers use our systems to maximize supply chain efficiencies, improve communication and reduce operating costs. We believe that our leadership position in e-commerce for coated papers distribution and management provides us with a competitive advantage by enabling us to run our operations more cost-effectively through better planning of manufacturing runs and tracking of costs and

## **Table of Contents**

inventory and, in turn, provides our customers with better, cost-effective service. We also believe the strategic location of our mills and distribution centers near attractive end-use markets, such as New York and Chicago, affords us the ability to more quickly and cost-effectively deliver our products to those markets. This close proximity to our customers provides for enhanced customer service and allows us to minimize our freight and delivery costs.

***Experienced management team with proven track record.*** We believe our senior management team is a valuable asset to our business. This team has introduced industry-leading cost saving and efficiency programs and has lead the successful transition of our business from International Paper. In November 2006, Mike Jackson joined our business as Chief Executive Officer from Weyerhaeuser Company, where he most recently served as Senior Vice President in charge of the Cellulose Fibers, White Papers, Newsprint and Liquid Packaging Board businesses. Our senior management team averages approximately 20 years experience in the paper and forest products industry.

### **Our Business Strategy**

***Increase revenues.*** One of our key objectives is to be the market leader with respect to profitable sales growth. We believe we can achieve this goal through the following strategies:

*Capitalize on favorable trends in our industry.* The coated paper industry is currently benefiting from favorable supply and demand trends and high operating rates, which have resulted in rising sales prices. We are currently implementing three price increases with an announced total increase of \$185 per ton on our coated groundwood grades and \$130 per ton on our coated freesheet grades. We expect to grow our revenues and operating profits as the price increases are further realized during 2008. Based on our coated paper production capacity, every \$50 per ton achieved in increased selling prices equates to \$86 million in additional annual revenues and operating profits.

*Leveraging our leading market position.* As a leader in the North American coated paper industry, we have strong industry insight and expertise, which we utilize to provide value-added services to our customers. We intend to further strengthen our leadership position by increasing our sales to both existing and new potential customers within the catalog and magazine segments, where, as industry leaders, we can offer an enhanced level of products and service. We believe that this competitive advantage will allow us to efficiently grow our business in line or in excess of market volume and price growth.

*Participate in ongoing coated paper industry consolidation.* We believe that there may be opportunities to participate in the current trend of consolidation in the North American coated paper industry. We intend to evaluate and pursue acquisitions and strategic partnerships that we believe will increase our profitability, enhance economies of scale, and augment or diversify our existing customer base. Through strategic acquisitions and partnerships, we intend to continue to improve our absolute and relative cost position, supplement our organic growth prospects, and enhance shareholder value.

*Focus on specialty and higher value-added products.* In addition to participating in underlying market growth, we plan to improve our market share and revenues by focusing on specialty and high value-added products, which we expect to grow in excess of general market growth. For instance, as one of the three North American-based producers of ultra-lightweight papers, we are positioned well with customers who want to lower postage and distribution expenses and thereby lower their total production costs. These products, in which we expect volumes to grow and prices to increase faster than the coated paper market, in general, provide us with an opportunity to leverage our production advantage to garner additional revenues. In addition, we will continue to drive product performance improvements by taking advantage of technological advances and developing new products that meet

## Table of Contents

the needs of our core catalog and magazine customers. We have a robust research and development effort that identifies, commercializes and capitalizes on new products and product innovations to generate additional sales opportunities.

**Improve profitability.** We intend to focus on productivity enhancements and on improving our cost platform through the following:

*Increase productivity.* Since 2001, we have significantly reduced production costs and enhanced manufacturing efficiency at our mills. During this period, we reduced total headcount by over 19%, while overall productivity increased by 15% as measured by production tons per day and by over 48% as measured by tons produced per day per employee. Combined with strategies to reduce raw material usage, repair costs and manufacturing overhead, these initiatives have significantly improved financial and operating results. Going forward, we intend to selectively pursue cost reduction and efficiency improvement initiatives based on their cost to achieve, likely success and anticipated payback period.

*Improve operating performance.* Through R-GAP, we have implemented focused programs to optimize raw materials sourcing and usage, reduce repair costs and control overhead. We believe these process improvements, combined with our ability to generate a substantial portion of our energy needs and produce low cost pulp through our integrated pulp operations, will enhance our operating leverage, earnings and cash flow. We will continue to enhance and use our proprietary R-GAP process to improve the profitability of our mill network.

**Maximize cash flow.** Prior to the acquisition of the Coated and SC Papers Division of International Paper and the related financings, as described below, our business was managed and operated as part of a larger diversified paper company, focused on managing a broad product portfolio in the context of its own business and financial goals. As a stand-alone business, we have benefited from having a dedicated senior management team, who has implemented a focused strategy to allocate our resources to compete and maximize profitability and cash flow in the coated paper business. With this enhanced management focus, we have managed our working capital, capital expenditures and operational expenditures efficiently to optimize cash flow.

Our annual maintenance and environmental capital expenditures are expected to be \$40 to \$50 million per year for the next few years, which we believe will be sufficient to maintain our productivity and maximize cash flow. In addition to maintenance and environmental capital expenditures, over the past seven years, we and our former parent invested approximately \$260 million in growth capital expenditures for productivity enhancements and capacity expansions. As a result of this spending by us and our former parent, we expect to enjoy significant productivity enhancements and growth opportunities. We believe that our capacity is sufficient to meet our current growth initiatives without significant additional spending and that future growth capital will be spent only upon the expectation of significant returns.

We also expect to pay minimal cash income taxes over the next few years. We have significant net operating losses which we expect will be available to reduce future taxable income. In addition, we expect to continue to have high tax depreciation deductions over the next few years because of our recent capital expenditures and because the tax basis in a portion of our assets was stepped up when the business was purchased from International Paper. This tax depreciation should reduce future taxable profits from the business and minimize our cash income taxes. In addition, when we purchased the business from International Paper, we either did not assume, or were indemnified for, substantially all of the legacy pension, post-retirement and legal, and certain of the environmental obligations and liabilities of the business.

We expect that our relatively low maintenance and environmental capital expenditures, improved working capital management, further cost reductions and minimal cash income taxes will enhance our ability to generate cash flow. We intend to use our cash flow to repay our debt obligations and to reinvest in the growth of our business.

**Table of Contents**

**The Merger**

We, along with Verso Paper Two Corp., Verso Paper Three Corp., Verso Paper Four Corp. and Verso Paper Five Corp., are the wholly-owned subsidiaries of Verso Paper Management LP (the Parent). Prior to the effective date of the registration statement of which this prospectus is a part, Verso Paper Two Corp., Verso Paper Three Corp., Verso Paper Four Corp. and Verso Paper Five Corp. will merge with and into us, and we will be the surviving corporation. The combination of us with these four entities is referred to throughout this prospectus as the Merger. Upon consummation of the Merger, Verso Fiber Farm LLC, which is currently a wholly-owned subsidiary of Verso Paper Five Corp., will become our wholly-owned subsidiary. In connection with Verso Fiber Farm LLC becoming our wholly-owned subsidiary, a part of the \$ million of the net proceeds from this offering (the Fiber Farm Funds) will be used to repay the outstanding \$10.0 million senior secured term loan of Verso Fiber Farm LLC, and the remainder of the Fiber Farm Funds will be transferred to the Parent. As a result of the Merger, Verso Paper Holdings LLC, the chief operating entity through which our business is operated, and each of its subsidiaries, which will include Verso Fiber Farm LLC, will become our wholly-owned indirect subsidiaries.

**Risk Factors**

An investment in our common stock involves substantial risks and uncertainties. Some of the more significant challenges and risks include those associated with our susceptibility to conditions in the U.S. economy, our ability to pass through increases in our costs to our customers, the cost of energy and raw materials, the highly competitive nature of the industry in which we operate and our significant amount of indebtedness. See Risk Factors for a discussion of the factors you should consider before investing in our common stock.

**Additional Information**

Our principal executive offices are located at 6775 Lenox Center Court, Suite 400, Memphis, Tennessee 38115-4431. Our telephone number is (901) 369-4100. Our website address is <http://www.versopaper.com>. Information on our website is not considered part of this prospectus.



**Table of Contents**

**Summary Historical Pro Forma Combined Financial Data**

The following table presents our summary historical financial data and summary pro forma condensed financial data. The following information is only a summary and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Unaudited Pro Forma Condensed Consolidated Financial Data and the combined audited financial statements of the Coated and SC Papers Division of International Paper and the audited combined financial statements of Verso Paper Corp. and notes thereto included elsewhere in this prospectus, as well as the other financial information included in this prospectus.

On August 1, 2006, our wholly-owned subsidiary, Verso Paper Holdings LLC, acquired the assets and certain of the liabilities of the Coated and SC Papers Division of International Paper Company located at the mills in Jay, Maine, Bucksport, Maine, Quinnesec, Michigan and Sartell, Minnesota, together with related other facilities and assets and certain administrative and sales and marketing functions, pursuant to the terms of a purchase and sale agreement between Verso Paper Holdings LLC and International Paper Company, which we refer to as International Paper, on June 4, 2006. We, along with our subsidiaries, were formed by affiliates of Apollo Management, L.P., which we refer to as Apollo, for the purpose of consummating the acquisition of the Coated and SC Papers Division of International Paper, or the Acquisition. In connection with the Acquisition, Verso Paper Holdings LLC issued \$1,185 million of debt, which we refer to as the Financing, consisting of a \$285 million term loan B facility, or the Term Loan B, \$600 million in aggregate principal amount of second priority senior secured notes and \$300 million in aggregate principal amount of senior subordinated notes. We also raised a \$200 million revolving credit facility, which we refer to, together with the Term Loan B, as the senior secured credit facilities. As used in this prospectus, the term Transactions means, collectively, the Acquisition and the related Financing.

The historical combined statement of operations data for the years ended December 31, 2004 and 2005, and for the seven months ended July 31, 2006, have been derived from the combined financial statements of the Coated and SC Papers Division of International Paper (the Predecessor or the Division) which have been audited by Deloitte & Touche LLP, independent registered public accounting firm. The summary combined balance sheet data as of December 31, 2006, and the summary combined statement of operations data for the five months ended December 31, 2006, have been derived from the combined financial statements of Verso Paper Corp. (the Successor) which have been audited by Deloitte & Touche LLP, independent registered public accounting firm and are included in this prospectus. The summary combined statements of operations data for the two months ended September 30, 2006, and for the nine months ended September 30, 2007, have been derived from the unaudited combined financial statements included elsewhere in this prospectus. The unaudited financial statements have been prepared on the same basis as the audited financial statements and, in the opinion of our management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information set forth herein. Interim financial statements are not necessarily indicative of results that may be experienced for the fiscal year or any future reporting period.

The pro forma condensed consolidated statement of operations data has been adjusted to give effect to the Transactions as if these events occurred on January 1, 2006.

The summary pro forma condensed consolidated financial data is for information purposes only and does not purport to present what our results of operations and financial condition would have been had the Transactions actually occurred on such date, nor does it project our results of operations for any future period or our financial condition at any future date.



**Table of Contents**

	Predecessor Combined		Successor		Pro Forma	Successor Combined	
	Seven Months		Five Months			Two Months	Nine Months
	Year Ended December 31, 2004	Year Ended December 31, 2005	Ended July 31, 2006	Ended December 31, 2006	Year Ended December 31, 2006	Ended September 30, 2006	Ended September 30, 2007
(dollars and tons in millions, except per share data)							
<b>Statement of Operations Data:</b>							
Net sales	\$ 1,463.3	\$ 1,603.8	\$ 904.4	\$ 706.8	\$ 1,611.2	\$ 298.8	\$ 1,183.0
Costs and expenses:							
Costs of products sold exclusive of depreciation and amortization	1,272.5	1,338.2	771.6	589.3	1,355.1	247.9	1,035.9
Depreciation and amortization	130.5	129.4	72.7	48.3	116.0	18.8	90.7
Selling, general and administrative expenses	65.3	65.6	34.3	14.4	44.5	5.4	38.0
Restructuring and other charges	0.6	10.4	(0.3)	10.1	9.8	3.7	16.5
Operating income (loss)	(5.6)	60.2	26.1	44.7	85.8	23.0	1.9
Interest expense	16.0	14.8	8.4	49.1	118.3	19.7	106.6
Interest income	(0.3)			(1.8)	(1.8)	(0.5)	(1.3)
Income (loss) before income taxes	(21.3)	45.4	17.7	(2.6)	(30.7)	3.8	(103.4)
Provision (benefit) for income taxes	(8.2)	17.9	7.0				
Net income (loss)	\$ (13.1)	\$ 27.5	\$ 10.7	\$ (2.6)	\$ (30.7)	\$ 3.8	\$ (103.4)
<b>Per Share Data:</b>							
Earnings (loss) per share				\$ (2,637)		\$ 3,782	\$ (103,416)
Common shares outstanding				1,000		1,000	1,000
<b>Statement of Cash Flows Data:</b>							
Cash (used in) provided by operating activities	\$ 123.7	\$ 116.8	\$ 39.3	\$ 128.2		\$ 48.6	\$ (38.0)
Cash used in investing activities	(111.5)	(53.0)	(27.6)	(1,402.0)		(1,392.2)	(47.8)
Cash (used in) provided by financing activities	(12.2)	(63.8)	(11.6)	1,386.3		1,413.6	0.2
<b>Other Financial and Operating Data:</b>							
EBITDA(1)	\$ 124.9	\$ 189.6	\$ 98.8	\$ 93.0		\$ 41.8	\$ 92.6
Capital expenditures	111.3	53.1	27.7	27.8		\$ 8.2	49.6
Total tons sold	2,064.6	2,024.9	1,145.0	866.4		359.5	1,540.8
<b>As Adjusted Statement of Operations Data(2):</b>							
As adjusted cash interest expense(3)							\$
As adjusted net income (loss)							\$
As adjusted earnings per share							\$
As adjusted common shares outstanding							

**Table of Contents**

	As of September 30, 2007	
	Actual	As Adjusted(5)
	(dollars in millions)	
<b>Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 26.9	
Working capital(4)	83.7	
Property, plant and equipment, net	1,170.7	
Total assets	1,596.9	
Total debt	1,419.7	
Stockholders' equity	(64.4)	

(1) EBITDA consists of earnings before interest, taxes depreciation and amortization. EBITDA is a measure commonly used in our industry and we present EBITDA to enhance your understanding of our operating performance. We use EBITDA as one criterion for evaluating our performance relative to that of our peers. We use EBITDA as an operating performance measure, and not a liquidity measure. We believe that EBITDA provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. However, EBITDA is not a measurement of financial performance under U.S. GAAP, and our EBITDA may not be comparable to similarly titled measures of other companies. You should not consider our EBITDA as an alternative to operating or net income, determined in accordance with U.S. GAAP, as an indicator of our operating performance, or as an alternative to cash flows from operating activities, determined in accordance with U.S. GAAP, as an indicator of our cash flows or as a measure of liquidity.

The following table reconciles net income (loss) to EBITDA for the periods presented:

	Predecessor Combined			Successor Combined	Successor Combined
	Year Ended December 31,		Seven Months Ended	Five Months Ended	Nine Months Ended
	2004	2005	July 31, 2006	December 31, 2006	September 30, 2007
	(dollars in millions)				
Net income (loss)	\$ (13.1)	\$ 27.5	\$ 10.7	\$ (2.6)	\$ (103.4)
Interest expense, net:	15.7	14.8	8.4	47.3	105.3
Income tax expense (benefit)	(8.2)	17.9	7.0		
Depreciation and amortization	130.5	129.4	72.7	48.3	90.7
<b>EBITDA</b>	<b>\$ 124.9</b>	<b>\$ 189.6</b>	<b>\$ 98.8</b>	<b>\$ 93.0</b>	<b>\$ 92.6</b>

(2) The as adjusted statement of operations data gives effect to this offering, at a price of \$ \_\_\_\_\_ per share, the mid-point of the range set forth on the cover of this prospectus, and the use of proceeds therefrom, as if this offering was consummated at the beginning of the nine months ended September 30, 2007.

Set forth below is an unaudited reconciliation of net income (loss) to as adjusted net income (loss) for the nine months ended September 30, 2007:

	Nine Months Ended September 30, 2007 (dollars in millions)
Net income (loss)	\$ _____
Adjustment to decrease interest expense, net(a)	
Adjustment to provision (benefit) for income taxes	

As adjusted net income (loss)

\$

---

**Table of Contents**

- (a) The decrease in interest expense reflects the decrease in interest cost of \$            million as a result of this offering and the use of proceeds therefrom to repay the outstanding \$250.0 million senior unsecured term loan facility of our subsidiary, Verso Paper Finance Holdings LLC, and repay the outstanding \$10.0 million senior secured term loan of our subsidiary, Verso Fiber Farm LLC, net of the write-off of deferred financing costs of \$            million and the premium paid to repay the senior unsecured term loan facility of \$2.5 million.
  
- (3) Cash interest expense represents gross interest expense related to our debt, excluding the amortization of debt issuance costs.
  
- (4) Working capital is defined as current assets net of current liabilities, excluding the current portion of long-term debt and the Division's accounts payable to International Paper Company net.
  
- (5) The as adjusted combined balance sheet data reflects the balance sheet data as of September 30, 2007, adjusted for this offering and the use of proceeds therefrom. A \$1.00 increase (decrease) in the assumed initial public offering price of \$            per share, the mid-point of the range set forth on the cover of this prospectus, would increase (decrease) each of cash and cash equivalents, working capital, total assets and stockholders' equity by \$            million, assuming the number of shares offered by us, as set forth on the cover page of this preliminary prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

**Covenant Compliance**

Certain covenants contained in the credit agreement governing our subsidiary's senior secured credit facilities and the indentures governing our subsidiary's outstanding notes (i) require the maintenance of a senior secured debt to Adjusted EBITDA ratio and (ii) restrict our ability to take certain actions such as incurring additional debt or making acquisitions if we are unable to meet defined Adjusted EBITDA to Fixed Charges, senior secured debt to Adjusted EBITDA and consolidated debt to Adjusted EBITDA ratios. The most restrictive of these covenants, the covenants to incur additional indebtedness and the ability to make future acquisitions, require an Adjusted EBITDA to Fixed Charges ratio (measured on a trailing four-quarter basis) of 2.0:1.0. Failure to comply with these covenants can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. See Risk Factors Our substantial indebtedness could adversely affect our financial health.

Fixed Charges are defined as consolidated interest expense excluding the amortization or write-off of deferred financing costs. Adjusted EBITDA is defined as EBITDA (as described above) further adjusted to exclude unusual items and other pro forma adjustments permitted in calculating covenant compliance in the indentures governing our outstanding notes to test the permissibility of certain types of transactions. We believe that the inclusion of the supplemental adjustments applied in calculating Adjusted EBITDA is appropriate to provide additional information to investors to demonstrate our compliance with our financial covenants and assess our ability to incur additional indebtedness in the future. However, Adjusted EBITDA is not a measurement of financial performance under U.S. GAAP, and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. You should not consider our Adjusted EBITDA as an alternative to operating or net income, determined in accordance with U.S. GAAP, as an indicator of our operating performance, or as an alternative to cash flows from operating activities, determined in accordance with U.S. GAAP, as an indicator of our cash flows or as a measure of liquidity.

**Table of Contents**

The following table reconciles net income to EBITDA and Adjusted EBITDA for the periods presented. Statement of operations data for the twelve months ended September 30, 2007, is calculated by subtracting the nine months ended September 30, 2006 data from the data for the combined year ended December 31, 2006, and adding the nine months ended September 30, 2007.

	Predecessor Combined	Successor Combined	Successor & Predecessor Combined	Successor Combined	
	Seven Months Ended	Two Months Ended	Year Ended	Nine Months Ended	Twelve Months Ended
	July 31,	September 30,	December 31,	September 30,	September 30,
	2006	2006	2006	2007	2007
	(dollars in millions)				
Net income (loss)	\$ 10.7	\$ 3.8	\$ 8.1	\$ (103.4)	\$ (109.8)
Interest expense, net	8.4	19.2	55.7	105.3	133.4
Income tax expense (benefit)	7.0		7.0		
Depreciation and amortization	72.7	18.8	121.0	90.7	120.3
<b>EBITDA</b>	<b>\$ 98.8</b>	<b>\$ 41.8</b>	<b>\$ 191.8</b>	<b>\$ 92.6</b>	<b>\$ 143.9</b>
Lease not assumed(a)			5.8		
Operational improvements(b)			7.8	3.7	5.0
Restructuring, severance and other(c)			9.8	16.5	23.0
Non-cash compensation/benefits(d)			5.4	0.5	0.9
Inventory fair value(e)			5.9		1.3
Other items, net(f)			(0.1)	6.9	2.8
<b>Adjusted EBITDA</b>			<b>\$ 226.4</b>	<b>\$ 120.2</b>	<b>\$ 176.9</b>
As adjusted cash interest expense(g)					\$
Adjusted EBITDA to as adjusted cash interest expense					

- (a) Reflects the elimination of the historical rent expense incurred on the Sartell property lease that was not assumed by us in the Acquisition.
- (b) Represents the elimination or addition of expected earnings as a result of changes in the use of two of our paper machines at the Androscoggin mill prior to the Acquisition, and the benefit of lower wood cost at our Sartell mill resulting from the harvest of hybrid poplar from our fiber farm.
- (c) Includes restructuring and severance as per our financial statements. Restructuring includes transition and other non-recurring costs associated with the acquisition and carve out.
- (d) Represents amortization of certain one-time benefit payments and non-cash benefit payments. Also includes the elimination of historical non-cash stock compensation costs previously incurred by us under International Paper's compensation plan.
- (e) Represents the fair value of inventory adjustment related to purchase accounting.

## Edgar Filing: Verso Paper Corp. - Form S-1

- (f) Represents earnings adjustments for exceptional levels of bad debt expense, legal and consulting fees, and other miscellaneous non-recurring items, including adjustments for incremental estimated costs for activities previously part of the corporate allocation as well as other incremental costs we anticipated incurring on a stand-alone basis subsequent to the Transactions.
  
- (g) As adjusted cash interest expense gives effect to this offering and the use of proceeds therefrom as if this offering was consummated at the beginning of the twelve month period ended September 30, 2007. Cash interest expense represents gross interest expense related to the debt, excluding amortization of debt issuance costs.

**Table of Contents**

**RISK FACTORS**

*Purchasing our common stock in this offering involves a high degree of risk. You should carefully consider the following factors, in addition to the other information contained in this prospectus, in deciding whether to invest in our common stock. This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include those discussed below.*

**Risks Relating to our Business**

**We have limited ability to pass through increases in our costs. Increases in our costs or decreases in coated or SC paper prices could adversely affect our business, financial condition or results of operations.**

Our earnings are sensitive to price changes in coated or SC paper. Fluctuations in paper prices (and coated paper prices in particular) historically have had a direct effect on our net income (loss) and EBITDA for several reasons:

Market prices for paper products are a function of supply and demand, factors over which we have limited control. We therefore have limited ability to control the pricing of our products. Market prices of grade No. 3, 60 lb. paper, which is an industry benchmark for coated freesheet paper pricing, have fluctuated since 2000 from a high of \$950 per ton to a low of \$705 per ton. In addition, market prices of grade No. 5, 34 lb. paper, which is an industry benchmark for coated groundwood paper pricing, have fluctuated between a high of \$1,040 per ton to a low of \$795 per ton over the same period. Because market conditions determine the price for our paper products, the price for our products could fall below our cash production costs;

Market prices for paper products typically are not directly affected by raw material costs or other costs of sales, and consequently we have limited ability to pass through increases in our costs to our customers absent increases in the market price. In addition, a significant portion of our sales are pursuant to contracts that limit price increases. Thus, even though our costs may increase, we may not have the ability to increase the prices for our products, or the prices for our products may decline; and

The manufacturing of coated paper is highly capital-intensive and a large portion of our operating costs are fixed. Additionally, paper machines are large, complex machines that operate more efficiently when operated continuously. Consequently, both we and our competitors typically continue to run our machines whenever marginal sales exceed the marginal costs, adversely impacting prices at times of lower demand.

Therefore, our ability to achieve acceptable margins is principally dependent on (i) managing our cost structure, (ii) managing changes in raw materials prices, which represent a large component of our operating costs and fluctuate based upon factors beyond our control and (iii) general conditions in the paper market. If the prices of our products decline, or if our raw material costs increase, it could have a material adverse effect on our business, financial condition and results of operations.

**The paper industry is cyclical. Fluctuations in supply and demand for our products could materially adversely affect our business, financial condition and results of operations.**

The paper industry is a commodity market to a significant extent and is subject to cyclical market pressures. North American demand for coated and SC paper products tends to decline during a weak U.S. economy. Accordingly, general economic conditions and demand for magazines and catalogs may have a material adverse impact on the demand for our products, which could have a material adverse effect on our business, financial condition and results of operations. In addition, currency fluctuations can have a significant impact on the supply

---

## **Table of Contents**

of coated paper products in North America. If the U.S. dollar strengthens, imports may increase, which would cause the supply of paper products available in the North American market to increase. Foreign overcapacity also could result in an increase in the supply of paper products available in the North American market. An increased supply of paper available in North America could put downward pressure on prices and/or cause us to lose sales to competitors, either of which could have a material adverse effect on our business, financial condition and results of operations.

**We have a limited operating history as a separate company. Accordingly, our Predecessor combined historical financial data may not be representative of our results as a separate company.**

We operated as a division of International Paper prior to the Acquisition. Therefore, we have a very limited operating history as a separate company. Our business strategy as an independent entity may not be successful on a long-term basis. Although International Paper, after the completion of the Acquisition, generally no longer sells coated or SC paper, we cannot assure you that our customers will continue to do business with us on the same terms as when we were a division of International Paper or at all. We may not be able to grow our business as planned and may not remain a profitable business. In addition, the historical combined financial data included in this prospectus may not necessarily reflect what our results of operations, financial condition and cash flows would have been had we been a separate independent entity pursuing our own strategies during the periods presented. Our limited operating history as a separate entity makes evaluating our business and our future financial prospects difficult. As a result, our business, financial condition and results of operations may differ materially from our expectations based on the historical and pro forma financial data contained in the prospectus.

Our cost structure following the Acquisition is not comparable to the cost structure that we experienced in prior periods and may not be comparable to the cost structure that we have estimated for purposes of the pro forma financial statements included in this prospectus. Our management has limited experience managing our business as a separate company with a significant amount of indebtedness. We cannot assure you that our cost structure in future periods will be consistent with our current expectations or will permit us to operate our business profitably.

**The markets in which we operate are highly competitive.**

Our business is highly competitive. Competition is based largely on price. We compete with foreign producers, some of which are lower cost producers than we are or are subsidized by governments. We also face competition from numerous North American coated and SC paper manufacturers. Some of our competitors have advantages over us, including lower raw material and labor costs and fewer environmental and governmental regulations to comply with than we do. Furthermore, some of our competitors have greater financial and other resources than we do or may be better positioned than we are to compete for certain opportunities.

Our non-U.S. competitors may develop a competitive advantage over us and other U.S. producers if the U.S. dollar strengthens in comparison to the home currency of those competitors or ocean shipping rates decrease. If the U.S. dollar strengthens, if shipping rates decrease or if overseas supply exceeds demand, imports may increase, which would cause the supply of coated paper products available in the North American market to increase. An increased supply of coated paper could cause us to lower our prices or lose sales to competitors, either of which could have a material adverse effect on our business, financial condition and results of operations.

In addition, the following factors will affect our ability to compete:

product availability;

the quality of our products;

our breadth of product offerings;

our ability to maintain plant efficiencies and high operating rates;



---

**Table of Contents**

manufacturing costs per ton;

customer service and our ability to distribute our products on time; and

the availability and/or cost of wood fiber, market pulp, chemicals, energy and other raw materials and labor.

**If we are unable to obtain energy requirements or raw materials at favorable prices, or at all, it could adversely impact our business, financial condition and results of operations.**

We purchase wood fiber, market pulp, chemicals, energy and other raw materials from third parties. We may experience shortages of energy supplies or raw materials or be forced to seek alternative sources of supply. If we are forced to seek alternative sources of supply, we may not be able to do so on terms as favorable as our current terms or at all. In addition, the prices for energy and many chemicals, especially petroleum-based chemicals, have been volatile and have increased over the last year. Prices are expected to remain volatile for the foreseeable future. Chemical suppliers that use petroleum-based products in the manufacture of their chemicals may, due to a supply shortage and cost increase, ration the amount of chemicals available to us and/or we may not be able to obtain the chemicals we need to operate our business at favorable prices, if at all. In addition, certain specialty chemicals that we purchase are available only from a small number of suppliers. If any of these suppliers were to cease operations or cease doing business with us, we may be unable to obtain such chemicals at favorable prices, if at all.

The supply of energy or raw materials may be adversely affected by, among other things, hurricanes and other natural disasters or an outbreak or escalation of hostilities between the United States and any foreign power and, in particular, events in the Middle East. For example, timber supply is sometimes limited by fire, insect infestation, disease, ice and wind storms, floods, or other weather conditions. Additionally, due to increased fuel costs, suppliers, distributors and freight carriers have charged fuel surcharges, which have increased our costs. Any significant shortage or significant increase in our energy or raw material costs in circumstances where we cannot raise the price of our products due to market conditions could have a material adverse effect on our business, financial condition and results of operations. Any disruption in the supply of energy or raw materials could also affect our ability to meet customer demand in a timely manner and could harm our reputation. Furthermore, we may be required to post letters of credit or other financial assurance obligations with certain of our energy and other suppliers, which could limit our financial flexibility.

**We are involved in continuous manufacturing processes with a high degree of fixed costs. Any interruption in the operations of our manufacturing facilities may affect our operating performance.**

We seek to run our paper machines on a nearly continuous basis for maximum efficiency. Any unplanned plant downtime at any of our paper mills results in unabsorbed fixed costs that negatively affect our results of operations for the period in which we experience the downtime. Due to the extreme operating conditions inherent in some of our manufacturing processes, we may incur unplanned business interruptions from time to time and, as a result, we may not generate sufficient cash flow to satisfy our operational needs. In addition, many of the geographic areas where our production is located and where we conduct our business may be affected by natural disasters, including snow storms, forest fires and flooding. Such natural disasters could cause our mills to stop running, which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, during periods of weak demand for paper products, we have in the past and may in the future experience market-related downtime, which could have a material adverse effect on our financial condition and results of operations.

**Our operations require substantial ongoing capital expenditures, and we may not have adequate capital resources to fund all of our required capital expenditures.**

Our business is capital intensive, and we incur capital expenditures on an ongoing basis to maintain our equipment and comply with environmental laws, as well as to enhance the efficiency of our operations. Our pro

## **Table of Contents**

forma combined capital expenditures were \$56 million in 2006, including \$46 million for maintenance and environmental capital expenditures. We expect to spend approximately \$67 million on capital expenditures during 2007, including approximately \$42 million for maintenance and environmental capital expenditures. We anticipate that our available cash resources and cash generated from operations will be sufficient to fund our operating needs and capital expenditures for at least the next year. However, if we require additional funds to fund our capital expenditures, we may not be able to obtain them on favorable terms, or at all. If we cannot maintain or upgrade our facilities and equipment as we require or as necessary to ensure environmental compliance, it could have a material adverse effect on our business, financial condition and results of operations.

### **We depend on a small number of customers for a significant portion of our business.**

Our largest customer, A.T. Clayton & Co., accounted for approximately 9% of our pro forma combined net sales for the year ended December 31, 2006. In 2006, our ten largest customers (including A.T. Clayton & Co.) accounted for approximately 55% of our pro forma combined net sales, while our ten largest end-users accounted for approximately 33% of our pro forma combined net sales. The loss of, or reduction in orders from, any of these customers or other customers could have a material adverse effect on our business, financial condition and results of operations, as could significant customer disputes regarding shipments, price, quality or other matters.

### **We may not realize certain productivity enhancements or improvements in costs.**

As part of our business strategy, we intend to identify opportunities to improve profitability by reducing costs and enhancing productivity. Any cost savings or productivity enhancements that we realize from such efforts may differ materially from our estimates. For example, we have several productivity enhancement initiatives to reduce waste and increase the amount of uptime on our paper machines. We cannot assure you that these initiatives will be completed as anticipated or that the benefits we expect will be achieved on a timely basis or at all.

### **Rising postal costs could weaken demand for our paper products.**

A significant portion of paper is used in magazines, catalogs and other promotional mailings. Many of these materials are distributed through the mail. The scheduled May 2007 increase in the cost of postage, or future increases, could reduce the frequency of mailings, reduce the number of pages in magazine and advertising materials and/or cause catalog and magazine publishers to use alternate methods to distribute their materials. Any of the foregoing could decrease the demand for our products, which could materially adversely affect our business, financial condition and results of operations.

### **Our business may suffer if we do not retain our senior management.**

We depend on our senior management. The loss of services of members of our senior management team could adversely affect our business until suitable replacements can be found. There may be a limited number of persons with the requisite skills to serve in these positions and we may be unable to locate or employ qualified personnel on acceptable terms. In addition, our future success requires us to continue to attract and retain competent personnel.

### **A large percentage of our employees are unionized. Wage increases or work stoppages by our unionized employees may have a material adverse effect on our business, financial condition and results of operations.**

As of December 31, 2006, approximately 1,277, or 43%, of our employees were represented by labor unions and we had four collective bargaining agreements at two sites. As of November 30, 2007, we had successfully completed labor negotiations for the three agreements up for renewal in 2007. The new agreements will expire in 2011. The fourth agreement is up for renewal in 2008. Effective March 1, 2007, 24 employees covered by this agreement decertified from the union and transferred to salaried management positions. We may become subject

---

## **Table of Contents**

to material cost increases or additional work rules imposed by agreements with labor unions. This could increase expenses in absolute terms and/or as a percentage of net sales. In addition, although we believe we have good relations with our employees, work stoppages or other labor disturbances may occur in the future. Any of these factors could negatively affect our business, financial condition and results of operations.

### **We depend on third parties for certain transportation services.**

We rely primarily on third parties for transportation of our products to our customers and transportation of our raw materials to us, in particular, by truck and train. If any of our third-party transportation providers fail to deliver our products in a timely manner, we may be unable to sell them at full value. Similarly, if any of our transportation providers fail to deliver raw materials to us in a timely manner, we may be unable to manufacture our products on a timely basis. Shipments of products and raw materials may be delayed due to weather conditions, strikes or other events. Any failure of a third-party transportation provider to deliver raw materials or products in a timely manner could harm our reputation, negatively impact our customer relationships and have a material adverse effect on our business, financial condition and results of operations. In addition, our ability to deliver our products on a timely basis could be adversely affected by the lack of adequate availability of transportation services, especially rail capacity, whether because of work stoppages or otherwise. Furthermore, increases in the cost of our transportation services, including as a result of rising fuel costs, could cause a material adverse effect on our business, financial condition and results of operations.

### **We are subject to various environmental, health and safety regulations that could impose substantial costs or other liabilities upon us and may adversely affect our operating performance and financial condition.**

We are subject to a wide range of federal, state and local general and industry-specific environmental, health and safety laws and regulations, including those relating to air emissions, wastewater discharges, solid and hazardous waste management and disposal and site remediation. Compliance with these laws and regulations is a significant factor in our business. We have made, and will continue to make, significant expenditures to comply with these requirements. In addition, we handle and dispose of wastes arising from our mill operations and operate a number of on-site landfills to handle that waste. We maintain financial assurance for the projected cost of closure and post-closure care for these landfill operations. We could be subject to potentially significant fines, penalties, criminal sanctions, plant shutdowns or interruptions in operations for any failure to comply with applicable environmental, health and safety laws and regulations. Moreover, under certain environmental laws, a current or previous owner or operator of real property, and parties that generate or transport hazardous substances that are disposed of at real property, may be held liable for the full cost to investigate or clean up such real property and for related damages to natural resources. We may be subject to liability, including liability for investigation and cleanup costs, if contamination is discovered at one of our current or former paper mills, other properties or other locations where we have disposed of, or arranged for the disposal of, wastes. International Paper has agreed to indemnify us, subject to certain limitations, for former properties and former off-site shipments, as well as certain other environmental liabilities. There can be no assurance that International Paper will perform under any of its environmental indemnity obligations, which could have a material adverse effect on our financial condition and results of operations. We also could be subject to claims brought pursuant to applicable laws, rules or regulations for property damage or personal injury resulting from the environmental impact of our operations, including due to human exposure to hazardous substances. Increasingly stringent environmental requirements, more aggressive enforcement actions or policies, the discovery of unknown conditions or the bringing of future claims may cause our expenditures for environmental matters to increase, and we may incur material costs associated with these matters. For a further discussion of environmental laws, rules and regulations that affect our business, see [Business Environmental and Other Governmental Regulations](#).

### **Our substantial indebtedness could adversely affect our financial health.**

We have and will continue to have a significant amount of indebtedness. On September 30, 2007, after giving effect to this offering and the use of proceeds therefrom, we would have had total indebtedness of \$            million.

## **Table of Contents**

Our substantial indebtedness could have important consequences to you. For example, it could:

increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;

increase our vulnerability to and limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

expose us to the risk of increased interest rates as borrowings under our senior secured credit facilities and our floating rate senior notes will be subject to variable rates of interest;

place us at a competitive disadvantage compared to our competitors that have less debt; and

limit our ability to borrow additional funds.

In addition, the indentures governing our outstanding notes and our senior secured credit facilities contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future because the terms of the indentures governing our outstanding notes and our senior secured credit facilities do not fully prohibit us or our subsidiaries from doing so. If new indebtedness is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify.

### **Risks Related to Our Common Stock**

**There is no existing market for our common stock, and we do not know if one will develop to provide you with adequate liquidity.**

Prior to this offering, there has not been a public market for our common stock. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the New York Stock Exchange or otherwise or how liquid that market might become. If an active trading market does not develop, you may have difficulty selling any of our common stock that you buy. The initial public offering price for the common stock will be determined by negotiations between us and the representatives of the underwriters and may not be indicative of prices that will prevail in the open market following this offering. Consequently, you may not be able to sell our common stock at prices equal to or greater than the price you paid in this offering.

**The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.**

Volatility in the market price of our common stock may prevent you from being able to sell your common stock at or above the price you paid for your common stock. The market price of our common stock could fluctuate significantly for various reasons, including:

our operating and financial performance and prospects;

## Edgar Filing: Verso Paper Corp. - Form S-1

our quarterly or annual earnings or those of other companies in our industry;

the public's reaction to our press releases, our other public announcements and our filings with the SEC;

changes in earnings estimates or recommendations by research analysts who track our common stock or the stock of other companies in our industry;

**Table of Contents**

strategic actions by us or our competitors, such as acquisitions or restructurings;

new laws or regulations or new interpretations of existing laws or regulations applicable to our business;

changes in accounting standards, policies, guidance, interpretations or principles;

changes in general conditions in the United States and global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events; and

sales of common stock by us or members of our management team.

In addition, in recent years, the stock market has experienced significant price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our share price.

**Delaware law and our charter documents may impede or discourage a takeover, which could cause the market price of our common stock to decline.**

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change of control would be beneficial to our existing stockholders. In addition, provisions of our amended and restated certificate of incorporation and bylaws may also make it more difficult for, or prevent a third party from, acquiring control of us without the approval of our board of directors. These provisions include:

a staggered board of directors;

the sole power of a majority of the board of directors to fix the number of directors;

limitations on the removal of directors;

the sole power of the board of directors to fill any vacancy on the board of directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;

the ability of our board of directors to designate one or more series of preferred stock and issue preferred stock without shareholder approval; and

the inability of shareholders to act by written consent or to call special meetings.

Our incorporation under Delaware law, the ability of our board of directors to create and issue a new series of preferred stock, and certain other provisions of our amended and restated certificate of incorporation and bylaws could impede a merger, takeover or other business combination involving us or the replacement of our management or discourage a potential investor from making a tender offer for our common stock, which, under certain circumstances, could reduce the market value of our common stock. See Description of Capital Stock.

**We have no plans to pay regular dividends on our common stock, so you may not receive funds without selling your common stock.**

## Edgar Filing: Verso Paper Corp. - Form S-1

We have no plans to pay regular dividends on our common stock. We generally intend to invest our future earnings, if any, to fund our growth. Any payment of future dividends will be at the discretion of our board of directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends, and other considerations that our board of directors deems relevant. Our agreements governing our outstanding indebtedness also include limitations on our payment of dividends. Accordingly, you may have to sell some or all of your common stock in order to generate cash flow from your investment. You may not receive a gain on your investment when you sell your common stock and you may lose the entire amount of the investment.

---

**Table of Contents**

**You will suffer immediate and substantial dilution.**

The initial public offering price per share of our common stock is substantially higher than our as adjusted net tangible book value per common share immediately after the offering. As a result, you will pay a price per share that substantially exceeds the book value of our assets after subtracting our liabilities. At the offering price of \$ \_\_\_\_\_, the mid-point of the range set forth on the cover of this prospectus, you will incur immediate and substantial dilution in the amount of \$ \_\_\_\_\_ per share.

**The requirements of being a public company may strain our resources and distract management.**

After the consummation of this offering, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, and the Sarbanes-Oxley Act of 2002. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal control for financial reporting. These requirements may place a strain on our systems and resources. Under Section 302 of the Sarbanes-Oxley Act, as part of our periodic reports, our chief executive officer and our chief financial officer will be required to evaluate the effectiveness of, and to report their conclusions regarding the effectiveness of, our disclosure controls and procedures and to certify that they have done so. In addition, under Section 404 of the Sarbanes-Oxley Act, we will be required to include a report of management on our internal control over financial reporting in our Annual Reports on Form 10-K and our independent public accountants auditing our financial statements must attest to and report on management's assessment of the effectiveness of our internal control over financial reporting. This requirement will first apply to our Annual Report on Form 10-K for our fiscal year ending December 31, 2009, and the Annual Report on Form 10-K of our subsidiary, Verso Paper Holdings LLC, for its fiscal year ending December 31, 2008. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight will be required. This may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. If we are unable to conclude that our disclosure controls and procedures and internal control over financial reporting are effective, or if our independent public accounting firm is unable to provide us with an unqualified report as to the effectiveness of our internal control over financial reporting in future years, investors may lose confidence in our financial reports and our stock price may decline.

**Future sales of our common stock in the public market could lower our share price, and the exercise of outstanding stock options and any additional capital raised by us through the sale of common stock may dilute your ownership in us.**

We may sell additional shares of common stock in subsequent public offerings. Our amended and restated articles of incorporation will authorize us to issue \_\_\_\_\_ shares of common stock, of which \_\_\_\_\_ shares will be outstanding upon consummation of this offering. This number includes \_\_\_\_\_ shares that we are selling in this offering, which may be resold immediately in the public market. Of the remaining \_\_\_\_\_ shares, \_\_\_\_\_ or \_\_\_\_\_ % are restricted from immediate resale under the federal securities laws and the lock-up agreements between our current shareholders and the underwriters described in Underwriting, but may be sold into the market in the near future. These shares will become available for sale at various times following the expiration of the lock-up agreements, which, without the prior consent of the representatives of the underwriters, is 180 days after the date of this prospectus (which period could be extended by the underwriters for up to an additional 34 days under certain circumstances). Immediately after the expiration of the 180-day lock-up period, the shares will be eligible for resale under Rule 144 or Rule 701 of the Securities Act, subject to volume limitations and applicable holding period requirements. In addition, immediately following this offering, we intend to file a registration statement registering \_\_\_\_\_ shares reserved for issuance under our 2008 Incentive Award Plan under the Securities Act (of which shares will not be subject to the 180-day lock-up).

