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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Verso Paper Corp.
(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| Delaware<br>(State of Incorporation or Organization) | 001-34056<br>(Commission File Number) | 75-3217389<br>(IRS Employer Identification Number) |

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

| | | |
|---|---|---|
| Delaware<br>(State of Incorporation or Organization) | 333-142283<br>(Commission File Number) | 56-2597634<br>(IRS Employer Identification Number) |

6775 Lenox Center Court, Suite 400
Memphis, Tennessee 38115-4436
(Address, including zip code, of principal executive offices)

(901) 369-4100
(Registrants’ telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

| | |
|---|---|
| Verso Paper Corp. | þ Yes o No |
| Verso Paper Holdings LLC | þ Yes o No |

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

| | |
|---|---|
| Verso Paper Corp. | þ Yes o No |
| Verso Paper Holdings LLC | þ Yes o No |

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

Verso Paper Corp.

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer o | Non-accelerated filer þ<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Verso Paper Holdings LLC

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer o | Non-accelerated filer þ<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

| | |
|---|---|
| Verso Paper Corp. | o Yes þ No |
| Verso Paper Holdings LLC | o Yes þ No |

As of April 30, 2012, Verso Paper Corp. had 52,907,984 outstanding shares of common stock, par value $0.01 per share, and Verso Paper Holdings LLC had one outstanding limited liability company interest.

This Form 10-Q is a combined quarterly report being filed separately by two registrants: Verso Paper Corp. and Verso Paper Holdings LLC.

Entity Names and Organization

Within our organization, Verso Paper Corp. is the ultimate parent entity and the sole member of Verso Paper Finance Holdings One LLC, which is the sole member of Verso Paper Finance Holdings LLC, which is the sole member of Verso Paper Holdings LLC. As used in this report, the term “Verso Paper” refers to Verso Paper Corp.; the term “Verso Finance” refers to Verso Paper Finance Holdings LLC; the term “Verso Holdings” refers to Verso Paper Holdings LLC; and the term for any such entity includes its direct and indirect subsidiaries when referring to the entity’s consolidated financial condition or results. Unless otherwise noted, references to “we,” “us,” and “our” refer collectively to Verso Paper and Verso Holdings. Other than Verso Paper’s common stock transactions, Verso Finance’s debt obligation and related financing costs and interest expense, Verso Holdings’ loan to Verso Finance, and the debt obligation of Verso Holdings’ consolidated variable interest entity to Verso Finance, the assets, liabilities, income, expenses and cash flows presented for all periods represent those of Verso Holdings in all material respects. Unless otherwise noted, the information provided pertains to both Verso Paper and Verso Holdings.

Forward-Looking Statements

In this quarterly report, all statements that are not purely historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may be identified by the words “believe,” “expect,” “anticipate,” “project,” “plan,” “estima “intend,” and similar expressions. Forward-looking statements are based on currently available business, economic, financial, and other information and reflect management’s current beliefs, expectations, and views with respect to future developments and their potential effects on us. Actual results could vary materially depending on risks and uncertainties that may affect us and our business. For a discussion of such risks and uncertainties, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this quarterly report and to Verso Paper’s and Verso Holdings’ other filings with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statement made in this quarterly report to reflect subsequent events or circumstances or actual outcomes.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| | VERSO PAPER | | VERSO HOLDINGS | |
|---|---|---|---|---|
| | March 31, | December 31, | March 31, | December 31, |
| (Dollars in thousands, except per share amounts) | 2012 | 2011 | 2012 | 2011 |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 56,209 | $ 94,869 | $ 56,135 | $ 94,795 |
| Accounts receivable, net | 119,423 | 128,086 | 119,549 | 128,213 |
| Inventories | 192,820 | 166,876 | 192,820 | 166,876 |
| Prepaid expenses and other assets | 6,681 | 3,239 | 6,681 | 3,238 |
| Total current assets | 375,133 | 393,070 | 375,185 | 393,122 |
| Property, plant, and equipment, net | 907,410 | 934,699 | 907,410 | 934,699 |
| Reforestation | 13,587 | 13,671 | 13,587 | 13,671 |
| Intangibles and other assets, net | 78,921 | 80,035 | 101,926 | 102,950 |
| Total assets | $ 1,375,051 | $ 1,421,475 | $ 1,398,108 | $ 1,444,442 |
| | | | | |
| LIABILITIES AND EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 112,233 | $ 109,683 | $ 113,020 | $ 110,589 |
| Accrued liabilities | 79,075 | 140,756 | 78,094 | 139,682 |
| Current maturities of long-term debt | 86,166 | - | - | - |
| Total current liabilities | 277,474 | 250,439 | 191,114 | 250,271 |
| Long-term debt | 1,259,014 | 1,262,459 | 1,282,319 | 1,201,077 |
| Other liabilities | 61,866 | 62,465 | 53,764 | 54,278 |
| Total liabilities | 1,598,354 | 1,575,363 | 1,527,197 | 1,505,626 |
| Commitments and contingencies (Note 12) | - | - | - | - |
| Equity: | | | | |
| Preferred stock -- par value $0.01 (20,000,000 shares authorized, no shares issued) | - | - | n/a | n/a |
| Common stock -- par value $0.01 (250,000,000 shares authorized with 52,951,379 shares issued and 52,907,984 outstanding on March 31, 2012, and 52,630,965 shares issued and 52,605,314 outstanding on December 31, 2011) | 530 | 526 | n/a | n/a |
| Treasury stock -- at cost (43,395 shares on March 31, 2012 and 25,651 shares on December 31, 2011) | (64 ) | (53 ) | n/a | n/a |
| Paid-in-capital | 217,047 | 216,485 | 321,676 | 321,110 |
| Retained deficit | (416,117 ) | (342,188 ) | (426,066 ) | (353,636 ) |