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial



## **Table of Contents**

amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

### **Our equity sponsor controls us and its interests may conflict with or differ from your interests as a shareholder.**

After the consummation of this offering, our equity sponsor, Apollo, will beneficially own approximately % of our common stock. If the underwriters exercise in full their over-allotment option, Apollo will beneficially own approximately % of our common stock. In addition, representatives of Apollo will have the ability to prevent any transaction that requires the approval of directors. As a result, Apollo will have the ability to substantially influence all matters requiring shareholder approval, including the election of our directors and the approval of significant corporate transactions such as mergers, tender offers and the sale of all or substantially all of our assets. The interests of Apollo and its affiliates could conflict with or differ from your interests as a holder of our common stock. For example, the concentration of ownership held by Apollo could delay, defer or prevent a change of control of our company or impede a merger, takeover or other business combination which you may otherwise view favorably. Apollo may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. A sale of a substantial number of shares of stock in the future by funds affiliated with our equity sponsor could cause our stock price to decline in the future.

### **We are a controlled company within the meaning of the New York Stock Exchange rules and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements.**

Upon the consummation of this offering, Apollo will continue to beneficially own a majority of our outstanding common stock. As a result, we are a controlled company within the meaning of the New York Stock Exchange corporate governance standards. Under the New York Stock Exchange rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a controlled company and may elect not to comply with certain New York Stock Exchange corporate governance requirements, including:

the requirement that a majority of the board of directors consist of independent directors;

the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;

the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and

the requirement for an annual performance evaluation of the nominating/corporate governance and compensation committees.

Following this offering, we intend to utilize most of these exemptions. As a result, we will not have a majority of independent directors and our nominating/corporate governance and compensation committees will not consist entirely of independent directors. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This prospectus, including the sections entitled *Prospectus Summary* and *Business* contains forward-looking statements. These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include, among other things, those listed in *Risk Factors*, *Management's Discussion and Analysis of Financial Condition and Results of Operations* and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as *may*, *should*, *expects*, *intends*, *plans*, *anticipates*, *believes*, *estimates*, *predicts*, *potential*, *continue*, *assumption* or the negative of these terms or other comparable terminology. These statements are not predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined in *Risk Factors*. These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements are made as of the date of this prospectus and, except as required under the federal securities laws and the rules and regulations of the SEC, we assume no obligation to update or revise them or to provide reasons why actual results may differ.

We do not undertake any responsibility to release publicly any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of this prospectus. Additionally, we do not undertake any responsibility to update you on the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this prospectus.

---

**Table of Contents**

**USE OF PROCEEDS**

We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately \$ , or \$ million if the underwriters exercise in full their over-allotment option, based upon an assumed initial public offering price of \$ per share, the mid-point of the price range set forth on the cover of this preliminary prospectus. We intend to use approximately \$ of the net proceeds from this offering to repay the outstanding \$250.0 million senior unsecured term loan facility of Verso Paper Finance Holdings LLC. The net proceeds from the incurrence of the senior term loan facility by Verso Paper Finance Holdings LLC were distributed to our equity holders. The senior unsecured term loan facility matures on February 1, 2013, and accrues interest at rate equal to LIBOR plus 6.25%. In connection with Verso Fiber Farm LLC becoming our wholly-owned subsidiary upon consummation of the Merger, a part of the \$ of the net proceeds from this offering (the Fiber Farm Funds ) will be used to repay the outstanding \$10.0 million senior secured term loan of Verso Fiber Farm LLC, and the remainder of the Fiber Farm Funds will be transferred to our parent, Verso Paper Management LP. The senior term loan of Verso Fiber Farm LLC matures on August 1, 2010, and accrues interest at a rate equal to LIBOR plus 3.00%. The remainder of the net proceeds will be used for general corporate purposes, including working capital, the expansion of our production capabilities, and purchases of capital equipment and potential acquisitions of businesses that we believe are complementary to our business.

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share would increase (decrease) the net proceeds to us from this offering by \$ million, assuming the number of shares offered by us, as set forth on the cover page of this preliminary prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

**DIVIDEND POLICY**

On January 31, 2007, the net proceeds from the incurrence of the senior term loan facility by our subsidiary, Verso Paper Holdings LLC, were distributed to our equity holders. We do not anticipate paying any dividends on our common stock in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant. Our ability to pay dividends on our common stock is limited by the covenants of our senior secured credit facilities and the indentures governing our outstanding notes, and may be further restricted by the terms of any of our future debt or preferred securities.

**Table of Contents****CAPITALIZATION AND CASH**

The following table sets forth our cash and cash equivalents and consolidated capitalization as of September 30, 2007, on an actual basis and on an as adjusted basis giving effect to this offering and the use of proceeds therefrom. See Use of Proceeds.

You should read this table in conjunction with Use of Proceeds, Selected Historical Combined Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our combined financial statements and their notes included elsewhere in this prospectus.

	As of	
	September 30, 2007	
	Actual	Adjusted(1)
	(dollars in millions)	
Cash	\$ 26.9	\$
<b>Debt:</b>		
Short-term debt:		
Fiber farm revolving credit facility(2)	\$ 2.5	\$
Long-term debt, including current portion:		
Verso Paper Holdings revolving credit facility(2)	\$	\$
Fiber farm term loan	10.0	
Term loan B	257.2	
Second priority senior secured notes (fixed)	350.0	
Second priority senior secured notes (floating)	250.0	
Senior subordinated notes	300.0	
Holding company term loan facility	250.0	
Total long-term debt, excluding current portion	1,417.2	
Total debt	1,419.7	
<b>Shareholders' Equity:</b>		
Common stock (par value \$0.01 per share; actual, shares authorized, shares issued and outstanding; as adjusted, shares authorized, shares issued and outstanding)	\$	
Additional paid-in capital	48.8	
Retained deficit	(106.1)	
Accumulated other comprehensive income	(7.1)	
Total shareholders' equity	(64.4)	
Total capitalization	\$ 1,355.3	\$

(1) A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share, the mid-point of the range set forth on the cover of this prospectus, would increase (decrease) each of cash and cash equivalents, additional paid-in capital, total shareholders' equity and total capitalization by \$ million, assuming the number of shares offered by us, as set forth on the cover page of this preliminary prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and offering expenses payable by us.

(2) Represents the revolving credit facilities of our subsidiaries, Verso Paper Holdings LLC, in the amount of \$200.0 million, and Verso Fiber Farm LLC, in the amount of \$5.0 million. No amounts were outstanding under the revolving credit facility of Verso Paper Holdings LLC

## Edgar Filing: Verso Paper Corp. - Form S-1

at September 30, 2007, and there is currently \$159 million of availability under the revolving credit facility, after deducting for \$41 million of standby letters of credit that we have issued. As of September 30, 2007, there was \$2.5 million outstanding under Verso Fiber Farm LLC's revolving credit facility.

**Table of Contents****DILUTION**

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of and the net tangible book value per share after this offering.

As of , 2007, our net tangible book value was approximately \$ million, or \$ per share. Net tangible book value per share represents total tangible assets less total liabilities, divided by the number of shares of common stock outstanding as of , 2007. After giving effect to the issuance and sale of shares of common stock in this offering at an assumed initial public offering price of \$ , the mid-point of the offering range on the cover page of this prospectus), deducting the underwriting discounts and estimated offering expenses that we will pay and the application of the proceeds therefrom as described under Use of Proceeds, our net tangible book value as of , 2007, would have been approximately \$ million, or \$ per share. This represents an immediate increase in net tangible book value of \$ per share to existing stockholders and an immediate dilution of \$ per share to new investors purchasing common stock in this offering. The following table illustrates this dilution on a per share basis:

Assumed initial public offering price per share	\$
Net tangible book value per share as of , 2007	\$
Increase in net tangible book value per share attributable to this offering	
Net tangible book value per share after this offering	\$
Dilution per share to new investors	\$

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share would increase (decrease) our net tangible book value by \$ million, the net tangible book value per share after this offering by \$ per share and the dilution to new investors in this offering by \$ per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The following table sets forth, as of , 2007, the total number of shares of common stock owned by existing shareholders and to be owned by new investors, and the total consideration paid, and the average price per share paid by our existing shareholders and to be paid by new investors purchasing shares of common stock in this offering, before deducting the underwriting discounts and estimated offering expenses that we will pay:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
	(dollars in millions, except share data)				
Existing stockholders		%	\$	%	\$
New investors					
Total		100.0%	\$	100.0%	\$

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share would increase (decrease) total consideration and total average price per share paid by new investors by \$ million and \$ , respectively, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA**

The following unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2006, is based on the historical financial statements of the Coated and SC Papers Division of International Paper for the seven months ended July 31, 2006, and our combined financial statements for the five months ended December 31, 2006, and give effect to the Transactions as if they had occurred on January 1, 2006.

Pro forma adjustments for the Transactions were made to reflect:

changes in depreciation and amortization expense resulting from fair value adjustments to net tangible assets and amortization expense related to amortizable intangible assets in connection with the Transactions;

removal of historical lease expense at the Sartell Mill;

interest expense resulting from the issuance of the \$1,195 million outstanding notes and the term loan; and

transaction and debt issuance costs incurred as a result of the Transactions.

The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable. The unaudited pro forma condensed combined statements of operations do not give effect to non-recurring items (including costs associated with the Transition Services Agreement and costs directly attributable to the Transactions) that were incurred in connection with the Transactions but will not have an ongoing impact on us beyond the twelve months.

The unaudited pro forma condensed consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our combined financial statements and the related notes included elsewhere in this prospectus. The unaudited pro forma condensed consolidated financial data is being furnished solely for informational purposes and is not intended to represent or be indicative of the consolidated results of operations or financial position that we would have reported had these transactions been completed as of the dates and for the periods presented, nor is it necessarily indicative of future results.

**Table of Contents****UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS****FOR THE YEAR ENDED DECEMBER 31, 2006****(dollars in millions)**

	<b>Predecessor Seven Months Ended July 31, 2006</b>	<b>Successor Five Months Ended December 31, 2006</b>	<b>Combined Successor and Predecessor Year Ended December 31, 2006</b>	<b>Pro Forma Adjustments</b>	<b>Pro Forma</b>
Net sales	\$ 904.4	\$ 706.8	\$ 1,611.2	\$	\$ 1,611.2
Costs and expenses:					
Cost of products sold (excluding depreciation and amortization)	771.6	589.3	1,360.9	(5.8)(1)	1,355.1
Depreciation and amortization	72.7	48.3	121.0	(5.0)(2)(6)	116.0
Selling, general and administrative	34.3	14.4	48.7	(4.2)(3)	44.5
Restructuring and other charges	(0.3)	10.1	9.8		9.8
Operating income	26.1	44.7	70.8	15.0	85.8
Interest income		(1.8)	(1.8)		(1.8)
Interest expense	8.4	49.1	57.5	60.8(4)	118.3
Income (loss) before income taxes	17.7	(2.6)	15.1	(45.8)	(30.7)
Income tax expense (benefit)	7.0		7.0	(7.0)(5)	
Net income (loss)	\$ 10.7	\$ (2.6)	\$ 8.1	\$ (38.8)	\$ (30.7)

See the accompanying Notes to Unaudited Pro Forma Condensed Consolidated Statement of Operations



**Table of Contents****NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF****OPERATIONS****(dollars in millions)**

- (1) Reflects the elimination of \$5.8 of historical rent expense incurred on the Sartell property lease that was not assumed by us.
- (2) Reflects the reduction of \$5.0 of depreciation and amortization resulting from fair value adjustments to personal property, other property and equipment and amortizable intangible assets as a result of the Acquisition. Depreciation and amortization relating to machinery and equipment are computed using the straight-line method over their useful life.
- (3) Reflects the elimination or reduction of certain historical costs previously allocated to us by International Paper. A summary follows (in millions):

Pro forma share-based compensation	\$ 0.7
Elimination of historical stock options	(1.5)
Pro forma pension expense	0.8
Elimination of historical pension and post-retirement expense	(4.2)
<b>Total</b>	<b>\$ (4.2)</b>

- (4) Represents incremental interest expense of \$60.8 related to the incurrence of additional indebtedness, consisting of the issuance of our fixed rate senior notes, second-priority senior secured floating rate notes and senior subordinated notes, and borrowings under the term loan B portion of the senior secured credit facilities and the fiber farm senior term loan, in the aggregate principal amount of \$1,195, bearing interest at a weighted average interest rate of 9.30%. The interest rate used for pro forma purposes is based on the interest rates effective upon closing of the Transaction. The adjustment assumes: (i) effective interest amortization of debt issuance costs of \$5.5; and (ii) the elimination of historical interest expense and amortization of debt issuance costs of debt not acquired by us in the amount of \$8.4.
- (5) Reflects the elimination of \$7.0 of historical income tax.
- (6) Reflects the allocation of the \$1.4 billion purchase price to assets acquired and liabilities assumed at August 1, 2006 as follows (in millions):

Current assets	\$ 237.1
Plant, property and equipment	1,232.6
Intangible assets	35.9
Goodwill	18.7
Other assets	4.5
Current liabilities	(110.3)
Long-term obligations	(25.3)

Edgar Filing: Verso Paper Corp. - Form S-1

Net assets acquired	\$ 1,393.2
<b>Identifiable intangible assets</b>	
Trademarks	\$ 21.5
Customer relationships	13.3
Patents	1.1
<b>Total intangible assets</b>	<b>\$ 35.9</b>

**Table of Contents****SELECTED HISTORICAL COMBINED FINANCIAL DATA**

The following table sets forth our selected historical financial data. The selected historical balance sheet data as of December 31, 2005, and historical statement of operations data for the years ended December 31, 2004, and 2005, and for the seven months ended July 31, 2006, have been derived from the combined financial statements of the Coated and SC Papers Division of International Paper (the Predecessor or the Division ) which have been audited by Deloitte & Touche LLP, independent registered public accounting firm, and are included in this prospectus. The selected historical combined statement of operations data for the years ended December 31, 2002 and 2003, and the combined balance sheet data as of December 31, 2002, 2003 and 2004, have been derived from the combined financial statements of the Coated and SC Papers Division of International Paper that are not included in this prospectus. The selected balance sheet data as of December 31, 2006, and the statement of operations data for the five months ended December 31, 2006, have been derived from the combined financial statements of Verso Paper Corp. (the Successor ) which have been audited by Deloitte & Touche LLP, independent registered public accounting firm, and are included in this prospectus. The historical combined statements of operations data for the two months ended September 30, 2006, and for the nine months ended September 30, 2007, have been derived from our unaudited combined financial statements included elsewhere in this prospectus. The unaudited financial statements have been prepared on the same basis as the audited financial statements and, in the opinion of our management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information set forth herein. Interim financial statements are not necessarily indicative of results that may be experienced for the full fiscal year or any future reporting period.

Our selected historical combined financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our combined financial statements and the related notes thereto included elsewhere in this prospectus.

	Predecessor Combined Year Ended December 31,				Seven Months Ended July 31, 2006	Successor Combined		
	2002	2003	2004	2005		Five Months Ended December 31, 2006	Two Months Ended September 30, 2006	Nine Months Ended September 30, 2007
	(dollars in millions)							
<b>Statement of Operations Data:</b>								
Net sales	\$ 1,355.8	\$ 1,343.1	\$ 1,463.3	\$ 1,603.8	\$ 904.4	\$ 706.8	\$ 298.8	\$ 1,183.0
Costs and expenses:								
Cost of products sold exclusive of depreciation and amortization	1,116.7	1,154.1	1,272.5	1,338.2	771.6	589.3	247.9	1,035.9
Depreciation and amortization	141.3	138.3	130.5	129.4	72.7	48.3	18.8	90.7
Selling, general and administrative expenses	91.8	81.4	65.3	65.6	34.3	14.4	5.4	38.0
Restructuring and other charges	18.0	4.5	0.6	10.4	(0.3)	10.1	3.7	16.5
Operating income (loss)	(12.0)	(35.2)	(5.6)	60.2	26.1	44.7	23.0	1.9
Interest expense	18.3	16.3	16.0	14.8	8.4	49.1	19.7	106.6
Interest income	(0.3)	(0.1)	(0.3)			(1.8)	(0.5)	(1.3)
Income (loss) before income taxes and cumulative effect of change in accounting principle	(30.0)	(51.4)	(21.3)	45.4	17.7	(2.6)	3.8	(103.4)
Provision (benefit) for income taxes	(11.6)	(19.8)	(8.2)	17.9	7.0			
Income (loss) before cumulative effect of change in accounting principle	(18.4)	(31.6)	(13.1)	27.5	10.7	(2.6)	3.8	(103.4)
Cumulative effect of change in accounting principle		(0.7)						
Net income (loss)	\$ (18.4)	\$ (32.3)	\$ (13.1)	\$ 27.5	\$ 10.7	\$ (2.6)	\$ 3.8	\$ (103.4)

**Table of Contents**

	Predecessor Combined Year Ended December 31,				Seven Months Ended July 31,	Successor Combined		
	2002	2003	2004	2005		Five Months Ended December 31,	Two Months Ended September 30,	Nine Months Ended September 30,
						2006	2006	2007
(dollars and tons in millions, except per share data)								
<b>Per Share Data(1):</b>								
Earnings (loss) per share						\$ (2,637)	\$ 3,782	\$ (103,416)
Common shares outstanding						1,000	1,000	1,000
<b>Balance Sheet Data:</b>								
Working capital(1)	\$ 60.7	\$ 78.9	\$ 58.6	\$ 87.8		\$ 153.8		\$ 83.7
Property, plant and equipment, net	1,387.5	1,384.3	1,363.9	1,287.0		1,212.3		1,170.7
Total assets	1,574.7	1,603.4	1,585.0	1,534.1		1,711.0		1,596.9
Total debt	307.7	303.5	302.1	301.2		1,169.3		1,419.7
Equity	1,072.6	1,097.0	1,075.3	1,040.0		280.0		(64.4)
<b>Statement of Cash Flows Data:</b>								
Cash (used in) provided by operating activities	\$ 151.5	\$ 81.0	\$ 123.7	\$ 116.8	\$ 39.3	\$ 128.2	\$ 48.6	\$ (38.0)
Cash used in investing activities	(46.3)	(135.2)	(111.5)	(53.0)	(27.6)	(1,402.0)	(1,392.2)	(47.8)
Cash (used in) provided by financing activities	(105.2)	54.2	(12.2)	(63.8)	(11.6)	1,386.3	1,413.6	0.2
<b>Other Financial and Operating Data:</b>								
EBITDA(2)	\$ 129.3	\$ 102.4	\$ 124.9	\$ 189.6	\$ 98.8	\$ 93.0	41.8	\$ 92.6
Capital expenditures	46.6	133.3	111.3	53.1	27.7	27.8	8.2	49.6
Total tons sold	1,968.6	1,934.6	2,064.6	2,024.9	1,145.0	866.4	359.5	1,540.8

- (1) Working capital is defined as current assets net of current liabilities, excluding the current portion of long-term debt and the Division's accounts payable to International Paper Company net.
- (2) EBITDA consists of earnings before interest, taxes depreciation and amortization. EBITDA is a measure commonly used in our industry and we present EBITDA to enhance your understanding of our operating performance. We use EBITDA as one criterion for evaluating our performance relative to that of our peers. We believe that EBITDA is an operating performance measure, and not a liquidity measure, that provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. However, EBITDA is not a measurement of financial performance under U.S. GAAP, and our EBITDA may not be comparable to similarly titled measures of other companies. You should not consider our EBITDA as an alternative to operating or net income, determined in accordance with U.S. GAAP, as an indicator of our operating performance, or as an alternative to cash flows from operating activities, determined in accordance with U.S. GAAP, as an indicator of our cash flows or as a measure of liquidity.

The following table reconciles net income (loss) to EBITDA for the periods presented:

	Predecessor Combined Year Ended December 31,				Seven Months Ended July 31,	Successor Combined		
	2002	2003	2004	2005		Five Months Ended December 31,	Two Months Ended September 30,	Nine Months Ended September 30,
						2006	2006	2007
(dollars in millions)								
<b>Statement of Operations Data:</b>								
Net income (loss)	\$ (18.4)	\$ (32.3)	\$ (13.1)	\$ 27.5	\$ 10.7	\$ (2.6)	\$ 3.8	\$ (103.4)
Interest expense, net	18.0	16.2	15.7	14.8	8.4	47.3	19.2	105.3
Income tax expense (benefit)	(11.6)	(19.8)	(8.2)	17.9	7.0			

## Edgar Filing: Verso Paper Corp. - Form S-1

Depreciation and amortization	141.3	138.3	130.5	129.4	72.7	48.3	18.8	90.7
EBITDA	\$ 129.3	\$ 102.4	\$ 124.9	\$ 189.6	\$ 98.8	\$ 93.0	\$ 41.8	\$ 92.6

---

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations covers periods prior to the Acquisition. For comparison purposes, the results of operations for the year ended December 31, 2006, are presented on a combined basis, consisting of the historical results of the Predecessor for the seven months ended July 31, 2006, and the results of the Successor for the period beginning August 1, 2006 and ending on December 31, 2006. Accordingly, the discussion and analysis of historical periods do not fully reflect the significant impact that the Transactions have had on our financial statements. In addition, the statements in the discussion and analysis regarding industry outlook, our expectations regarding the performance of our business and the other non-historical statements in the discussion and analysis are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Risk Factors. Our actual results may differ materially from those contained in or implied by any forward-looking statements. You should read the following discussion together with Risk Factors and our consolidated and combined financial statements included elsewhere in this prospectus.*

**Overview**

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

**Stand-Alone Company**

On August 1, 2006, an affiliate of Apollo Management L.P. purchased the Coated and Supercalendered Papers Division of International Paper Company and the fiber farm. The Division was acquired under an asset purchase agreement. The Predecessor financial statements for the periods presented represent the Division's historical combined financial statements. The preparation of this information was based on certain assumptions and estimates, including allocations of costs from International Paper. This financial information may not, however, necessarily reflect the results of operations, financial positions and cash flows that would have occurred if the Division had been a separate, stand-alone entity during the periods presented or our future results of operations, financial position and cash flows. For example, the historical financial statements of the Predecessor in this report include expenses for certain corporate services provided by International Paper and allocated based on various methods, including direct consumption, percent of capital employed, and number of employees. These historical charges and allocations may not be representative of expenses that Verso Paper Corp. will incur in future reporting periods as Verso Paper Corp. operates as a stand-alone entity.

**Selected Factors that Affect our Operating Results**

***Net Sales***

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 influences supply and demand. Price has historically been substantially more variable than volume and can change significantly over relatively short time periods. In the second half of 2006, paper prices began to fall and

---

**Table of Contents**

continued to fall into the first half of 2007. We believe this price decline was driven by several factors, including high customer inventories, high producer inventories and cautious purchasing by customers in advance of a scheduled postal rate increase. In the second half of 2007, some of our North American competitors announced the shutdown of approximately 1 million tons of annual production capacity, which had become uncompetitive from a cost standpoint. This reduction was equivalent to 8% of North American coated paper capacity. As a result of these recent reductions in production capacity and resulting increases in the average operating rate for North American coated paper manufacturers, coated paper pricing began to strengthen in the second half of 2007. During the second quarter of 2007, we announced a \$60 per ton price increase on all coated paper grades, effective July 1. In reflection of the beginning of this price increase, our weighted average paper prices rose from \$797 per ton in the second quarter of 2007 to \$807 in the second half of 2007. We expect our weighted average paper prices to continue to increase as we realize this price increase during 2008. In addition, we announced another two price increases in the second half of 2007, totaling a further \$125 per ton on coated groundwood grades of paper and another \$70 per ton on coated freesheet grades of paper. We began implementing one of these price increases in October and will begin implementing the other price increase in January.

We are primarily focused on serving two end-user segments: (i) catalogs and (ii) magazines. In 2006, we believe we had the leading market share for the catalog and magazine segments of coated papers. Coated paper demand is primarily driven by advertising and print media usage. Advertising spending and magazine and catalog circulation tend to be correlated with GDP in the United States and rise with a strong economy.

The majority of our products are sold via contracts we maintain with our customers. Contracted sales are more prevalent for coated groundwood paper, as opposed to coated freesheet paper, which is more often sold without a contract. 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. 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 which comprise 650 end-user accounts. In 2006, no single customer accounted for more than 9% of our total net sales.

Our historical results also include products produced and sold from our paper machine No. 5 at the Androscoggin mill. Pursuant to the terms of a supply agreement entered into in 2005 between us and Thilmay, LLC, or Thilmay, which acquired International Paper's Industrial Papers business in June 2005, these products are sold at variable charge for the paper purchased and a fixed charge for the availability of the machine. The amount included in our net sales for products produced from this machine totaled \$46.4 million and \$40.8 million in 2004 and 2005, respectively. In addition, our historical results include products produced and sold from our paper machine No. 1, or PM1, at the Androscoggin mill, which had produced uncoated paper. We shut down our PM1 machine during 2005 to convert its production to softwood pulp. This machine, which began production in the first quarter of 2006, produces approximately 90,000 tons of softwood pulp annually, which is shipped to our Bucksport mill for use in its coated paper production, thereby reducing the Bucksport mill's third-party purchases of pulp. The amount included in our historical net sales for uncoated paper produced from this machine totaled \$65.3 million and \$20.2 million in 2004 and 2005, respectively.

***Costs of Products Sold***

The principal components of our cost of sales are chemicals, wood, energy, labor, maintenance and depreciation and amortization. Costs for commodities, including chemicals, wood and energy, are the most variable component of our cost of sales because the prices of many of the commodities that we use 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.

## **Table of Contents**

After giving effect to the Acquisition, our cost of goods sold increased as a result of the purchase accounting treatment of the Acquisition. Under the rules of purchase accounting, we adjusted the value of our assets (including the inventory we acquired) and liabilities at closing to their respective estimated fair values. As a result of these adjustments to our asset basis, following the close of the Acquisition, our costs of goods sold increased by such non-cash increase in our asset basis. However, this increase did not have a cash impact and did not affect our cost of sales for any inventory produced after the close of the Acquisition.

*Chemicals.* Chemicals utilized in the manufacturing of coated papers include latex, starch, calcium carbonate, titanium dioxide and others. We purchase these chemicals from a variety of suppliers and are not dependent on any single supplier to satisfy our chemical needs. In the near term, we expect the rate of inflation for our total chemical costs to be lower than that experienced over the last two years. However, we expect imbalances in supply and demand will drive higher prices for certain chemicals such as starch and sodium chlorate.

*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. In 2008, we will begin to utilize wood harvested from our 21,000 acre hybrid poplar fiber farm located near Alexandria, Minnesota, which should reduce our wood costs.

*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, black liquor solids, 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. As prices fluctuate, we have some ability to switch between certain energy sources in order to minimize costs.

*Labor costs.* Labor costs include wages, salary and benefit expenses attributable to our mill personnel. Mill employees at a non-managerial level are compensated on an hourly basis. Management employees at our mills are compensated on a salaried basis. Wages, salary and benefit expenses included in cost of sales do not vary significantly over the short term. In addition, we have not experienced significant labor shortages.

*Maintenance.* Maintenance expense includes day-to-day maintenance, equipment repairs and larger maintenance projects, such as paper machine shutdowns for periodic maintenance. Day-to-day maintenance expenses have not varied significantly from year-to-year. Larger maintenance projects and equipment expenses can produce year-to-year fluctuations in our maintenance expenses. In conjunction with our periodic maintenance shutdowns, we have incidental incremental costs that are primarily comprised of unabsorbed fixed costs from lower production volumes and other incremental costs for purchased materials and energy that would otherwise be produced as part of the normal operation of our mills.

### ***Depreciation and amortization***

Depreciation and amortization expense is lower after the Acquisition as a result of the lower asset bases assigned to property, plant, and equipment. Under the rules of purchase accounting, we have adjusted the value of our assets and liabilities to their respective estimated fair values and any excess of the purchase price over the fair market value of the net assets acquired was allocated to goodwill.



---

## **Table of Contents**

### ***Selling, General and Administrative Expenses***

The principal components of our selling, general and administrative expenses are wages, salaries and benefits for our office personnel at our headquarters and our sales force, travel and entertainment expenses, advertising expenses, expenses relating to certain information technology systems and research and development expenses. Also included are allocations of costs for corporate functions historically provided to us by International Paper. For further information about allocated costs, see Corporate Allocations. In addition, we pay a management fee to Apollo on an annual basis pursuant to a management agreement we entered into with Apollo after the consummation of the Transactions. Upon consummation of this offering, we expect that the fee arrangement with Apollo will be terminated pursuant to the terms of the management agreement.

### ***Taxes***

Prior to the Acquisition on August 1, 2006, the Division was included in the consolidated income tax returns of International Paper. In the Predecessor combined financial statements included in this prospectus, income taxes have been presented based on a calculation of the income tax benefit we estimate would have been generated if we had operated as a separate taxpayer. As a result, we have reflected U.S. federal and state income tax expense (benefit) on our gains (losses) based on an allocated rate of 38.5% for the year ended December 31, 2004, and 39.4% for the year ended December 31, 2005 and for the seven months ended July 31, 2006. The Predecessor historically settled the current amount due to/from International Paper through a control account. Income taxes have been provided for all items included in the historical statements of income included herein, regardless of when such items were reported for tax purposes or when the taxes were actually paid or refunded. As a result of the Transactions, there was a step-up in the tax basis of our assets, significantly reducing our cash income tax payments. Accordingly, our historical income tax expense (benefit) may not necessarily reflect and may differ materially from what our cash tax payments would have been or will be as a stand-alone entity.

### ***Corporate Allocations***

The historical combined statement of operations for the Predecessor includes allocations of costs for certain corporate functions historically provided to us by International Paper, including:

*General corporate expenses.* This represents costs related to corporate functions such as accounting, tax, treasury, payroll and benefits administration, certain incentive compensation, risk management, legal, centralized transaction processing and information management and technology. These costs have historically been allocated primarily based on general factors and estimated use of services. These costs are included in selling, general and administrative expenses in the combined statement of operations.

*Employee benefits and incentives.* This represents fringe benefit costs and other incentives, including group health and welfare benefits, U.S. pension plans, U.S. post-retirement benefit plans and employee incentive compensation plans. These costs have historically been allocated on an active headcount basis for health and welfare benefits, including U.S. post-retirement plans, on the basis of salary for U.S. pension plans and on a specific identification basis for employee incentive compensation plans. These costs are included in costs of goods sold, selling, general and administrative expenses and restructuring charges in the combined statement of operations.

*Interest expense and debt service costs.* International Paper has historically provided financing to us through cash flows from its other operations and debt incurred. The interest expense associated with incurred debt that has been allocated to us based on specifically-identified borrowings is included in interest expense, net in our statements of operations data. Costs associated with the debt are included in other expense (income) in our statement of operations data.

**Table of Contents**

Expense allocations from International Paper reflected in the income (loss) in the Predecessor combined financial statements were as follows:

	Predecessor Combined		
	Year Ended December 31,	Seven Months Ended July 31,	
	2004	2005	2006
General corporate expenses	\$ 44.7	\$ 44.0	\$ 19.5
Employee benefits and incentives(1)	18.4	23.9	11.3
Interest expense and debt service costs	15.6	14.8	8.4

(1) Includes severance payments associated with various headcount reduction initiatives of \$0.7 million and \$7.2 million for 2004 and 2005, respectively.

Following the consummation of the Transactions, we no longer have allocations for costs for certain corporate functions historically provided to us by International Paper. We now receive services historically provided by International Paper from our internal operations or third-party service providers. Accordingly, it is unlikely that the expenses we will incur as a stand alone company for services that were historically provided to us by International Paper will reflect the allocated costs included in the Predecessor combined financial statements.

**Critical Accounting Policies and Significant Accounting Estimates**

Our accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. Our combined condensed financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries 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 as of the date of the financial statements.

Accounting policies 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 SFAS No. 5, *Accounting for Contingencies*, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, SFAS No. 142, *Goodwill and Other Intangible Assets*, SFAS No. 87, *Employers Accounting for Pensions*, SFAS No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*, as amended by SFAS No. 132 and 132(R), *Employers Disclosures About Pension and Other Postretirement Benefits*, and SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*.

*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 Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Intangible assets primarily consist of

## **Table of Contents**

trademarks, customer-related intangible assets and patents obtained through business acquisitions. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The 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. Goodwill is evaluated at the reporting unit level. Goodwill has been allocated to the Coated segment.

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 our 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 and Postretirement Benefit Obligations.* We offer various pension plans and postretirement benefit 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 amount or outcome 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.

## **Recent Accounting Developments**

*Sales, Use and Excise Taxes.* In June 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force in Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross Versus Net Presentation). Issue No. 06-3 requires disclosure of an entity's accounting policy regarding the presentation of taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer, including sales, use, value added and some excise taxes. We present such taxes on a net basis (excluded from revenues and costs). The adoption of Issue No. 06-3, which is effective for annual reporting periods beginning after December 15, 2006, will have no impact to our combined financial statements.

*Accounting for Uncertainty in Income Taxes.* In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on

**Table of Contents**

description, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We have evaluated the provisions of FIN 48 and determined the impact is not significant to our combined results of operations or combined financial position.

*Accounting for Planned Major Maintenance Activities.* September 2006, the FASB issued FASB Staff Position ( FSP ) AUG AIR-1, *Accounting for Planned Major Maintenance Activities*. This FSP eliminates the accrue-in-advance method of accounting for planned major maintenance activities from the AICPA Audit and Accounting Guide, *Audits of Airlines*. This method of accounting for planned major maintenance activities was eliminated due to the FASB's belief that the resultant liability does not meet the definition of a liability in FASB Concepts Statement No. 6, Elements of Financial Statements. As a result of the elimination of the accrue-in-advance method, the Airline Guide, which provides guidance for all industries who conduct planned major maintenance activities, permits the use of one of the following three remaining methods: (1) direct expensing, (2) built-in overhaul and (3) deferral. This FSP is effective for fiscal years beginning after December 15, 2006, with early adoption permitted so long as it is as of the beginning of the entity's fiscal year. We adopted the FSP at its inception by electing the deferral method.

*Fair Value Measurements.* In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 does not address what to measure at fair value. Instead, it addresses how to measure fair value. SFAS No. 157 applies (with limited exceptions) to existing standards that require assets and liabilities to be measured at fair value. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires new disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We have not evaluated the provisions of SFAS No. 157 to determine the impact on our combined results of operations or combined financial position.

*Fair Value Option for Financial Assets and Financial Liabilities.* In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS No. 159's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity's fiscal year beginning after November 15, 2007. We have not evaluated the provisions of SFAS No. 159 to determine the impact on our combined results of operations or combined financial position.

**Results of Operations**

The following table sets forth certain historical combined financial information for the years ended December 31, 2004, 2005 and 2006 and the nine months ended September 30, 2006 and 2007. For comparison purposes, we have presented the results of operations for the year ended December 31, 2006, on a combined basis, consisting of the historical results of operations of our Predecessor for the seven months ended July 31, 2006, and the historical results of operations for the Successor for the five months ended December 31, 2006. For comparison purposes, we have also presented the results of operations for the nine months ended September 30, 2006, on a combined basis, consisting of the historical results of operations of our Predecessor for the seven months ended July 31, 2006, and the historical results of operations for the Successor for the two months ended September 30, 2006. We believe that this approach is beneficial to the reader by providing an easier-to-read discussion of the results of operations and provide the reader with information from which to analyze our financial results that is consistent with the manner that management reviews and analyzes results of operations. Cost of sales in the following discussion includes (i) the cost of products sold and (ii) depreciation and amortization. The following table and discussion should be read in conjunction with the information contained in our historical combined financial statements and the notes thereto included elsewhere in this prospectus. However, our historical results of operations set forth below and elsewhere in this prospectus may not necessarily reflect what would have occurred if we had been a separate, stand-alone entity during the periods presented or what will occur in the future.

**Table of Contents**

	Predecessor			Successor		Non-GAAP Combined Successor and Predecessor	Non-GAAP Combined Successor and Predecessor	Successor
	Year Ended December 31, 2004	Year Ended December 31, 2005	Seven Months Ended July 31, 2006	Two Months Ended September 30, 2006	Five Months Ended December 31, 2006	Year Ended December 31, 2006	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2007
Net sales	\$ 1,463.3	\$ 1,603.8	\$ 904.4	\$ 298.8	\$ 706.8	\$ 1,611.2	\$ 1,203.2	\$ 1,183.0
Cost and expenses:								
Cost of products sold (excluding depreciation and amortization)	1,272.5	1,338.2	771.6	247.9	589.3	1,360.9	1,019.5	1,035.9
Depreciation and amortization	130.5	129.4	72.7	18.8	48.3	121.0	91.5	90.7
Selling, general, and administrative	65.3	65.6	34.3	5.4	14.4	48.7	39.7	38.0
Restructuring and other charges	0.6	10.4	(0.3)	3.7	10.1	9.8	3.4	16.5
Operating income (loss)	(5.6)	60.2	26.1	23.0	44.7	70.8	49.1	1.9
Interest income	(0.3)			(0.5)	(1.8)	(1.8)	(0.5)	(1.3)
Interest expense	16.0	14.8	8.4	19.7	49.1	57.5	28.1	106.6
Income (loss) before income taxes	(21.3)	45.4	17.7	3.8	(2.6)	15.1	21.5	(103.4)
Income tax expense (benefit)	(8.2)	17.9	7.0			7.0	7.0	
Net income (loss)	\$ (13.1)	\$ 27.5	\$ 10.7	\$ 3.8	\$ (2.6)	\$ 8.1	\$ 14.5	\$ (103.4)

**September 30, 2007 Successor Compared to September 30, 2006 Combined Successor and Predecessor**

*Net Sales.* Net sales for the nine months ended September 30, 2007, were \$1,183.0 million compared to \$1,203.2 million for the nine months ended September 30, 2006. The decrease was the result of a 4.0% decrease in average sales prices partially offset by a 2.4% increase in volume for the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006.

Net sales for our coated and supercalendered papers segment were \$1,047.1 million for the nine months ended September 30, 2007, compared to \$1,061.0 million for the nine months ended September 30, 2006. The decrease was due to lower paper sales prices, which decreased by 5.8% for the nine months ended September 30, 2007, compared to paper prices for the nine months ended September 30, 2006. This was partially offset by a 4.7% increase in paper volumes over the comparable period.

Net sales for our market pulp segment were \$107.6 million for the nine months ended September 30, 2007, compared to \$113.0 million for the nine months ended September 30, 2006. The decrease was due to a 9.4% decrease in volume, which was partially offset by a 5.2% increase in price. The decrease in volume was mainly due to our increase in internal consumption.

Net sales for our other segment were \$28.3 million for the nine months ended September 30, 2007, compared to \$29.2 million for the nine months ended September 30, 2006. The decline was due to a 1.3% decrease in sales price and a 2.2% decrease in volume.

*Cost of sales.* Cost of sales for the nine months ended September 30, 2007, was \$1,126.6 million, compared to \$1,111.0 million for the nine months ended September 30, 2006, an increase of 1.4%, primarily driven by higher sales volume. Our gross margin, excluding depreciation and amortization, was 12.4% for the nine months ended September 30, 2007, compared to 15.3% for the same period in 2006. This decline reflects the decline in

---

**Table of Contents**

average sales prices for the nine months ended September 30, 2007. Depreciation and amortization expense for the nine months ended September 30, 2007, was \$90.7 million compared to \$91.5 million for the nine months ended September 30, 2006.

*Selling, general and administrative.* Selling, general and administrative expenses were \$38.0 million for the nine months ended September 30, 2007, compared to \$39.7 million for the same period in 2006. The decrease is primarily due to the elimination of an allocation from International Paper for corporate services during the nine months ended September 30, 2006. For the period following the closing of the Acquisition, selling, general and administrative expenses reflect the expenses we incurred as a stand-alone business.

*Interest expense.* Interest expense for the nine months ended September 30, 2007, was \$106.6 million, compared to \$28.1 million for the nine months ended September 30, 2006. The increase was due to the new debt issued as part of the Acquisition and the incurrence in January 2007 of the \$250 million senior unsecured floating rate term loan.

*Restructuring and other charges.* Restructuring and other charges include one-time costs for us to operate as a stand-alone business. The charges for the nine months ended September 30, 2007, were \$16.5 million. In conjunction with the Acquisition, we entered into a Transition Service Agreement with International Paper whereby International Paper will continue to provide certain services specified in the agreement that are necessary for us to run as a stand-alone business. Of the \$16.5 million amount included in restructuring and other charges, \$4.6 million were related to charges we incurred under the Transition Services Agreement. We are no longer operating under this Transition Services Agreement.

*Income tax expense.* During the nine month period ended September 30, 2007, we incurred no income taxes, compared to income tax expense of \$7.0 million for our Predecessor for the seven month period ended July 31, 2006. Based upon current period losses and lack of historical earnings, the Company does not expect to realize the benefit of deferred tax assets, net of the valuation allowance on September 30, 2007.

***2006 Combined Successor and Predecessor Compared to 2005 Predecessor***

*Net Sales.* Net sales for the year ended December 31, 2006, were \$1,611.2 million compared to \$1,603.8 million for the year ended December 31, 2005, an increase of 0.5%. The increase was the result of a 1.1% increase in the average sales price per ton for all of our products in 2006. This increase was partially offset by a 0.7% decrease in the tons sold over the same comparable period.

Net sales for our papers segment were \$1,425.2 million for the year ended December 31, 2006, compared to \$1,403.0 million for the year ended December 31, 2005, an increase of 1.6%. The increase was primarily due to higher paper prices, which increased by 0.9% compared to paper prices in 2005, and higher paper volumes of 0.8% over the same comparable period.

Net sales for our market pulp segment were \$147.0 million for the year ended December 31, 2006, compared to \$139.8 million for the year ended December 31, 2005, an increase of 5.2%. The increase was due to higher sales prices of 5.9%, offset by a decrease in volume of 0.8% due to an increase in internal consumption.

Net sales for our other segment was \$39.0 million for the year ended December 31, 2006, compared to \$61.0 million for the year ended December 31, 2005, a decrease of 36.1%. The decrease was primarily due to the absence of sales in 2006 from paper machine No. 1 at our Androscoggin mill, which was shutdown during 2005 and converted from the production of uncoated paper to the production of softwood pulp used to supply our Bucksport mill.

*Cost of sales.* Cost of sales for the year ended December 31, 2006 was \$1,481.9 million, which included a \$5.9 million inventory fair value adjustment, compared to \$1,467.6 million for the year ended December 31, 2005, an increase of 1.0%. Our gross margin, excluding depreciation expense, for the year ended December 31,

## **Table of Contents**

2006 was 15.5%, compared to 16.6% for the same period in 2005. Excluding the fair value of inventory adjustment, the gross margin for the year ended December 31, 2006 was 15.9%. Depreciation expense for the year ended December 31, 2006 was \$121.0 million compared to \$129.4 million for the year ended December 31, 2005.

*Selling, general and administrative.* Selling, general and administrative expenses were \$48.7 million for the year ended December 31, 2006, compared to \$65.6 million for the same period in 2005, a decrease of 25.7%. The decrease is primarily due to the elimination of an allocation from International Paper for corporate services related to the operation of paper machine No. 1 at the Androscoggin mill, which was shutdown during 2005 and due to the elimination of an allocation from International Paper for corporate services during the five months ended December 31, 2006 compared to receiving a full allocation for the year ended December 31, 2005. For the period following the closing of the Acquisition, selling, general and administrative expenses reflect the annual expenses we incurred as a stand alone business.

*Interest expense.* Interest expense for the year ended December 31, 2006 was \$57.5 million, compared to \$14.8 million for the same period in 2005, due to the debt incurred as a result of the Acquisition.

*Restructuring and other charges.* Restructuring and other charges are one time transaction costs for us to run as a stand-alone business. The charges for the five month period ended December 31, 2006 were \$10.1 million, which included \$6.1 million of Transition Service Agreement costs.

*Income tax expense.* The U.S. federal and state income tax expense of \$7.0 million for the year ended December 31, 2006, is a decrease in tax expense compared to the year ended December 31, 2005 of \$17.9 million, primarily due to the Company recognizing no income tax expense for federal tax purposes during the period from August 1, 2006 through December 31, 2006. Based upon current period losses and lack of historical earnings, the Company does not expect to realize the benefit of deferred tax assets, net of the valuation allowance on December 31, 2006.

### **2005 Compared to 2004**

*Net sales.* Net sales for the year ended December 31, 2005, were \$1,603.8 million compared to \$1,463.3 million for the year ended December 31, 2004, an increase of 9.6%. The increase was largely the result of higher average coated paper prices. In 2005, the average price per ton for all of our products increased 12.0%, while tons sold decreased 1.9%.

Net sales for our papers segment were \$1,403.0 million for the year ended December 31, 2005, compared to \$1,228.6 million for the year ended December 31, 2004, an increase of 14.2%. The increase was due to an increase in shipments as well as the impact of higher selling prices beginning late in the second quarter of 2004. Paper tons sold increased 1.0% for the year ended December 31, 2005, compared to the year ended December 31, 2004, while the average price per ton for paper increased 13.2% over the same comparable period. The increase in average price per ton was driven by stronger demand in the catalog and magazine segments and by initiatives to improve our product mix consistent with our strategy to focus on specialty and higher-value products.

Net sales for market pulp were \$139.8 million for the year ended December 31, 2005, compared to \$123.0 million for the year ended December 31, 2004, an increase of 13.7%. The increase was due to pulp prices increasing 10.3% and volume increasing 3.7%.

Net sales for our other segment were \$61.0 million for the year ended December 31, 2005, compared to \$111.7 million for the year ended December 31, 2004, a decrease of 45.4%. The decrease was mostly due to the reduction in sales price for the paper produced from machine No. 5 at our Androscoggin mill, which beginning in June 2005 was sold pursuant to the terms of a supply agreement between us and Thilmany.

---

## **Table of Contents**

*Cost of sales.* Cost of sales for the year ended December 31, 2005, was \$1,481.9 million compared to \$1,403.0 million for the year ended December 31, 2004, an increase of 5.6%. The increase was primarily attributable to higher input prices for wood, pulp, energy and raw materials, which combined were \$113.5 million higher than 2004. This increase was partially offset by a reduction in indirect costs, including labor, maintenance and depreciation and amortization, which was influenced by our focus on cost reductions and efficiency improvements. Our gross margin, excluding depreciation, for 2005 was 16.4%, compared to 13.0% for 2004. This increase was driven by the combination of higher sales prices, productivity improvements, and product mix improvements. Depreciation expense for the year ended December 31, 2005, was \$129.4 million, compared to \$130.5 million in 2004. Included in cost of sales for 2005 are non-recurring expenses totaling \$9.8 million related to the shutdown of paper machine No. 1 at the Androscoggin mill. Effective December 2005, International Paper permanently decommissioned the paper machine No. 1 and began the process of converting it into a pulp dryer.

*Selling, general and administrative.* Selling, general and administrative expenses were \$65.6 million for the year ended December 31, 2005, compared to \$65.3 million for the year ended December 31, 2004, an increase of 0.5%. Costs allocated for corporate services from International Paper to us in 2005 were based on the same methods as 2004.

*Interest expense.* Interest expense for the year ended December 31, 2005, decreased to \$14.8 million from \$16.0 million for the year ended December 31, 2004, or 7.5%.

*Restructuring and other charges.* Restructuring and other charges are severance and related costs associated with the permanent shutdown of the No. 1 paper machine at the Jay, Maine mill. The charges for the year ended December 31, 2005 was \$10.4 million, which included \$3.2 million of asset impairment.

*Income tax expense (benefit).* The U.S. federal and state income tax expense of \$17.9 million for the year ended December 31, 2005, is an increase in tax expense of \$26.1 million compared to an income tax benefit of \$8.2 million for the year ended December 31, 2004.

## **Liquidity and Capital Resources**

We rely primarily upon cash flow from operations and borrowings under our revolving credit facilities 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, pay 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, no assurance can be given that this will be the case, and we may require additional debt or equity financing to meet our working capital requirements.

*Cash provided by operating activities.* For the nine months ended September 30, 2007, operating activities used net cash of \$38.0 million, compared to \$39.3 million of net cash provided during the seven months ended July 31, 2006 and \$48.6 million of net cash provided during the two months ended September 30, 2006. The reduction was primarily due to a net loss of \$103.4 million for the nine months ended September 30, 2007, compared to net income of \$10.8 million and \$3.8 million for the seven months ended July 31, 2006, and two months ended September 30, 2006, respectively. This reflects the increased interest paid on the new debt issued as part of the Acquisition and the Company's issuance of a \$250 million senior unsecured floating-rate term loan in January 2007. For the year ended December 31, 2006, our operating activities generated net cash of \$167.5 million, compared to \$116.8 million of net cash generated during the comparable period in 2005. The improvement was primarily driven by improved operations and working capital improvements. Our operating activities in 2005 generated net cash of approximately \$116.8 million compared to \$123.7 million of net cash generated in 2004. The reduction was primarily due to increases in working capital, driven by the rising pricing environment for our products and inputs.



---

**Table of Contents**

*Cash used in investing activities.* For the nine months ended September 30, 2007, we used \$47.8 million of net cash in investing activities due to investments in capital expenditures. For the seven months ended July 31, 2006, net cash used in investing activities reflected \$27.7 million in capital expenditures. For the two months ended September 30, 2006, net cash from investing activities reflected the \$1.4 billion in cash paid for the acquisition. For the year ended December 31, 2006, we used \$1,429.6 million of net cash in investing activities, compared to \$53.0 million of net cash used during the comparable period in 2005. In 2005, we used \$53.1 million of net cash in investing activities, due to investments in capital expenditures and had \$0.1 million in proceeds generated from the sale of fixed assets. Our capital expenditures decreased to \$53.1 million in 2005 from \$111.7 million in 2004.

*Cash used in financing activities.* For the nine months ended September 30, 2007, our financing activities had a de minimis net impact. The net proceeds from the incurrence of the senior unsecured term loan facility by our subsidiary, Verso Paper Finance Holdings LLC, on January 31, 2007, were distributed to our equity holders. During the seven months ended July 31, 2006, net cash used in financing activities was \$11.6 million reflecting principal payments on debt net of equity contributions. For the two months ended September 30, 2006, net cash provided by financing activities was \$1.4 billion reflecting net proceeds from the debt issuance and equity contributions. For the year ended December 31, 2006, our financing activities provided \$1,374.6 million of net cash. In 2005 and 2004, we used \$63.8 million and \$12.2 million, respectively, in financing activities. These activities primarily were driven by distributions of our operating cash flow, net of investing activities, to International Paper.

Verso Paper Holdings LLC, entered into our senior secured credit facilities on August 1, 2006, consisting of:

a \$285 million term loan facility, with a maturity of seven years, which was fully drawn on August 1, 2006; and

a \$200 million revolving credit facility with a maturity of nine years. No amounts were outstanding as of September 30, 2007. Letters of credit of \$41.2 million were issued as of September 30, 2007.

Verso Fiber Farm LLC, entered into our senior secured credit facilities on August 1, 2006, consisting of:

a \$10.0 million term loan facility, with a maturity of four years; which was fully drawn on August 1, 2006; and

a \$5.0 million revolving credit facility with a maturity of four years; \$2.5 million was outstanding under this facility as of September 30, 2007.

Our aggregate indebtedness at September 30, 2007, was \$1,419.7 million including the current portion of our outstanding borrowings. The senior secured credit facilities are secured by first priority pledges of all the equity interests owned by us in our subsidiaries. The senior secured credit facilities are also secured by first priority interests in, and mortgages on, substantially all tangible and intangible assets and each of our direct and indirect subsidiaries.

On August 1, 2006, we completed an offering of \$350 million in aggregate principal amount of 9<sup>1</sup>/<sub>8</sub>% fixed rate senior notes due 2014, \$250 million in aggregate principal amount of second-priority senior secured floating rate notes due 2014 and \$300 million in aggregate principal amount of 11<sup>3</sup>/<sub>8</sub>% senior subordinated notes due 2016. The proceeds of the offerings were used to finance the Acquisition and to pay related fees and expenses. Our second-priority senior secured notes have the benefit of a second-priority security interest in the collateral securing our senior secured credit facilities. The fixed rate portion of these notes pay interest semi-annually and the variable portion pays interest quarterly. The senior subordinated notes are our unsecured senior subordinated obligations and pay interest semi-annually.

## **Table of Contents**

On January 31, 2007, Verso Paper Finance Holdings LLC entered into a \$250 million senior unsecured term loan facility with a maturity of six years. The loan allows the borrower to pay interest either in cash or in-kind through the accumulation of the outstanding principal amount. The net proceeds from the incurrence of the term loan facility were distributed to our equity holders.

Our senior secured credit facilities contain various restrictive covenants. They prohibit us from prepaying other indebtedness and require us to maintain a maximum consolidated first lien leverage ratio. In addition, our senior secured credit facilities, among other things, restrict our ability to incur indebtedness or liens, make investments or declare or pay any dividends. The indentures governing our second priority senior secured notes and our senior subordinated notes limit our ability to, among other things, to (i) incur additional indebtedness; (ii) pay dividends or make other distributions or repurchase or redeem our stock; (iii) make investments; (iv) sell assets, including capital stock of restricted subsidiaries; (v) enter into agreements restricting our subsidiaries' ability to pay dividends; (vi) consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; (vii) enter into transactions with our affiliates; and (viii) incur liens. As of September 30, 2007, we were in compliance with all covenants.

## **Seasonality**

We are exposed to fluctuations in quarterly net sales volumes and expenses due to seasonal factors. These seasonal factors are common in the 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 receivables 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.

## **Covenant Compliance**

Certain covenants contained in the credit agreement governing our senior secured credit facilities and the indentures governing our outstanding notes (i) require the maintenance of a senior secured debt to Adjusted EBITDA ratio and (ii) restrict our ability to take certain actions such as incurring additional debt or making acquisitions if we are unable to meet defined Adjusted EBITDA to Fixed Charges, senior secured debt to Adjusted EBITDA and consolidated debt to Adjusted EBITDA ratios. The most restrictive of these covenants, the covenants to incur additional indebtedness and the ability to make future acquisitions, require an Adjusted EBITDA to Fixed Charges ratio (measured on a trailing four-quarter basis) of 2.0:1.0. Failure to comply with these covenants can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. See **Risk Factors** Our substantial indebtedness could adversely affect our financial health.

EBITDA consists of earnings before interest, taxes depreciation and amortization. Fixed Charges are defined as consolidated interest expense excluding the amortization or write-off of deferred financing costs. Adjusted EBITDA is defined as EBITDA further adjusted to exclude unusual items and other pro forma adjustments permitted in calculating covenant compliance in the indentures governing our notes to test the permissibility of certain types of transactions. We believe that the inclusion of the supplemental adjustments applied in calculating Adjusted EBITDA is appropriate to provide additional information to investors to demonstrate our compliance with our financial covenants and assess our ability to incur additional indebtedness in the future. However, EBITDA and Adjusted EBITDA are not measurements of financial performance under U.S. GAAP, and our EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. You should not consider our EBITDA or Adjusted EBITDA as an alternative to operating or net income, determined in accordance with U.S. GAAP, as an indicator of our operating performance, or as an alternative to cash flows from operating activities, determined in accordance with U.S. GAAP, as an indicator of our cash flows or as a measure of liquidity.

**Table of Contents**

The following table reconciles net income to EBITDA and Adjusted EBITDA for the periods presented. Statement of operations data for the twelve months ended September 30, 2007, is calculated by subtracting the nine months ended September 30, 2006 data from the data for the combined year ended December 31, 2006, and adding the nine months ended September 30, 2007.

	Predecessor	Successor	Successor & Predecessor	Successor Combined	
	Combined Seven Months Ended July 31,	Two Months Ended September 30,	Combined Year Ended December 31,	Nine Months Ended September 30,	Twelve Months Ended September 30,
	2006	2006	2006	2007	2007
			(dollars in millions)		
Net income (loss)	\$ 10.7	\$ 3.8	\$ 8.1	\$ (103.4)	\$ (109.8)
Interest expense, net	8.4	19.2	55.7	105.3	133.4
Income tax expense (benefit)	7.0		7.0		
Depreciation and amortization	72.7	18.8	121.0	90.7	120.3
<b>EBITDA</b>	<b>\$ 98.8</b>	<b>\$ 41.8</b>	<b>\$ 191.8</b>	<b>\$ 92.6</b>	<b>\$ 143.9</b>
Lease not assumed(a)			5.8		
Operational improvements(b)			7.8	3.7	5.0
Restructuring, severance and other(c)			9.8	16.5	23.0
Non-cash compensation/benefits(d)			5.4	0.5	0.9
Inventory fair value(e)			5.9		1.3
Other items, net(f)			(0.1)	6.9	2.8
<b>Adjusted EBITDA</b>			<b>\$ 226.4</b>	<b>\$ 120.2</b>	<b>\$ 176.9</b>
As adjusted cash interest expense(g)					\$
Adjusted EBITDA to as adjusted cash interest expense					

(a) Reflects the elimination of the historical rent expense incurred on the Sartell property lease that was not assumed by us in the Acquisition.

(b) Represents the elimination or addition of expected earnings as a result of changes in the use of two of our paper machines at the Androscoggin mill prior to the Acquisition, and the benefit of lower wood cost at our Sartell mill resulting from the harvest of hybrid poplar from our fiber farm.

(c) Includes restructuring and severance as per our financial statements. Restructuring includes transition and other non-recurring costs associated with the acquisition and carve out.

(d) Represents amortization of certain one-time benefit payments and non-cash benefit payments. Also includes the elimination of historical non-cash stock compensation costs previously incurred by us under International Paper's compensation plan.

(e) Represents the fair value of inventory adjustment related to purchase accounting.

(f)

## Edgar Filing: Verso Paper Corp. - Form S-1

Represents earnings adjustments for exceptional levels of bad debt expense, legal and consulting fees, and other miscellaneous non-recurring items, including adjustments for incremental estimated costs for activities previously part of the corporate allocation as well as other incremental costs we anticipated incurring on a stand-alone basis subsequent to the Transactions.

- (g) As adjusted cash interest expense gives effect to this offering and the use of proceeds therefrom as if this offering was consummated at the beginning of the twelve month period ended September 30, 2007. Cash interest expense represents gross interest expense related to the debt, excluding amortization of debt issuance costs.

### **Effect of Inflation**

While inflationary increases in certain input costs, such as energy, wood fiber and chemical costs, have an impact on our operating results, changes in general inflation have had minimal impact on our operating results in

**Table of Contents**

the last three years. Sales prices and volumes are more strongly influenced by supply and demand factors in specific markets and by exchange rate fluctuations than by inflationary factors. We cannot assure you, however, that we will not be affected by general inflation in the future.

**Contractual Obligations**

The following table reflects our contractual obligations and commercial commitments as of December 31, 2006. Commercial commitments include lines of credit, guarantees and other potential cash outflows resulting from a contingent event that requires our performance pursuant to a funding commitment.

Contractual Obligations	Total	Payments due by period(1)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
		(dollars in millions)			
Long-Term Debt(1)	\$ 2,069.5	\$ 102.3	\$ 227.1	\$ 228.7	\$ 1,511.4
Operating Leases	13.5	3.0	5.1	3.0	2.4
Purchase Obligations(2)	190.2	90.3	40.8	13.9	45.2
Other Long-Term Liabilities Reflected on our Balance Sheet under GAAP(3)	21.3	1.3	5.5	1.6	12.9
<b>Total</b>	<b>\$ 2,294.5</b>	<b>\$ 196.9</b>	<b>\$ 278.5</b>	<b>\$ 247.2</b>	<b>\$ 1,571.9</b>

- (1) Long-term debt includes principal payments, commitment fees and accrued interest payable. A portion of our interest expense is at a variable rate and has been calculated using current LIBOR. Actual payments could vary.
- (2) Purchase obligations include our unconditional purchase obligations for power purchase agreements (gas and electricity), machine clothing and other commitments for advertising, raw materials or storeroom inventory.
- (3) Other long-term liabilities reflected above represent the gross amount of asset retirement obligations and pension obligations. Other liabilities that do not represent contractual obligations have been excluded.

**Qualitative and Quantitative Disclosure about Market Risk**

We are exposed to market risk from fluctuations in our paper prices, interest rates 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 influences 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: (i) catalogs and (ii) magazines. Coated paper demand is primarily driven by advertising and print media usage. Advertising spending and magazine and catalog circulation tend to be correlated with GDP in the United States and rise with a strong economy. The majority of our products are sold via contracts we maintain with our customers. Contracted sales are more prevalent for coated groundwood paper, as opposed to coated freesheet paper, which is more often sold without a contract. 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. 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.

## **Table of Contents**

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. In 2007, no single customer accounted for more than 10% of our total net sales.

*Interest Rate Risk* We issued fixed- and floating-rate debt to finance the Acquisition in order to manage our variability to cash flows from interest rates. Borrowings under our senior secured credit facilities and our floating-rate notes accrue interest at variable rates, and a 100 basis point increase in quoted interest rates on our debt balances outstanding as of September 30, 2007 under our senior secured credit facilities and our floating-rate notes would increase our annual interest expense by \$7.6 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.

*Commodity Price Risk* 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 and amortization. Costs for commodities, including chemicals, wood and energy, are the most variable component of our cost of sales because the prices of many of the commodities that we use 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, titanium dioxide and others. We purchase these chemicals from a variety of suppliers and are not dependent on any single supplier to satisfy our chemical needs. In the near term, we expect the rate of inflation for our total chemical costs to be lower than that experienced over the last two years. However, we expect imbalances in supply and demand will drive higher prices for certain chemicals such as starch and sodium chlorate.

*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. In 2008, we will begin to utilize wood harvested from our 21,000 acre hybrid poplar fiber farm located near Alexandria, Minnesota, which should reduce our ongoing wood costs.

*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, black liquor solids, 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. As prices fluctuate, we have some ability to switch between certain energy sources in order to minimize costs. Additionally, the Company utilizes derivatives contracts as part of its risk management strategy to manage risks associated with market fluctuations in energy prices.

---

**Table of Contents**

**INDUSTRY**

**Coated Paper Industry Overview**

Based on 2006 sales, the size of the global coated paper industry is estimated to be approximately \$48 billion, or 53 million tons of coated paper shipments, including approximately \$13 billion in North America, or 14 million tons of coated paper shipments. The coating process produces a smooth uniform layer in the paper, which results in superior color and print definition. As a result, major uses of coated papers include the printing of catalogs, magazines, annual reports, directories and advertising materials. Demand is generally driven by North American advertising and print media trends, which in turn have historically been highly correlated with growth in GDP.

In North America, coated papers are classified by brightness and fall into five grades, labeled No. 1 to No. 5, with No. 1 having the highest brightness level and No. 5 having the lowest brightness level. Papers graded No. 1, No. 2 and No. 3 are typically coated freesheet grades. No. 4 and No. 5 papers are predominantly groundwood containing grades. Coated groundwood grades are the preferred grades for catalogs and magazines, while coated freesheet is more commonly used in commercial print applications.

**End-User Overview**

*Catalogs.* Catalog publishers are among the largest users of coated papers in North America with 2006 coated paper consumption of approximately 3.3 million tons of the total 3.4 million tons of all types of paper consumed in United States catalog production. Large national catalogs are published in a wide range of sizes and weights, requiring paper producers to offer a broad range of products to suit the individual needs of different catalog retailers and publishers.

According to RISI, coated groundwood represents approximately 58% of catalog paper demand in the United States, with coated freesheet accounting for 18% and other types of paper accounting for the remaining 24%. Major growth drivers in this segment include increasing demand for catalogs and higher page counts per catalog. Over the last four years, United States catalog sales have increased steadily, driven by an increase in advertising spending and a trend toward more niche marketing by retailers. According to RISI, from 2007 to 2010, the number of catalog mailings is expected to increase by 25% per annum, which, in combination with the increase in the average page count per catalog, is expected to continue to drive coated papers demand. Demand for catalogs has also recently benefited from cross-marketing between retailer catalogs and websites that enable consumers to order catalog products on-line. This combination has proven popular with consumers who prefer browsing catalogs to looking at products on-line but prefer the immediacy of ordering on-line to ordering by telephone or mail.

*Magazines.* Magazine publishers are among the largest users of coated papers in North America with 2006 coated paper consumption of approximately 3.1 million tons of the total 3.6 million tons of all types of paper consumed in United States magazine publication. Due to their high volume requirements and need for timely deliveries, magazine publishers tend to buy directly from large paper manufacturers who can offer them certainty of supply and consistent quality. Magazine publishers frequently seek assistance from paper manufacturers with supply chain management and require that suppliers comply with the publishers' specific environmental standards.

According to RISI, coated groundwood represents approximately 64% of magazine paper demand in the United States, with coated freesheet accounting for 24% and other types of paper accounting for the remaining 12%. Major growth drivers in this segment include advertising expenditures and new title launches. Within the magazine segment, however, there is significant variation in growth trends across genres, with strong growth in lifestyle, sports, fashion and people magazines, offset by declining volumes in news and current events titles. The combination of increasing ad pages and a rebound in magazine circulation is currently driving coated paper

## **Table of Contents**

demand. Universal McCann, a global media agency and division of McCann-Erickson, forecasts U.S. advertising spending to increase by 3.1% in 2007 to \$290 billion. According to RISI, magazine ad pages are expected to increase steadily through 2009. The recent growth in overall advertising has fueled demand for magazine advertising spending.

*Commercial Print and Other.* Commercial printers are significant end-users of coated papers with 2006 United States consumption of approximately 4.0 million tons of the total 8.2 million tons of all types of paper consumed in United States commercial print applications. According to RISI, coated freesheet represents approximately 36% of the total paper used in commercial print in the United States, with coated groundwood accounting for 12% of consumption and other types accounting for the remaining 52%. Orders in the commercial print segment are typically for smaller volume print runs that use primarily sheeted paper for annual reports, books, envelopes, labels, brochures, posters and specialty one-time publications.

### **Overview of Current Coated Paper Market Fundamentals**

The North American coated paper industry is cyclical, and like other cyclical industries, it is largely affected by the interplay of demand and supply. However, unlike in other cyclical industries, volume is substantially less cyclical than price in the North American coated paper industry. Current demand and supply factors affecting the coated paper industry, as well as a discussion of historical and current trends, are discussed below.

*Consumption/Demand.* Coated paper demand is primarily driven by advertising and print media usage. Advertising spending and magazine and catalog circulation tend to be correlated with GDP in the United States and rise with a strong economy. According to RISI, GDP in the United States is expected to grow at an average of 3.3% per annum through 2010.

North American customers purchased approximately 13.6 million tons of coated paper in 2006. North American coated paper demand has increased annually since the end of 2003, as GDP growth in the United States has driven an increase in the number of pages in advertising material and an increase in catalog circulation. Since the end of 2003, demand has increased for all of the principal end-uses of coated paper: commercial printing, magazines and catalogs. According to RISI, from 2007 to 2009, demand for coated paper is expected to rise annually by 1.8%, mainly as a result of the expected U.S. economic growth.

The following chart shows historical and projected North American demand for coated paper according to RISI:



---

**Table of Contents**

*Production/Supply.* In North America, supply is determined primarily by North American-based coated paper production and is supplemented by imports from Europe and Asia. As a result of developments outlined below, both of these determinants of North American coated paper supply are exhibiting favorable trends, leading to tight coated paper supply and a stable longer term supply outlook.

In the second half of 2007, in response to high input costs, the continued appreciation of the Canadian dollar, and poor selling conditions, our North American competitors announced the closure of approximately 0.9 million tons of coated groundwood production capacity and 0.1 million tons of coated freesheet production capacity. The closures represent approximately 15% and 2% of North American production capacity for coated groundwood and coated freesheet, respectively. The majority of these announced closures were Canadian facilities, which have been at a cost disadvantage to U.S.-based mills due to the appreciation of the Canadian dollar. In addition, there have been no recent announced capacity additions in North America. We estimate that the construction of a state-of-the-art coated paper manufacturing mill requires a lead time of at least three years and costs in excess of \$400 million. The combination of recent capacity curtailments and that the lack of any currently announced capacity additions provides for a favorable supply outlook over the next three to four years.

Since North American coated paper consumption exceeds North American coated paper production capacity, imports have been an important source of supply for the North American coated paper market, though they are of differing importance for coated groundwood and coated freesheet. For instance, coated freesheet imports, which comprised 21% of North American supply in 2006, are approximately twice as important to North American supply as are coated groundwood imports, which comprised approximately 14% of North American supply in 2006. A recent trend in the North American coated paper market has been a stabilization in imports. The volume of coated paper imports from Europe and Asia is a function of (i) worldwide supply and demand for coated paper, (ii) the exchange rate of the U.S. dollar relative to other currencies, especially the Euro, (iii) market prices in North America and other markets, and (iv) the cost of ocean-going freight. According to RISI, from 2001 to 2006, coated paper imports into North America increased from 1.1 million tons to 2.4 million tons. However, several worldwide trends have prompted 2007 imports, as estimated by RISI, to decrease to 1.9 million tons. These trends include: the shutdown of 0.7 million tons of coated paper capacity in Europe, which improves the balance of European supply and demand; the continued strengthening of the Euro and depreciation of the U.S. dollar; and the continued increases in freight rates. All of these factors make exporting to North America less attractive to foreign producers.

Another important distinction is in the penetration of Asian coated paper imports. Coated groundwood is less penetrated by Asian imports than is coated freesheet, as production of coated groundwood is dependent upon cost effective access to northern softwood fiber, which is not as prevalent in Asia. For example, through September 2007, Asian producers supplied about 180,000 tons of North America's coated groundwood supply, or approximately 4% of North American coated groundwood supply. Over the same time period, Asian producers supplied about 500,000 tons of North America's coated freesheet supply, or approximately 12% of North American coated freesheet supply.

As a result of capacity closures in the North American coated paper industry, the lack of any currently announced capacity additions and the stabilization of imports of coated paper into the United States, we believe that supply should be stable for the near future.

*Operating Rates.* According to RISI, the average operating rate for North American coated paper manufacturers, which measures the ratio of shipments from producers in a particular region to capacity of producers in the same region, rose from 85% in 2001 to 92% in 2006, as shipments increased more than capacity during this time period. Following the recently announced reductions in North American production, 2006 coated paper operating rates would have been 100% on a pro forma basis, reflecting the current balance of supply and demand. Historically, high operating rates have resulted in increasing prices for coated paper. Because of expected increases in North American demand, no major forecasted North American capacity additions and an expected stabilization of imports, the average operating rate is expected to remain above 95% through 2009.

**Table of Contents**

*Pricing.* As a result of the trends identified above, coated paper pricing in the United States has recently been strengthening. During the second quarter of 2007, we announced a \$60 per ton price increase on all coated paper grades, effective July 1. In reflection of the beginning of this price increase, our weighted average paper prices rose from \$797 per ton in the second quarter of 2007 to \$807 per ton in the second half of 2007. We expect our weighted average paper prices to continue to increase as we continue to realize this price increase during 2008. In addition, we announced another two price increases in the second half of 2007, totaling a further \$125 per ton on coated groundwood grades of paper and another \$70 per ton on coated freesheet grades of paper. We began implementing one of this price increases in October and will begin implementing the other price increase in January. In reflection of these pricing trends, RISI forecasts that U.S. prices for grade No. 5 coated paper, 34 lb. weight, an industry benchmark for coated paper pricing, will rise from \$918 per ton in the second half of 2007 to \$980 per ton in the fourth quarter of 2007 to an average of \$1,053 per ton for 2008, and then to an average of \$1,090 per ton for 2009.

The following chart shows RISI's historical and estimated U.S. prices per ton for grade No. 5 coated paper, 34 lb. weight, and grade No. 3 coated paper, 60 lb. weight, for the periods indicated below:

**Table of Contents**

**BUSINESS**

**General**

We are a leading North American supplier of coated papers to catalog and magazine publishers. The market for coated paper, which is comprised of coated groundwood paper and coated freesheet paper, is one of the most attractive segments of the paper industry due to its prospects for volume growth, continued improvement in pricing and the high value-added nature of its products. Coated paper is used primarily in media and marketing applications, including catalogs, magazines and commercial printing applications, which include high-end advertising brochures, annual reports and direct mail advertising. We are North America's second largest producer of coated groundwood paper, which is used primarily for catalogs and magazines. We are also North America's lowest cost producer of coated freesheet paper, which is used primarily for annual reports, brochures and magazine covers. In addition to coated paper, we have a strategic presence in supercalendered paper, which is primarily used for retail inserts. We also produce and sell market pulp, which is used in the manufacture of printing and writing paper grades and tissue products.

Our primary product lines include coated groundwood paper, coated freesheet paper, SC paper and pulp. Our net sales by product line for the twelve months ended September 30, 2007, are illustrated below:

**Net Sales by Product Line  
for the twelve months ended September 30, 2007 (dollars in millions)**

We sell and market our products to approximately 100 customers which comprise 650 end-user accounts. We have long-standing relationships with many leading magazine and catalog publishers, commercial printers, specialty retail merchandisers and paper merchants. We reach our end-users through several distribution channels, including direct sales, commercial printers, paper merchants and brokers. The majority of our products are sold via contracts we maintain with our customers, which generally specify the volumes to be sold to the customer over the contract term, as well as the pricing parameters for those sales. Having a large portion of our sales volume under contract allows us to plan our production runs well in advance, optimizing production over our integrated mill system and thereby increasing overall efficiency and reducing our costs. Our key customers include leading magazine publishers, such as Condé Nast Publications and Time Inc.; leading catalog producers, such as Avon and Sears Holdings; leading commercial printers, such as Quad Graphics and RR Donnelley & Sons; and leading paper merchants and brokers, such as Unisource and xpedx, A.T. Clayton & Co., Clifford Paper.

We operate 11 paper machines at four mills located in Maine, Michigan and Minnesota. The mills have a combined annual production capacity of 1,726,000 tons of coated paper, 102,000 tons of SC paper and 874,000 tons of kraft pulp, of which 616,000 tons is consumed internally and the remainder is sold as market pulp. Over our integrated mill footprint, the total volume of pulp purchased from third parties is approximately balanced by the amount of pulp that we sell to the market. As a result, our business is generally insulated from fluctuations to

---

## **Table of Contents**

earnings caused by fluctuations in the price of pulp. Our facilities are strategically located within close proximity to major publication printing customers, which affords us the ability to more quickly and cost-effectively deliver our products. Our facilities also benefit from convenient and cost-effective access to northern softwood fiber, which is required for the production of lightweight and ultra-lightweight coated groundwood papers, two of the more attractive grades of coated paper.

### **Our Competitive Strengths**

We believe that our competitive strengths include the following:

***Well positioned to benefit from strengthening coated paper market fundamentals.*** We believe that we are well positioned to benefit from improving fundamentals in the coated paper industry, which are inherently linked to the balance of supply and demand. Since the second quarter of 2004, supply has decreased due to a reduction in production capacity in both North America and in Europe, which was caused primarily by the closure of less efficient coated paper mills by our competitors. These closures were generally the result of a combination of higher energy prices, changes in Canadian dollar and Euro exchange rates and other inflationary factors. According to RISI, North American producers have announced the shutdown of approximately 1.0 million tons of coated paper capacity in the second half of 2007, which represents approximately 8% of North American coated paper capacity. Based on favorable demand and supply trends, RISI projects that North American coated paper operating rates are expected to increase from 92% in 2006 to 95% in 2009. We believe the higher operating rates will enable us to continue to benefit from improving industry fundamentals.

***A leading manufacturer of coated paper products in North America.*** We are one of the largest coated paper manufacturers in North America based on production capacity. Within the overall North American coated paper market, we have a leading market share in North American coated groundwood production capacity. In addition, we are North America's lowest cost producer of coated freesheet. Our size provides us with economies of scale and enables us to optimize production across our integrated mill system to provide a broad spectrum of products, while also providing us the operational flexibility to adapt to our customers' specific coated paper needs.

***Leading positions in the industry's most attractive segments and products.*** We are a leading supplier of coated papers to North American catalog and magazine publishers. The catalog and magazine end-user segments are among the most attractive within the coated papers industry due to their long-term growth prospects, favorable industry dynamics, blue-chip customer base and emphasis on product innovation and development. We maintain the leading positions in the catalog and magazine end-user segments, with estimated segment shares of approximately 23% and 14%, respectively.

In addition to being focused on the most attractive end-user segments, our product portfolio is also concentrated on the most attractive products in both the paper industry, in general, and the coated paper segment, specifically. According to RISI, coated papers are the fastest growing portion of the paper industry, with North American coated paper demand expected to grow at a 2.5% compound annual growth rate from 2007 through 2009, compared to a negative demand growth rate of 3.9% for newsprint and a 0% demand growth rate for uncoated freesheet paper. In addition, we are specifically focused on the fastest growing portions of the coated paper market. For example, we are one of three major North American-based producers of ultra-lightweight coated groundwood paper. According to the American Forest and Paper Association, ultra-lightweight coated groundwood paper is a coated paper product group that has experienced higher growth than the coated paper market in general, with shipments growing at a compound annual growth rate of approximately 6% since 2003. We expect this disproportionate growth in shipments to continue, as customers are increasingly demanding lower basis weight products in order to reduce their freight and postage costs. In addition to being one of the fastest growing coated paper segments, ultra-lightweight coated papers sell for higher prices and yield higher margins than their higher basis weight counterparts. We believe that we have a competitive advantage in ultra-lightweight coated paper grades due to our investment in specialized equipment and our development of proprietary manufacturing processes.

---

**Table of Contents**

***Strong relationships with attractive customer base.*** We have long-standing relationships with leading publishers, commercial printers, retail merchandisers and paper merchants. Our relationships with our ten largest coated paper customers average more than 20 years. We believe our sales strategy, which includes both direct sales to our larger customers and sales to merchants, who then resell our products, has reduced selling costs and enhanced customer service. Our strong relationships with the leading customers in the catalog and magazine end-user segments provide us with a significant competitive advantage. For example, these customers have historically had stable and on-going paper needs, which has allowed us to optimize our mill system to supply orders on an efficient and cost-effective basis. Furthermore, due to the premium printing requirements of these end-users, we have been able to shift our product mix towards higher value-added grades, such as lightweight and ultra-lightweight coated groundwood and grade No. 4 coated groundwood. In addition, greater than 60% of our net sales in 2006 were made pursuant to contracts we maintain with our customers. Our 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. Our relationships with our key customers also allow us to maintain operating rates that are in excess of industry levels. For example, according to RISI, average operating rates for coated paper producers were 92% in 2006, while our operating rates were 94% in the same period.

***Well-invested, low cost manufacturing facilities.*** According to Pöyry, a leading paper industry consulting firm, our coated paper mills are among the most efficient and lowest cost coated paper mills globally based on the cash cost of delivery to Chicago. We attribute our manufacturing efficiency, in part, to the significant historical investments made in our mills. From 1985 to 2006, our former parent, International Paper, invested over \$1.7 billion in growth capital expenditures for new machines, rebuilds, productivity enhancements and capacity expansions. In addition to investing substantial amounts of capital in our business, our former parent improved the cost position of our system by closing over 500,000 tons of higher cost coated paper capacity. As a result of the investment and capacity closures by our former parent, we are the owners of well-invested, low-cost production assets. Further, most of our paper production is at mills with integrated pulp production and energy co-generation facilities, which reduces our exposure to price volatility for energy and purchased pulp, two of our largest cost inputs. As we sell approximately the same amount of pulp as we purchase across our integrated production system, we are generally insulated from changes in pulp prices.

In addition, we have meaningfully reduced our costs by consolidating operations and focusing on operational efficiency. For example, through R-GAP, our continuous process improvement program, we have implemented focused programs to optimize raw materials sourcing and usage, reduce repair costs and control overhead to generate ongoing sustainable cost savings. We will continue to utilize the proprietary R-GAP program, as well as lean six sigma and other management tools, to drive further cost reductions and operating improvements in our mill system.

***Efficient and integrated supply chain with unique service solutions.*** Coated paper customers have become increasingly focused on supply chain efficiency, cost reduction and lead time minimization. Our Internet-based ordering platform, WebExpress, simplifies ordering, tracking and invoicing, and is part of our strategy to continually reduce the cost to serve our customer base. In addition, we operate Nextier Solutions, an Internet-based system designed for collaborative production planning, procurement and inventory management processes throughout the supply chain. Our customers use our systems to maximize supply chain efficiencies, improve communication and reduce operating costs. We believe that our leadership position in e-commerce for coated papers distribution and management provides us with a competitive advantage by enabling us to run our operations more cost-effectively through better planning of manufacturing runs and tracking of costs and inventory and, in turn, provides our customers with better, cost-effective service. We also believe the strategic location of our mills and distribution centers near attractive end-use markets, such as New York and Chicago, affords us the ability to more quickly and cost-effectively deliver our products to those markets. This close proximity to our customers provides for enhanced customer service and allows us to minimize our freight and delivery costs.

---

## **Table of Contents**

***Experienced management team with proven track record.*** We believe our senior management team is a valuable asset to our business. This team has introduced industry-leading cost saving and efficiency programs and has lead the successful transition of our business from International Paper. In November 2006, Mike Jackson joined our business as Chief Executive Officer from Weyerhaeuser Company, where he most recently served as Senior Vice President in charge of the Cellulose Fibers, White Papers, Newsprint and Liquid Packaging Board businesses. Our senior management team averages approximately 20 years experience in the paper and forest products industry.

### **Our Business Strategy**

***Increase revenues.*** One of our key objectives is to be the market leader with respect to profitable sales growth. We believe we can achieve this goal through the following strategies:

*Capitalize on favorable trends in our industry.* The coated paper industry is currently benefiting from favorable supply and demand trends and high operating rates, which have resulted in rising sales prices. We are currently implementing three price increases with an announced total increase of \$185 per ton on our coated groundwood grades and \$130 per ton on our coated freesheet grades. We expect to grow our revenues and operating profits as the price increases are further realized during 2008. Based on our coated paper production capacity, every \$50 per ton achieved in increased selling prices equates to \$86 million in additional annual revenues and operating profits.

*Leveraging our leading market position.* As a leader in the North American coated paper industry, we have strong industry insight and expertise, which we utilize to provide value-added services to our customers. We intend to further strengthen our leadership position by increasing our sales to both existing and new potential customers within the catalog and magazine segments, where, as industry leaders, we can offer an enhanced level of products and service. We believe that this competitive advantage will allow us to efficiently grow our business in line or in excess of market volume and price growth.

*Participate in ongoing coated paper industry consolidation.* We believe that there may be opportunities to participate in the current trend of consolidation in the North American coated paper industry. We intend to evaluate and pursue acquisitions and strategic partnerships that we believe will increase our profitability, enhance economies of scale, and augment or diversify our existing customer base. Through strategic acquisitions and partnerships, we intend to continue to improve our absolute and relative cost position, supplement our organic growth prospects, and enhance shareholder value.

*Focus on specialty and higher value-added products.* In addition to participating in underlying market growth, we plan to improve our market share and revenues by focusing on specialty and high value-added products, which we expect to grow in excess of general market growth. For instance, as of the three North American-based producers of ultra-lightweight papers, we are positioned well with customers who want to lower postage and distribution expenses and thereby lower their total production costs. These products, in which we expect volumes to grow and prices to increase faster than the coated paper market, in general, provide us with an opportunity to leverage our production advantage to garner additional revenues. In addition, we will continue to drive product performance improvements by taking advantage of technological advances and developing new products that meet the needs of our core catalog and magazine customers. We have a robust research and development effort that identifies, commercializes and capitalizes on new products and product innovations to generate additional sales opportunities.

***Improve profitability.*** We intend to focus on productivity enhancements and on improving our cost platform through the following:

*Increase productivity.* Since 2001, we have significantly reduced production costs and enhanced manufacturing efficiency at our mills. During this period, we reduced total headcount by over 19%, while overall productivity has increased by 15% as measured by production tons per day and by over 48% as measured by tons produced per day per employee. Combined with strategies to reduce raw

---

## **Table of Contents**

material usage, repair costs and manufacturing overhead, these initiatives have significantly improved financial and operating results. Going forward, we intend to selectively pursue cost reduction and efficiency improvement initiatives based on their cost to achieve, likely success and anticipated payback period.

*Improve operating performance.* Through R-GAP, we have implemented focused programs to optimize raw materials sourcing and usage, reduce repair costs and control overhead. We believe these process improvements, combined with our ability to generate a substantial portion of our energy needs and produce low cost pulp through our integrated pulp operations, will enhance our operating leverage, earnings and cash flow. We will continue to enhance and use our proprietary R-GAP process to improve the profitability of our mill network.

*Maximize cash flow.* Prior to the Transactions our business was managed and operated as part of a larger diversified paper company, focused on managing a broad product portfolio in the context of its own business and financial goals. As a stand-alone business, we have benefited from having a dedicated senior management team, who has implemented a focused strategy to allocate our resources to compete and maximize profitability and cash flow in the coated paper business. With this enhanced management focus, we have managed our working capital, capital expenditures and operational expenditures efficiently to optimize cash flow.

Our annual maintenance and environmental capital expenditures are expected to be \$40 to \$50 million per year for the next few years, which we believe will be sufficient to maintain our productivity and maximize cash flow. In addition to maintenance and environmental capital expenditures, over the past seven years, we and our former parent invested approximately \$260 million in growth capital expenditures for productivity enhancements and capacity expansions. As a result of this spending by us and our former parent, we expect to enjoy significant productivity enhancements and growth opportunities. We believe that our capacity is sufficient to meet our current growth initiatives without significant additional spending and that future growth capital will be spent only upon the expectation of significant returns.

We also expect to pay minimal cash income taxes over the next few years. We have significant net operating losses which we expect will be available to reduce future taxable income. In addition, we expect to continue to have high tax depreciation deductions over the next few years because of our recent capital expenditures and because the tax basis in a portion of our assets was stepped up when the business was purchased from International Paper. This tax depreciation should reduce future taxable profits from the business and minimize our cash income taxes. In addition, when we purchased the business from International Paper, we either did not assume, or were indemnified for, substantially all of the legacy pension, post-retirement and legal, and certain of the environmental obligations and liabilities of the business.

We expect that our relatively low maintenance and environmental capital expenditures, improved working capital management, further cost reductions and minimal cash income taxes will enhance our ability to generate cash flow. We intend to use our cash flow to repay our debt obligations and to reinvest in the growth of our business.

## **Products**

We manufacture three main grades of paper: coated groundwood paper, coated freesheet paper and SC paper. These paper grades are differentiated primarily by their respective brightness, weight, print quality, bulk, opacity and strength. We also sell Northern Bleached Hardwood Kraft ( NBHK ) pulp. The following table sets

**Table of Contents**

forth our principal products by 2006 combined tons sold and as a percentage of our 2006 combined net sales (dollars in millions):

Product	Tons Sold		Net Sales	
	Kts	%	\$	%
Coated groundwood paper	980	49	853	53
Coated freesheet paper	582	29	504	31
SC paper	105	5	68	4
Pulp	295	15	147	9
Other	49	2	39	3
Total	2,011	100	1,611	100

As a result of our scale and technological capabilities, we are able to offer our customers a broad product offering, from ultra-lightweight coated groundwood to heavyweight coated freesheet and SC papers. Hence, our customers have the opportunity to sole-source all of their coated paper needs from us while optimizing their choice of paper products. As our customers' preferences change, they can switch paper grades to meet their desired balance between cost and performance attributes while maintaining their relationship with us. This one-stop shop marketing approach engenders customer loyalty and contributes to the efficiency of our sales organization.

We are also one of the largest rotogravure lightweight coated paper manufacturers in North America. Rotogravure printing is a technique for transferring ink onto coated papers, which typically results in a sharper image with truer colors and less ink trapping than in other printing processes but generally requires a smaller and higher-quality paper. Additionally, we are the only manufacturer in North America with the technological expertise to supply both rotogravure coated groundwood and coated freesheet. This provides us with a significant competitive advantage when selling to customers with long-run, mass publishing needs, as they generally prefer rotogravure products.

*Coated groundwood paper.* Coated groundwood paper includes a fiber component produced through a mechanical pulping process. The use of such fiber results in a bulkier and more opaque paper that is better suited for applications where lighter weights and/or higher stiffness are required, such as catalogs and magazines. In addition to mechanical pulp, coated groundwood paper typically includes a kraft pulp component to improve brightness and print quality.

*Coated freesheet paper.* Coated freesheet paper is made from bleached kraft pulp, which is produced using a chemical process to break apart wood fibers and dissolve impurities such as lignin. The use of kraft pulp results in a bright, heavier-weight paper with excellent print qualities, which is well-suited for high-end commercial applications and premium magazines. Coated freesheet contains primarily kraft pulp, with less than 10% mechanical pulp in its composition.

*SC paper.* SC paper consists of groundwood fibers and a very high filler content but does not receive a separate surface coating. Instead, the paper is passed through a supercalendering process in which alternating steel and filled rolls iron the paper, giving it a gloss and smoothness that makes it resemble coated paper. SC papers are primarily used for retail inserts, due to their relatively low price point.

*Pulp.* We produce and sell NBHK pulp. NBHK pulp is produced through the chemical kraft process using hardwoods. Hardwoods typically have shorter length fibers than softwoods and are used to smooth paper. Kraft describes pulp produced using a chemical process, whereby wood chips are combined with chemicals and steam to separate the wood fibers. The fibers are then washed and pressure screened to remove the chemicals and lignin which originally held the fibers together. Finally, the pulp is bleached to the necessary whiteness and brightness. Kraft pulp is used in applications where brighter and whiter paper is required.



**Table of Contents**

Over our integrated mill footprint, the total volume of pulp purchased from third parties is approximately balanced by the amount of pulp that we sell to the market. This feature substantially insulates our business from exposure to fluctuations in the price of pulp.

*Other products.* We also offer recycled paper to help meet specific customer requirements. Additionally, we offer customized product solutions for strategic accounts by producing paper grades with customer-specified weight, brightness and pulp mix characteristics, providing customers with cost benefits and/or brand differentiation.

**Manufacturing**

We operate 11 paper machines at four mills located in Maine, Michigan and Minnesota. The mills have a combined annual production capacity of 1,726,000 tons of coated paper, 102,000 tons of SC paper and 874,000 tons of kraft pulp, of which 616,000 tons is consumed internally and the remainder is sold as market pulp. Our facilities are strategically located within close proximity to major publication printing customers. The facilities also benefit from convenient and cost-effective access to northern softwood fiber, which is required for the production of lightweight and ultra-lightweight coated papers. All mills and machines operate seven days a week on a twenty-four hours per day basis.

Mill/Location	Products/Paper Grades	Paper Machines	Production Capacity
Androscoggin, ME	Lightweight Coated Groundwood	2	375,800
	Lightweight Coated Freesheet	1	218,900
	Pulp		422,500
Bucksport, ME	Lightweight and Ultra-Lightweight Coated Groundwood and High Bulk Specialty Coated Groundwood	4	516,500
	Coated Freesheet	1	400,000
Quinnesec, MI	Pulp		451,500
	Lightweight and Ultra-Lightweight Coated Groundwood	1	214,800
Sartell, MN	Supercalendered	2	102,000

Note: We produce 874,000 tons of kraft pulp, of which 616,000 tons is consumed internally and the remainder is sold as market pulp. This data does not include our production capacity for other pulp grades, the entirety of which is consumed internally in the production process for our coated paper.

We believe we have the lowest cost coated freesheet assets in North America and a highly competitive cost position in coated groundwood. From 1985 to 2006, our former parent invested over \$1.7 billion in growth capital expenditures for new machines, product enhancements and capacity expansions.

The basic raw material of the papermaking process is wood pulp. Over our integrated mill footprint, the total volume of pulp purchased from third parties is approximately balanced by the amount of pulp that we sell to the market. This feature substantially insulates our business from exposure to fluctuations in the price of pulp.

The first stage of papermaking involves converting wood logs to pulp through either a mechanical or chemical process. Before logs can be processed into pulp, they are passed through a debarking drum to remove the bark. Once separated, the bark is burned as fuel in bark bailers. The wood logs are composed of small cellulose fibers which are bound together by a glue-like substance called lignin. The cellulose fibers are separated from each other through either a mechanical or a kraft pulping process.

After the pulping phase, the fiber furnish is run onto the forming fabric of the paper machine. On the forming fabric, the fibers become interlaced, forming a mat of paper, and much of the water is extracted. The paper web then goes through a pressing and drying process to extract the remaining water. After drying, the web receives a uniform layer of coating that makes the paper smooth and provides uniform ink absorption. After



## **Table of Contents**

coating, the paper goes through a calendering process that provides a smooth finish by ironing the sheet between multiple soft nips that consist of alternating hard (steel) and soft (cotton or synthetic) rolls. At the dry end, the paper is wound onto spools to form a machine reel and then rewound and slit into smaller rolls on a winder. Finally, the paper is wrapped, labeled and shipped.

Catalog and magazine publishers with longer print runs tend to purchase paper in roll form for use in web printing, a process of printing from a reel of paper as opposed to individual sheets of paper, in order to minimize costs. In contrast, commercial printers typically buy large quantities of sheeted paper in order to satisfy the short-run printing requirements of their customers. We believe that producing sheeted paper is a less attractive product as it requires additional processing, bigger inventory stocks, a larger sales and marketing team and a different channel strategy. For this reason, we have pursued a deliberate strategy of configuring our manufacturing facilities to produce all web-based papers, which are shipped in roll form, and have developed relationships with third party converters to address any sheeted paper needs of our key customers.

We utilize a manufacturing excellence program, named R-GAP, to ensure timely and accurate reporting, encourage faster operator involvement and provide an overall culture of continuous improvement. We use multi-variable testing, lean manufacturing, center of excellence teams, source-of-loss initiatives and best practice sharing to constantly improve our manufacturing processes and products. Since 2001, three of our four facilities have been in OSHA's Voluntary Protection Program which recognizes outstanding safety programs and performance.

### **Raw Materials and Suppliers**

Our key cost inputs in the papermaking process are wood fiber, market pulp, chemicals and energy.

*Wood Fiber.* We source our wood fiber from a broad group of timberland and sawmill owners located in our regions.

*Kraft Pulp.* Overall, we produce 874,000 tons of kraft pulp, with 422,500 tons of pulp at the Androscoggin mill and 451,500 tons of pulp at the Quinnesec mill, of which 616,000 tons is consumed internally. We supplement our internal production of kraft pulp with purchases from third parties. In 2006, these purchases were approximately 228,000 tons of pulp. We purchase the pulp requirements from a variety of suppliers and are not dependent on any single supplier to satisfy our pulp needs. We offset pulp purchases with open market sales. Over our integrated mill footprint, the total volume of pulp purchased from third parties is approximately balanced by the amount of pulp that we sell to the market. This feature substantially insulates our business from exposure to fluctuations in the price of pulp.

*Chemicals.* Chemicals utilized in the manufacturing of coated papers include latex, starch, calcium carbonate, titanium dioxide and others. We purchase these chemicals from a variety of suppliers and are not dependent on any single supplier to satisfy our chemical needs.

*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, black liquor solids, our own hydroelectric facilities and internal energy cogeneration facilities. Our external energy purchases vary across each one 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. As prices fluctuate, we have some ability to switch between certain energy sources in order to minimize costs.

### **Sales, Marketing and Distribution**

We reach our end-users through several sales channels. These include selling (i) directly to end-users, (ii) through brokers and paper merchants, and (iii) through printers. We sell and market products to approximately 100 customers, which comprise 650 end-user accounts.

## **Table of Contents**

*Sales to End-Users.* We sell approximately 45% of our manufacturing output directly to end-users, most of which are catalog and magazine publishers for our paper products. Customers for our pulp products are mostly other paper manufacturers. These customers are typically large and sophisticated buyers who have the scale, resources and expertise to procure paper directly from manufacturers.

*Sales to Brokers and Merchants.* Our largest indirect sales by volume are through brokers and merchants who in turn resell papers to end-users.

Brokers typically act as an intermediary between paper manufacturers and smaller end-users who do not have the scale or resources to cost effectively procure paper directly from manufacturers. The majority of sales to brokers are resold to catalog publishers. In 2006, our pro forma combined sales to brokers represented approximately 32% of our total sales. We work closely with brokers to achieve share targets in the catalog, magazine and insert end-user segments through collaborative selling.

Merchants are similar to brokers in that they act as an intermediary between the manufacturer and the end-user. However, merchants generally take physical delivery of the product and keep inventory on-hand. Merchants tend to deal with smaller end-users that lack the scale to warrant direct delivery from the manufacturer. In 2006, our pro forma combined sales to merchants represented approximately 12% of our total sales. Coated freesheet comprises the majority of sales to merchants. In most cases, because they are relatively small, the ultimate end-users of paper sold through merchants are generally regional or local catalog or magazine publishers. However, merchant customers also include major paper distributors, such as xpedx, a division of International Paper, and Unisource, which are large organizations with a broad and diversified client base.

*Sales to Printers.* In 2006, our pro forma combined sales to printers represented approximately 9% of our pro forma combined sales. Nearly all of our sales were to the five largest publication printers in the United States. Printers also effectively act as an intermediary between manufacturers and end-users in that they directly source paper for printing/converting, and then resell it to their customers as a finished product.

The majority of our paper products are delivered directly from our manufacturing facilities to the printer, regardless of the sales channel. In order to serve the grade No. 3 coated freesheet segment, we maintain a network of distribution centers located in the West, Midwest, South and Northeast close to our customer base to provide quick delivery. The majority of our pulp products are delivered to our customers' paper mills.

Our salesforce is organized around our sales channels. We maintain an active dialog with all of our major customers and track product performance and demand across grades. We have a team of sales representatives and marketing professionals organized into three major sales groups that correspond with our sales channels: (i) direct sales support; (ii) support to brokers and merchants; and (iii) printer support.

The majority of our products are sold via contracts we maintain with our customers. Contracted sales are more prevalent for coated groundwood paper, as opposed to coated freesheet paper, which is more often sold without a contract. 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. 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.

Part of our strategy is to continually reduce the cost to serve our customer base through commerce initiatives such as WebExpress, an online system which allows for simplified ordering, tracking and invoicing. Currently, approximately 30% of our total orders are placed electronically. We are focused on further developing our technology platform and e-commerce capabilities. To this end, we operate Nextier Solutions ( Nextier ), an Internet-based system that has become an industry standard for collaborative production planning, procurement and inventory management process throughout the supply chain. Our customers and competitors use the system to maximize supply chain efficiencies, improve communication and reduce operating costs. Nextier enables

## **Table of Contents**

subscribers to monitor their inventories and place orders. Participants pay us subscription and transaction fees for system usage. By leveraging our leadership position in e-commerce for coated papers distribution and management, we should realize a meaningful competitive advantage in our sales, marketing and distribution functions.

### **Customers**

We serve the catalog, magazine, insert and commercial printing markets and have developed long-standing relationships with the premier North American catalog and magazine publishers. The length of our relationships with our top ten customers averages more than 20 years and no single customer accounted for more than 10% of our net sales in 2006. Our key customers include: leading magazine publishers, such as Condé Nast Publications and Time Inc.; leading catalog producers, such as Avon and Sears Holdings; leading commercial printers, such as Quad Graphics and RR Donnelley & Sons; and leading paper merchants and brokers, such as A.T. Clayton & Co., Clifford Paper, Unisource and xpedx. See Risk Factors We depend on a small number of customers for a significant portion of our business.

Our pro forma combined net sales by end-user segment for the year ended December 31, 2006, are illustrated below:

### **Research and Development**

The primary function of our research and development efforts is to work with customers in developing and modifying products to accommodate their evolving needs, and to identify cost saving opportunities within the company.

Examples of development efforts implemented over the past several years include:

high-bulk offset and rotogravure coated groundwood;

lightweight grade No. 4 coated groundwood;

ultra-lightweight grade No. 5 coated groundwood; and

coated freesheet rotogravure.

### **Information Systems and Intellectual Property**

We have a number of IT applications and enterprise applications which support our company. Our application portfolio is comprised of both licensed third-party software and proprietary applications.

We own 13 patents and patent applications in the United States and 13 patents and patent applications in several foreign jurisdictions, including the European Union, Brazil, China, Canada, Japan and Korea. Certain of

## **Table of Contents**

these patent applications relate to a process for the manufacture of super high-bulk lightweight coated paper and our metered size press process for the manufacture of lightweight coated rotogravure paper. In addition, we have filed trademark applications for Verso and Verso Paper and, in connection with the Acquisition, acquired applications and registrations for the trademarks of certain of our products, including EZ Suite, Advocate, Influence and Savvy, among others. We also acquired a copyright registration for the EZ Suite Computer Program. In addition to the intellectual property that we own, a significant portion of intellectual property used in our business is licensed on a perpetual, royalty-free, non-exclusive basis from International Paper pursuant to the terms of an Intellectual Property Agreement entered into by us and International Paper.

Although, in the aggregate, our patents, trademarks, copyrights, and the intellectual property licensed from International Paper are material to our business, financial condition and results of operations, we believe that the loss of any one or any related group of intellectual property rights would not have a material adverse effect on our business, financial condition or results of operations.

## **Competition**

Our business is highly competitive. A significant number of North American competitors produce coated and SC papers, and several overseas manufacturers, principally from Europe, export to North America. We compete based on a number of factors, including:

price;

product availability;

the quality of our products;

our breadth of product offerings;

our ability to maintain plant efficiencies and high operating rates and thus lower our average;

manufacturing costs per ton;

customer service and our ability to distribute our products on time; and

the availability and/or cost of wood fiber, market pulp, chemicals, energy and other raw materials and labor.

Foreign competition in North America is also affected by the exchange rate of the U.S. dollar relative to other currencies, especially the Euro, market prices in North America and other markets, worldwide supply and demand, and the cost of ocean-going freight.

While our product offering is broad in terms of grades produced (from SC and ultra-lightweight coated groundwood offerings to heavier-weight coated freesheet products), we are focused on producing coated groundwood and coated freesheet in roll form. This strategy is driven by our alignment with catalog and magazine end-users with longer print runs, who tend to purchase paper in roll form for use in web printing in order to minimize costs. Our principal competitors include NewPage Corporation, Bowater Incorporated, UPM-Kymmene and Sappi Limited. See Risk Factors The markets in which we operate are highly competitive.

## **Employees**

## Edgar Filing: Verso Paper Corp. - Form S-1

As of December 31, 2006, we had approximately 2,969 employees, 57% of which are non-union and 78% of which are hourly employees. Employees at two of our four mills are unionized and are represented by several unions including the Office and Professional Employees International Labor Union, the United Steelworkers of America, the International Association of Machinists and Aerospace Workers and the International Brotherhood of Electrical Workers. We successfully negotiated labor arrangements covering our two unionized mills in 2007. These new agreements expire in 2011.

**Table of Contents**

We have not experienced any work stoppages since our business was formed in 2000 by the combination of the coated paper businesses of International Paper and Champion. In addition, there has not been any work stoppage in any of our mills since 1987. We believe we have good relations with our employees.

**Properties**

Our corporate headquarters are located in Memphis, Tennessee. We operate 11 paper machines at four mills located in Maine, Michigan and Minnesota. We own our principal manufacturing facilities. We also own five hydroelectric dams, four of which provide hydroelectric power to our Androscoggin mill and the fifth of which services our Sartell mill. In addition, we own 16 and lease four woodyards for the purpose of storage and loading of forest products and lease a number of sales offices.

Our headquarters and material facilities as of December 31, 2006 are shown in the following table:

<b>Location</b>	<b>Use</b>	<b>Owned/Leased</b>
Memphis, TN	Corporate Headquarters	Leased
Androscoggin, ME	Paper Mill/Kraft Pulp	Owned
Bucksport, ME	Paper Mill	Owned
Quinnesec, MI	Paper Mill/Kraft Pulp	Owned
Sartell, MN	Paper Mill	Owned

**Environmental and Other Governmental Regulations**

We are subject to federal, state and local environmental, health and safety laws and regulations, including, but not limited to, the Federal Water Pollution Control Act of 1972 (the Clean Water Act), the Federal Clean Air Act, the Federal Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), OSHA and analogous state and local laws. Among our activities subject to environmental regulation are the emissions of air pollutants, discharges of wastewater and stormwater, operation of dams, storage, treatment and disposal of materials and waste, remediation of soil, surface water and ground water contamination. In addition, we are required to obtain and maintain environmental permits in connection with our operations. Many environmental laws and regulations provide for substantial fines or penalties and criminal sanctions for any failure to comply. In addition, failure to comply with these laws and regulations could result in the interruption of our operations and, in some cases, facility shutdowns.

Certain of these environmental laws, such as CERCLA and analogous state laws, provide for strict, and under certain circumstances, joint and several liability for investigation and remediation of the release of hazardous substances into the environment, including soil and groundwater. These laws may apply to properties presently or formerly owned or operated by an entity or its predecessors, as well as to conditions at properties at which wastes attributable to an entity or its predecessors were disposed. Under these environmental laws, a current or previous owner or operator of real property, and parties that generate or transport hazardous substances that are disposed of at real property, may be held liable for the cost to investigate or clean up such real property and for related damages to natural resources. We handle and dispose of wastes arising from our mill operations, including disposal at on-site landfills. We are required to maintain financial assurance for the expected cost of landfill closure and post-closure care. We may be subject to liability, including liability for investigation and cleanup costs, if contamination is discovered at one of our paper mills or another location where we have disposed of, or arranged for the disposal of, wastes. We could be subject to potentially significant liabilities under, or fines or penalties for any failure to comply with, any environmental rule or regulation. See Risk Factors Risks Related to Our Business We are subject to various environmental, health and safety regulations that could impose substantial costs or other liabilities upon us and may adversely impact our operating performance and financial condition.



## **Table of Contents**

Compliance with environmental laws and regulations is a significant factor in our business. We have made, and will continue to make, significant expenditures to comply with these requirements. We anticipate that environmental compliance will continue to require increased capital expenditures over time as environmental laws or regulations, or interpretations thereof, change or the nature of our operations require us to make significant additional capital expenditures. A significant portion of anticipated environmental capital expenditures in 2007 will be spent in connection with emission control technology and wastewater effluent controls required to comply with the Federal Clean Air and Clean Water Acts. Integrated pulp and paper mills are required to install control equipment to limit the release of certain pollutants into the air and water under so-called Cluster Rule regulations promulgated by EPA in 1998. In addition, our mills will incur increased operating expenses associated with compliance with the Cluster Rule regulations and the operation of the control equipment. We incurred pro forma combined environmental capital expenditures of approximately \$11.6 million in 2006, and we expect to incur environmental capital expenditures of \$2.7 million in 2007 and \$7.8 million in 2008.

Permits are required for the operation of our mills and related facilities. The permits are subject to renewal, modification and revocation. We and others have the right to challenge our permit conditions through administrative and legal review processes. Governmental authorities have the power to enforce compliance with the permits, and violators are subject to civil and criminal penalties, including fines, injunctions or both. Other parties also may have the right to pursue legal actions to enforce compliance with the permits.

## **Legal Proceedings**

We are involved from time to time in legal proceedings incidental to the conduct of our business. Although the amount of liability that may result from these proceedings cannot be ascertained, we believe that, in the aggregate, they will not result in liabilities that are material to our financial condition, results of operations, or cash flows.

The wastewater permit for our Androscoggin mill is the subject of an administrative appeal pending before the Maine Board of Environmental Protection. The Board's final determination of the challenge, which is expected to be issued in early 2008, could result in more stringent conditions under our permit and necessitate capital expenditure for additional wastewater controls and related improvements. Such expenditures may be covered, subject to certain limitations, by an indemnity from International Paper.

**Table of Contents****MANAGEMENT****Executive Officers and Directors**

The following table provides information regarding our executive officers and directors upon consummation of this offering:

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
Michael A. Jackson	58	President, Chief Executive Officer and Director
Robert P. Mundy	45	Senior Vice President and Chief Financial Officer
Lyle J. Fellows	51	Senior Vice President Manufacturing
Michael A. Weinhold	43	Senior Vice President Sales and Marketing
Benjamin Hinchman, IV	60	Vice President and Chief Information Officer
Peter H. Kesser	50	Vice President, General Counsel and Secretary
Craig J. Liska	51	Vice President Sustainability
Ricardo Moncada	54	Vice President Human Resources
Michael E. Ducey	59	Director
Joshua J. Harris	42	Director
Scott M. Kleinman	34	Director
David W. Oskin	64	Director
L.H. Puckett, Jr.	59	Director
Jordan C. Zaken	32	Director

*Michael A. Jackson.* In November 2006, Mr. Jackson was named President, Chief Executive Officer and member of our Board of Directors. He succeeded Mr. Puckett, who retired but will remain a member of the Verso Paper board of directors. Before joining Verso Paper, Mr. Jackson served as Senior Vice President at Weyerhaeuser Company in Federal Way, Washington, where he was responsible for the Cellulose Fibers, White Papers, Newsprint and Liquid Packaging Board businesses. He also served as chairman of NORPAC, a joint venture between Weyerhaeuser and Nippon Paper in Japan. Prior to being named Senior Vice President in 2004, Mr. Jackson served as Vice President Fine Paper. Throughout his 29-year career at Weyerhaeuser, he contributed to the company's success in leadership roles in a number of other company businesses, including Packaging, Tri-wall, Recycling and Business Papers.

*Robert P. Mundy.* Since the consummation of the Acquisition in August 2006, Mr. Mundy has served as our Senior Vice President and Chief Financial Officer. Mr. Mundy served as our Director of Finance from 2002 until August 2006. From 2001 until 2002, Mr. Mundy was Director of Finance Projects for International Paper. Prior to 2001 and since he joined International Paper in 1983, Mr. Mundy worked in various businesses, holding positions with increasing responsibility.

*Lyle J. Fellows.* Since the consummation of the Acquisition in August 2006, Mr. Fellows has served as our Senior Vice President, Manufacturing. Mr. Fellows served as our Vice President of Manufacturing since 2003 until August 2006. Mr. Fellows was the mill manager at International Paper's Courtland, Alabama pulp/paper mill from 2001 to 2003. From 1994 to 2001, Mr. Fellows held various positions in International Paper's European Papers division, including Technical Director for the European white papers division, manufacturing director for Arizona Chemical-Europe and mill manager at the Saillat, France pulp/paper mill.

*Michael A. Weinhold.* Since the consummation of the Acquisition in August 2006, Mr. Weinhold has served as our Senior Vice President, Sales and Marketing. Mr. Weinhold served as our General Manager from 2003 until August 2006. Mr. Weinhold is responsible for sales, marketing, supply chain, customer technical service, e-Commerce, product development and Nextier Solutions. Mr. Weinhold joined International Paper in 1994 and has since served in various sales, marketing and management positions, including Director of Marketing and e-Business. His overall marketing responsibilities for the Coated and SC Paper business sector include customized marketing solutions, marketing support, interface with corporate marketing, sector advertising and promotion, pricing and e-Commerce.

---

**Table of Contents**

*Benjamin Hinchman, IV.* Since the consummation of the Acquisition in August 2006, Mr. Hinchman has served as Vice President and Chief Information Officer. During June and July 2006, Mr. Hinchman served as the Director of Information Technology of the Coated and Supercalendered Papers division of International Paper. From 2002 until May 2006, Mr. Hinchman served as Director of Information Technology of the xpedx business unit International Paper, and from 2000 until 2001, served as Director of Strategic Technologies. Prior to 2000, Mr. Hinchman worked in various businesses, holding positions of increasing responsibility.

*Peter H. Kesser.* Mr. Kesser joined Verso Paper in December 2006 as Vice President, General Counsel and Secretary. During a legal career of almost 25 years, he has concentrated his practice in areas of corporate, securities, mergers and acquisitions, and commercial law while working for major law firms and public companies. From 1999 to November 2006, Mr. Kesser was a shareholder with Baker Donelson Bearman Caldwell & Berkowitz PC. From 1998 to 1999, he was Vice President, Associate General Counsel and Assistant Secretary of Promus Hotel Corporation. From 1993 to 1997, Mr. Kesser was Vice President, General Counsel and Secretary of Arcadian Corporation, a leading nitrogen chemical producer. From 1983 to 1992, he was an attorney with Bracewell & Patterson LLP. Mr. Kesser is the former Chairman of the Business Law section of the Tennessee Bar Association.

*Craig J. Liska.* Mr. Liska joined Verso Paper in October 2006 as Vice President of Sustainability. In this position, he is responsible for integrating Verso Paper's sustainability principles of balancing environmental, social and economic values into decisions affecting all aspects of the business. From 1990 to February 2006, Mr. Liska worked at Motorola, Inc., in various environmental positions of increasing responsibility, most recently serving as Corporate Director of International Environment, Health and Safety. Prior to entering the private sector, he served as an environmental regulator with the United States Environmental Protection Agency from 1985 to 1989 and with the Illinois Environmental Protection Agency from 1980 to 1985.

*Ricardo Moncada.* Mr. Moncada has been Vice President of Human Resources since October 2006. He also served briefly as a human resources consultant to Verso Paper from June to September 2006 under a transitional arrangement with International Paper. Mr. Moncada, who has worked in the human resources field for 29 years, joined Verso Paper from International Paper where he was Vice President of Human Resources of the xpedx business unit from 2001 to September 2006, Director of Human Resources of the Beverage Packaging business unit from 1997 to 2000, and Vice President of Human Resources of Propal, a joint venture with W.R. Grace Co., from 1991 to 1997. Mr. Moncada previously worked in human resources with Weyerhaeuser Paper Company from 1986 to 1991 and with Norton Company from 1978 to 1986.

*Michael E. Ducey.* In November 2006, Mr. Ducey was elected to our Board of Directors. Previously, he was President and Chief Executive Officer of Compass Minerals International. Prior to joining CMI, Mr. Ducey worked approximately 30 years for Borden Chemical, a diversified chemical company, in various positions including President and Chief Executive Officer (December 1999 to March 2002) and Executive Vice President and Chief Operation Officer (October 1997 to December 1999). Mr. Ducey is also currently a board member for United Agri Products Holding, a NYSE company located in Greeley, Colorado.

*Joshua J. Harris.* Since the consummation of the Acquisition in August 2006, Mr. Harris has served as a member of our Board of Directors. Mr. Harris is President and Founding Partner of Apollo Management, L.P. which was started in 1990. Prior to 1990, Mr. Harris was a member of the Mergers and Acquisitions Group of Drexel Burnham Lambert Incorporated. Mr. Harris currently serves on the boards of directors of AP Alternative Assets, Apollo Global Management LLC, Berry Plastics, CEVA International, Hexion Specialty Chemicals, Inc., Metals USA, Momentive Performance Materials, Inc. and Noranda Corporation.

*Scott M. Kleinman.* Since the consummation of the Acquisition in August 2006, Mr. Kleinman has served as a member of our Board of Directors. Mr. Kleinman is a Partner at Apollo, where he has worked since 1996. Prior to that time, Mr. Kleinman was employed by Smith Barney Inc. in its Investment Banking division. Mr. Kleinman is also a director of Hexion Specialty Chemicals, Inc, Momentive Performance Materials, Inc., and Realogy Corp.

**Table of Contents**

*David W. Oskin.* Since the consummation of the Acquisition in August, 2006, Mr. Oskin has served as a member of the Board of Directors. Mr. Oskin is President of Four Winds Ventures, LLC. Previously, he was Executive Vice President of International Paper Company, a position he held from 1996 to 2003. From 1992 to 1996 he was Managing Director and Chief Executive Officer of Carter Holt Harvey, a New Zealand based forest products company. Mr. Oskin is a director of Pacific Millennium Corporation, Samling Global Limited, Goodman Global, Inc, Big Earth Publishing and serves as Chairman, Board of Trustees of Widener University.

*L. H. Puckett, Jr.* In November 2006, Mr. Puckett retired as President and Chief Executive Officer but remains a member of the Verso Paper Board of Directors. Mr. Puckett has served as our Senior Vice President since International Paper's acquisition of Champion International in 2000. Mr. Puckett led a highly successful integration of the two coated paper businesses. Mr. Puckett joined International Paper as Vice President of Commercial Printing and Imaging Papers in 1999 following the International Paper/Union Camp merger. Prior to the merger, Mr. Puckett was Senior Vice President of Union Camp's Fine Papers Division, which included the uncoated freesheet, pulp and bleached paperboard businesses.

*Jordan C. Zaken.* Since the consummation of the Acquisition in August 2006, Mr. Zaken has served as a member of our Board of Directors. Mr. Zaken is a Partner at Apollo, where he has worked since 1999. Prior to that time, Mr. Zaken was employed by Goldman, Sachs & Co. in its Mergers and Acquisitions Department. Mr. Zaken is also a director of Hexion Specialty Chemicals, Inc.

**Committees of our board of directors**

Upon consummation of this offering, our board of directors will have three standing committees: an audit committee, a compensation committee and a nominating/corporate governance committee, each operating under charters that have been adopted by our board of directors. Following the consummation of this offering, we will be a controlled company pursuant to the rules of the New York Stock Exchange. As a result, we are not required to have a majority of independent directors on our board of directors or have compensation and nominating/corporate governance committees comprised of independent directors. We are required, however, to have an audit committee with one independent director during the 90-day period beginning on the date of effectiveness of the registration statement filed with the SEC in connection with this offering and of which this prospectus is a part. After such 90-day period and until one year from the date of effectiveness of the registration statement, we are required to have a majority of independent directors on our audit committee. Thereafter, we are required to have an audit committee comprised entirely of independent directors.

*Audit Committee*

Upon consummation of the offering, the audit committee will consist of Messrs. \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ (of whom Messrs. \_\_\_\_\_ and \_\_\_\_\_ have been deemed independent pursuant to Rule 10A-3 of the Exchange Act by our board of directors and Mr. \_\_\_\_\_ will be nominated as chair of the audit committee). The duties and responsibilities of the audit committee include recommending the appointment or termination of the engagement of independent accountants, overseeing the independent auditor relationship and reviewing significant accounting policies and controls. We intend to appoint additional independent directors to our audit committee to replace Mr. \_\_\_\_\_ as soon as possible following the consummation of this offering, but no later than one year after the consummation of this offering. At least one of these individuals will satisfy the New York Stock Exchange standard of possessing accounting or related financial management expertise and qualify as an independent audit committee financial expert under the Exchange Act.

The charter of the audit committee will be available on our website.

*Compensation Committee*

Following the completion of this offering, the compensation committee will consist of Messrs. \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_. The duties and responsibilities of the compensation committee include reviewing and approving the compensation of officers and directors, except that the compensation of officers serving on any committee is determined by our board of directors. The compensation of all officers other than our chief

---

## **Table of Contents**

executive officer, Michael A. Jackson, is approved by our board of directors based on recommendations by Mr. Jackson and the compensation committee. Mr. Jackson's compensation is determined by our board of directors upon the recommendation of the compensation committee.

The charter of our compensation committee will be available on our website.

### *Nominating/Corporate Governance Committee*

We do not currently have a nominating/corporate governance committee. Following the completion of this offering, we intend to form a nominating/corporate governance committee. We expect the duties of the nominating/corporate governance committee to include identifying individuals qualified to become members of our board of directors, consistent with criteria approved by our board of directors; overseeing the organization of our board of directors to discharge the board's duties and responsibilities properly and efficiently; identifying best practices and recommending corporate governance principles, including giving proper attention and making effective responses to shareholder concerns regarding corporate governance; and developing and recommending to our board of directors a set of corporate governance guidelines and principles applicable to us. We expect other specific duties of the nominating/corporate governance committee to include: annually assessing the size and composition of our board of directors; developing membership qualifications for our board committees; monitoring compliance with board and board committee membership criteria; annually reviewing and recommending directors for continued service; coordinating and assisting management and our board in recruiting new members to our board of directors; reviewing governance-related shareholder proposals and recommending board responses; and overseeing the evaluation of our board of directors and management.

An affiliate of Apollo controls a majority of our common stock, and therefore has the power to control our affairs and policies. Apollo also controls the election of our directors and the appointment of our management.

### **Board structure and compensation**

Our board of directors is currently comprised of seven directors. Upon consummation of this offering, our board of directors will be divided into three classes, each of whose members will serve for staggered three-year terms. Messrs. \_\_\_\_\_ and \_\_\_\_\_ will serve in the class of directors whose terms will expire at our 2009 annual meeting; Messrs. \_\_\_\_\_ and \_\_\_\_\_ will serve in the class of directors whose terms will expire at our 2010 annual meeting; and Messrs. \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ will serve in the class of directors whose terms will expire at our 2011 annual meeting. Because only one-third of our directors are elected at each annual meeting, two annual meetings of shareholders could be required for the shareholders to change a majority of the board.

The members of our board of directors are reimbursed for their out-of-pocket expenses. Those directors who are not our employees also receive compensation for their service on our board of directors. Upon consummation of this offering, each of our non-employee directors will receive an annual retainer fee of \$ \_\_\_\_\_. These directors will receive a fee of \$ \_\_\_\_\_ for each board meeting attended (\$ \_\_\_\_\_ if telephonic). The chair of the audit committee will receive an additional \$ \_\_\_\_\_.

### **Compensation committee interlocks and insider participation**

None of our executive officers serves, or in the past has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers who serve on our board of directors or compensation committee.

### **Code of ethics**

In connection with this offering, our board of directors will adopt a code of ethics that applies to all of our directors, officers and employees, including our chief executive officer and chief financial officer. The code addresses, among other things, honesty and ethical conduct, conflicts of interest, compliance with laws, regulations and policies, including disclosure requirements under the federal securities laws, confidentiality, trading on insider information and reporting of violations to the code.

---

**Table of Contents**

**COMPENSATION DISCUSSION AND ANALYSIS**

**Overview of Executive Compensation**

Our philosophy is that executive compensation should be competitive in the marketplace in which we compete for executive talent, but structured to emphasize incentive-based compensation and determined by the achievement of both company and individual performance objectives. In principle, we believe that:

annual base salaries should be competitive with the marketplace average;

the combination of variable annual compensation and long-term incentive compensation should stress the achievement of short-term and long-term performance objectives and should provide the opportunity to earn more than the marketplace average for performance that exceeds targeted levels;

long-term incentive compensation opportunities should be targeted at levels that exceed those of our peer group companies; and

equity ownership by the members of our executive management team should be encouraged in order to align the short-term and long-term interests of our executive officers with those of the holders of our equity interests.

We periodically review our compensation practices with reference to wage surveys conducted by compensation consulting firms. This data is integral to our decisions regarding appropriate levels of executive compensation. For 2006, we utilized legacy wage surveys that were in effect prior to the Acquisition, which reflected a peer group of paper companies, heavy and medium industrial manufacturing companies, and Fortune 500 companies. In 2007, we made appropriate modifications to our peer group profile to take into account our shift to a standalone company and other changes in our business following the Acquisition. Our modified peer group is comprised of paper and other manufacturing businesses similar in size to us, and includes other private equity portfolio companies.

**Elements of Executive Compensation**

Our compensation program for executives consists of the following key elements: annual base salary, a performance-based annual bonus and long-term equity-based awards, as well as certain perquisites and other benefits, including employer contributions to tax-qualified defined contribution retirement plans.

We believe that this approach best serves our interests and the holders of our equity interests. It enables us to meet the requirements of the highly competitive environment in which we operate while ensuring that our executive officers are compensated in a way that advances both the short-term and long-term interests of the holders of our equity interests. The variable annual bonus permits individual performance to be recognized and is based, in significant part, on an evaluation of the contribution made by the executive to our overall performance. Long-term equity-based awards relate a significant portion of long-term remuneration directly to appreciation in the value of our equity interests. This type of compensation is intended to align the interests of management with those of the holders our equity interests, and further serves to promote an executive's continued service to the organization.

***Base Salary.***

We determine base salaries for our executive officers based on each executive's position level, taking into account the market salary range for our peer group of companies. Base salaries are intended to be competitive with the market average. It is our philosophy that total compensation should be weighted less towards fixed compensation and more towards variable performance-based compensation. We intend to continue this shift in total compensation from fixed compensation towards variable compensation opportunities that stress performance.

---

## **Table of Contents**

### ***Annual Bonus.***

Under our management incentive plan (the Verso Incentive Plan or VIP ), our executive officers have an annual incentive (bonus) opportunity with awards based on the achievement of specified performance goals. For 2006, the VIP performance goals were based entirely on our achievement of EBITDA targets. In 2007, we expanded the core performance goals to include a combination of financial targets (e.g., EBITDA, working capital) and goals relating to core strategic initiatives (e.g., manufacturing improvement against industry best practices, volume and margin improvement over prior year performance).

Individual VIP awards are paid from a bonus pool that is funded based on our achievement of the applicable annual performance goals. Once the amount of the bonus pool is determined, we distribute individual VIP awards, within the limits of the pool, based on our evaluation of individual and departmental or functional contributions to our achievement of the performance goals.

### ***Unit Investment and Award Program.***

We have established a long-term equity-based compensation program pursuant to which our executive officers make an investment in non-voting capital interests ( Class A Units ) in our parent, Verso Paper Management LP. The Class A Units purchased by the executives are intended to be substantially economically equivalent to the securities acquired by Apollo in connection with the Acquisition.

In connection with their investment in the Class A Units, our executive officers are entitled to receive awards in the form of non-voting profits interests ( Class B Units and Class C Units ) in our parent, Verso Paper Management LP, which entitle the executives to share in future profits of the business. The Class B Units, which are intended to be substantially economically equivalent to stock options that vest based on the passage of time, generally vest in five equal annual installments, subject to continuous employment through each applicable vesting date. The Class C Units, which are intended to be substantially economically equivalent to stock options that vest based on the achievement of performance criteria, will generally vest only upon the achievement of a specified internal rate of return.

We have also awarded Class D Units, which are intended to be substantially economically equivalent to stock options that are fully vested as of the date of grant to our non-employee directors under the Limited Partnership Agreement of Verso Paper Management LP (the LP Agreement ). For more information on the Class D Units, see Executive Compensation Director Compensation.

All executive officers investing in Class A Units and receiving awards of Class B Units and Class C Units are required to execute the LP Agreement and become limited partners thereunder. Under the LP Agreement, the Units purchased or held by the executives are generally subject to transfer restrictions, tag-along rights, drag-along rights, repurchase rights and piggy-back registration rights.

### ***Analysis.***

The base salary amounts paid to the named executive officers generally reflect the named executive officers respective position levels and are approximately at the midpoint salary range of the market average for peer group companies. The low base salary amounts and total compensation amounts for Mr. Jackson and Mr. Puckett in 2006 are a result of each executive only being employed for a portion of 2006. Except for Mr. Jackson and Mr. Puckett, the base salary amount for each named executive officer constituted approximately 55-61% of the total compensation for each such named executive officer. This range of percentages reflects the Company s intention to provide for a meaningful portion of each named executive officer s compensation to be performance based. The addition of the Incentive Award Plan and the Senior Executive Bonus Plan (as described below) further demonstrates our intention to continue this shift in total compensation from fixed compensation towards variable compensation opportunities that emphasize and reward performance.

**Table of Contents**

The VIP awards focus on short-term retention and incentive goals. For 2006, the VIP performance goals were based entirely on achievement of EBITDA targets, and individual awards reflected each participant's contributions to our achievement of the applicable performance goals. For 2007, we expanded the core performance goals to include a combination of financial targets (e.g., EBITDA, working capital) and goals relating to core strategic initiatives (e.g., manufacturing improvement against industry best practices, volume and margin improvement over prior year performance). Also, the position and duties of a named executive officer and the relative market benchmark for such position was factored into the value of the 2006 VIP award to each such named executive officer. The value of the 2006 VIP awards to Mr. Jackson and Mr. Puckett reflect their respective employment periods with Verso Paper in 2006.

The awards of Class B Units and Class C Units focus on long-term retention and incentive goals. Each named executive officer was assigned to an award tier and awarded Class B and Class C Units according to the estimated value of such named executive officer's opportunity and expected ability to effect results.

***2008 Incentive Award Plan.***

Prior to the completion of this offering, we intend to adopt the 2008 Incentive Award Plan. The principal purpose of the 2008 Incentive Award Plan will be to promote the success and enhance the value of our company by linking the personal interests of selected employees, consultants and directors to those of our stockholders and by providing such individuals with an incentive for outstanding performance. The 2008 Incentive Award Plan is further intended to attract, retain and motivate selected employees, consultants and directors through the granting of stock-based compensation awards.

The 2008 Incentive Award Plan will provide for a variety of such awards, including non-qualified stock options, or NSOs, incentive stock options, or ISOs (within the meaning of Section 422 of the Internal Revenue Code, or the Code), stock appreciation rights, restricted stock awards, restricted stock unit awards, deferred stock awards, dividend equivalents, performance share awards, performance-based awards, stock payment awards and other stock-based awards. We will reserve \_\_\_\_\_ shares of common stock for issuance under the 2008 Incentive Award Plan. The maximum number of shares which may be subject to awards granted under the 2008 Incentive Award Plan to any individual in any calendar year will be \_\_\_\_\_ and the maximum amount that may be paid in cash to any individual in any calendar year with respect to any performance based-awards will be \$ \_\_\_\_\_; provided, that this limitation will not apply prior to the consummation of this offering, and following such consummation, this limitation will not apply until the earliest of: (a) the first material modification of the 2008 Incentive Award Plan (including any increase in the number of shares reserved for issuance under the 2008 Incentive Award Plan); (b) the issuance of all of the shares of common stock reserved for issuance under the 2008 Incentive Award Plan; (c) the expiration of the 2008 Incentive Award Plan; (d) the first meeting of stockholders at which members of the board are to be elected, which occurs after the close of the third calendar year following the calendar year in which any of our equity securities are registered under Section 12 of the Exchange Act; or (e) such other date required by Section 162(m) of the Code and the rules and regulations promulgated thereunder.

*Administration.* The 2008 Incentive Award Plan will be administered by our board of directors, unless and until the board delegates administration to the compensation committee or other applicable committee of the board. The compensation committee may delegate administration to one or more members of our board of directors. Our board of directors, or the compensation committee if so empowered, will have the power to interpret the 2008 Incentive Award Plan and to adopt such rules for the administration, interpretation and application of the 2008 Incentive Award Plan according to its terms. Our board of directors or the compensation committee shall determine the number of shares of common stock that will be subject to each award. Our compensation committee may take into account the recommendations of our senior management in determining the award recipients and the terms and conditions of such awards. Our board of directors may not delegate to the compensation committee or otherwise, the power to grant stock awards to our independent directors.



## **Table of Contents**

*Grant of Awards.* Certain employees, consultants and directors will be eligible to be granted awards under the 2008 Incentive Award Plan. Our board of directors, or the compensation committee if so empowered, will determine:

which employees, consultants and directors are to be granted awards;

the type of award that is granted;

the number of shares subject to the awards; and

the terms and conditions of such awards, consistent with the 2008 Incentive Award Plan. Our board of directors, or the compensation committee if so empowered, will have the discretion, subject to the limitations of the 2008 Incentive Award Plan and applicable laws, to grant ISOs, NSOs, stock bonuses and rights to acquire restricted stock (except that only our employees may be granted ISOs).

*Limitation on ISO Treatment.* Even if an option is designated as an ISO, no option will qualify as an ISO if the aggregate fair market value of the stock (as determined as of the date of grant) with respect to all of a holder's ISOs exercisable for the first time during any calendar year under the 2008 Incentive Award Plan exceeds \$100,000. Any option failing to qualify as an ISO will be deemed to be an NSO.

*Stock Option Exercise Price.* Our board of directors, or the compensation committee if so empowered, shall set the per share exercise price, subject to the following rules:

in the case of ISOs and NSOs, the per share option exercise price shall not be less than 100% of the fair market value of shares of our common stock on the grant date; and

for any persons owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of our capital stock or of any of our subsidiaries, the per share exercise price shall be not less than 110% of the fair market value of the shares of our common stock on the grant date. The fair market value of a share of our common stock as of a given date will be determined in good faith by our board of directors.

*Expiration of Stock Options.* The term of an option is set by our board of directors, or the compensation committee if so empowered, subject to the following conditions: (1) no option term shall be longer than ten years from the date of grant; and (2) the option term for an ISO granted to a person owning more than 10% of the total combined voting power of all classes of our capital stock shall not exceed five years from the date of grant. Upon termination of an outstanding option holder's services with us, the holder may exercise his or her options within the period of time specified in the option grant, to the extent that the options were vested at the time of termination. Options granted under the 2008 Incentive Award Plan must be exercised within one year if the holder's services are terminated due to death or disability, or by the date of expiration of the option as set forth in the option agreement, whichever is earlier.

*Other Equity Awards.* In addition to stock options, the compensation committee may also grant to certain employees, consultants and directors stock appreciation rights, restricted stock awards, restricted stock unit awards, deferred stock awards, dividend equivalents, performance share awards, performance-based awards, stock payment awards or other stock-based awards, with such terms and conditions as our board of directors (or, if applicable, the compensation committee) may, subject to the terms of the 2008 Incentive Award Plan, establish. Under the 2008 Incentive Award Plan, performance-based stock awards are intended to comply with the requirements of Section 162(m) of the Code and its underlying regulations, in order to allow these awards, when payable, to be fully tax deductible by us.

*Performance Bonus Awards.* Under the 2008 Incentive Award Plan, the compensation committee has the authority in its discretion to make performance-based cash bonus payments to our designated employees, including our executive officers, with respect to a specified period (for example, a calendar year). Such bonuses are payable upon the attainment of pre-established performance goals. Such performance goals may relate to one



**Table of Contents**

or more corporate business criteria with respect to us or any of our subsidiaries, including but not limited to: net earnings (either before or after interest, taxes, depreciation and amortization), Adjusted EBITDA, economic value-added, sales or revenue, net income (either before or after taxes), operating earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on stockholders' equity, return on assets, return on capital, stockholder returns, return on sales, gross or net profit margin, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, earnings per share, price per share of our common stock, and market share, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. The compensation committee will select the participants who are eligible to receive performance-based cash bonuses and the performance goals to be utilized with respect to the participants, establish the bonus formulas for of each participant's annual bonus, and certify whether the performance goals have been met with respect to any given performance period.

*Adjustments of Awards.* In the event a stock dividend, stock split, combination, merger, consolidation, spin-off, recapitalization or other change in our capitalization affects our common stock in a manner that causes dilution or enlargement of benefits or potential benefits under the 2008 Incentive Award Plan, as determined by our board of directors, or the compensation committee, if so empowered, then our board of directors or the compensation committee shall equitably adjust:

the aggregate number of, and kind of, shares of our common stock subject to the 2008 Incentive Award Plan;

the number of, and kind of, shares of our common stock subject to the outstanding awards;

the price per share of our common stock upon exercise of outstanding options; and

the terms and conditions of any outstanding awards, including the financial or other performance targets specified in each option agreement for determining the exercisability of options.

*Change in Control.* In connection with any change in control (as defined in the 2008 Incentive Award Plan), except as may otherwise be provided in any applicable award or employment agreement and unless awards granted under the 2008 Incentive Award Plan are converted, assumed or replaced by a successor entity, the awards will automatically become fully vested and exercisable and all forfeiture restrictions with respect to such awards shall lapse prior to the consummation of the change in control. In addition, with respect to any awards, in connection with any change in control (or other unusual or nonrecurring transaction affecting us or our combined financial statements), our board of directors or the compensation committee, in its sole discretion, may: (i) provide for the termination of any award in exchange for an amount of cash, if any, equal to the amount that would have been payable upon the exercise of such award or realization of the participant's rights as of the date of such change in control or other transaction; (ii) purchase any outstanding awards for a cash amount or replace outstanding awards with other rights or property; (iii) provide that after the occurrence of the transaction, the award cannot vest, be exercised or become payable; (iv) provide that only for a specified period of time after such transaction, an award shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the 2008 Incentive Award Plan or the applicable award agreement; or (v) provide that each outstanding award shall be assumed or substituted for an equivalent award, right or property by any successor corporation. Any such action may be effectuated by the compensation committee either by the terms of the applicable option agreement or by action of the compensation committee taken prior to the change in control.

*Amendment and Termination.* Our board of directors, or the compensation committee if so empowered, is generally authorized to adopt, amend and rescind rules relating to the administration of the 2008 Incentive Award Plan, and our board of directors is authorized to amend, suspend and terminate the 2008 Incentive Award Plan. We have attempted to structure the 2008 Incentive Award Plan in a manner such that remuneration attributable to stock options and other awards will not be subject to the deduction limitation contained in Section 162(m) of the Code. However, we must generally obtain approval of our stockholders: (i) to increase the number of shares of

---

**Table of Contents**

our common stock that may be issued under the 2008 Incentive Award Plan; (ii) to extend the limit on the period during which options may be granted; or (iii) to the extent required by applicable law, rule or regulation (including any applicable NASD rule).

***Senior Executive Bonus Plan.***

Prior to the completion of this offering, we intend to adopt the Senior Executive Bonus Plan. The Senior Executive Bonus Plan is intended to provide an incentive for superior work and to motivate covered key executives toward even greater achievement and business results, to tie their goals and interests to those of ours and our stockholders and to enable us to attract and retain highly qualified executives.

The Senior Executive Bonus Plan is a performance-based bonus plan under which our designated key executives, including our executive officers, are eligible to receive bonus payments with respect to a specified period (for example, our fiscal year). Bonuses are generally payable under the Senior Executive Bonus Plan upon the attainment of pre-established performance goals. Notwithstanding the foregoing, we may pay bonuses (including, without limitation, discretionary bonuses) to participants under the Senior Executive Bonus Plan based upon such other terms and conditions as the compensation committee may in its discretion determine.

Performance goals under the Senior Executive Bonus Plan may relate to one or more corporate business criteria with respect to us or any of our subsidiaries, including but not limited to: net income (loss) (either before or after interest, taxes, depreciation and/or amortization), Adjusted EBITDA, sales or revenue, acquisitions or strategic transactions, operating income (loss), cash flow (including, without limitation, operating cash flow and free cash flow), return on capital, return on assets (including, without limitation, return on net assets), return on stockholders equity, economic value added, stockholder returns, return on sales, gross or net profit margin, productivity, expenses, margins, operating efficiency, customer satisfaction, working capital, earnings (loss) per share, price per share of equity securities, market share and number of customers, any of which may be measured either in absolute terms or as compared to any incremental increase or decrease, or as compared to results of a peer group.

The Senior Executive Bonus Plan is administered by the compensation committee. The compensation committee will select the participants in the Senior Executive Bonus Plan and the performance goals to be utilized with respect to the participants, establish the bonus formulas for each participant's annual bonus, and certify whether any applicable performance goals have been met with respect to a given performance period. We may amend or terminate the Senior Executive Bonus Plan at any time in our sole discretion. Any amendments to the Senior Executive Bonus Plan will require stockholder approval only to the extent required by applicable law, rule or regulation.

***Perquisites and Other Benefits.***

We provide financial counseling benefits for our named executive officers. In addition, we provided certain relocation benefits to Mr. Jackson in respect of 2006. For more information on perquisites, see Executive Compensation Summary Compensation Table.

Our named executive officers are entitled to participate in and receive employer contributions to our 401(k) plan and salaried supplemental retirement plan. For more information on employer contributions to our tax-qualified defined contribution retirement plans, see Executive Compensation Summary Compensation Table.

In 2007, we established a non-qualified deferred compensation plan that allows eligible participants, including our named executive officers, to defer portions of their annual base salary and annual bonus, as well to receive employer matching contributions with respect to deferrals that would exceed IRS limits under our 401(k) plan. We funded a rabbi trust in connection with the deferred compensation plan.

Our named executive officers are eligible to participate in the same benefit plans provided to our other salaried employees, including health and welfare plans.

**Table of Contents****EXECUTIVE COMPENSATION**

The tables listed below, which appear in the following sections of this prospectus, provide information required by the SEC regarding the compensation we paid for the short fiscal year from August 1, 2006, the date of the Transactions, through December 31, 2006, to our named executive officers. The footnotes to these tables provide important information to explain the values presented in the tables and are an important part of our disclosures related to our executive compensation for the period from August 1, 2006, through December 31, 2006.

Summary Compensation Table

Grants of Plan-Based Awards Table

Outstanding Equity Awards Table

Director Compensation Table

**Summary Compensation Table**

The following table sets forth information regarding compensation earned by our named executive officers for the year ended December 31, 2006:

Name and Principal Position	Year	Salary	Bonus	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
		(\$)	(\$)	\$(2)	(\$)	(\$)	(\$)
Michael A. Jackson President, Chief Executive Officer, and Director	2006	\$ 46,969	\$ 200,000(1)	\$ 5,428	\$ 39,753	\$ 30,756(3)	\$ 322,906
L.H. Puckett, Jr. Former President, Chief Executive Officer, and Director	2006	\$ 160,965		\$ 8,140	\$ 167,800	\$ 22,319(4)	\$ 359,224
Robert P. Mundy Senior Vice President and Chief Financial Officer	2006	\$ 95,833		\$ 6,105	\$ 53,808	\$ 7,552(5)	\$ 163,298
Lyle J. Fellows	2006	\$ 104,370		\$ 6,105	\$ 65,910	\$ 12,524(6)	\$ 188,909

Edgar Filing: Verso Paper Corp. - Form S-1

Senior Vice							
President,							
Manufacturing							
Michael A. Weinhold	2006	\$ 103,978		\$ 6,105	\$ 51,656	\$ 8,193(7)	\$ 169,932
Senior Vice							
President, Sales and							
Marketing							
Benjamin Hinchman, IV	2006	\$ 76,888		\$ 4,748	\$ 38,938	\$ 7,873(8)	\$ 128,447
Vice President and							
Chief Information							
Officer							

- (1) Represents a \$200,000 sign-on award paid in the form of 2,000 Class A Units
- (2) Represents 2006 FAS123R expense relating to Class B Units, without any reduction for risk of forfeiture.
- (3) Pursuant to the terms of his employment agreement, Mr. Jackson received reimbursement for relocation expenses of \$30,756. The relocation expenses were incurred during 2006 but paid in 2007.

**Table of Contents**

- (4) During 2006, Mr. Puckett received \$3,003 in employer matching contributions to the 401(k) plan and \$19,316 in employer contributions to the salaried supplemental retirement plan.
- (5) During 2006, Mr. Mundy received \$2,760 in employer matching contributions to the 401(k) plan and \$4,792 in employer contributions to the salaried supplemental retirement plan.
- (6) During 2006, Mr. Fellows received \$12,524 in employer contributions to the salaried supplemental retirement plan.
- (7) During 2006, Mr. Weinhold received \$2,994 in employer matching contributions to the 401(k) plan and \$5,199 in employer contributions to the salaried supplemental retirement plan.
- (8) During 2006, Mr. Hinchman received \$2,491 in employer matching contributions to the 401(k) plan and \$5,382 in employer contributions to the salaried supplemental retirement plan.

**Grants of Plan-Based Awards**

The following table sets forth information regarding awards of Class B Units and Class C Units granted to our named executive officers during the year ended December 31, 2006:

Name	Grant Date	All Other Awards: Number of Units (#)	Grant Date
			Fair Value of Awards \$(5)
Michael A. Jackson	11/20/06	1,667(1)	\$ 65,136
	11/20/06	3,334(2)	0
L.H. Puckett, Jr.	11/01/06	2,500(3)	\$ 97,685
	11/01/06	5,000(4)	0
Robert P. Mundy	11/01/06	1,875(3)	\$ 73,264
	11/01/06	3,750(4)	0
Lyle J. Fellows	11/01/06	1,875(3)	\$ 73,264
	11/01/06	3,750(4)	0
Michael A. Weinhold	11/01/06	1,875(3)	\$ 73,264
	11/01/06	3,750(4)	0
Benjamin Hinchman, IV	11/01/06	1,458(3)	\$ 56,970
	11/01/06	2,917(4)	0

- (1) Award of Class B Units. Does not include 6,666 Class B Units granted on February 16, 2007, in connection with Mr. Jackson's purchase of 8,000 additional Class A Units.
- (2) Award of Class C Units. Does not include 13,333 Class C Units granted on February 16, 2007, in connection with Mr. Jackson's purchase of 8,000 additional Class A Units.
- (3) Awards of Class B Units.
- (4) Awards of Class C Units.

## Edgar Filing: Verso Paper Corp. - Form S-1

(5) Represents grant date fair value of awards of Class B Units and Class C Units in accordance with FAS123R.

### **Employment Agreements**

*Michael A. Jackson.* Effective November 20, 2006, we entered into an employment agreement with Michael A. Jackson, pursuant to which Mr. Jackson will serve as our Chief Executive Officer for a three-year term, with automatic renewal for additional one-year periods unless either party gives notice of non-extension in accordance with the terms of the agreement.

Under Mr. Jackson's employment agreement, he is entitled to receive an annual base salary of \$400,000, subject to increase at the discretion of our Board of Directors, and an annual bonus with a target bonus equal to 100% of his then-current annual base salary. In connection with Mr. Jackson's relocation to Memphis,



**Table of Contents**

Tennessee, the employment agreement also provides for a lump sum payment of \$10,000 and the reimbursement of certain relocation expenses incurred by Mr. Jackson. The employment agreement also provides for the grant to Mr. Jackson of a sign-on award, effective November 20, 2006, of 2,000 Class A Units, 1,667 Class B Units and 3,334 Class C Units. In addition to the foregoing award under his employment agreement, on February 16, 2007, Mr. Jackson purchased an additional 8,000 Class A Units and received additional grants of 6,666 Class B Units and 13,333 Class C Units (for a total of 10,000 Class A Units, 8,333 Class B Units and 16,667 Class Units).

In the event of Mr. Jackson's termination of employment by us without Cause or by him for Good Reason (each such term as defined in his employment agreement), Mr. Jackson will be entitled to a severance payment equal to 1.5 times (i) his annual base salary, and (ii) his annual bonus, if any, payable with respect to the calendar year immediately preceding the year in which such termination of employment occurs. The severance amount is payable in equal monthly installments during the 18-month period following the date of such termination of employment.

Under his employment agreement, Mr. Jackson is subject to non-disclosure and non-disparagement obligations in perpetuity, as well as certain non-competition and non-solicitation obligations during the term and the 18-month period following the termination of his employment for any reason.

**Outstanding Equity Awards At Fiscal Year-End**

The following table summarizes the outstanding awards of Class B Units and Class C Units held by our named executive officers as of December 31, 2006:

Name	Equity Incentive Plan Awards: Number of Units That Have Not	Equity Incentive Plan Awards: Market or Payout Value of Units
	Vested (#)	That Have Not Vested (\$)(5)
Michael A. Jackson	1,667(1) 3,334(2)	
L.H. Puckett, Jr.	2,500(3) 5,000(4)	
Robert P. Mundy	1,875(3) 3,750(4)	
Lyle J. Fellows	1,875(3) 3,750(4)	
Michael A. Weinhold	1,875(3) 3,750(4)	
Benjamin Hinchman, IV	1,458(3) 2,917(4)	

(1) Award of Class B Units. Does not include 6,666 Class B Units granted on February 16, 2007, in connection with Mr. Jackson's purchase of 8,000 additional Class A Units.

(2) Award of Class C Units. Does not include 13,333 Class C Units granted on February 16, 2007, in connection with Mr. Jackson's purchase of 8,000 additional Class A Units.

(3) Awards of Class B Units.

(4) Awards of Class C Units.

- (5) The market or payout value of the unvested awards of Class B Units and Class C Units is not determinable, because there is no public market for such Class B Units and Class C Units. The Class B Units and Class C Units represent profits interests in Verso Paper Management LP, which will have value only if the value of Verso Paper Management LP increases following the date on which the awards of such Class B Units and Class C Units are granted and only after the aggregate amount of capital contributions in respect of all Class A Units has been repaid to the holders of such Class A Units.

**Table of Contents****Potential Payments Upon Termination of Employment or Change in Control**

*Verso Paper Employee Severance Plan.* Under the Verso Paper Employee Severance Plan, each of our named executive officers is eligible to receive a termination allowance in the event of a termination of employment due to certain events, including the executive's job elimination, a facility closing, the executive's disability, or the executive's inability to perform the requisite duties of his position despite his reasonable efforts.

The termination allowance is a lump sum amount equal to the number of years or partial years of applicable service with the company, multiplied by the amount of two weeks of base salary. The termination allowance may not be less than the amount of four weeks of base salary and may not exceed two times the executive's annual compensation for the year immediately preceding the year in which such termination occurs.

*Non-competition Agreements.* Each of our named executive officers (with the exception of Mr. Jackson) is party to a Confidentiality and Non-Competition Agreement, pursuant to which the executive is subject to non-competition obligations for 12 months following termination of employment.

The Confidentiality and Non-Competition Agreement provides that, if the executive is unable, despite diligent search, to obtain employment consistent with his experience and education, the executive may be entitled to a monthly severance benefit equal to his monthly base pay received in the month prior to the month in which such termination of employment occurs, payable for each month or partial month of unemployment during the 12-month non-competition period. The executive's entitlement to this pay for no play monthly severance benefit is subject to the company's receipt and reasonable verification of the executive's written notice of the efforts he has made to secure employment that does not conflict with his non-competition obligations.

*Estimated Severance Payments.* Assuming the termination of employment of all of our named executive officers as of December 31, 2006, under the circumstances described above, the executives would be entitled to the following severance payments under the Verso Paper Employee Severance Plan and the applicable Confidentiality and Non-Competition Agreement (or, in the case of Mr. Jackson, his employment agreement):

	Verso Paper Employee Severance Plan	Confidentiality and Non- Competition Agreement or Employment Agreement	Total(2)
Michael A. Jackson		\$ 600,000(1)	\$ 600,000
Robert P. Mundy	\$ 212,308	\$ 230,000	\$ 442,308
Lyle J. Fellows	\$ 250,487	\$ 250,487	\$ 500,974
Michael A. Weinhold	\$ 124,773	\$ 249,546	\$ 374,319
Benjamin Hinchman, IV	\$ 85,169	\$ 184,532	\$ 269,701

(1) This amount includes only the portion of Mr. Jackson's severance payment equal to 1.5 times his annual base salary, as no annual bonus was payable in respect of the calendar year immediately preceding the assumed year of termination. To the extent that an annual bonus is payable to Mr. Jackson in respect of calendar year 2007 and later, this severance payment would also include an amount equal to 1.5 times the annual bonus payable with respect to the calendar year immediately preceding the year in which any such termination of employment occurs.

(2) Total does not include the value of unused vacation days or a prorated annual bonus under the VIP.

*Class C Unit Awards.* In the event of (i) the termination of employment of one of our named executive officers without Cause (as defined in the LP Agreement) on or following August 1, 2007, (ii) a Change in Control (as defined in the LP Agreement) occurs within six months following the date of such termination, and (iii) a specified internal rate of return is achieved at the time of such Change in Control, then the Class C Units held by such terminated executive officer will accelerate and vest in full as of the date of such Change in Control.



**Table of Contents**

None of our named executive officers receive any other incremental benefits due to a Change in Control, and in the event of a named executive officer's termination of employment in connection with a Change in Control, the executive will be eligible to receive only the severance benefits described above.

**Director Compensation**

The following table provides a summary of compensation paid for the year ended December 31, 2006, to our non-employee directors. The table shows amounts earned by such persons for services rendered to the company in all capacities in which they served.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards \$(1)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Scott Kleinman			\$ 77,401				\$ 77,401
Jordan Zaken			\$ 77,401				\$ 77,401
David Oskin			\$ 77,401				\$ 77,401
Joshua Harris			\$ 77,401				\$ 77,401

(1) Represents 2006 FAS123R expense relating to grants of Class D Units.

During 2006, we granted each of our non-employee directors an award of 2,000 Class D Units under the LP Agreement. The Class D Units are intended to be substantially economically equivalent to stock options that are fully vested as of the date of grant.

**Compensation Committee Report**

The Compensation Committee is currently composed of Scott Kleinman and Jordan Zaken. The members of the Compensation Committee have reviewed and discussed with management the Compensation Discussion and Analysis set forth above. Based on the foregoing review and discussion and such other matters the Compensation Committee deemed relevant and appropriate, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this prospectus.

**Table of Contents****PRINCIPAL SHAREHOLDERS**

We are a wholly-owned, direct subsidiary of Verso Paper Management LP. Verso Paper Investments LP is the general partner of Verso Paper Management LP, and controls all of the voting interests in Verso Paper Management LP. In connection with the Transactions, affiliates of Apollo and International Paper made an investment in Verso Paper Investment LP, and certain members of our senior management made an investment in Verso Paper Management LP. Verso Paper Investments Management LLC, an affiliate of Apollo, is the general partner of Verso Paper Investment LP and controls all of the voting interests in Verso Paper Investment LP. International Paper's limited partnership interests in Verso Paper Investment LP do not have any voting power and International Paper does not hold any voting securities of Verso Paper Investment LP. Through its control of Verso Paper Investments Management LP, Apollo controls, and after this offering will continue to control, our company. The following table sets forth information regarding the beneficial ownership of our shares of common stock prior to the consummation of this offering and as adjusted to reflect the sale of common shares by us in this offering, held by:

each holder who is known to us to be the beneficial owner of more than 5% of any class of our outstanding common shares;

each director and named executive officer of Verso Paper Corp.; and

all directors and named executive officers of Verso Paper Corp. as a group.

Except as otherwise indicated, the persons or entities listed below have sole voting and investment power with respect to the shares beneficially owned by them. None of our principal stockholders, executive officers or directors are selling shares in this offering.

For purposes of this table, beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, pursuant to which a person or group of persons is deemed to have beneficial ownership of any shares of common stock that such person has the right to acquire within 60 days after the date of this prospectus. For purposes of computing the percentage of outstanding Verso Paper Corp. common shares held by each person or group of persons named above, any shares that such person or persons have the right to acquire within 60 days after the date of this prospectus are deemed to be outstanding but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

Name and Address of Owner	Beneficial ownership		Beneficial ownership	
	prior to this offering		after this offering	
	Number	Percent	Number	Percent
Apollo(1)		100%		%
Michael A. Jackson(2)				
Robert P. Mundy(2)				
Lyle J. Fellows(2)				
Michael A. Weinhold(2)				
Benjamin Hinchman, IV(2)				
Michael E. Ducey(2)				
David W. Oskin(2)				
L.H. Puckett, Jr.(2)				
Joshua J. Harris(1)				
Scott M. Kleinman(1)				
Jordan C. Zaken(1)				

- (1) All of our outstanding shares of common stock are currently owned by Verso Paper Management LP. Verso Paper Investments LP is the general partner of Verso Paper Management LP and Apollo's beneficial ownership of our common stock includes all of the limited partnership interests in Verso Paper Investments LP held by Verso Paper Apollo LLC and Verso Paper Investments Management LLC. Each of Verso Paper Apollo LLC



**Table of Contents**

and Verso Paper Investments Management LLC is an affiliate of, and is controlled by, affiliates of Apollo. Each of Messrs. Harris, Kleinman and Zaken may be deemed to be a beneficial owner of these interests due to his status as an employee of Apollo. Apollo and each such person disclaims beneficial ownership of any such interests in which he does not have a pecuniary interest. The address of Messrs. Harris, Kleinman and Zaken and Apollo Management, L.P. is c/o Apollo Management, L.P., 9 West 57th Street, New York, New York 10019.

- (2) The address of Messrs. Jackson, Mundy, Fellows, Weinhold, Hinchman, Ducey, Oskin and Puckett is Verso Paper Corp., 6775 Lenox Court, Suite 400, Memphis, Tennessee 38115-4431. Each of Messrs. Jackson, Mundy, Fellows and Weinhold hold non-voting limited partnership interests in Verso Paper Management LP.



**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

The following discussion reflects our relationships and related party transactions as of and since the effective date of the Transactions and does not reflect relationships prior to that time.

**Management Agreement**

Upon completion of the Acquisition, affiliates of Apollo entered into a management agreement with our parent, Verso Paper Investments LP, and our subsidiary, Verso Paper Holdings LLC, relating to the provision of certain financial and strategic advisory services and consulting services. Pursuant to the management agreement, we pay Apollo an annual fee for its management services and advice in an amount equal to the greater of \$2.5 million and 1.25% of our Adjusted EBITDA, as defined in the indentures governing our outstanding notes. Also, under the management agreement, Apollo has the right to act, in return for additional fees, as our financial advisor or investment banker for any merger, acquisition, disposition, finance or the like if we decide we need to engage someone to fill such role. We agreed to indemnify Apollo and its affiliates and their directors, officers and representatives for losses relating to the services contemplated by the management agreement and the engagement of affiliates of Apollo pursuant to, and the performance by them of the services contemplated by, the management agreement. Upon consummation of this offering, we expect that the fee arrangement with Apollo will be terminated pursuant to the terms of the management agreement.

**Transition Arrangements**

Upon completion of the Acquisition, we entered into a Transition Services Agreement with International Paper whereby International Paper provided us with certain services specified in the agreement that are necessary for us to run as a stand-alone business. Among the services provided by International Paper or its designated third-party providers were technical services, application support and maintenance, financial services, telecommunications services, payroll, health & welfare benefits administration, real estate support and research and development support services. The Transition Services provided for terms generally ranging from six to twelve months following the consummation of the Acquisition. The Transition Services Agreement has expired and we no longer receive any services from International Paper pursuant to the agreement.

**Supply Agreement**

Upon completion of the Acquisition, we entered into an agreement with International Paper's beverage packaging business pursuant to which we arranged for the sale of coated groundwood paper produced from one of its paper machines at its Pine Bluff, Arkansas mill for a selling commission of 3%. This agreement required that we sell 100% of the output of coated paper from this mill until the end of 2006 at then prevailing market prices. This agreement has expired.

**Management Limited Partnership Agreement**

In connection with the Transactions, Verso Paper Management LP, our direct parent, Apollo and certain members of management who invest in us, entered into a management limited partnership agreement. The management limited partnership agreement provides for customary restrictions on transfer, put and call rights, tag-along rights, drag-along rights and registration rights which apply to their limited partnership interests in the company. The management limited partnership agreement also contains customary non-solicitation and non-competition covenants applicable to management for one year following the termination of employment. Verso Paper Investments LP, our indirect parent, also entered into an agreement with International Paper granting similar rights described above.

---

**Table of Contents**

**DESCRIPTION OF CAPITAL STOCK**

*The following is a description of the material terms of our amended and restated certificate of incorporation and bylaws as each will be in effect as of the consummation of the Merger. We refer you to our amended and restated articles of incorporation and bylaws, copies of which have been filed as exhibits to the registration statement relating to this offering.*

Upon completion of this offering, there will be \_\_\_\_\_ shares of common stock outstanding and no shares of preferred stock outstanding.

**Common Stock**

Pursuant to our amended and restated certificate of incorporation, we will be authorized to issue up to \_\_\_\_\_ shares of common stock, \$0.01 par value per share. Holders of common stock will be entitled to one vote for each share held on all matters submitted to a vote of shareholders and will not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by our board of directors out of funds legally available therefor, subject to any preferential dividend rights of outstanding preferred stock. Upon our liquidation, dissolution or winding up, the holders of common stock are entitled to receive ratably our net assets available after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock. Holders of our common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are, and the shares offered by us hereby will be, when issued and paid for, fully paid and nonassessable. If we issue any preferred stock, the rights, preferences and privileges of holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of our preferred stock. See Preferred Stock.

**Preferred Stock**

Pursuant to the terms of our amended and restated certificate of incorporation, we will be authorized to issue up to \_\_\_\_\_ shares of preferred stock, \$0.01 par value per share. Our board of directors is authorized, subject to any limitations prescribed by law, without further shareholder approval, to issue such shares of preferred stock in one or more series. Each such series of preferred stock shall have such rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by our board of directors.

The purpose of authorizing our board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a shareholder vote on specific issuances. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, a majority of our outstanding voting stock. The existence of the authorized but undesignated preferred stock may have a depressive effect on the market price of our common stock.

**Certain Corporate Anti-Takeover Provisions**

Our amended and restated certificate of incorporation and bylaws will contain a number of provisions relating to corporate governance and to the rights of shareholders. Certain of these provisions may be deemed to have a potential anti-takeover effect in that such provisions may delay, defer or prevent a change of control of the Company. These provisions include:

*Preferred Stock*

Our board of directors has authority to issue series of preferred stock with such voting rights and other powers as the board of directors may determine, as described above.

## **Table of Contents**

### *Classified Board*

Our board of directors will be classified into three classes. Each director will serve a three year term and will stand for re-election once every three years.

### *Removal of Directors, Vacancies*

Our shareholders will be able to remove directors only for cause and only by the affirmative vote of the holders of a majority of the outstanding shares of our capital stock entitled to vote in the election of directors. Vacancies on our board of directors may be filled only by a majority of our board of directors.

### *No Cumulative Voting*

Our amended and restated certificate of incorporation will provide that shareholders do not have the right to cumulative votes in the election of directors. Cumulative voting rights would have been available to the holders of our common stock if our amended and restated articles of incorporation had not negated cumulative voting.

### *No Shareholder Action by Written Consent; Calling of Special Meetings of Shareholders*

Our amended and restated certificate of incorporation will not permit shareholder action without a meeting by consent except for the unanimous consent of all holders of our common stock. They also will provide that special meetings of our shareholders may be called only by our board of directors or the chairman of our board of directors.

### *Advance Notice Requirements for Stockholder Proposals and Director Nominations*

Our bylaws will provide that shareholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of shareholders must provide timely notice of their proposal in writing to the corporate secretary.

Stockholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our board of directors or by a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has delivered timely written notice in proper form to our secretary of the stockholder's intention to bring such business before the meeting.

### *Delaware Takeover Statute*

Our amended and restated articles of incorporation provides that we are not governed by Section 203 of the General Corporation Law of Delaware which, in the absence of such provisions, would have imposed additional requirements regarding mergers and other business combinations.

## **Transfer Agent and Registrar**

The transfer agent and registrar for the common stock is \_\_\_\_\_.

## **Exchange Listing**

We will apply for listing of our common stock on the New York Stock Exchange under the symbol VRS.

---

**Table of Contents**

**SHARES ELIGIBLE FOR FUTURE SALE**

We cannot predict what effect, if any, market sales of shares of common stock or the availability of shares of common stock for sale will have on the market price of our common stock. Nevertheless, sales of substantial amounts of common stock in the public market, or the perception that such sales could occur, could materially and adversely affect the market price of our common stock and could impair our future ability to raise capital through the sale of our equity or equity-related securities at a time and price that we deem appropriate.

Upon the closing of this offering, we will have outstanding an aggregate of approximately \_\_\_\_\_ shares of common stock. Of the outstanding shares, the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except that any shares held by our affiliates, as that term is defined under Rule 144 of the Securities Act, may be sold only in compliance with the limitations described below. The remaining outstanding shares of common stock will be deemed restricted securities as that term is defined under Rule 144. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 under the Securities Act, which are summarized below.

**Rule 144**

The availability of Rule 144 will vary depending on whether restricted shares are held by an affiliate or a non-affiliate. Under Rule 144 as in effect on the date of this prospectus, once we have been a reporting company subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act for 90 days, an affiliate who has beneficially owned restricted shares of our common stock for at least six months would be entitled to sell within any three-month period a number of shares that does not exceed the greater of either of the following:

1% of the number of shares of common stock then outstanding, which will equal \_\_\_\_\_ shares immediately after this offering (or if the underwriters over-allotment option is exercised in full); and

the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

However, the six month holding period increases to one year in the event we have not been a reporting company for at least 90 days. In addition, any sales by affiliates under Rule 144 are also limited by manner of sale provisions and notice requirements and the availability of current public information about us.

The volume limitation, manner of sale and notice provisions described above will not apply to sales by non-affiliates. For purposes of Rule 144, a non-affiliate is any person or entity who is not our affiliate at the time of sale and has not been our affiliate during the preceding three months. Once we have been a reporting company for 90 days, a non-affiliate who has beneficially owned restricted shares of our common stock for six months may rely on Rule 144 provided that certain public information regarding us is available. The six month holding period increases to one year in the event we have not been a reporting company for at least 90 days. However, a non-affiliate who has beneficially owned the restricted shares proposed to be sold for at least one year will not be subject to any restrictions under Rule 144 regardless of how long we have been a reporting company.

**Rule 701**

Under Rule 701, common stock acquired upon the exercise of certain currently outstanding options or pursuant to other rights granted under our stock plans may be resold, to the extent not subject to lock-up agreements, (1) by persons other than affiliates, beginning 90 days after the effective date of this offering, subject only to the manner-of-sale provisions of Rule 144, and (2) by affiliates, subject to the manner-of-sale, current public information and filing requirements of Rule 144, in each case, without compliance with the one-year holding period requirement of Rule 144.

**Table of Contents**

**Form S-8 Registration Statements**

We intend to file one or more registration statements on Form S-8 under the Securities Act following this offering to register our shares of common stock that are issuable pursuant to our 2008 Incentive Award Plan. These registration statements are expected to become effective upon filing. Shares covered by these registration statements will then be eligible for sale in the public markets, subject to any applicable lock-up agreements and to Rule 144 limitations applicable to affiliates.

**Lock-Up Agreements**

We, our officers, directors and certain of our existing security holders have agreed with the underwriters not to sell, dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock, during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the representatives of the underwriters.

The 180-day restricted period described in the preceding paragraph will be automatically extended if: (1) during the last 17 days of the 180-day restricted period we issue an earnings release or announce material news or a material event; or (2) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, in which case, the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event. See Underwriting.

---

**Table of Contents**

**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR  
NON-U.S. HOLDERS OF OUR COMMON STOCK**

The following is a general discussion of certain material United States federal income tax consequences relating to the purchase, ownership and disposition of our common stock by a non-United States holder, but is not a complete analysis of all the potential tax consequences relating thereto. This discussion does not constitute tax advice. For the purposes of this discussion, a non-United States holder is any beneficial owner of our common stock that for United States federal income tax purposes is not a United States person, and that holds our common stock as a capital asset for U.S. federal income tax purposes (generally, property held for investment). For purposes of this discussion, the term United States person means:

an individual citizen or resident of the United States;

a corporation (or other entity taxable as a corporation) created or organized in the United States or under the laws of the United States or any state thereof or the District of Columbia;

an estate whose income is subject to United States federal income tax regardless of its source; or

a trust (x) if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (y) which has made a valid election to be treated as a United States person under applicable United States Treasury regulations.

If a partnership (or an entity treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships which hold our common stock and partners in such partnerships should consult their own tax advisors.

This discussion does not address all aspects of United States federal income taxation that may be relevant in light of a non-United States holder's special tax status or special circumstances. Former citizens or residents of the United States, insurance companies, tax-exempt organizations, partnerships or other pass-through entities for U.S. federal income tax purposes, dealers in securities, banks or other financial institutions, controlled foreign corporations, passive foreign investment companies, corporations that accumulate earnings to avoid United States federal income tax and investors that hold our common stock as part of a hedge, straddle or conversion transaction are among those categories of potential investors that are subject to special rules not covered in this discussion.

This discussion does not assume any aspects of United States federal estate or gift taxation. In addition, this discussion does not address any tax consequences arising under the laws of any state, local or non-United States taxing jurisdiction. Furthermore, the following discussion is based on current provisions of the Internal Revenue Code of 1986, as amended, and Treasury Regulations and administrative and judicial interpretations thereof, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. No ruling has been or will be sought from the Internal Revenue Service, or the IRS, with respect to the matters discussed below, and there can be no assurance that the IRS will not take a contrary position regarding the tax consequences of the acquisition, ownership or disposition of our common stock, or that any such contrary position would not be sustained by a court. Accordingly, each non-United States holder should consult its own tax advisors regarding the United States federal, state, local and non-United States income and other tax consequences of acquiring, holding and disposing of our common stock.

*Dividends*

Distributions on our common stock generally will constitute dividends for United States federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under United States federal income tax principles. Amounts not treated as dividends for United States federal income tax



---

**Table of Contents**

purposes will constitute a return of capital and will first be applied against and reduce a holder's adjusted tax basis in the common stock, but not below zero, and then the excess, if any, will be treated as gain from the sale of the common stock.

Amounts treated as dividends paid to a non-United States holder generally will be subject to withholding of United States federal income tax either at a rate of 30% of the gross amount of the dividends or such lower rate as may be specified by an applicable income tax treaty. In order to receive a reduced treaty rate, a non-United States holder must provide a valid IRS Form W-8BEN or other successor form certifying qualification for the reduced rate.

Dividends received by a non-United States holder that are effectively connected with a United States trade or business conducted by the non-United States holder (and, if a treaty applies, attributable to the non-United States holder's U.S. permanent establishment) are exempt from such withholding tax. In order to obtain this exemption, a non-United States holder must provide a valid IRS Form W-8ECI or other successor form properly certifying such exemption. However, such effectively connected dividends, although not subject to withholding tax, are generally taxed at the same graduated rates applicable to United States persons, net of allowable deductions and credits. In addition to the graduated tax, dividends received by a corporate non-United States holder that are effectively connected with a United States trade or business of such holder may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable tax treaty.

A non-United States holder may obtain a refund of any excess amounts withheld if an appropriate claim for refund is filed timely with the IRS. If a non-United States holder holds our common stock through a foreign partnership or a foreign intermediary, the foreign partnership or foreign intermediary will also be required to comply with additional certification requirements.

*Gain on disposition of common stock*

A non-United States holder generally will not be subject to United States federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

the gain is effectively connected with a United States trade or business of the non-United States holder and, if a tax treaty applies, is attributable to a United States permanent establishment maintained by such non-United States holder;

the non-United States holder is an individual who is present in the United States for a period or periods aggregating 183 days or more during the taxable year in which the sale or other disposition occurs and other conditions are met; or

our common stock constitutes a United States real property interest within the meaning of Code section 897(c)(2) by reason of our status as a United States real property holding corporation, or USRPHC, for United States federal income tax purposes at any time within the shorter of the five-year period preceding the disposition or the holder's holding period for our common stock, the applicable period.

Generally, a corporation is a United States real property holding corporation if the fair market value of its United States real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. We believe that we are not currently and do not anticipate becoming a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our United States real property interests relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, as long as our common stock is regularly traded on an established securities market, within the meaning of the applicable Treasury Regulations, such common stock will be treated as a United States real property interest with respect to a particular non-United States holder only if such non-United States holder actually or constructively held more than 5 percent of such regularly traded common stock during the applicable period.



---

**Table of Contents**

Unless an applicable tax treaty provides otherwise, gain described in the first bullet point above generally will be subject to the United States federal income tax imposed on net income on the same basis that applies to United States persons generally and, for corporate holders under certain circumstances, the branch profits tax, but will generally not be subject to withholding tax. Gain described in the second bullet point above (which may be offset by United States source capital losses) will be subject to a flat 30% United States federal income tax. Gain described in the third bullet point above generally will be taxed in the same manner as gain described in the first bullet point above, except that the branch profits tax will not apply. Non-United States holders should consult any applicable income tax treaties that may provide for different rules.

*Backup withholding and information reporting*

Generally, we must report annually to the IRS the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld, together with other information. A similar report is sent to the holder. These information reporting requirements apply even if withholding was not required because the dividends were effectively connected dividends or withholding was reduced or eliminated by an applicable tax treaty. Pursuant to tax treaties or other agreements, the IRS may make its reports available to tax authorities in the recipient's country of residence.

Backup withholding (currently at a rate of 28%) will generally not apply to payments of dividends made by us or our paying agents, in their capacities as such, to a non-United States holder if the holder has provided the certification described above that it is not a United States person or has otherwise established an exemption, provided we or the paying agent have no actual knowledge or reason to know that the beneficial owner is a United States person.

Payments of the proceeds from a disposition (including a redemption) effected outside the United States by a non-United States holder made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but generally not backup withholding) will apply to such a payment if the broker is a United States person, a controlled foreign corporation for United States federal income tax purposes, a foreign person 50% or more of whose gross income is effectively connected with a United States trade or business for a specified three year period, or a foreign partnership if (1) at any time during its tax year, one or more of its partners are United States persons who, in the aggregate, hold more than 50 percent of the income or capital interest in such partnership or (2) at any time during its tax year, it is engaged in the conduct of a trade or business in the United States, unless the broker has documentary evidence in its records that the beneficial owner of the disposed stock is a non-United States holder or an exemption is otherwise established, provided that the broker has no knowledge or reason to know that the beneficial owner is a United States person.

Payment of the proceeds from a disposition by a non-United States holder of common stock made by or through the United States office of a broker may be subject to information reporting and backup withholding will apply unless the non-United States holder certifies as to its non-United States holder status under penalties of perjury or otherwise establishes an exemption from information reporting and backup withholding, provided that the broker has no knowledge or reason to know that the beneficial owner is a United States person.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a non-United States holder's United States federal income tax liability provided the required information is furnished timely to the IRS.

**Table of Contents**

**UNDERWRITING**

Under the terms and subject to the conditions contained in an underwriting agreement dated \_\_\_\_\_, 2008, we have agreed to sell to the underwriters named below, for whom and are acting as representatives, the following respective numbers of shares of common stock:

Name	Number of Shares
Total	

The underwriting agreement provides that the underwriters' obligation to purchase shares of common stock depends on the satisfaction of the conditions contained in the underwriting agreement including:

the obligation to purchase all of the shares of common stock offered hereby (other than those shares of common stock covered by their option to purchase additional shares as described below), if any of the shares are purchased;

the representations and warranties made by us to the underwriters are true;

there is no material change in our business or the financial markets; and

we deliver customary closing documents to the underwriters.

**Commissions and Expenses**

The following table summarizes the underwriting discounts and commissions we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional \_\_\_\_\_ shares. The underwriting fee is the difference between the initial price to the public and the amount the underwriters pay to us for the shares.

	Per Share		Total	
	Without Over- allotment	With Over- allotment	Without Over- allotment	With Over- allotment
Underwriting discounts and commissions paid by us				

The representatives of the underwriters has advised us that the underwriters propose to offer the shares of common stock directly to the public at the public offering price on the cover of this prospectus and to selected dealers, which may include the underwriters, at such offering price less a selling concession not in excess of \$ \_\_\_\_\_ per share. The underwriters may allow, and the selected dealers may re-allow, a discount from the concession not in excess of \$ \_\_\_\_\_ per share to brokers and dealers. After the offering, the representatives may change the offering price and other selling terms.

The expenses of the offering that are payable by us are estimated to be approximately \$ \_\_\_\_\_ (excluding underwriting discounts and commissions).

**Option to Purchase Additional Shares**

## Edgar Filing: Verso Paper Corp. - Form S-1

We have granted the underwriters an option exercisable for 30 days after the date of this prospectus, to purchase, from time to time, in whole or in part, up to an aggregate of \_\_\_\_\_ shares at the public offering price less underwriting discounts and commissions. This option may be exercised if the underwriters sell more than \_\_\_\_\_ shares in connection with this offering. To the extent the underwriters exercise this option, each underwriter will be committed, so long as the conditions of the underwriting agreement are satisfied, to purchase a number of additional shares of common stock proportionate to that underwriter's initial commitment as indicated in the preceding table, and we will be obligated to sell the additional shares of common stock to the underwriters.

---

## **Table of Contents**

### **Lock-Up Agreements**

We, all of our directors and executive officers and certain of our other existing stockholders have agreed that, subject to certain exceptions without the prior written consent of the representatives, we and they will not directly or indirectly, (1) offer for sale, sell, pledge, or otherwise dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any shares of common stock (including, without limitation, shares of common stock that may be deemed to be beneficially owned by us or them in accordance with the rules and regulations of the SEC and shares of common stock that may be issued upon exercise of any options or warrants) or securities convertible into or exercisable or exchangeable for common stock, (2) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock, (3) make any demand for or exercise any right or file or cause to be filed a registration statement, including any amendments thereto, with respect to the registration of any shares of common stock or securities convertible, exercisable or exchangeable into common stock or any of our other securities, or (4) publicly disclose the intention to do any of the foregoing for a period of 180 days after the date of this prospectus.

The 180-day restricted period described in the preceding paragraph will be extended if:

during the last 17 days of the 180-day restricted period we issue an earnings release or material news or a material event relating to us occurs; or

prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or occurrence of a material event, unless such extension is waived in writing by the representatives.

The representatives, in their sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time with or without notice. When determining whether or not to release common stock and other securities from lock-up agreements, the representatives will consider, among other factors, the holder's reasons for requesting the release, the number of shares of common stock and other securities for which the release is being requested and market conditions at the time.

### **Offering Price Determination**

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be negotiated between the representatives and us. In determining the initial public offering price of our common stock, the representatives will consider:

the history and prospects for the industry in which we compete;

our financial information;

the ability of our management and our business potential and earning prospects;

the prevailing securities markets at the time of this offering; and

the recent market prices of, and the demand for, publicly traded shares of generally comparable companies.

### **Indemnification**

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, liabilities arising from breaches of the representations and warranties contained in the underwriting agreement and to contribute to payments that the underwriters may

be required to make for these liabilities.

---

## **Table of Contents**

### **Stabilization, Short Positions and Penalty Bids**

The underwriters may engage in stabilizing transactions, short sales and purchases to cover positions created by short sales, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of our common stock, in accordance with Regulation M under the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

A short position involves a sale by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase in the offering, which creates the syndicate short position. This short position may be either a covered short position or a naked short position. In a covered short position, the number of shares involved in the sales made by the underwriters in excess of the number of shares they are obligated to purchase is not greater than the number of shares that they may purchase by exercising their option to purchase additional shares. In a naked short position, the number of shares involved is greater than the number of shares in their option to purchase additional shares. The underwriters may close out any short position by either exercising their option to purchase additional shares, in whole or in part, and/or purchasing shares in the open market. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through their option to purchase additional shares. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions. These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make representation that the underwriters will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

### **Electronic Distribution**

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter's or selling group member's website and any information contained in any other website maintained by an underwriter or selling

## **Table of Contents**

group member is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

### **New York Stock Exchange**

We intend to apply to list our shares of common stock for quotation on the New York Stock Exchange under the symbol VRS.

### **Discretionary Sales**

The underwriters have informed us that they do not intend to confirm sales to discretionary accounts that exceed 5% of the total number of shares offered by them.

### **Stamp Taxes**

Purchasers of the shares of our common stock offered in this prospectus may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of this prospectus. Accordingly, we urge you to consult a tax advisor with respect to whether you may be required to pay those taxes or charges, as well as any other tax consequences that may arise under the laws of the country of purchase.

### **Relationships**

The underwriters may in the future perform investment banking and advisory services for us from time to time for which they may in the future receive customary fees and expenses.

### **European Economic Area**

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of securities described in this prospectus may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the securities that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or

to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts or

in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive. Each purchaser of securities described in this prospectus located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a qualified investor within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an offer to the public in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the





**Table of Contents**

securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the securities have not authorized and do not authorize the making of any offer of securities through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the securities as contemplated in this prospectus. Accordingly, no purchaser of the securities, other than the underwriters, is authorized to make any further offer of the securities on behalf of the sellers or the underwriters.

**United Kingdom**

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive ( Qualified Investors ) that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order ) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons ). This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant persons should not act or rely on this document or any of its contents.

---

**Table of Contents**

**LEGAL MATTERS**

The validity of the shares sold in this offering will be passed upon for us by Latham & Watkins LLP, New York, New York. Certain legal matters relating to the validity of this offering will be passed upon for the underwriters by \_\_\_\_\_, New York, New York.

**EXPERTS**

The combined financial statements of the Coated and Supercalendered Papers Division of International Paper Company (Predecessor) as of December 31, 2005, and for each of the two years in the period ended December 31, 2005 and for the seven months ended July 31, 2006, and the combined financial statements of Verso Paper One Corp. (which has been renamed Verso Paper Corp.), Verso Paper Two Corp., Verso Paper Three Corp., Verso Paper Four Corp., and Verso Paper Five Corp. (collectively the Company), legal entities under common control of Verso Paper Management LP, as of December 31, 2006, and for the five months ended December 31, 2006, included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports appearing herein and elsewhere in this Registration Statement, which reports (1) express an unqualified opinion on the combined financial statements of the Coated and Supercalendered Papers Division of International Paper Company and which includes an explanatory paragraph referring to the preparation of the combined financial statements from the separate records maintained by the Coated and Supercalendered Papers Division of International Paper Company and International Paper Company and that the combined financial statements may not be indicative of the conditions that would have existed or the results of operations if the Coated and Supercalendered Papers Division of International Paper Company had operated as an unaffiliated entity, and (2) express an unqualified opinion on the combined financial statements and financial statement schedule of Verso Paper Corp. and which includes explanatory paragraphs relating to Verso Paper Corp.'s change to adopt Statement of Financial Accounting Standard No. 158 and to the acquisition of the Predecessor business, and has been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

This prospectus is part of a registration statement on Form S-1 that we have filed with the Securities and Exchange Commission under the Securities Act of 1933 covering the common stock we are offering. As permitted by the rules and regulations of the SEC, this prospectus omits certain information contained in the registration statement. For further information with respect to us and our common stock, you should refer to the registration statement and to its exhibits and schedules. We make reference in this prospectus to certain of our contracts, agreements and other documents that are filed as exhibits to the registration statement. For additional information regarding those contracts, agreements and other documents, please see the exhibits attached to this registration statement.

You can read and copy the registration statement and the exhibits and schedules filed with the registration statement or any reports, statements or other information we have filed or file, at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of the documents from such offices upon payment of the prescribed fees. You may call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. You may also request copies of the documents upon payment of a duplicating fee by writing to the SEC. In addition, the SEC maintains a web site that contains reports and other information regarding registrants (including us) that file electronically with the SEC, which you can access at <http://www.sec.gov>.

In addition, you may request copies of this filing and such other reports as we may determine or as the law requires at no cost, by telephone at (901) 419-7130, or by mail to Verso Paper Corp., 6775 Lenox Center Court, Suite 400, Memphis, Tennessee 38115-4431. Our website address is <http://www.versopaper.com>. Information on our website is not considered part of this prospectus.

**Table of Contents**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<b><u>Verso Paper Corp. (Successor) and Coated &amp; Supercalendered Papers Division of International Paper Company (Predecessor)</u></b>	
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Combined Balance Sheets</u>	F-3
<u>Combined Statements of Operations</u>	F-4
<u>Combined Statement of Changes in Shareholders' Equity</u>	F-5
<u>Combined Statements of Cash Flows</u>	F-6
<u>Notes to Combined Financial Statements as of December 31, 2006 and for the Period August 1, 2006 (Date of Acquisition) to December 31, 2006</u>	F-7
<u>Notes to Combined Financial Statements as of December 31, 2005 and for the Years Ended December 31, 2005 and 2004 and for the Seven Month Period Ended July 31, 2006</u>	F-24
<u>Unaudited Condensed Combined Balance Sheets</u>	F-35
<u>Unaudited Condensed Combined Statements of Operations</u>	F-36
<u>Unaudited Condensed Combined Statement Of Changes in Shareholders' Equity</u>	F-37
<u>Unaudited Condensed Combined Statements of Cash Flows</u>	F-38
<u>Notes to Unaudited Condensed Combined Financial Statements as of September 30, 2007 and for the Nine Month Period Ended September 30, 2007</u>	F-39
<u>Notes to Unaudited Condensed Combined Financial Statements for the Seven Month Period Ended July 31, 2006</u>	F-49

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Verso Paper Corp.

Memphis, Tennessee

We have audited the accompanying combined balance sheet of Verso Paper One Corp. (which has been renamed Verso Paper Corp.), Verso Paper Two Corp., Verso Paper Three Corp., Verso Paper Four Corp. and Verso Paper Five Corp. (collectively, the Company), legal entities under common control of Verso Paper Management LP, as of December 31, 2006 (Successor Company balance sheet), and the related combined statements of operations, changes in shareholders' equity, and cash flows for the five months ended December 31, 2006 (Successor Company operations). We have also audited the accompanying combined balance sheet of Coated & Supercalendered Papers Division of International Paper Company (the Predecessor) as of December 31, 2005 (Predecessor balance sheet), and the related combined statements of operations and cash flows for the seven months ended July 31, 2006, and the years ended December 31, 2005 and 2004 (Predecessor operations). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Successor Company combined financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2006, and the results of its operations and its cash flows for the five months ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the Predecessor combined financial statements referred to above present fairly, in all material respects, the financial position of the Predecessor as of December 31, 2005, and the results of its operations and its cash flows for the seven months ended July 31, 2006, and the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the Successor Company combined financial statements, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment of FASB Statements No. 87, 88, 106, and 132(R)*, as of December 31, 2006.

As discussed in Note 3 to the Successor Company combined financial statements, on August 1, 2006, the Company acquired the Predecessor.

As discussed in Note 1 to the Predecessor combined financial statements, the accompanying Predecessor combined financial statements have been prepared from the separate records maintained by the Predecessor and International Paper Company and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Predecessor had been operated as an unaffiliated company. Portions of certain expenses represent allocations made from corporate-office items applicable to International Paper Company as a whole.

/s/ Deloitte & Touche LLP

Memphis, Tennessee

December 19, 2007

**Table of Contents**

**VERSO PAPER CORP. (SUCCESSOR) AND  
COATED & SUPERCALENDERED PAPERS DIVISION OF INTERNATIONAL PAPER (PREDECESSOR)  
COMBINED BALANCE SHEETS**

<b>(In thousands of U.S. dollars)</b>	<b>Successor Combined December 31, 2006</b>	<b>Predecessor Combined December 31, 2005</b>
<b>ASSETS</b>		
Current Assets		
Cash	\$ 112,479	\$ 46
Accounts receivable net	113,430	117,560
Accounts receivable from International Paper Company net	8,217	
Inventories	140,503	112,349
Prepaid expenses and other assets	5,880	2,511
 Total current assets	 380,509	 232,466
Property, plant & equipment net	1,212,256	1,287,042
Reforestation	10,007	
Intangibles & other assets net	89,544	14,565
Goodwill	18,695	
 <b>TOTAL ASSETS</b>	 <b>\$ 1,711,011</b>	 <b>\$ 1,534,073</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 117,108	\$ 90,424
Accounts payable to International Paper Company	29,273	4,173
Accrued liabilities	80,362	54,206
Current maturities of long-term debt	2,850	1,100
 Total current liabilities	 229,593	 149,903
Long-Term Debt	1,166,438	300,119
Other Liabilities	34,961	44,063
 Total Liabilities	 1,430,992	 494,085
Commitments and contingencies (Note 16)		
Shareholders equity	280,019	
Divisional control account		1,039,988
 <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	 <b>\$ 1,711,011</b>	 <b>\$ 1,534,073</b>

See notes to Successor's combined financial statements and Predecessor's combined financial statements.

**Table of Contents**

**VERSO PAPER CORP. (SUCCESSOR) AND  
COATED & SUPERCALENDERED PAPERS DIVISION OF INTERNATIONAL PAPER (PREDECESSOR)  
COMBINED STATEMENTS OF OPERATIONS**

	Successor Combined	Predecessor Combined		
	Five Months Ended December 31, 2006	Seven Months Ended July 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
<b>(In thousands of U.S. dollars, except per share data)</b>				
Net Sales	\$ 706,833	\$ 904,417	\$ 1,603,846	\$ 1,463,357
<b>COSTS AND EXPENSES:</b>				
Cost of products sold (exclusive of depreciation and amortization)	589,283	771,575	1,338,256	1,272,449
Depreciation and amortization	48,330	72,674	129,355	130,497
Selling, general, and administrative expenses	14,393	34,348	65,569	65,347
Restructuring and other charges	10,126	(322)	10,419	657
<b>OPERATING INCOME (LOSS)</b>	<b>44,701</b>	<b>26,142</b>	<b>60,247</b>	<b>(5,593)</b>
Interest income	(1,798)	(23)	(39)	(275)
Interest expense	49,136	8,414	14,823	15,955
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(2,637)</b>	<b>17,751</b>	<b>45,463</b>	<b>(21,273)</b>
<b>INCOME TAX EXPENSE (BENEFIT)</b>		<b>6,994</b>	<b>17,913</b>	<b>(8,190)</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (2,637)</b>	<b>\$ 10,757</b>	<b>\$ 27,550</b>	<b>\$ (13,083)</b>
Earnings (loss) per share	\$ (2,637)			
Common shares outstanding	1,000			
Included in the financial statement line items above are related party transactions as follows (Notes 13 and 14, respectively):				
Net Sales	\$ 71,541	\$ 83,797	\$ 167,933	\$ 198,907
Purchases included in cost of products sold	1,598	119,471	198,234	219,215
Selling, general, and administrative expenses		25,481	35,707	36,539
Restructuring and other charges	6,100			

See notes to Successor's combined financial statements and Predecessor's combined financial statements.

**Table of Contents****VERSO PAPER CORP.****COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD AUGUST 1, 2006 (DATE OF ACQUISITION) TO DECEMBER 31, 2006**

<b>(In thousands of U.S. dollars)</b>	<b>Common Stock</b>	<b>Paid-in-Capital</b>	<b>Retained Earnings / (Deficit)</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Total Shareholders Equity</b>
Date of acquisition August 1, 2006:					
Capital contributions	\$	\$ 290,000	\$	\$	\$ 290,000
Net loss			(2,637)		(2,637)
Equity award expense		397			397
Adjustment to initially apply FASB No. 158				(7,741)	(7,741)
Ending balance December 31, 2006	\$	\$ 290,397	\$ (2,637)	\$ (7,741)	\$ 280,019

See notes to Successor's combined financial statements.

**Table of Contents**

**VERSO PAPER CORP. (SUCCESSOR) AND  
COATED & SUPERCALENDERED PAPERS DIVISION OF INTERNATIONAL PAPER COMPANY  
(PREDECESSOR)**

**COMBINED STATEMENTS OF CASH FLOWS**

	Successor Combined	Predecessor Combined		
	Five Months Ended	Seven Months Ended	Year	Year
	December 31, 2006	July 31, 2006	Ended December 31, 2005	Ended December 31, 2004
<b>(In thousands of U.S. dollars)</b>				
<b>Cash Flows From Operating Activities:</b>				
Net income (loss)	\$ (2,637)	\$ 10,757	\$ 27,550	\$ (13,083)
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation and amortization	48,061	72,674	129,355	130,497
Amortization of debt issuance costs	2,558			
Loss (gain) on disposal of fixed assets	71	1,262	6,043	5,703
Other net		686	1,696	3,556
Changes in assets and liabilities:				
Accounts receivable	(32,302)	23,253	(30,502)	(7,198)
Inventories	5,438	(55,256)	432	3,378
Prepaid expenses and other assets	(11,435)	(6,396)	604	(589)
Accounts payable	64,800	(8,690)	(4,162)	13,779
Accrued liabilities	53,649	983	(14,249)	(12,299)
Net cash provided by operating activities	128,203	39,273	116,767	123,744
<b>Cash Flows From Investing Activities:</b>				
Proceeds from sale of fixed assets		32	117	243
Cash paid for acquisition	(1,374,221)			
Capital expenditures	(27,790)	(27,655)	(53,096)	(111,740)
Net cash used in investing activities	(1,402,011)	(27,623)	(52,979)	(111,497)
<b>Cash Flows From Financing Activities:</b>				
Repayments of debt	(25,713)	(18,754)	(963)	(173,187)
Net proceeds from debt issuance	1,195,000			172,500
Equity contributions (distributions)	261,397	7,105	(62,816)	(8,668)
Debt issue costs	(44,398)			
Other				(2,887)
Net cash provided by (used in) financing activities	1,386,286	(11,649)	(63,779)	(12,242)
<b>Change In Cash</b>	<b>112,478</b>	<b>1</b>	<b>9</b>	<b>5</b>
Cash:				
Beginning of period	1	46	37	32
End of period	\$ 112,479	\$ 47	\$ 46	\$ 37



**Supplemental Schedule Of Non-Cash Financing**

**Activities:**

Non-cash equity investment	\$	29,000	\$	\$	\$
----------------------------	----	--------	----	----	----

See notes to Successor s combined financial statements and Predecessor s combined financial statements.

F-6

---

**Table of Contents**

**VERSO PAPER CORP. (SUCCESSOR)**

**Notes to Combined Financial Statements**

**As of December 31, 2006 and for the Period August 1, 2006 (Date of Acquisition) to December 31, 2006**

**1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of our Business** Verso Paper Corp. (the Company), indirect parent company of Verso Paper Finance Holdings LLC and Verso Paper Holdings LLC and a direct subsidiary of Verso Paper Management LP, is a holding company whose subsidiaries operate in three operating segments: Coated & supercalendared papers, Hardwood market pulp, and Other, consisting of specialty industrial paper. The Company's core business platform is as a producer of coated freesheet, coated groundwood, and uncoated supercalendared papers. These products serve customers in the catalog, magazine, inserts, and commercial print markets. The Company includes mills and related woodyards in Bucksport and Jay, Maine; Quinnesec, Michigan; and Sartell, Minnesota. The Company also includes investments in two energy producing assets located at the Bucksport and Jay, Maine, facilities and a hardwood plantation located near Alexandria, Minnesota.

**Basis of Presentation** The accompanying combined financial statements include the accounts of Verso Paper One Corp. (which has been renamed Verso Paper Corp.), Verso Paper Two Corp., Verso Paper Three Corp., Verso Paper Four Corp., and Verso Paper Five Corp. (collectively, the Company), legal entities under common control of Verso Paper Management LP. The entities were formed on August 1, 2006, to acquire the net assets of the Coated and Supercalendared Papers Division of International Paper Company and the assets and certain liabilities of Hybrid Poplar Fiber Farm (Fiber Farm) from International Paper, as of August 1, 2006. See Note 3. As a result of the Company's 90% ownership interest, the Company pushed down its basis to the underlying assets and liabilities acquired based on the estimated fair values. The combined financial statements include the accounts of Verso Paper Finance Holdings LLC and its wholly-owned, controlled majority-owned and financially controlled subsidiaries. Verso Paper Finance Holdings Inc. is a wholly owned subsidiary with no separate operations. All intercompany balances and transactions are eliminated.

Prior to the consummation of this offering, Verso Paper Two Corp., Verso Paper Three Corp., Verso Paper Four Corp., and Verso Paper Five Corp. will merge with and into Verso Paper Corp. (the Merger). Upon consummation of the Merger, Verso Fiber Farm LLC, which is currently a wholly-owned subsidiary of Verso Paper Five Corp., will become our wholly-owned subsidiary. In connection with Verso Fiber Farm LLC becoming our wholly-owned subsidiary, a part of the proceeds from this offering (the Fiber Farm Funds) will be used to repay the outstanding \$10.0 million senior secured term loan of Verso Fiber Farm LLC, and the remainder of the Fiber Farm Funds will be transferred to the Parent.

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

**Revenue Recognition** Sales are net of rebates, allowances and discounts. Revenue is recognized when the customer takes title and assumes the risks and rewards of ownership. Revenue is recorded at the time of shipment for terms designated f.o.b. (free on board) shipping point. For sales transactions designated f.o.b. destination, which include export sales, revenue is recorded when the product is delivered to the customer's site and when title and risk of loss are transferred.

**Shipping and Handling Costs** Shipping and handling costs, such as freight to customer destinations, are included in cost of products sold in the accompanying combined statement of operations. These costs, when included in the sales price charged for the Company's products, are recognized in net sales.

**Table of Contents**

**Planned Maintenance Costs** Maintenance costs for major planned maintenance shutdowns in excess of \$0.5 million are deferred over the period in which the maintenance shutdowns occur and expensed ratably over the period until the next major planned shutdown, since the Company believes that operations benefit throughout that period from the maintenance work performed. Other maintenance costs are expensed as incurred.

**Earnings Per Share** The Company computes earnings per share by dividing net income by the weighted average number of common shares outstanding for each period.

**Cash and Cash Equivalents** Cash includes highly liquid investments with a maturity of three months or less at the date of purchase.

**Fair Value of Financial Instruments** Due to the short maturities of the Company's receivables and payables, the carrying values of these financial instruments approximate their fair values. The fair value of debt was approximately \$1.2 billion at December 31, 2006.

**Concentrations of Credit Risk** Financial instruments, which consist primarily of trade accounts receivable, expose the Company to concentrations of credit risk. The Company continually monitors the creditworthiness of its customers to whom credit is granted in the normal course of business. Trade accounts receivable balances for net sales to unaffiliated customers were approximately \$115.2 million at December 31, 2006.

The Company establishes its allowance for doubtful accounts based upon factors surrounding the credit risks of specific customers, historical trends, and other information. The allowance for doubtful accounts was approximately \$1.9 million at December 31, 2006. Bad debt expense was \$0.1 million for the five month period ended December 31, 2006.

**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 and are reflected in Inventories and Other assets in the combined balance sheet (see Notes 4 and 6).

**Property, Plant and Equipment** Plant, property, 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. Interest cost of \$0.2 million was capitalized in the five month period ended December 31, 2006.

Depreciation and amortization are computed using the straight line method for all assets over the assets' estimated useful lives. Estimated useful lives are as follows:

	Years
Building	20 - 40
Machinery and equipment	10 - 20
Furniture and office equipment	3 - 10
Computer hardware	3 - 6
Leasehold improvements	Over the terms of the leases or the useful life of the improvements.

**Impairment of Long-Lived Assets** 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. Impaired assets are recorded at estimated fair value, determined principally using discounted cash flows.

**Table of Contents**

**Deferred Financing Costs** The Company capitalizes costs incurred in connection with borrowings or establishment of credit facilities. These costs are amortized as an adjustment to interest expense over the life of the borrowing or life of the credit facility using the effective interest method. In the case of early debt principal repayments, the Company adjusts the value of the corresponding deferred financing costs with a charge to other expense, and similarly adjusts the future amortization expense.

**Goodwill and Intangible Assets** The Company accounts for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Intangible assets primarily consist of trademarks, customer-related intangible assets and patents obtained through business acquisitions. The useful lives of trademarks were determined to be indefinite and, therefore, these assets are not amortized. Customer-related intangible assets are amortized over their estimated useful lives of approximately twenty-five years. Patents are amortized over their remaining legal lives of ten years.

The 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. Goodwill is evaluated at the reporting unit level. Goodwill has been allocated to the Coated segment. The evaluation for impairment is performed by comparing the carrying amount of these assets to their estimated fair value. If the carrying amount exceeds the reporting unit fair value, then the second step of the goodwill impairment test is performed to determine the amount of the impairment loss.

**Environmental Costs and Obligations** Costs associated with environmental obligations, such as remediation or closure costs, are accrued when such costs are probable and reasonably estimable. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental obligations are discounted to their present value when the expected cash flows are reliably determinable.

**Equity Compensation** The Company accounts for equity awards in accordance with Statement of Financial Accounting Standards No. 123 (Revised) *Share-Based Payment* (SFAS No. 123(R)). SFAS No. 123(R) requires that all equity awards to employees be expensed over the period of the award. The Company applies the Black-Scholes method of valuation to determine share-based compensation expense.

**Asset Retirement Obligations** In accordance with the provisions of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement 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 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.

The Company had approximately \$0.7 million of restricted cash related to an asset retirement obligation in the state of Michigan that is reflected in Other assets in the accompanying balance sheet. 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 of activity, since August 1, 2006, related to asset retirement obligations:

	<b>Five Months Ended December 31,</b>
<b>(in thousands of dollars)</b>	<b>2006</b>
Asset retirement obligations, August 1	\$ 12,357
Accretion expense	258
Settlement of existing liabilities	(760)
Asset retirement obligations, December 31	\$ 11,855

**Table of Contents**

This liability is related to landfill closure and post-closure care and is included in Other liabilities in the accompanying consolidated balance sheet.

**Income Taxes** The Company accounts for income taxes using the liability method pursuant to Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS No. 109). Under this method, the Company recognizes deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

**Postretirement Benefits** Pension plans cover substantially all of the Company's employees. The defined benefit plan is funded in conformity with the funding requirements of applicable government regulations. Prior service costs are amortized on a straight-line basis over the estimated remaining service periods of employees. Certain employees are covered by defined contribution plans. The Company's contributions to these plans are based on a percentage of employees' compensation or employees' contributions. These plans are funded on a current basis.

The company adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) as of December 31, 2006. The measurement date is December 31, 2006.

**2. RECENT ACCOUNTING DEVELOPMENTS**

**Sales, Use and Excise Taxes** In June 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force in Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross Versus Net Presentation)*. Issue No. 06-3 requires disclosure of an entity's accounting policy regarding the presentation of taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer, including sales, use, value added and some excise taxes. The Company presents such taxes on a net basis (excluded from revenues and costs). The adoption of Issue No. 06-3, which is effective for annual reporting periods beginning after December 15, 2006, will have no impact to the combined financial statements.

**Accounting for Uncertainty in Income Taxes** In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has evaluated the provisions of FIN 48 and determined the impact is not significant to the Company's combined results of operations or combined financial position.

**Accounting for Planned Major Maintenance Activities** September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1, *Accounting for Planned Major Maintenance Activities*. This FSP eliminates the accrue-in-advance method of accounting for planned major maintenance activities from the AICPA Audit and Accounting Guide, *Audits of Airlines*. This method of accounting for planned major maintenance activities was eliminated due to the FASB's belief that the resultant liability does not meet the definition of a liability in FASB Concepts Statement No. 6, *Elements of Financial Statements*. As a result of the elimination of the accrue-in-advance method, the *Airline Guide*, which provides guidance for all industries who conduct planned major maintenance activities, permits the use of one of the following three remaining methods: (1) direct expensing, (2) built-in overhaul, and (3) deferral. This FSP is effective for fiscal year beginning after December 15, 2006, with early adoption permitted so long as it is as of the beginning of the entity's fiscal year. The Company adopted the FSP at its inception by electing the deferral method.

---

**Table of Contents**

***Fair Value Measurements*** In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 does not address what to measure at fair value; instead, it addresses how to measure fair value. SFAS No. 157 applies (with limited exceptions) to existing standards that require assets and liabilities to be measured at fair value. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires new disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has not evaluated the provisions of SFAS No. 157 to determine the impact on the Company's combined results of operations or combined financial position.

***Fair Value Option for Financial Assets and Financial Liabilities*** In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (SFAS No. 159), which permits an entity to measure certain financial assets and financial liabilities at fair value. The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. The Statement is effective as of the beginning of an entity's fiscal year beginning after November 15, 2007. The Company has not evaluated the provisions of SFAS No. 159 to determine the impact on the Company's combined results of operations or combined financial position.

**3. ACQUISITION**

On August 1, 2006, Verso Paper Corp. acquired the Coated & Supercalendered Papers Division of International Paper Company (C&SC Papers Division, or the Predecessor), a producer of coated freesheet, coated groundwood, and uncoated supercalendered papers. The purchase price for C&SC Papers as of the acquisition date was \$1.4 billion. The purchase price was paid partially in cash and partially through a 10% limited partnership interest in Verso Paper Investment, LP., Verso Paper Corp.'s indirect parent company.

The Company has allocated the purchase price to the C&SC Papers' assets acquired and liabilities assumed at estimated fair values adjusted for the 10% carryover basis of the assets as of the acquisition date. The excess of the purchase price over the fair value of the net assets acquired has been reflected as goodwill. The final allocation of the purchase price will be determined at a later date and is dependent on a number of factors, including the final evaluation of the fair value of our tangible and intangible assets acquired and liabilities assumed as of the date of the Acquisition.

**Table of Contents**

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at August 1, 2006 (date of acquisition) (in thousands of U.S. dollars):

Current assets	\$ 237,072
Plant, property, and equipment	1,232,587
Intangible assets	35,912
Goodwill	18,695
Other Assets	4,511
 Total assets acquired	 1,528,777
Current liabilities	110,255
Long-term obligations	25,301
 Total liabilities assumed	 135,556
 Net assets acquired	 \$ 1,393,221
 <b>Identifiable Intangible Assets</b>	 <b>Life</b> <b>Amount</b>
Non-amortizable	
Trademarks	Indefinite      \$ 21,473
Amortizable	
Customer relationships	25 years      13,291
Patents	10 years      1,148
 Total Intangible Assets	 \$ 35,912

The acquisition agreement contains various representations, warranties and covenants customary to transactions of this type.

On August 1, 2006, Verso Fiber Farm LLC acquired the Hybrid Poplar Fiber Farm (Fiber Farm), a hardwood plantation owned by International Paper Company. The purchase price for Fiber Farm as of the acquisition date was \$10 million.

The Company has allocated the purchase price to the Fiber Farm's assets acquired and liabilities assumed at estimated fair values. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at August 1, 2006 (date of acquisition)

Current assets	\$ 2
Property, plant and equipment	267
Reforestation	9,749
 Total assets acquired	 10,018
Current liabilities	18
Long-term obligations	
 Total liabilities assumed	 18
 Net assets acquired	 \$ 10,000





**Table of Contents****4. INVENTORIES**

Inventories by major category include the following:

(in thousands of U.S. dollars)	December 31, 2006
Raw materials	\$ 22,147
Woodyard logs	5,026
Work-in-process	19,012
Finished goods	63,894
Replacement parts and other supplies	30,424
 Inventories	 \$ 140,503

**5. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is as follows:

(in thousands of U.S. dollars)	December 31, 2006
Land and land improvements	\$ 26,114
Building and leasehold improvements	167,843
Machinery and equipment	1,048,153
Construction-in-progress	17,689
	1,259,799
Less: accumulated depreciation	(47,543)
 Plant, property, and equipment	 \$ 1,212,256

Depreciation expense was \$48.0 million for the five months ended December 31, 2006.

**6. INTANGIBLES & OTHER ASSETS**

Intangibles and other assets consist of the following:

(in thousands of U.S. dollars)	December 31, 2006
Amortizable intangible assets:	
Customer relationships net of accumulated amortization of \$0.2 million	\$ 13,070
Patents net of accumulated amortization of \$0.05 million	1,100
 Total amortizable intangible assets	 14,170
Unamortizable intangible assets:	
Trademarks	21,473
Other assets:	
Financing costs net of accumulated amortization of \$2.3 million	42,109
Deferred major repair	6,008
Replacement parts net	1,729

Edgar Filing: Verso Paper Corp. - Form S-1

Other	4,055
Total other assets	53,901
Intangibles and other assets	\$ 89,544

Estimated annual amortization expense of intangibles is \$1.7 million, \$1.6 million, \$1.4 million, \$1.3 million and \$1.1 million for 2007 through 2011, respectively.

**Table of Contents**

Approximately \$0.3 million of intangible amortization is reflected in depreciation and amortization expense for the five-month period ended December 31, 2006.

**7. ACCRUED LIABILITIES**

A summary of accrued liabilities is as follows:

(in thousands of U.S. dollars)	December 31, 2006
Payroll and employee benefit costs	\$ 31,741
Accrued interest	31,914
Accrued sales rebates	8,520
Accrued taxes other than income	6,568
Freight and other	1,619
Accrued liabilities	\$ 80,362

**8. LONG-TERM DEBT**

A summary of long-term debt is as follows:

(in thousands of U.S. Dollars)	Maturity	Rate	December 31, 2006
Fiber Farm Term Loan	8/1/2010	Libor + 3.00%	\$ 10,000
First Priority Term Loan B	8/1/2013	Libor + 1.75%	259,288
Second Priority Senior Secured Notes Fixed	8/1/2014	9.13%	350,000
Second Priority Senior Secured Notes Floating	8/1/2014	Libor + 3.75%	250,000
Senior Subordinated Notes	8/1/2016	11.38%	300,000
			1,169,288
Less current maturities			(2,850)
Long-term debt			\$ 1,166,438

Verso Paper Holdings LLC ( Holdings ) and Verso Paper Inc. ( issuers ), entered into Senior Secured Credit Facilities on August 1, 2006, which consist of:

a \$285 million term loan facility, with a maturity of seven years, which was fully drawn on August 1, 2006 and the interest rate at December 31, 2006 was 7.1%;

a \$200 million revolving credit facility with a maturity of six years. No amounts were outstanding at December 31, 2006. Letters of credit of \$35.3 million were issued as of December 31, 2006.

The Senior Secured Credit Facilities are secured by first priority pledges of all the equity interests owned by Holdings in its subsidiaries. The Senior Secured Credit Facilities are also secured by first priority interests in, and mortgages on, substantially all tangible and intangible assets and each of Holdings direct and indirect subsidiaries.

## Edgar Filing: Verso Paper Corp. - Form S-1

The obligations under the Senior Secured Credit Facilities are unconditionally guaranteed by Verso Paper Finance Holdings LLC, parent company of the issuers, and subject to certain exceptions, each of Holdings direct and indirect domestic subsidiaries.

In addition, on August 1, 2006, the issuers completed an offering of \$350 million 9 <sup>1</sup>/<sub>8</sub>% Second Priority Senior Secured Fixed Rate Notes due 2014, \$250 million Second Priority Senior Secured Floating Rate Notes due 2014, and \$300 million 11 <sup>3</sup>/<sub>8</sub>% Senior Subordinated Notes due 2016. The proceeds of the offerings were

F-14

**Table of Contents**

used to finance the Acquisition and to pay related fees and expenses. The Second Priority Senior Secured Notes have the benefit of second-priority security interest in the collateral. The fixed rate portion of these notes pay interest semi-annually and the variable portion pays interest quarterly. The Senior Subordinated Notes are unsecured senior subordinated obligations of the Company and pay interest semi-annually. The interest rate on the floating rate note was 9.1% at December 31, 2006. Each of Holdings domestic subsidiaries jointly and severally guarantee the Second Priority Senior Secured Notes and Senior Subordinated Notes. All subsidiaries other than the subsidiary guarantors are minor.

The Senior Secured Credit Facilities contain various restrictive covenants. They prohibit Holdings from prepaying other indebtedness and require Holdings to maintain a maximum consolidated first lien leverage ratio. In addition, the Senior Secured Credit Facilities, among other things, restrict Holdings ability to incur indebtedness or liens, make investments or declare or pay any dividends. The indentures governing the Second Priority Senior Secured Notes and the Senior Subordinated Notes limit Holdings ability to, among other things, to (i) incur additional indebtedness; (ii) pay dividends or make other distributions or repurchase or redeem stock; (iii) make investments; (iv) sell assets, including capital stock of restricted subsidiaries; (v) enter into agreements restricting its subsidiaries ability to pay dividends; (vi) consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; (vii) enter into transactions with our affiliates; and (viii) incur liens. As of December 31, 2006, Holdings was in compliance with all covenants.

Verso Fiber Farm LLC, entered into Senior Secured Credit Facilities on August 1, 2006, which consist of:

a \$10 million term loan facility, with a maturity of four years and interest paid quarterly, which was fully drawn on August 1, 2006; and

a \$5 million revolving credit facility with a maturity of four years; no amounts were outstanding under this facility at December 31, 2006.

The Senior Secured Credit Facilities of Verso Fiber Farm LLC are secured by first priority pledges of all equity interests. The Senior Secured Credit Facilities contain various restrictive covenants which, among other things, restrict Verso Fiber Farm LLC s ability to incur additional indebtedness or liens, make investments or declare or pay any dividends or make other distributions on equity interests; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into transactions with affiliates.

The payments required under the long-term debt listed above during the years following December 31, 2006, are set forth below:

2007	\$ 2,850
2008	2,850
2009	2,850
2010	12,850
2011	2,850
Thereafter	1,145,038
<b>Long-term Debt</b>	<b>\$ 1,169,288</b>

Interest expense was approximately \$46.8 million while \$15.0 million of interest was paid during the five-month period ended December 31, 2006. In conjunction with the Acquisition, Verso Paper Corp. assumed none of the historical debt of the Predecessor.

Amortization of debt issuance costs was approximately \$2.3 million for the five month period ended December 31, 2006, and is included in interest expense in the accompanying combined statement of operations.

**Table of Contents****9. OTHER LIABILITIES**

Other liabilities consist of the following:

(in thousands of U.S. dollars)	December 31, 2006
Asset retirement obligations	\$ 11,855
Pension benefit obligation	10,299
Deferred income taxes	8,144
Other, primarily environmental obligations	4,663
<b>Other liabilities</b>	<b>\$ 34,961</b>

**10. RETIREMENT PLANS****DEFINED BENEFIT PLAN**

The Company maintains a defined benefit pension plan that provides retirement benefits to hourly employees in Androscoggin, Bucksport and Sartell hired prior to July 1, 2004. These employees generally are eligible to participate in the plan upon completion of one year of service and attainment of age 21. Employees hired after June 30, 2004, who are not eligible for this pension plan receive an additional company contribution to their savings plan (see Other Plan ). The plan provides defined benefits based on years of credited services and the employees' final hourly job rates or specified benefit rates.

The Company makes contributions that are sufficient to fully fund its actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act (ERISA). The Company currently estimates a contribution of \$6.8 million in 2007.

**Net Periodic Pension Expense**

Service cost is the actuarial present value of benefits attributed by the plan's benefit formula to services rendered by employees during the year. Interest cost represents the increase in the projected benefit obligation, which is a discounted amount, due to passage of time.

The following table summarizes the net periodic expense for August 1, 2006 – December 1, 2006:

(In thousands of U.S. dollars)	Five Months Ended December 31, 2006
Components of net periodic pension cost:	
Service cost	\$ 2,090
Interest cost	193
Amortization of prior service cost	327
<b>Net periodic pension expense</b>	<b>\$ 2,610</b>

**Table of Contents**

The following table summarizes the obligations and funded status of the pension plan:

(In thousands of U.S. dollars)	December 31, 2006
Benefit obligation at inception, August 1	\$
Service cost	2,090
Interest cost	193
Prior service liability	8,068
<b>Benefit obligation at December 31</b>	<b>10,351</b>
Funded status	\$ (10,351)
<b>Amounts recognized in the balance sheet:</b>	
Current liability	\$ 52
Non-current liability	10,299

Prior service cost of \$7.7 million is included in accumulated other comprehensive income at December 31, 2006, in accordance with SFAS No. 158.

The accumulated benefit obligation at December 31, 2006, is \$10.4 million.

Verso Paper Corp. evaluates its actuarial assumptions annually as of December 31 (the measurement date) and considers changes in these long-term factors based upon market conditions and the requirements of SFAS No. 87, Employers Accounting for Pensions. These assumptions are used to calculate benefit obligations as of December 31 of the current year, and pension expense to be recorded for the following year. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic pension expense for the next year is \$0.8 million.

Weighted average assumptions used to determine benefit obligations as of December 31, 2006 were as follows:

Discount rate	5.75%
Rate of compensation increase	N/A

The following table summarizes the future pension benefit payments at December 31, 2006 (in thousands of U.S. dollars):

2007	\$ 52
2008	134
2009	262
2010	440
2011	672
2012-2016	7,800

**DEFINED CONTRIBUTION PLAN**

The Company sponsors a defined contribution plan to provide salaried and Quinnesec hourly employees an opportunity to accumulate personal funds and to provide additional benefits for retirement.

As determined by the provisions of the plan, the Company contributes annually a percentage of earnings. The percentage is based on age and years of credited service for employees hired prior to July 1, 2004 and a fixed percentage of earnings to employees hired after June 30, 2004. Expense under this plan for the five month period ended December 31, 2006 was approximately \$2.3 million. The Company currently estimates a contribution of \$2.3 million in 2007.





**Table of Contents****OTHER PLAN**

The Company sponsors a 401K 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. Such contributions to the plans totaled approximately \$2.3 million for the five months ended December 31, 2006.

**11. MANAGEMENT EQUITY AWARDS**

Certain members of management were granted the right to purchase Class A units of Verso Paper Management LP (a limited partner of the ultimate parent of the Company). For each Class A unit purchased, a specified number of Class B and Class C units were granted. The Class B units vest over a 5 year period, 20% at the end of each year of service. The Class C units will vest only if certain performance targets are met. Directors were granted Class D units of Verso Paper Management LP and these Class D units are vested at acquisition date.

The fair value of the Class D units granted to directors and restricted Class B units granted to management was approximately \$1.4 million. Equity award expense of \$0.4 million was recognized in the five months ended December 31, 2006 and the remaining compensation expense will be recognized over the vesting period with the offsetting credit to Paid-in-Capital.

Assumptions applied under the Black-Scholes option pricing model are as follows: expected term of five years, volatility rate of 36.65% based on industry historical volatility rate, no expected dividends and average risk free rate of 4.1%.

**12. BUCKSPORT ENERGY ASSET INVESTMENT**

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 by the two parties and is located in Bucksport, Maine. The plant supports the Bucksport paper mill. The mill owns 28% of the steam and electricity produced by the plant. The mill may purchase its remaining steam and electrical needs from the plant at market rates. Each owner, Verso Bucksport LLC and Bucksport Energy LLC, owns its proportional share of the assets. The Company accounts for this investment under the proportional consolidation method. Power generation and operating expenses are divided on the same basis as ownership. The Bucksport mill has cash which is restricted in its use and may be used only to fund the ongoing energy operations of this investment. Approximately \$0.2 million of restricted cash is included in prepaid expenses and other assets in the accompanying combined balance sheet at December 31, 2006. Balances included in the accompanying consolidated balance sheet related to this investment are as follows:

<b>(in thousands of dollars)</b>	<b>December 31, 2006</b>
Other receivables	\$ 59
Other current assets	259
<b>Total current assets</b>	<b>\$ 318</b>
Property, plant, and equipment	\$ 10,301
Accumulated depreciation	(237)
Net property, plant, and equipment	\$ 10,064
Current liabilities	\$ (103)

**Table of Contents****13. RELATED PARTY TRANSACTIONS**

In conjunction with the Acquisition, we entered into a Transition Service Agreement with International Paper whereby International Paper will continue to provide certain services specified in the agreement that are necessary for us to run as a stand-alone business. The charges for the five month period ended December 31, 2006 were \$6.1 million.

The Company had net sales to International Paper of approximately \$71.5 million for the five months ended December 31, 2006. The Company had purchases from International Paper of approximately \$1.6 million for the five months ended December 31, 2006.

In 2006, fees of \$2.5 million were paid to Apollo as part of the Acquisition transaction costs. For subsequent periods, Apollo and its affiliates entered into a management agreement with us relating to the provision of certain financial and strategic advisory services and consulting services. We will pay Apollo an annual fee for its management services and advice. Also, under the management agreement, Apollo has the right to act, in return for additional fees, as our financial advisor or investment banker for any merger, acquisition, disposition, finance or the like if we decide we need to engage someone to fill such role. We agreed to indemnify Apollo and its affiliates and their directors, officers and representatives for losses relating to the services contemplated by the management agreement and the engagement of affiliates of Apollo pursuant to, and the performance by them of the services contemplated by, the management agreement.

Upon completion of the Acquisition, we entered into an agreement with International Paper's Packaging business pursuant to which we will arrange for the sale of coated groundwood paper produced from one of its paper machines at its Pine Bluff, Arkansas mill for a selling commission of 3%. This agreement will require that we sell 100% of the output of coated paper from this mill until the end of 2006 at then prevailing market price. The commission was approximately \$0.9 million for the five months ended December 31, 2006.

**14. RESTRUCTURING AND OTHER CHARGES**

Included in restructuring and other charges are one time transaction costs for us to run as a stand-alone business. The charges for the five month period ended December 31, 2006 were \$10.1 million which included \$6.1 million of Transition Service Agreement costs.

**15. INCOME TAXES**

The following is a summary of the components of the provision (benefit) for income taxes:

<b>(In thousands of U.S. dollars)</b>	<b>Five Months Ended December 31, 2006</b>
<b>Current tax (benefit):</b>	
U.S. federal	\$
U.S. state and local	\$
	\$
<b>Deferred tax provision:</b>	
U.S. federal	\$ (706)
U.S. state and local	(165)
	\$ (871)
<b>Valuation allowance</b>	<b>\$ 871</b>
<b>Income tax provision</b>	<b>\$</b>



**Table of Contents**

A reconciliation of income tax expense using the statutory federal income tax rate compared with actual income tax expense follows:

<b>(In thousands of U.S. dollars)</b>	<b>Five Months Ended December 31, 2006</b>
Tax at Statutory U.S. Rate of 34%	\$ (785)
Increase (decrease) resulting from:	
State income taxes (benefit)	(2)
Meals and entertainment	22
Nondeductible lobbying expenses	3
Net permanent differences	\$ 23
State income taxes (benefit)	(109)
Valuation allowance	871
<b>Total income tax provision</b>	<b>\$</b>

The following is a summary of the significant components of our deferred tax position:

<b>(In thousands of U.S. dollars)</b>	<b>December 31, 2006</b>
Deferred tax assets:	
Compensation reserves	\$ 543
Inventory capitalization	1,064
Pension	2,936
Net operating loss and credit carryforwards	5,834
Property, plant and equipment	11,211
Other	479
Gross deferred tax assets	22,067
Less: valuation allowance	(12,996)
Deferred tax assets, net of allowance	\$ 9,071
Deferred tax liabilities	
Prepaid expenses	\$ (1,418)
Intangible assets	(13,518)
Deferred repair charges	(2,279)
<b>Total deferred tax liabilities</b>	<b>\$ (17,215)</b>
Net deferred taxes	\$ (8,144)

The valuation allowance for deferred tax assets as of December 31, 2006, was \$13.0 million. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon our current period loss and our lack of historical earnings, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences, net of the existing valuation allowance on December 31, 2006.

Income tax benefits related to the pension prior service liability have been credited to other comprehensive income. The benefits have been reduced by a valuation allowance of \$2.9 million. The portion of the valuation allowance for which subsequently recognized tax benefits will be allocated to reduce goodwill is \$9.2 million.

## Edgar Filing: Verso Paper Corp. - Form S-1

The Company has federal net operating loss carryforwards totaling approximately \$15.3 million on December 31, 2006, which begin to expire in 2026.

The Company has state net operating loss carryforwards totaling approximately \$15.3 million on December 31, 2006, which begin to expire in 2011.

F-20

**Table of Contents****16. COMMITMENT AND CONTINGENCIES**

**Operating Leases** The Company has entered into operating lease agreements, which expire at various dates through 2013, related to certain machinery and equipment used in its manufacturing process. Rental expense under operating leases amounted to \$1.4 million for the five months ended December 31, 2006.

The following, as of December 31, 2006, represents the future minimum rental payments due under non-cancelable operating leases that have initial or remaining lease terms in excess of one year (in thousands of U.S. dollars):

2007	\$ 3,343
2008	2,813
2009	2,127
2010	1,645
2011	1,237
Thereafter	2,385
<b>Total</b>	<b>\$ 13,550</b>

**Purchase obligations** The Company has entered into unconditional purchase obligations in the ordinary course of business for the purchase of certain raw materials, energy, and services. At December 31, 2006, total unconditional purchase obligations were \$190 million, due as follows: 2007 \$99 million; 2008 \$19 million; 2009 \$15 million; 2010 \$12 million; 2011 \$2 million; and thereafter \$43 million.

**Verso Paper Employee Severance Plan** Under the Verso Paper Employee Severance Plan, each of our named executive officers is eligible to receive a termination allowance in the event of a termination of employment due to certain events, including the executive's job elimination, a facility closing, the executive's disability, or the executive's inability to perform the requisite duties of his position despite his reasonable efforts.

The termination allowance is a lump sum amount equal to the number of years or partial years of applicable service with the company, multiplied by the amount of two weeks of base salary. The termination allowance may not be less than the amount of four weeks of base salary and may not exceed two times the executive's annual compensation for the year immediately preceding the year in which such termination occurs.

**Contingencies** In May 2004, the press reported that United States, Canadian and European antitrust authorities were investigating possible price-fixing activity relating to the sale of publication papers. Subsequently, in December 2006, the United States Department of Justice (the DOJ) announced that a federal grand jury in Connecticut had indicted Stora Enso North America Corporation (SENA), based in Wisconsin Rapids, Wisconsin, for allegedly participating in a price-fixing conspiracy with a competitor with respect to the sale of publication papers during the period from approximately August 2002 through June 2003. The SENA indictment covers alleged price-fixing activities during a period when our business was a division of International Paper. International Paper has stated publicly that the DOJ has informed it that International Paper is not a target of the DOJ's investigation into price fixing in the publication papers industry. In addition, International Paper has informed us that in all related civil cases filed against manufacturers of publication papers, including International Paper, the plaintiffs have voluntarily dismissed International Paper as a defendant without prejudice. Finally, as part of the Acquisition, we did not assume any liability that might arise from the alleged price-fixing activities during the period when International Paper owned our business, and International Paper agreed to indemnify us against any liability that we might incur arising from such alleged activities. Based on the foregoing, we believe that the U.S. and other antitrust investigations into possible price-fixing activity in the publication papers industry will not result in liabilities, if any, that are material to our financial condition, results of operations, or cash flows. However, if circumstances change adversely with respect to International Paper and we become involved in any related legal proceeding, there can be no assurance that International Paper will perform under its indemnity obligations, in which event we could incur liabilities that are material to our financial condition, results of operations, or cash flows.

**Table of Contents**

In connection with the Acquisition, we assumed a twelve-year supply agreement with Thilmany LLC for the products produced from our paper machine No. 5 at the Androscoggin mill. This agreement requires Thilmany to pay us a variable charge for the paper purchased and a fixed charge for the availability of the No. 5 paper machine. We are responsible for the No. 5 machine's routine maintenance and Thilmany is responsible for any capital expenditures specific to the machine. As defined in the agreement, Thilmany has the right to terminate the agreement if certain events occur.

**17. INFORMATION BY INDUSTRY SEGMENT**

The Company operates in three operating segments, Coated and supercalendered papers, Hardwood market pulp, and Other, consisting of specialty industrial paper and the fiber farm. 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 segments for the period ended December 31, 2006:

<b>(In thousands of U.S. dollars)</b>	<b>Five Months Ended December 31, 2006</b>
<b>Net Sales:</b>	
Coated	\$ 631,897
Pulp	58,405
Other	16,531
<b>Total</b>	<b>\$ 706,833</b>
<b>Operating Income:</b>	
Coated	\$ 35,319
Pulp	10,475
Other	(1,093)
<b>Total</b>	<b>\$ 44,701</b>
<b>Depreciation and Amortization:</b>	
Coated	\$ 39,894
Pulp	7,527
Other	909
<b>Total</b>	<b>\$ 48,330</b>
<b>Property, Plant, and Equipment:</b>	
Coated	\$ 985,549
Pulp	211,753
Other	14,954
<b>Total</b>	<b>\$ 1,212,256</b>
<b>Capital Spending:</b>	
Coated	\$ 26,243
Pulp	814
Other	733
<b>Total</b>	<b>\$ 27,790</b>





**Table of Contents**

**18. SUBSEQUENT EVENT INFORMATION**

In January 2007, Verso Paper Finance Holdings LLC entered into a \$250 million senior unsecured term loan facility with a maturity of six years. The proceeds of the loan were used for a distribution to equity holders and to pay related fees and expenses. The loan allows the ability to pay interest in cash and also has payment in kind provisions which allow for interest to accumulate on the outstanding principal amount.

In 2007, Verso Fiber Farm LLC has drawn \$2.5 million under its \$5.0 million revolving credit facility.

---

**Table of Contents**

**COATED & SUPERCALENDERED PAPERS DIVISION OF  
INTERNATIONAL PAPER COMPANY (PREDECESSOR)**

**Notes to Combined Financial Statements**

**As of December 31, 2005**

**and for the Years Ended December 31, 2004 and 2005**

**and for the Seven Month Period Ended July 31, 2006**

**1. BASIS OF PRESENTATION**

The accompanying combined financial statements have been prepared from the separate records maintained by the Coated & SC Papers Division and International Paper Company and include allocations of certain IPCO corporate costs and expenses. The liabilities associated with the IPCO corporate costs and expenses have not been allocated to the Division in the accompanying combined balance sheets. These costs and obligations are those of IPCO, not the Division. These liabilities primarily include workers compensation and general liability insurance reserves, payroll taxes and pension, postretirement and postemployment liabilities. In accordance with SFAS No. 57, Related Party Disclosures, related party transactions cannot be presumed to be carried out on an arm's-length basis as the requisite conditions of competitive, free-market dealing may not exist. These combined financial statements may not necessarily be indicative of the conditions that would have existed, or the results of operations that would have resulted, had the Division been operated as an unaffiliated company.

Coated and Supercalendered Papers Division of International Paper Company (the Predecessor or the Division) operates in three operating segments: Coated & supercalendered papers, Hardwood market pulp, and Other, consisting of uncoated copy paper and specialty industrial paper. The Division'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 Division includes mills and related woodyards in Bucksport and Jay, Maine; Quinnesec, Michigan; and Sartell, Minnesota. The Division also includes investments in two energy producing assets located at the Bucksport and Jay, Maine, facilities.

During the periods presented, the Division was under the control of International Paper Company (IPCO). The operating results and financial position of the Division were impacted by the nature of this relationship (see Note 10).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

**Revenue Recognition** Sales are reported net of rebates, allowances and discounts. Revenue is recognized when the customer takes title and assumes the risks and rewards of ownership. Revenue is recorded at the time of shipment for terms designated f.o.b. (free on board) shipping point. For sales transactions designated f.o.b. destination, which include export sales, revenue is recorded when the product is delivered to the customer's site and when title and risk of loss are transferred.

**Shipping and Handling Costs** Shipping and handling costs, such as freight to customer destinations, are included in cost of products sold in the accompanying combined statements of operations. These costs, when included in the sales price charged for the Division's products, are recognized in net sales.

**Annual Maintenance Costs** Annual maintenance costs for major planned maintenance shutdowns in excess of \$1.0 million are expensed ratably over the year in which the maintenance shutdowns occur since the Company believes that operations benefit throughout the year from the maintenance work performed. These



**Table of Contents**

costs, including manufacturing variances and out-of-pocket costs that are directly related to the shutdown, are fully expensed in the year of the shutdown with no amounts remaining accrued at year-end. Other maintenance costs are expensed as incurred.

**Affiliate Transactions** All intradivision transactions have been eliminated (see Note 10).

**Cash** Cash includes highly liquid investments with a maturity of three months or less at the date of purchase.

**Fair Value of Financial Instruments** Due to the short maturities of the Division's receivables and payables, the carrying values of these financial instruments approximate their fair values. The fair value of the Division's debt is estimated based on current rates offered for debt of the same maturity. The fair value of debt was approximately \$295.7 million and \$307.5 million as of December 31, 2005 and 2004, respectively.

**Concentrations of Credit Risk** Financial instruments, which consist primarily of trade accounts receivable, expose the Division to concentrations of credit risk. The Division continually monitors the creditworthiness of its customers to whom credit is granted in the normal course of business. Trade accounts receivable balances for net sales to unaffiliated customers was approximately \$116.6 million at December 31, 2005.

The Division establishes its allowance for doubtful accounts based upon factors surrounding the credit risks of specific customers, historical trends, and other information. The allowance for doubtful accounts was approximately \$7.3 million at December 31, 2005. Bad debt expense was approximately \$1.0 million for the seven months ended July 31, 2006 and approximately \$0.2 million and \$0.1 million for the years ended December 31, 2005 and 2004, respectively.

**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 and are reflected in Inventories and Other assets in the combined balance sheets (see Notes 4 and 6).

**Plant, Property, and Equipment** Plant, property, 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.

Depreciation and amortization are computed using the units of production method for paper machines and related equipment and the straight line method for all other assets over the assets' estimated useful lives. The useful life of machinery and equipment is not expected to differ significantly between the units of production method and the straight line method.

Estimated useful lives are as follows:

	Years
Building	20 40
Machinery and equipment	10 20
Furniture and office equipment	3 10
Computer hardware	3 6
Leasehold improvements	Over the terms of the leases or the useful life of the improvements.

**Table of Contents**

**Capitalized Software** Software is capitalized and amortized over its anticipated useful life, approximately three years. Approximately \$0.6 million and \$1.0 million of software amortization is reflected in depreciation and amortization expense for 2005 and 2004. The unamortized portion of software is \$0 million as of December 31, 2005.

**Impairment of Long-Lived Assets** 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. Impaired assets are recorded at estimated fair value, determined principally using discounted cash flows.

**Asset Retirement Obligations** In accordance with the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 143, *Accounting for Asset Retirement 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. C&SC Papers' asset retirement obligations under this standard relate to 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.

The Division had approximately \$0.7 million of restricted cash related to an asset retirement obligation in the state of Michigan that is reflected in Other assets in the accompanying balance sheets. 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 Division's asset retirement obligations:

(In thousands of U.S. dollars)	Seven	
	Months Ended July 31, 2006	For Year Ended December 31, 2005
Asset retirement obligation January 1	\$ 10,895	\$ 11,578
New liabilities	1,519	
Accretion expense	335	532
Liabilities settled	(392)	(1,215)
Asset retirement obligation End of Period (see Note 8)	\$ 12,357	\$ 10,895

This liability is included in Other liabilities in the accompanying combined balance sheets.

**Income Taxes** The Division's operating results are included in the income tax returns of IPCO. For the operating results included in the IPCO income tax returns, a charge in lieu of income taxes has been allocated by IPCO to the Division, representing a portion of IPCO's consolidated tax provision. This tax rate considers IPCO's federal rate and the state tax apportionment of the various states in which the Division operates. The rate may be different than that determined if the Division were an incorporated entity computing its taxes on a separate return basis.

**Environmental Costs and Obligations** Costs associated with environmental obligations, such as remediation or closure costs, are accrued when such costs are probable and reasonably estimable. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental obligations are discounted to their present value when the expected cash flows are reliably determinable.

**3. RECENT ACCOUNTING DEVELOPMENTS**

**Accounting for Uncertainty in Income Taxes** In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and

**Table of Contents**

prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has not evaluated the provisions of FIN 48 to determine the impact on the Company's combined results of operations or combined financial position.

**Fair Value Measurements** In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 does not address what to measure at fair value; instead, it addresses how to measure fair value. SFAS No. 157 applies (with limited exceptions) to existing standards that require assets and liabilities to be measured at fair value. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires new disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has not evaluated the provisions of SFAS No. 157 to determine the impact on the Company's combined results of operations or combined financial position.

**Fair Value Option for Financial Assets and Financial Liabilities** In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* which permits an entity to measure certain financial assets and financial liabilities at fair value. The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. The Statement is effective as of the beginning of an entity's fiscal year beginning after November 15, 2007. The Company has not evaluated the provisions of SFAS No. 159 to determine the impact on the Company's combined results of operations or combined financial position.

**4. INVENTORIES**

Inventories by major category include the following:

<b>(In thousands of U.S. dollars)</b>	<b>December 31, 2005</b>
Raw materials	\$ 19,315
Work-in-process	10,048
Finished goods	55,932
Replacement parts and other supplies	27,054
<b>Inventories</b>	<b>\$ 112,349</b>

No inventory reserves were recorded for finished goods inventory at December 31, 2005. In July, 2006, IPCO transferred woodyard logs inventory and related assets to the Division with a book value of \$13.3 million.

**Table of Contents****5. PLANT, PROPERTY, AND EQUIPMENT**

Plant, property, and equipment consists of the following:

(In thousands of U.S. dollars)	December 31, 2005
Land and land improvements	\$ 35,649
Building and leasehold improvements	135,401
Machinery and equipment	2,833,476
Construction-in-progress	18,226
	3,022,752
Less accumulated depreciation	(1,735,710)
<b>Plant, property, and equipment</b>	<b>\$ 1,287,042</b>

Interest costs related to the development of certain long term assets are capitalized and amortized over the related assets' estimated useful lives. Allocated capitalized net interest costs from IPCO to the Division were \$0.2 million in 2005. At December 31, 2005, the Division had purchased property, plant, and equipment totaling \$3.1 million which was included in accounts payable and paid in January 2006.

**6. OTHER ASSETS**

Other assets consist of the following:

(In thousands of U.S. dollars)	December 31, 2005
Replacement parts net	\$ 10,037
Other	4,528
<b>Other assets net</b>	<b>\$ 14,565</b>

At December 31, 2005, the Division had obsolete spare parts reserves of \$7.7 million.

**7. ACCRUED LIABILITIES**

Accrued liabilities consist of the following:

(In thousands of U.S. dollars)	December 31, 2005
Payroll and related accruals	\$ 24,916
Sartell unfavorable lease liability current	12,536
Accrued sales rebates	6,307
Environmental obligations	3,782
Accrued interest	3,193
Accrued taxes other than income	1,938
Freight and other	1,534
<b>Accrued liabilities</b>	<b>\$ 54,206</b>





**Table of Contents****8. OTHER LIABILITIES**

Other liabilities consist of the following:

(In thousands of U.S. dollars)	December 31, 2005
Sartell unfavorable lease liability long-term	\$ 31,926
Asset retirement obligation	10,895
Bucksport interest rate swap	1,242
Other liabilities	\$ 44,063

**9. DEBT**

A summary of long-term debt as of December 31, 2005, is as follows (in thousands of U.S. dollars):

Description	Rate	Maturity	2005
Jay 1999 Series A	6.25	9/1/2023	\$ 2,300
Jay 1999 Series B Refunding	6.20	9/1/2019	31,000
Jay 2003 A Refunding	5.13	12/1/2018	3,600
Town of Jay Refunding Series 2004 A	4.90	11/1/2017	10,000
Town of Jay Series 2004 A	4.85	5/1/2019	4,000
Bucksport Energy Project 1999	VAR	12/31/2015	18,754
Bucksport \$95.5MM Series 2004 A	4.00	3/1/2014	95,500
Dickinson County Series 2002 A	5.75	6/1/2016	53,500
Dickinson County \$63MM Refunding 2004 A	4.80	11/1/2018	63,000
Sartell 2003 A Refunding	5.20	6/1/2027	19,565
			301,219
Less current maturities			(1,100)
<b>Long-term debt</b>			<b>\$ 300,119</b>

The debt listed above primarily consists of Industrial Development Bonds and Environmental Development Bonds obtained on behalf of the Division by IPCO. The proceeds from the bonds were used for capital expenditures at the mills, including expenditures for environmental, safety, production, and repair projects identified in the bond agreements. These bonds are guaranteed by IPCO. The Bucksport Energy Project 1999 instrument carries a variable interest rate of three-month LIBOR plus 1.25%. At December 31, 2005, this interest rate was 5.27%.

Interest payments for the seven months ended July 31, 2006, were \$7.6 million and \$15.2 million and \$15.3 million for the years ended December 31, 2005 and 2004, respectively. Total interest expense was \$8.4 million for the seven months ended July 31, 2006 and \$14.8 million and \$16.0 million for the years ended December 31, 2005 and 2004, respectively. In conjunction with the Acquisition, Verso Paper Corp. assumed none of historical debt associated with the Predecessor.

**10. TRANSACTIONS WITH IPCO AND AFFILIATES**

Certain services are provided to the Division by IPCO, including corporate management, legal, accounting and tax, treasury, payroll and benefits administration, certain incentive compensation, risk management, information technology and centralized transaction processing. These expenses are included in Selling, general and administrative expenses and Cost of products sold in the accompanying combined statements of operations. Expenses for such corporate services included in Selling, general and administrative expenses totaled \$25.5 million for the seven months ended July 31, 2006 and \$35.7 million and \$36.5 million for the years ended



**Table of Contents**

December 31, 2005 and 2004, respectively. Expenses for such corporate services in Cost of products sold totaled \$6.2 million for the seven months ended July 31, 2006, and \$8.3 million and \$8.2 million for the years ended December 31, 2005 and 2004, respectively. These costs are allocated from IPCO to the Division based on various methods, including direct consumption, percent of capital employed, and number of employees. Effective 2004, IPCO adjusted its allocation method to reduce the allocations based on general factors and increased the use of direct charges based on the Division's utilization of corporate services. This change in allocation methods resulted in a \$18.6 million lower allocation of Corporate costs to the Division in 2004 compared to 2003.

Substantially, all employees hired prior to July 2004, and retirees of the Division, participate in IPCO's pension plans and are eligible to receive retirement benefits. IPCO allocates service cost to the Division based upon a percent-of-pay for salaried employees and a calculated flat amount for hourly employees. During the seven month period ended July 31, 2006, IPCO allocated periodic pension costs to the Division of \$7.5 and during the years ended December 31, 2005 and 2004, IPCO allocated periodic pension costs to the Division of \$9.1 million and \$8.5 million, respectively.

IPCO provides certain retiree health care and life insurance benefits to a majority of the Division's salaried employees and certain of the Division's hourly employees. IPCO allocates postretirement benefit costs to the Division based upon a percent-of-pay for salaried employees and a calculated flat amount for hourly employees. During the seven month period ended July 31, 2006, IPCO allocated postretirement benefit costs to the Division of \$0.8 million and during the years ended December 31, 2005 and 2004, IPCO allocated postretirement benefit costs to the Division of \$2.7 million and \$4.8 million, respectively.

The Division had net sales to IPCO of approximately \$83.8 million for the seven months ended July 31, 2006, \$167.9 million and \$198.9 million for the years ended December 31, 2005 and 2004, respectively. The Division had purchases from IPCO of approximately \$119.5 million for the seven months ended July 31, 2006, \$198.2 million and \$219.2 million for the years ended December 31, 2005 and 2004, respectively.

**11. BUCKSPORT ENERGY ASSET INVESTMENT**

IPCO has allocated to the Division its 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 by the two parties and is located in Bucksport, Maine. The plant supports the Bucksport paper mill. The mill owns 28% of the steam and electricity produced by the plant. The mill may purchase its remaining steam and electrical needs from the plant at market rates. Each owner, IPCO and Bucksport Energy LLC, owns its proportional share of the assets. Both parties issued their own debt to finance their portion of the construction costs (see Note 9). The Division accounts for this investment under the proportional consolidation method. Power generation and operating expenses are divided on the same basis as ownership. The Bucksport mill has cash which is restricted in its use and may be used only to fund the ongoing energy operations of this investment. Approximately \$0.2 million of restricted cash at December 31, 2005, and is included in prepaid expenses and other assets in the accompanying combined balance sheets.

Balances included in the accompanying combined balance sheets related to this investment are as follows:

<b>(In thousands of U.S. dollars)</b>	<b>December 31, 2005</b>
Other receivables	\$ 177
Other current assets	365
<b>Total current assets</b>	<b>\$ 542</b>
Plant, property, and equipment	\$ 30,442
Accumulated depreciation	(9,500)
Net plant, property, and equipment	\$ 20,942
<b>Current liabilities</b>	<b>\$ 91</b>
Long-term debt	\$ 18,754



**Table of Contents****12. INCOME TAXES**

The results of operations of the Division are included in the income tax returns of IPCO. In the accompanying combined financial statements, the Division has reflected U.S. federal and state income tax expense on its gains based on an allocated rate of 39.4% for seven months ended July 31, 2006, and for the year ended December 31, 2005 and 38.5% for the year ended December 31, 2004. The Division settles the current amount due to/from IPCO through the Divisional control account. Income taxes have been provided for all items included in the historical statements of income included herein, regardless of when such items were reported for tax purposes or when the taxes were actually paid or refunded.

**13. DIVISIONAL CONTROL ACCOUNT**

C&SC Papers operates as a division of IPCO. Accordingly, certain operating, financing, and investing activities of the Division are funded through inter-divisional transactions with IPCO and its other operating divisions and subsidiaries. The accompanying combined balance sheets reflect these amounts in the Divisional control account.

Intercompany sales and purchases with wholly-owned entities of IPCO may result in payables or receivables that have not been settled through the divisional control account at July 31, 2006, and December 31, 2005. Such amounts are reported separately from the divisional control account. Trade and non-trade transactions that involve U.S. locations are allowed to accumulate in the intercompany accounts. Trade transactions involving non-U.S. locations are settled with cash according to the terms of the sale. Non-trade transactions involving non-U.S. locations are settled with cash by the end of each calendar quarter. There has been no direct interest income or expense allocated to the Division by IPCO with respect to the Divisional control account or other net receivables or payables due to/from IPCO.

The changes in the Divisional control account are as follows:

	<b>July 31,</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Balance at January 1	\$ 1,039,988	\$ 1,075,254	\$ 1,097,005
Net Income	10,757	27,550	(13,083)
Contribution of net assets by IPCO (see note 4)	13,342		
Funding (distributed to) provided by IPCO	7,105	(62,816)	(8,668)
<b>Balance End of Period</b>	<b>\$ 1,071,192</b>	<b>\$ 1,039,988</b>	<b>\$ 1,075,254</b>

**14. RESTRUCTURING AND OTHER CHARGES**

In March 2005, IPCO announced the indefinite shutdown of the No.1 paper machine at the Jay, Maine mill. Effective December 2005, IPCO permanently decommissioned the No. 1 paper machine and began conversion of it to a pulp dryer. A charge of \$6.6 million for severance and related costs was recorded related to the termination of approximately 90 employees. Severance totaling \$4.1 million and \$0.8 million was paid to employees in December 2005 and January 2006, respectively. In addition, a charge of \$3.2 million for an asset impairment was recorded for the No. 1 paper machine and related assets. This machine was a component of the Other operating segment until December 2005 when it was reclassified to the Pulp operating segment.

In 2003, IPCO and the Division executed an Overhead Reduction Program to improve competitive performance. Charges associated with this initiative included approximately \$1.2 million of severance and related costs for the year ended December 31, 2004. These charges are included in the Coated operating segment. Approximately \$0.5 million of this charge was reversed in 2004 as an adjustment to the estimated costs associated with this initiative.

**Table of Contents****15. COMMITMENTS AND CONTINGENCIES**

**Operating Leases** The Division has entered into operating lease agreements, which expire at various dates through 2013, related to certain machinery and equipment used in its manufacturing process. Rental expense under operating leases amounted to \$13.3 million for the year ended December 31, 2005.

The building and land related to the Sartell mill No. 3 paper machine are leased under a long-term operating lease that expires in 2008. The lease was remeasured to fair value upon IPCO's acquisition of Champion International Corporation resulting in an unfavorable fair value adjustment which is being amortized as rent expense over the life of the lease. The noncurrent portion of the fair value adjustment totaling \$31.9 million and \$44.5 million at December 31, 2005 and 2004, respectively, is included in Other liabilities in the accompanying combined balance sheets. At the conclusion of the lease in 2008, the Division may continue to lease the asset or the Division may purchase it at its then current fair market value.

The following, as of December 31, 2005, represents the future minimum rental payments due under noncancelable operating leases that have initial or remaining lease terms in excess of one year (in thousands of U.S. dollars):

2006	\$ 24,952
2007	24,436
2008	24,097
2009	1,774
2010	883
Thereafter	647
<b>Total</b>	<b>\$ 76,789</b>

**Purchase obligations** The Division has entered into unconditional purchase obligations in the ordinary course of business for the purchase of certain raw materials, energy, and services. At December 31, 2005, total unconditional purchase obligations were \$274 million, due as follows: 2006 \$110 million; 2007 \$74 million; 2008 \$18 million; 2009 \$14 million; 2010 \$12 million; and thereafter \$46 million.

**Pulp purchase commitment** In December 2004, IPCO entered into a 10-year pulp purchase agreement with the buyer of IPCO's former Weldwood business. This take-or-pay agreement requires IPCO to purchase 170,000 tons of NBSK pulp at market prices at the time of order and IPCO has allocated approximately 110,000 tons of the required purchases to the Division. In 2005, pulp prices under this agreement ranged between \$500 per ton and \$550 per ton with an average of approximately \$525 per ton. This purchased pulp represents approximately one-third of the Division's purchased pulp needs. This agreement is transferable with appropriate consent from the seller.

**Wood Supply Agreement** IPCO's Forest Resources business supplies the Division's mills with their fiber needs at market prices. The Division's mills receive fiber in various forms (chips, tree length, and custom cut) and species: softwood (pine, spruce, and fir) and hardwood (aspen, maple, and oak). In December 2004, IPCO completed the sale of 1.1 million acres of forestlands in Maine and New Hampshire. As part of that sale, IPCO also entered into a 50-year wood supply agreement. The wood supply agreement covers the Division's Bucksport and Jay, Maine mills. Wood is delivered at market prices in effect at the time of delivery to the mills. IPCO must purchase a base volume as defined in the agreement and also has the ability to purchase additional wood fiber, defined as option volume. The volumes, base and option, are computed as a percentage of the estimated annual harvest. Base volume per year is approximately 310,000 tons, which is roughly 13% of the mills' wood needs. The agreement includes a limitation of damages section under which IPCO's maximum potential damages for a default are \$15.00 per ton of wood delivered in the first year. This amount is approximately \$4.7 million. The supply agreement is assignable by either party with mutual consent.

---

**Table of Contents**

**Androscoggin PM 5 Agreement** In June 2005, IPCO sold its Industrial Papers business. As part of this transaction, IPCO and the Division entered into a 12-year contract manufacturing arrangement with the buyer, Thilmay LLC (Thilmay), for production from the Jay, Maine mill's No. 5 paper machine. IPCO deferred approximately \$32.5 million of the sales proceeds, to reflect the contract manufacturing agreement. The deferred proceeds are earned by IPCO as volume is produced in accordance with the contract manufacturing agreement. This agreement requires Thilmay to pay the Division a variable charge for the paper purchased and a fixed charge for the availability of the No. 5 paper machine. The deferred amount and related amortization are obligations of IPCO and are not recorded on the Division's financial statements. The Division's sales of paper produced on the No. 5 paper machine were approximately \$41.8 million and \$49.0 million for the years ended December 31, 2005 and 2004, respectively. Prior to June 2005, the sales from No. 5 paper machine were primarily to IPCO's Industrial Paper's Division. The Division is responsible for the No. 5 paper machine's routine maintenance capital, and Thilmay is responsible for any capital expenditures specific to the No. 5 paper machine. As defined in the agreement, Thilmay has the right to terminate the agreement if certain events occur, such as IPCO's failure to produce product for a 75-day consecutive period. Following a 30-day period after such a failure to produce, IPCO would be subject to a penalty payment based on the prior 12-month EBITDA from products produced on the machine multiplied by a factor. The factor at the beginning of the agreement is five and decreases ratably over the life of the agreement. Thilmay has not notified IPCO or the Division of any failure to perform and no liability is accrued. The agreement is transferable with appropriate consent from Thilmay.

**Litigation** In May 2004, the press reported that European, U.S., and Canadian antitrust authorities were investigating possible cartel activity relating to publication papers. Following these press reports, a number of private plaintiffs filed purported class actions on behalf of purchasers of publication papers in various U.S. federal and state courts. These class actions allege that manufacturers of publication papers, including International Paper, participated in a price fixing conspiracy from 1993 to the present. The cases filed in federal court assert a violation of the federal antitrust laws, while the cases filed in the state court allege violations of state antitrust and consumer protection statutes. These lawsuits seek injunctive relief, as well as treble damages and other costs associated with the litigation. The federal and state cases were consolidated for pre-trial purposes in December 2004 in the federal court for the District of Connecticut. In the second quarter 2006, the plaintiffs, in both the federal and state court cases, voluntarily dismissed International Paper as a defendant in exchange for the cooperation by the company with respect to plaintiff's damage claims. Under the Purchase and Sale Agreement, Verso Paper Corp. did not assume any liability that may arise from these lawsuits and International Paper has agreed to indemnify the Company against any liability that may arise from these lawsuits.

In March 2006, the Division received approximately \$1.0 million from Androscoggin Energy LLC (AELLC), as a result of the settlement of a billing dispute. AELLC was a supplier of energy to the Jay, Maine facility that ceased operations in November 2004 and filed for Chapter 11 bankruptcy.

The Division has various other lawsuits, claims, and contingent liabilities arising from the conduct of its business; however, in the opinion of management, they are not expected to have a material adverse effect on the combined results of operations, cash flows, or financial position of the Division.

## **16. INFORMATION BY INDUSTRY SEGMENT**

The Division operates in three operating segments, Coated and supercalendered papers, Hardwood market pulp, and Other, consisting of uncoated copy paper and specialty industrial paper. The Division operates in one geographic segment, the United States. The Division'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.

**Table of Contents**

For management purposes, the operating performance of the Division is reported based on earnings before interest and taxes, excluding the cumulative effect of accounting changes:

	Year Ended		
	Seven Months Ended July 31, 2006	December 31, 2005	Year Ended December 31, 2004
<b>Net Sales:</b>			
Coated	\$ 793,308	\$ 1,402,958	\$ 1,228,626
Pulp	88,634	139,825	122,988
Other	22,475	61,063	111,743
<b>Total</b>	<b>\$ 904,417</b>	<b>\$ 1,603,846</b>	<b>\$ 1,463,357</b>
<b>Operating Income (Loss):</b>			
Coated	\$ 14,971	\$ 78,827	\$ (17,487)
Pulp	10,346	10,893	7,655
Other	825	(29,473)	4,239
<b>Total</b>	<b>\$ 26,142</b>	<b>\$ 60,247</b>	<b>\$ (5,593)</b>
<b>Depreciation and Amortization:</b>			
Coated	\$ 60,881	\$ 107,623	\$ 108,902
Pulp	10,417	16,282	16,038
Other	1,376	5,450	5,557
<b>Total</b>	<b>\$ 72,674</b>	<b>\$ 129,355</b>	<b>\$ 130,497</b>
<b>Assets Plant, Property, and Equipment:</b>			
Coated		\$ 1,064,760	\$ 1,125,639
Pulp		207,438	199,929
Other		14,844	38,283
<b>Total</b>		<b>\$ 1,287,042</b>	<b>\$ 1,363,851</b>
<b>Capital Spending:</b>			
Coated	\$ 26,449	\$ 47,088	\$ 98,633
Pulp	839	5,286	7,922
Other	367	722	4,751
<b>Total</b>	<b>\$ 27,655</b>	<b>\$ 53,096</b>	<b>\$ 111,306</b>

**17. SUBSEQUENT EVENT INFORMATION**

On August 1, 2006, IPCO completed the previously announced sale of the Division to Verso Paper Corp., an affiliate of Apollo Management L.P., for approximately \$1.4 billion. The purchase price was paid partially in cash and partially through a 10% limited partnership interest in Verso Paper Investments L.P., Verso Paper Corp.'s indirect parent company.



**Table of Contents****VERSO PAPER CORP.****UNAUDITED CONDENSED COMBINED BALANCE SHEETS**

(In thousands of U.S. dollars)	September 30, 2007	December 31, 2006
<b>ASSETS</b>		
Current Assets		
Cash	\$ 26,916	\$ 112,479
Accounts receivable net	112,979	113,430
Accounts receivable from International Paper Company net	12,466	8,217
Inventories	134,521	140,503
Prepaid expenses and other assets	7,413	5,880
Total Current Assets	294,295	380,509
Property, plant & equipment net	1,170,730	1,212,256
Reforestation	10,933	10,007
Intangibles & other assets net	102,258	89,544
Goodwill	18,695	18,695
Total Assets	\$ 1,596,911	1,711,011
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 122,590	\$ 117,108
Accounts payable to International Paper Company	11,501	29,273
Accrued liabilities	74,002	80,362
Short-term borrowings	2,500	
Current maturities of long-term debt	2,850	2,850
Total Current Liabilities	213,443	229,593
Long-term debt	1,414,300	1,166,438
Other liabilities	33,581	34,961
Total liabilities	1,661,324	1,430,992
Commitments and contingencies (Note 12)		
Shareholders equity	(64,413)	280,019
Total Liabilities and Shareholders Equity	\$ 1,596,911	\$ 1,711,011

See notes to Successor's unaudited condensed combined financial statements.

**Table of Contents**

**VERSO PAPER CORP. (SUCCESSOR) AND  
COATED & SUPERCALENDERED PAPERS DIVISION OF INTERNATIONAL PAPER COMPANY (PREDECESSOR)  
UNAUDITED CONDENSED COMBINED STATEMENTS OF OPERATIONS**

	<b>Successor Combined Nine Months Ended September 30, 2007</b>	<b>Successor Combined Two Months Ended September 30, 2006</b>	<b>Predecessor Combined Seven Months Ended July 31, 2006</b>
<b>(In thousands of U.S. dollars, except per share data)</b>			
Net sales	\$ 1,182,974	\$ 298,825	\$ 904,417
Costs and expenses:			
Cost of products sold (exclusive of depreciation and amortization)	1,035,961	247,884	771,576
Depreciation and amortization	90,660	18,750	72,674
Selling, general and administrative expenses	38,025	5,427	34,348
Restructuring and other charges	16,483	3,700	(322)
Operating income	1,845	23,064	26,141
Interest income	(1,333)	(501)	(23)
Interest expense	106,594	19,708	8,414
Income (loss) before income taxes	(103,416)	3,857	17,750
Income tax expense		75	6,993
Net income (loss)	\$ (103,416)	\$ 3,782	\$ 10,757
Earnings (loss) per share	\$ (103,416)	\$ 3,782	
Common shares outstanding	1,000	1,000	
Included in the financial statement line items above are related-party transactions as follows (Notes 9 and 10, respectively):			
Net sales	\$ 97,565	\$ 38,260	\$ 83,797
Purchases included in cost of products sold	12,580	1,048	119,471
Selling, general and administrative expenses	2,079		25,481
Restructuring and other charges	4,646	2,400	

See notes to Successor's unaudited condensed combined financial statements and Predecessor's unaudited condensed combined financial statements.

**Table of Contents****VERSO PAPER CORP.****UNAUDITED CONDENSED COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY****FOR THE PERIODS ENDED SEPTEMBER 30, 2006 AND 2007**

(In thousands of U.S. dollars)	Common Stock	Paid-in-Capital	Retained Earnings / (Deficit)	Accumulated Other Comprehensive Income	Total Shareholders Equity
Date of acquisition August 1, 2006:					
Capital contributions	\$	\$ 289,889	\$	\$	\$ 289,889
Net income			3,782		3,782
Ending balance September 30, 2006	\$	\$ 289,889	\$ 3,782	\$	\$ 293,671
Beginning balance January 1, 2007	\$	\$ 290,397	\$ (2,637)	\$ (7,741)	\$ 280,019
Net loss			(103,416)		(103,416)
Other comprehensive income (loss):					
Prior service cost amortization				588	588
Comprehensive income (loss)			(103,416)	588	(102,828)
Cash dividends		(242,152)			(242,152)
Equity award expense		548			548
Ending balance September 30, 2007	\$	\$ 48,793	\$ (106,053)	\$ (7,153)	\$ (64,413)

See notes to Successor's unaudited condensed combined financial statements.

**Table of Contents****VERSO PAPER CORP.****UNAUDITED CONDENSED COMBINED STATEMENTS OF CASH FLOWS**

	<b>Successor Combined Nine Months Ended September 30,</b>	<b>Successor Combined Two Months</b>	<b>Predecessor Combined Seven Months Ended July 31,</b>
<b>(In thousands of U.S. dollars)</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
<b>Cash Flows From Operating Activities:</b>			
Net income (loss)	\$ (103,416)	\$ 3,782	\$ 10,757
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	90,660	18,750	72,674
Amortization of debt issuance costs	5,005	876	
Loss (gain) on disposal of fixed assets	231		1,262
Other net	1,137		686
Changes in assets and liabilities:			
Accounts receivable	(3,822)	(34,229)	23,253
Inventories	5,983	13,738	(55,256)
Prepaid expenses and other assets	(13,447)	(20,241)	(6,396)
Accounts payable	(12,266)	40,095	(8,690)
Accrued liabilities	(8,051)	25,814	983
Net cash provided by (used in) operating activities	(37,986)	48,585	39,273
<b>Cash Flows From Investing Activities:</b>			
Proceeds from sale of fixed assets	1,788		32
Cash paid for acquisition		(1,384,093)	
Capital expenditures	(49,603)	(8,151)	(27,655)
Net cash (used in) operating activities	(47,815)	(1,392,244)	(27,623)
<b>Cash Flows From Financing Activities:</b>			
Repayments of debt	(2,138)		(18,754)
Proceeds from debt issuance	250,000	1,152,718	
Dividends paid	(242,152)		
Equity contributions		260,889	7,105
Short-term borrowings	2,500		
Debt issue costs	(7,972)		
Net cash provided by (used in) financing activities	238	1,413,607	(11,649)
<b>Change in Cash</b>	<b>(85,563)</b>	<b>69,948</b>	<b>1</b>
Cash:			
Beginning of period	112,479		46
End of period	\$ 26,916	\$ 69,948	\$ 47

See notes to Successor's unaudited condensed combined financial statements and Predecessor's unaudited condensed combined financial statements.



---

**Table of Contents**

**VERSO PAPER CORP. (SUCCESSOR)**

**NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2007 AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2007**

**1. BACKGROUND AND BASIS OF PRESENTATION**

The accompanying condensed combined financial statements include the accounts of Verso Paper One Corp. (which has been renamed Verso Paper Corp.), Verso Paper Two Corp., Verso Paper Three Corp., Verso Paper Four Corp. and Verso Paper Five Corp. (collectively, the Company), legal entities under common control of Verso Paper Management LP.

Unless otherwise noted, the terms the Company, we, us and our refer collectively to Verso Paper Corp. after giving effect to the consummation of the Acquisition (as defined below). References to the Division, C&SC Papers or Predecessor refer to the Coated and Supercalendered Papers Division of International Paper Company.

On August 1, 2006, we acquired the assets and certain of the liabilities of the Coated and Supercalendered Papers Division of International Paper Company located at the mills in Jay, Maine, Bucksport, Maine, Quinnesec, Michigan and Sartell, Minnesota, together with related other facilities and assets and certain administrative and sales and marketing functions (collectively, the Acquisition) pursuant to the terms of an Agreement of Purchase and Sale (the Purchase and Sale Agreement) we entered into with International Paper Company (International Paper) on September 4, 2006.

We were formed by affiliates of Apollo Management, L.P. (Apollo) for the purpose of consummating the Acquisition. In connection with the Acquisition we issued \$1,185 million of debt (the Financing), consisting of a \$285 million term loan B facility (the Term Loan B), \$600 million of second-priority senior secured notes, and \$300 million of senior subordinated notes. We also raised a \$200 million revolving credit facility (together with the Term Loan B, the Senior Secured Credit Facilities), which was undrawn at the closing of the Acquisition. In addition to the Financing, affiliates of Apollo, International Paper and certain members of our senior management team contributed approximately \$289 million of equity to our parent companies.

As used in this report, the term Acquisition means, collectively, the Acquisition and the Financing. Included in this report are financial statements for the Predecessor seven-month period ended on July 31, 2006, the date prior to Acquisition. The financial statements of Verso Paper Corp. are presented for the two-month period ended September 30, 2006, and for the nine-month period ended September 30, 2007.

In addition, we acquired the assets and certain liabilities of Hybrid Poplar Fiber Farm (Fiber Farm) of International Paper Company as of August 1, 2006, for \$10 million.

In the opinion of Management, the accompanying unaudited combined financial statements include all adjustments that are necessary for the fair presentation of Verso Paper Corp. financial position, results of operations, and cash flows for the interim periods presented. Except as disclosed in the Notes to the unaudited combined financial statements, such adjustments are of a normal, recurring nature. Results for the periods ended September 30, 2007, may not necessarily be indicative of full-year results. It is suggested that these financial statements be read in conjunction with the Company's audited combined financial statements and notes thereto as of December 31, 2006.

Verso Paper Corp., indirect parent company of Verso Paper Finance Holdings LLC and Verso Paper Holdings LLC and a subsidiary of Verso Paper Management LP operates in three operating segments: Coated & supercalendered papers, Hardwood market pulp, and Other, consisting of specialty industrial paper and the fiber farm.

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 Company includes mills and related woodyards in Bucksport and Jay, Maine;

---

**Table of Contents**

Quinnesec, Michigan; and Sartell, Minnesota. The Company also includes an investment in an energy producing asset located at the Bucksport, Maine, facility and a hardwood plantation located near Alexandria, Minnesota.

**2. RECENT ACCOUNTING DEVELOPMENTS**

***Fair Value Measurements*** In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 does not address what to measure at fair value; instead, it addresses how to measure fair value. SFAS No. 157 applies (with limited exceptions) to existing standards that require assets and liabilities to be measured at fair value. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires new disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has not evaluated the provisions of SFAS No. 157 to determine the impact on the Company's combined results of operations or combined financial position.

***Fair Value Option for Financial Assets and Financial Liabilities*** In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*, which permits an entity to measure certain financial assets and financial liabilities at fair value. The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. The Statement is effective as of the beginning of an entity's fiscal year beginning after November 15, 2007. The Company has not evaluated the provisions of SFAS No. 159 to determine the impact on the Company's combined results of operations or combined financial position.

***Accounting for Uncertainty in Income Taxes*** In September 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, the Company adopted the provisions of FIN 48. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. No unrecognized tax benefits were recognized as a result of the implementation of FIN 48.

The Company's policy for recording interest and penalties associated with tax audits is to record such items as a component of income taxes. As of January 1, 2007, the Company had no accrued interest and penalties.

The Company's tax returns are open to federal and state tax audits until the applicable statute of limitations expire. All of the Company's tax years are subject to U.S. federal tax examinations by tax authorities, as are all tax years subject to examination by state tax authorities.

***Accounting for Certain Hybrid Financial Instruments*** In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140*, which provides entities relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated in accordance with SFAS No. 133. This statement was effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after January 1, 2007. The adoption of SFAS No. 155 did not have a material impact on the Company's combined financial statements.

**Table of Contents****3. ACQUISITION**

On August 1, 2006, Verso Paper Corp. acquired C&SC Papers, a producer of coated freesheet, coated groundwood, and uncoated supercalendered papers. The purchase price for C&SC Papers as of the acquisition date was \$1.4 billion. The purchase price was paid partially in cash and partially through a 10% limited partnership interest in Verso Paper Investments, LP., Verso Paper Corp.'s indirect parent company. The acquisition agreement contains various representations, warranties and covenants customary to transactions of this type.

On August 1, 2006, Verso Paper Corp. acquired Fiber Farm, a hardwood plantation owned by International Paper Company. The purchase price for Fiber Farm as of the acquisition date was \$10 million.

**4. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION**

Inventories by major category include the following:

(In thousands of U.S. dollars)	September 30, 2007	December 31, 2006
Raw materials	\$ 22,030	\$ 22,147
Woodyard logs	3,978	5,026
Work-in-process	18,083	19,012
Finished goods	59,057	63,894
Replacement parts and other supplies	31,373	30,424
Inventories	\$ 134,521	\$ 140,503

On September 30, 2007, the Company had approximately \$0.7 million of restricted cash reflected in Other assets 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 combined balance sheet:

(In thousands of U.S. dollars)	Nine Months Ended September 30, 2007	Two Months Ended September 30, 2006
Asset retirement obligations, January 1	\$ 11,855	\$ 12,643
New liabilities	310	
Accretion expense	450	103
Settlement of existing liabilities	(960)	(390)
Adjustment to existing liabilities	104	
Asset retirement obligations, September 30	\$ 11,759	\$ 12,356

Depreciation expense was \$88.6 million for the nine-month period ended September 30, 2007. Depreciation expense was \$18.7 million for the two-month period ended September 30, 2006.



**Table of Contents****5. INTANGIBLES & OTHER ASSETS**

Intangibles and other assets consist of the following:

(In thousands of U.S. dollars)	September 30, 2007	December 31, 2006
Amortizable intangible assets:		
Customer relationships net of accumulated amortization of \$1.4 million and \$0.2 million, respectively	\$ 11,870	\$ 13,070
Patents net of accumulated amortization of \$0.13 million and \$0.05 million, respectively	1,014	1,100
<b>Total amortizable intangible assets</b>	<b>12,884</b>	<b>14,170</b>
Unamortizable intangible assets:		
Trademarks	21,473	21,473
Other assets:		
Financing costs net of accumulated amortization of \$7.3 million and \$2.3 million, respectively	45,082	42,109
Deferred major repair	7,085	6,008
Deferred software cost net of accumulated amortization of \$0.7 million	4,631	
Replacement parts net	2,126	1,729
Other	8,977	4,055
<b>Total other assets</b>	<b>67,901</b>	<b>53,901</b>
<b>Intangibles and other assets</b>	<b>\$ 102,258</b>	<b>\$ 89,544</b>

Approximately \$1.3 million of intangible amortization is reflected in depreciation and amortization expense for the nine-month period ended September 30, 2007. Approximately \$0.1 million of intangible amortization is reflected in depreciation and amortization expense for the two-month period ended September 30, 2006.

Estimated amortization expense of intangibles for the remainder of 2007 is expected to be \$0.4 million and is expected to be approximately \$1.6 million, \$1.4 million, \$1.3 million and \$1.1 million for the twelve-month periods of 2008, 2009, 2010 and 2011, respectively.

Software cost incurred as part of a major systems project was capitalized and is being amortized over its anticipated useful life of approximately three years. Approximately \$0.7 million of software amortization is reflected in depreciation and amortization expense for the nine-month period ended September 30, 2007.

**6. LONG-TERM DEBT**

A summary of long-term debt is as follows:

(In thousands of U.S. dollars)	Maturity	Rate	September 30, 2007	December 31, 2006
Fiber Farm Term Loan	8/1/2010	Libor + 3.00%	\$ 10,000	\$ 10,000
Term Loan B	8/1/2013	Libor + 1.75%	257,150	259,288
Second Priority Senior Secured Notes Fixed	8/1/2014	9.13%	350,000	350,000
Second Priority Senior Secured Notes Floating	8/1/2014	Libor + 3.75%	250,000	250,000
Senior Subordinated Notes	8/1/2016	11.38%	300,000	300,000
Holdings Senior Unsecured Term Loan	1/31/2013	Libor + 6.25%	250,000	
			<b>1,417,150</b>	<b>1,169,288</b>
Less current maturities			(2,850)	(2,850)

Long-term debt	\$ 1,414,300	\$ 1,166,438
----------------	--------------	--------------

F-42

**Table of Contents**

Interest expense was approximately \$101.6 million while \$113.9 million of interest was paid during the nine-month period ended September 30, 2007. Interest expense was \$19.7 million during the two-month period ended September 30, 2006, and no cash interest payments were made during this period. In conjunction with the Acquisition, Verso Paper Corp. assumed none of the historical debt of the Predecessor.

Amortization of debt issuance costs was approximately \$5.0 million for the nine-month period ended September 30, 2007, and is included in interest expense in the accompanying combined statement of operations. Amortization of debt issuance cost was \$0.9 million for the two-month period ended September 30, 2006.

In January 2007, Verso Paper Finance Holdings LLC (Holdings) entered into a \$250 million senior unsecured floating-rate term loan facility with a maturity of nine years. Interest is paid quarterly. The proceeds of the loan were used for a distribution to equity holders and to pay related fees and expenses. Holdings has no independent operations, consequently, all cash flows used to service the debt obligation will need to be received via a distribution from Verso Paper Holdings LLC. Verso Paper Holdings LLC paid a distribution of \$14.7 million for the nine months ended September 30, 2007. Verso Paper Holdings LLC has no obligation to issue distributions to Holdings. Holdings can, at its option, choose to forgo cash interest payments on the loan and choose to instead pay interest in kind.

As of September 30, 2007, \$2.5 million was outstanding under Verso Fiber Farm LLC's \$5.0 million revolving credit facility, and is included in short-term borrowings on the condensed combined balance sheet.

**7. RETIREMENT PLANS**

The company maintains a defined benefit pension plan that provides retirement benefits to hourly employees in Jay, Bucksport and Sartell. The plan provides defined benefits based on years of credited services times a specified flat dollar benefit rate.

The Company makes contributions that are sufficient to fully fund its actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act (ERISA). The Company's total contributions for the nine months ended September 30, 2007, were \$5.3 million, with \$3.1 million attributable to the 2007 plan year and \$2.2 million attributable to the 2006 plan year. The Company currently expects to make an additional contribution of \$1.5 million in 2007 related to the 2007 plan year.

The following table summarizes the components of net periodic expense:

<b>(In thousands of U.S. dollars)</b>	<b>Nine Months Ended September 30, 2007</b>	<b>Two Months Ended September 30, 2006</b>
<b>Components of net periodic pension cost:</b>		
Service cost	\$ 3,760	\$ 836
Interest cost	447	77
Amortization of prior service cost	588	131
<b>Net periodic pension cost</b>	<b>\$ 4,795</b>	<b>\$ 1,044</b>

**8. MANAGEMENT EQUITY AWARDS**

Certain members of management were granted the right to purchase Class A units of Verso Paper Management LP (a limited partner of the ultimate parent of the Company). In addition, certain members of management were granted Class B and Class C units. The Class B units vest over a 5 year period, 20% at the end of each year of service. The Class C units will vest only if certain performance targets are met. Directors were granted Class D units of Verso Paper Management LP, which are currently vested.

## **Table of Contents**

During the nine-month period ended September 30, 2007, additional Class B and Class C units were granted. The fair value of the additional units granted was approximately \$0.6 million. Equity award expense of \$0.5 million was recognized in the nine-month period ended September 30, 2007.

### **9. RELATED PARTY TRANSACTIONS**

In conjunction with the Acquisition, we entered into a Transition Service Agreement with International Paper whereby International Paper agreed to continue to provide certain services specified in the agreement that are necessary for us to run as a stand-alone business. The charges for the nine-month period ended September 30, 2007, were \$4.6 million. The charges for the two-month period ended September 30, 2006, were \$2.4 million. As of September 30, 2007, we have substantially discontinued the usage of services under this agreement.

The Company had net sales to International Paper of approximately \$97.6 million for the nine months ended September 30, 2007. The Company had net sales to International Paper of approximately \$38.3 million for the two months ended September 30, 2006. The Company had purchases from International Paper of approximately \$12.6 million for the nine months ended September 30, 2007. The Company had purchases from International Paper of approximately \$1.0 million for the two months ended September 30, 2006.

Under a management agreement, we paid Apollo and its affiliates an annual fee of \$2.8 million of which \$2.1 million was expensed during the nine-month period ended September 30, 2007.

In January 2007, Holdings entered into a \$250 million senior unsecured floating-rate term loan facility with a maturity of nine years. Holdings has no independent operations, consequently, all cash flows used to service the debt obligation will need to be received via a distribution from Verso Paper Holdings LLC. Verso Paper Holdings LLC paid distributions of \$14.7 million for the nine months ended September 30, 2007. Verso Paper Holdings LLC has no obligation to issue distributions to Holdings. Holdings can, at its option, choose to forgo cash interest payments on the loan and choose to instead pay interest in kind.

### **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 costs of a Transition Service Agreement with International Paper, technology migration costs, consulting and legal fees, and other one-time costs related to us operating as a stand-alone business. The charges for the nine-month period ended September 30, 2007, were \$16.5 million which included \$4.6 million of Transition Service Agreement costs. The charges for the two-month period ended September 30, 2006, were \$3.7 million, which included \$2.4 million of Transition Service Agreement costs.

**Table of Contents****11. INCOME TAXES**

The following is a summary of the components of the provision (benefit) for income taxes:

	<b>Nine Months Ended</b>
	<b>September 30, 2007</b>
<b>(In thousands of U.S. dollars)</b>	
Current tax provision (benefit):	
U.S. federal	\$
U.S. state and local	
	\$
Deferred tax provision (benefit):	
U.S. federal	\$ (31,912)
U.S. state and local	(6,012)
	\$ (37,924)
Valuation allowance	\$ 37,924
Income tax provision (benefit)	\$

A reconciliation of income tax expense using the statutory federal income tax rate compared with actual income tax expense follows:

	<b>Nine Months Ended</b>
	<b>September 30, 2007</b>
<b>(In thousands of U.S. dollars)</b>	
Tax at Statutory U.S. Rate of 34%	\$ (35,161)
Increase (decrease) resulting from:	
State income taxes	(18)
Meals and entertainment	126
Nondeductible lobbying expenses	17
Disallowed interest	1,080
Other	1
Net permanent differences	\$ 1,206
State income taxes (benefit)	(3,969)
Valuation allowance	37,924
Total income tax expense	\$

**Table of Contents**

The following is a summary of the significant components of our deferred tax position:

(In thousands of U.S. dollars)	September 30, 2007	December 31, 2006
<b>Deferred tax assets:</b>		
Compensation reserves	\$ 1,473	\$ 543
Inventory capitalization	1,144	1,064
Pension	2,713	2,936
Property, plant and equipment		11,211
Net operating loss and credit carryforwards	79,363	5,834
Other	1,485	479
Gross deferred tax assets	86,178	22,067
Less: valuation allowance	(50,847)	(12,996)
Deferred tax assets, net of allowance	\$ 35,331	\$ 9,071
<b>Deferred tax liabilities</b>		
Prepaid expenses	\$ (591)	\$ (1,418)
Intangible assets	(13,030)	(13,518)
Deferred repair charges	(2,688)	(2,279)
Property, plant and equipment	(27,155)	
Other	(11)	
Total deferred tax liabilities	\$ (43,475)	\$ (17,215)
Net deferred taxes	\$ (8,144)	\$ (8,144)

The valuation allowance for deferred tax assets as of September 30, 2007, and December 31, 2006, was \$50.8 million and \$13.0 million, respectively. The change in the valuation allowance of \$37.8 million relates to the increase in net deferred tax assets for federal income taxes and for certain states, since it more likely than not that we will not recognize those benefits as defined in SFAS No. 109.

Income tax benefits related to the pension prior service liability have been credited to other comprehensive income. The benefits have been reduced by a valuation allowance of \$2.9 million. The portion of the valuation allowance for which subsequently recognized tax benefits will be allocated to reduce goodwill is \$9.2 million.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon our current period loss and our lack of historical earnings, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences, net of the existing valuation allowance on September 30, 2007.

The Company has federal net operating loss carryforwards totaling approximately \$209.0 million and \$15.3 million on September 30, 2007, and December 31, 2006, respectively, which begin to expire in 2026.

The Company has state net operating loss carryforwards totaling approximately \$209.0 million and \$15.3 million on September 30, 2007, and December 31, 2006, respectively, which begin to expire in 2011.

**12. COMMITMENTS AND CONTINGENCIES**

**Contingencies** Contingent liabilities arise in the ordinary course of business, including those related to litigation. Various claims are pending against the Company and its subsidiaries. Although the Company cannot predict the outcome of these claims, after consulting with counsel, management is of the opinion that when resolved, these claims will not have a material adverse effect on the combined financial statements of the Company.

## Edgar Filing: Verso Paper Corp. - Form S-1

In December 2006, a federal grand jury in Connecticut indicted Stora Enso North America Corporation ( SENA ) for allegedly participating in a price-fixing conspiracy with a competitor with respect to the sale of coated papers. The federal government alleged that the price-fixing activity occurred between August 2002 and

F-46

## **Table of Contents**

September 2003, a period when our business was a division of International Paper. In July 2007, the federal government prosecuted its case against SENA before a jury in the federal district court in Connecticut. During the trial, it was revealed that the alleged co-conspirator of SENA was a competitor other than International Paper. At the conclusion of the trial, the jury acquitted SENA of the price-fixing charge. The Company understands that related civil cases against SENA remain pending. Based on these developments, management believes that the Company will not incur any material liabilities arising from the alleged price-fixing activities or the ensuing litigation.

In connection with the Acquisition, we assumed a twelve-year supply agreement with Thilmany LLC for the products produced from our paper machine No. 5 at the Jay mill. This agreement requires Thilmany to pay us a variable charge for the paper purchased and a fixed charge for the availability of the No. 5 paper machine. We are responsible for the No. 5 machine's routine maintenance and Thilmany is responsible for any capital expenditures specific to the machine. As defined in the agreement, Thilmany has the right to terminate the agreement if certain events occur.

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 by the two parties and is located in Bucksport, Maine. Each owner, Verso Bucksport LLC and Bucksport Energy LLC, owns its proportional share of the assets. The plant supports the Bucksport paper mill. The mill owns 28% of the steam and electricity produced by the plant. The mill may purchase its remaining electrical needs from the plant at market rates. The mill is obligated to purchase the remaining 72% of the steam output 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 Bucksport mill has cash which is restricted in its use and may be used only to fund the ongoing energy operations of this investment. Approximately \$0.2 million of restricted cash is included in Other assets in the accompanying balance sheet at September 30, 2007.

### **13. INFORMATION BY INDUSTRY SEGMENT**

The Company operates in three operating segments, Coated and supercalendered papers, Hardwood market pulp, and Other, consisting of specialty industrial paper and the fiber farm. 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.



**Table of Contents**

The following table summarizes the industry segments for the nine-month period ended September 30, 2007, and for the two-month period ended September 30, 2006:

<b>(In thousands of U.S. dollars)</b>	<b>Nine Months Ended September 30, 2007</b>	<b>Two Months Ended September 30, 2006</b>
<b>Net Sales:</b>		
Coated	\$ 1,047,106	\$ 267,697
Pulp	107,663	24,389
Other	28,205	6,739
<b>Total</b>	<b>\$ 1,182,974</b>	<b>\$ 298,825</b>
<b>Operating Income (Loss):</b>		
Coated	\$ (18,580)	\$ 17,671
Pulp	23,954	5,576
Other	(3,529)	(183)
<b>Total</b>	<b>\$ 1,845</b>	<b>\$ 23,064</b>
<b>Depreciation and Amortization:</b>		
Coated	\$ 75,302	\$ 15,733
Pulp	13,312	2,668
Other	2,046	349
<b>Total</b>	<b>\$ 90,660</b>	<b>\$ 18,750</b>
<b>Capital Spending:</b>		
Coated	\$ 45,951	\$ 7,092
Pulp	1,348	941
Other	2,304	118
<b>Total</b>	<b>\$ 49,603</b>	<b>\$ 8,151</b>

**14. DERIVATIVES**

In the normal course of business, the Company utilizes derivatives contracts as part of its risk management strategy to manage risks associated with market fluctuations in energy prices. 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 amount the Company would receive or pay in the market to replace the derivatives as of the valuation date. Fair value is determined using available market information.

The Company enters into fixed-price swaps as economic hedges designed to mitigate the risk of changes in commodity prices for future purchase commitments. 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. Net losses on open derivative contracts of \$2.2 million were recognized in cost of products sold for the nine months ended September 30, 2007.



---

**Table of Contents**

**COATED AND SUPERCALENDERED PAPERS DIVISION OF INTERNATIONAL PAPER COMPANY (PREDECESSOR)**

**NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE SEVEN-MONTH PERIOD ENDED  
JULY 31, 2006**

**1. BASIS OF PRESENTATION**

In the opinion of Management, the accompanying unaudited combined financial statements include all adjustments that are necessary for the fair presentation of the Coated & Supercalendered Papers Division ( C&SC Papers or the Division ) of International Paper Company ( IPCO or the Company ) financial position, results of operations, and cash flows for the interim periods presented. Except as disclosed in the condensed Notes to combined financial statements, such adjustments are of a normal, recurring nature. Results for the first nine months of the year may not necessarily be indicative of full-year results.

The Division operates in three operating segments: Coated & supercalendered papers, Hardwood market pulp, and Other, consisting of uncoated copy paper and specialty industrial paper. The Division'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 Division includes mills and related woodyards in Bucksport and Jay, Maine; Quinnesec, Michigan; and Sartell, Minnesota. The Division also includes investments in two energy producing assets located at the Bucksport and Jay, Maine, facilities.

During the periods presented, the Division was under the control of IPCO. The operating results and financial position of the Division were impacted by the nature of this relationship (see Note 3).

**2. RESTRUCTURING AND OTHER CHARGES**

In March 2006, the reserve related to the permanent closure of No. 1 paper machine at the Jay, Maine mill was adjusted to reflect actual costs, resulting in a reversal of approximately \$0.3 million of the recorded reserve. Amounts are reflected in Restructuring and other charges in the accompanying combined statements of operations.

**3. TRANSACTIONS WITH IPCO AND AFFILIATES**

Certain services are provided to the Division by IPCO, including corporate management, legal, accounting and tax, treasury, payroll and benefits administration, certain incentive compensation, risk management, information technology and centralized transaction processing. These expenses are included in Selling, general and administrative expenses and Cost of products sold in the accompanying combined statements of operations. Expenses for such corporate services included in Selling, general and administrative expenses totaled \$19.0 million for the seven-month period ended July 31, 2006. Expenses for such corporate services included in Cost of products sold totaled \$6.2 million for the seven-month period ended July 31, 2006. These costs are allocated from IPCO to the Division based on various methods, including direct consumption, percent of capital employed, and number of employees.

Substantially all employees hired prior to July 2004, and retirees of the Division, participate in IPCO's pension plans and are eligible to receive retirement benefits. IPCO allocates service cost to the Division based upon a percent-of-pay for salaried employees and a calculated flat amount for hourly employees. IPCO allocated periodic pension costs to the Division of \$7.5 million during the seven-month period ended July 31, 2006.

IPCO provides certain retiree health care and life insurance benefits to a majority of the Division's salaried employees and certain of the Division's hourly employees. IPCO allocates postretirement benefit costs to the Division based upon a percent-of-pay for salaried employees and a calculated flat amount for hourly employees. IPCO allocated postretirement benefit costs to the Division of \$0.9 million during the seven-month period ended July 31, 2006.

## **Table of Contents**

The Division had net sales to IPCO of approximately \$83.8 million for the seven-month period ended July 31, 2006. The Division had purchases from IPCO of approximately \$119.5 million for the seven-month period ended July 31, 2006.

### **4. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION**

Total interest expense was \$8.4 million while \$7.3 million of interest was paid during the seven-month period ended July 31, 2006.

### **5. INCOME TAXES**

The results of operations of the Division are included in the income tax returns of IPCO. In the accompanying combined financial statements, the Division has reflected U.S. federal and state income tax expense / (benefit) on its gains / (losses) based on an allocated rate of 39.4% for the seven months ended July 31, 2006.

### **6. COMMITMENTS AND CONTINGENCIES**

**Litigation** In May 2004, the press reported that European, U.S., and Canadian antitrust authorities were investigating possible cartel activity relating to publication papers. Following these press reports, a number of private plaintiffs filed purported class actions on behalf of purchasers of publication papers in various U.S. federal and state courts. These class actions allege that manufacturers of publication papers, including International Paper, participated in a price-fixing conspiracy from 1993 to the present. The cases filed in federal court assert a violation of the federal antitrust laws, while the cases filed in the state court allege violations of state antitrust and consumer protection statutes. These lawsuits seek injunctive relief, as well as treble damages and other costs associated with the litigation. The federal and state cases were consolidated for pre-trial purposes in December 2004 in the federal court for the District of Connecticut. Discovery and related pre-trial proceedings have begun in the consolidated federal case. The Company is vigorously defending this case and believes it has valid defenses, and as such, has not accrued any amounts at July 31, 2006.

In March 2006, the Division received approximately \$1.0 million from Androscoggin Energy LLC ( AELLC ), as a result of the settlement of a billing dispute. AELLC was a supplier of energy to the Jay, Maine facility that ceased operations in November 2004 and filed for Chapter 11 bankruptcy.

The Division has various other lawsuits, claims, and contingent liabilities arising from the conduct of its business; however, in the opinion of management, they are not expected to have a material adverse effect on the combined results of operations, cash flows, or financial position of the Division.

**Table of Contents****7. INFORMATION BY INDUSTRY SEGMENT**

The Division operates in three operating segments, Coated and supercalendered papers, Hardwood market pulp, and Other, consisting of uncoated copy paper and specialty industrial paper. The Division operates in one geographic segment, the United States. The Division'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. For management purposes, the operating performance of the Division is reported based on earnings before interest and taxes, excluding the cumulative effect of accounting changes:

	<b>Seven Months Ended July 31,</b>
<b>(In thousands of U.S. dollars)</b>	<b>2006</b>
<b>Net Sales:</b>	
Coated	\$ 793,308
Pulp	88,634
Other	22,475
<b>Total</b>	<b>\$ 904,417</b>
<b>Operating Income:</b>	
Coated	\$ 17,903
Pulp	7,413
Other	825
<b>Total</b>	<b>\$ 26,141</b>
<b>Depreciation and Amortization:</b>	
Coated	\$ 60,882
Pulp	10,417
Other	1,376
<b>Total</b>	<b>\$ 72,675</b>

**Table of Contents**

**COMMON STOCK**

---

**Prospectus**

---

**Dated**                      **, 2008**

**Table of Contents****PART II****INFORMATION NOT REQUIRED IN THE PROSPECTUS****ITEM 13. Other Expenses of Issuance and Distribution.**

The following table sets forth all expenses other than the underwriting discount, payable by the Registrant in connection with the sale of the common shares being registered. All amounts shown are estimates except for the SEC registration fee.

SEC registration fee	\$10,591.50
FINRA fee	\$35,000
Legal fees and expenses	\$ *
Printing and engraving expenses	\$ *
Blue sky fees	\$ *
NYSE fees	\$ *
Transfer agent fees	\$ *
Accounting fees and expenses	\$ *
Miscellaneous	\$ *
Total	\$ *
-	

\* To be provided by amendment.

**ITEM 14. Indemnification of Officers and Directors.**

Verso Paper Corp. is incorporated under the laws of the state of Delaware.

Section 145 of the Delaware General Corporation Law, or the DGCL, provides that a corporation may indemnify any person, including an officer or director, who was or is, or is threatened to be made, a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person is or was a director, officer, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of such corporation, and, with respect to any criminal actions and proceedings, had no reasonable cause to believe that his conduct was unlawful. A Delaware corporation may indemnify any person, including an officer or director, who was or is, or is threatened to be made, a party to any threatened, pending or contemplated action or suit by or in the right of such corporation, under the same conditions, except that such indemnification is limited to expenses (including attorneys' fees) actually and reasonably incurred by such person, and except that no indemnification is permitted without judicial approval if such person is adjudged to be liable to such corporation. Where an officer or director of a corporation is successful, on the merits or otherwise, in the defense of any action, suit or proceeding referred to above, or any claim, issue or matter therein, the corporation must indemnify that person against the expenses (including attorneys' fees) which such officer or director actually and reasonably incurred in connection therewith.

The amended and restated certificate of incorporation of Verso Paper Corp. will provide for the indemnification of directors, officers and employees to the fullest extent permitted by the DGCL. In addition, as permitted by the DGCL, the amended and restated certificate of incorporation of Verso Paper Corp. will provide that none of its directors will be personally liable to it or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL as currently in effect or as the same may hereafter be amended.

**Table of Contents**

The amended and restated by-laws of Verso Paper Corp. will provide for the indemnification of all of their respective current and former directors and current or former officers to the fullest extent permitted by the DGCL.

**Item 15. Recent Sales of Unregistered Securities.**

In connection with the Acquisition of the Registrant on August 1, 2006, the Registrant issued all of its outstanding shares of common stock to Verso Paper Management LP. This transaction was exempt from the registration requirements pursuant to Section 4(2) of the Securities Act of 1933, as amended.

**Item 16. Exhibits and Financial Statement Schedules.****(a) Exhibits**

See the Exhibit Index beginning on the page II-5 for a list of exhibits filed as part of this registration statement on Form S-1, which Exhibit Index is incorporated herein by reference.

**(b) Financial Statement Schedules****Schedule II Valuation and Qualifying Accounts****Verso Paper Holdings LLC (Successor) and Coated &****Supercalendered Papers Division of International Paper Company (Predecessor)****Valuation and Qualifying Accounts**

**Years Ended December 31, 2004, 2005, and Seven Months Ended July 31, 2006 (Predecessor)**

**and Five Months Ended December 31, 2006 (Successor)**

	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Charged to Other Accounts	Deductions Charge-off Against Allowances	Balance at End of Period
Allowance for uncollectible accounts included under the balance sheet caption Accounts receivable (Predecessor):					
Year Ended December 31, 2004	\$ 10,428	\$ 103	\$	\$ (1,634)	\$ 8,897
Year Ended December 31, 2005	\$ 8,897	\$ 200	\$	\$ (1,795)	\$ 7,302
Seven Months Ended July 31, 2006	\$ 7,302	\$ 856	\$	\$ (6,323)	\$ 1,835
Allowance for uncollectible accounts included under the balance sheet caption Accounts receivable (Successor):					
Five Months Ended December 31, 2006	\$ 1,835	\$ 102	\$	\$	\$ 1,937



**Item 17. Undertakings**

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being

**Table of Contents**

registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For the purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as a part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

**Table of Contents****SIGNATURE**

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Memphis, State of Tennessee, on December 20, 2007.

VERSO PAPER CORP.

By: /s/ MICHAEL A. JACKSON  
Michael A. Jackson  
President, Chief Executive Officer and Director

**POWER OF ATTORNEY**

Each person whose signature appears below constitutes and appoints Michael A. Jackson, Robert P. Mundy and Peter H. Kesser, and each of them, his true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, severally, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement and any and all additional registration statements pursuant to Rule 462(b) of the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ MICHAEL A. JACKSON <b>Michael A. Jackson</b>	President, Chief Executive Officer and Director	December 20, 2007
/s/ ROBERT P. MUNDY <b>Robert P. Mundy</b>	Senior Vice President and Chief Financial Officer	December 20, 2007
/s/ JOSHUA J. HARRIS <b>Joshua J. Harris</b>	Director	December 20, 2007
/s/ SCOTT M. KLEINMAN <b>Scott M. Kleinman</b>	Director	December 20, 2007
/s/ JORDAN C. ZAKEN <b>Jordan C. Zaken</b>	Director	December 20, 2007
/s/ DAVID W. OSKIN <b>David W. Oskin</b>	Director	December 20, 2007
/s/ L.H. PUCKETT, JR. <b>L.H. Puckett, Jr.</b>	Director	December 20, 2007
/s/ MICHAEL E. DUCEY <b>Michael E. Ducey</b>	Director	December 20, 2007

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
1.1	Form of Underwriting Agreement.
2.1	Agreement of Purchase and Sale, dated as of June 4, 2006 and amended as of August 1, 2006, among International Paper Company, Verso Investments LP and Verso Paper LLC (incorporated by reference to Exhibit 2.1 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
2.2	Form of Amended and Restated Articles of Incorporation of Verso Paper Corp.
2.3	Form of Amended and Restated Bylaws of Verso Paper Corp.
4.1	Specimen Common Stock Certificate of Verso Paper Corp.
5.1	Opinion of Latham & Watkins LLP special counsel to Verso Paper Corp.
10.1	Credit Agreement, dated as of August 1, 2006, among Verso Paper Finance Holdings LLC, Verso Paper Holdings LLC, the lenders party thereto, Credit Suisse, acting through its Cayman Islands branch, as administrative agent, Lehman Brothers Inc., as syndication agent, Citigroup Global Markets Inc. and Banc of America Securities LLC, as co-documentation agents, and Credit Suisse Securities (USA) LLC and Lehman Brothers Inc., as joint bookrunners and co-lead arrangers (incorporated by reference to Exhibit 10.1 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.2	Guarantee and Collateral Agreement, dated as of August 1, 2006, among Verso Paper Finance Holdings LLC, Verso Paper Holdings LLC, certain subsidiaries identified therein and Credit Suisse, acting through its Cayman Islands branch, as administrative agent (incorporated by reference to Exhibit 10.2 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.3	Intellectual Property Security Agreement, dated as of August 1, 2006, made by Verso Paper Holdings LLC, Verso Paper Inc., Verso Paper LLC, Verso Androscoggin LLC, Verso Bucksport LLC, Verso Quinnesec LLC, Verso Sartell LLC and Nextier Solutions Corporation in favor of Wilmington Trust Company, as collateral agent (incorporated by reference to Exhibit 10.3 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.4	Management and Transaction Fee Agreement, dated as of August 1, 2006, by and between Verso Paper LLC, Verso Paper Investments LP, Apollo Management V L.P. and Apollo Management (incorporated by reference to Exhibit 10.4 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.5	Employment Agreement, dated as of November 16, 2006, by and between Michael A. Jackson and Verso Paper Holdings LLC (incorporated by reference to Exhibit 10.5 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.6	Side Letter to Employment Agreement, dated as of November 16, 2006, by and between Michael A. Jackson and Verso Paper Holdings LLC (incorporated by reference to Exhibit 10.6 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.7	Amended and Restated Limited Partnership Agreement of Verso Paper Management LP (incorporated by reference to Exhibit 10.7 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).

**Table of Contents**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.8	Michael A. Jackson Side Letter to Amended and Restated Limited Partnership Agreement of Verso Paper Management LP, as amended and restated February 16, 2007 (incorporated by reference to Exhibit 10.8 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.9	L.H. Puckett Side Letter to Amended and Restated Limited Partnership Agreement of Verso Paper Management LP, dated as of November 1, 2006 (incorporated by reference to Exhibit 10.9 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.10	Confidentiality and Non-Competition Agreement, dated as of March 19, 2007, by and between Benjamin Hinchman, IV and Verso Paper Holdings LLC (incorporated by reference to Exhibit 10.10 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.11	Confidentiality and Non-Competition Agreement, dated as of March 19, 2007, by and between Lyle J. Fellows and Verso Paper Holdings LLC (incorporated by reference to Exhibit 10.11 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.12	Confidentiality and Non-Competition Agreement, dated as of March 19, 2007, by and between Michael A. Weinhold and Verso Paper Holdings LLC (incorporated by reference to Exhibit 10.12 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.13	Confidentiality and Non-Competition Agreement, dated as of March 20, 2007, by and between Robert Mundy and Verso Paper Holdings LLC (incorporated by reference to Exhibit 10.13 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.14	Indenture relating to the Second Priority Senior Secured Floating Rate Notes due 2014 and the 9 <sup>1</sup> / <sub>8</sub> % Second Priority Senior Secured Fixed Rate Notes due 2014, dated as of August 1, 2006, among Verso Paper Holdings LLC, Verso Paper Inc., the Guarantors named therein and Wilmington Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.15	Indenture relating to the 11 <sup>3</sup> / <sub>8</sub> % Senior Subordinated Notes due 2016, dated as of August 1, 2006, among Verso Paper Holdings LLC, Verso Paper Inc., the Guarantors named therein and Wilmington Trust Company, as Trustee (incorporated by reference to Exhibit 4.6 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.16	Intercreditor Agreement, dated as August 1, 2006, among Credit Suisse, Cayman Islands Branch, as Intercreditor Agent, Wilmington Trust Company, as Trustee, Verso Paper Finance Holdings LLC, Verso Paper Holdings LLC and each Subsidiary of Verso Paper Holdings LLC listed on Schedule I thereto (incorporated by reference to Exhibit 4.11 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.17	Collateral Agreement, dated as of August 1, 2006, among Verso Paper Holdings LLC, Verso Paper Inc., certain subsidiaries identified therein and Wilmington Trust Company, as collateral agent (incorporated by reference to Exhibit 4.12 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).

---

**Table of Contents**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.18	Intellectual Property Security Agreement, dated as of August 1, 2006, made by Verso Paper Finance Holdings LLC, Verso Paper Holdings LLC, Verso Paper Inc., CMP Holdings LLC, CMP Androscoggin LLC, CMP Bucksport LLC, CMP Quinnesec LLC, CMP Sartell LLC and NexTier Solutions Corporation in favor of Credit Suisse, Cayman Islands Branch, as administrative agent (incorporated by reference to Exhibit 4.13 in Amendment No. 1 to the Registration Statement of Verso Paper Holdings LLC on Form S-4 (Registration No. 333-142283) filed on June 29, 2007).
10.19*	Credit Agreement, dated January 31, 2007, among Verso Paper Finance Holdings LLC, Verso Paper Finance Holdings Inc., the lenders party thereto, Credit Suisse, as administrative agent, Citigroup Global Markets Inc., as syndication agent, and Credit Suisse Securities (USA) LLC and Citigroup Global Markets Inc., as joint lead arrangers and joint bookrunning managers.
21.1*	Subsidiaries of the Registrant.
23.1	Consent of Latham & Watkins LLP, special counsel to Verso Paper Corp. (included in Exhibit 5.1).
23.2*	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
23.3*	Power of Attorney (included on signature pages attached hereto).

---

\* Filed herewith

To be filed by amendment.