| | | | | |
|---|---|---|---|---|
| Accumulated other comprehensive loss | (24,699 ) | (28,658 ) | (24,699 ) | (28,658 ) |
| Total deficit | (223,303 ) | (153,888 ) | (129,089 ) | (61,184 ) |
| Total liabilities and equity | $ 1,375,051 | $ 1,421,475 | $ 1,398,108 | $ 1,444,442 |
| | | | | |
| Included in the balance sheet line items above are related-party balances as follows (Note 9): | | | | |
| Accounts receivable | $ 8,985 | $ 9,890 | $ 9,111 | $ 10,016 |
| Intangibles and other assets, net | - | - | 23,305 | 23,305 |
| Accounts payable | 518 | 743 | 518 | 743 |
| Accrued liabilities | - | - | 126 | 126 |
| Long-term debt | - | - | 23,305 | 23,305 |

See notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | VERSO PAPER Three Months Ended March 31, | | VERSO HOLDINGS Three Months Ended March 31, | |
|---|---|---|---|---|
| (Dollars in thousands, except per share amounts) | 2012 | 2011 | 2012 | 2011 |
| Net sales | $375,295 | $416,592 | $375,295 | $416,592 |
| Costs and expenses: | | | | |
| Cost of products sold - (exclusive of depreciation, amortization, and depletion) | 337,280 | 352,528 | 337,280 | 352,528 |
| Depreciation, amortization, and depletion | 31,423 | 31,347 | 31,423 | 31,347 |
| Selling, general, and administrative expenses | 18,818 | 18,634 | 18,767 | 18,583 |
| Restructuring and other charges | 85 | - | 85 | - |
| Total operating expenses | 387,606 | 402,509 | 387,555 | 402,458 |
| Operating income (loss) | (12,311 ) | 14,083 | (12,260 ) | 14,134 |
| Interest income | (2 ) | (34 ) | (380 ) | (412 ) |
| Interest expense | 32,119 | 32,389 | 30,917 | 31,344 |
| Other loss, net | 29,570 | 26,327 | 29,570 | 26,176 |
| Loss before income taxes | (73,998 ) | (44,599 ) | (72,367 ) | (42,974 ) |
| Income tax benefit | (69 ) | (2 ) | - | - |
| Net loss | $(73,929 ) | $(44,597 ) | $(72,367 ) | $(42,974 ) |
| | | | | |
| Loss per common share | | | | |
| Basic | $(1.40 ) | $(0.84 ) | | |
| Diluted | (1.40 ) | (0.84 ) | | |
| Weighted average common shares outstanding (in thousands) | | | | |
| Basic | 52,686 | 53,114 | | |
| Diluted | 52,686 | 53,114 | | |
| Included in the financial statement line items above are related-party transactions as follows (Note 9): | | | | |
| Net sales | $31,636 | $42,994 | $31,636 | $42,994 |
| Purchases included in cost of products sold | 1,354 | 1,813 | 1,354 | 1,813 |
| Interest income | - | - | (379 ) | (379 ) |
| Interest expense | - | - | 379 | 379 |

See notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | VERSO PAPER Three Months Ended March 31, | | VERSO HOLDINGS Three Months Ended March 31, | |
|---|---|---|---|---|
| (Dollars in thousands, except per share amounts) | 2012 | 2011 | 2012 | 2011 |
| Net Loss | $(73,929 ) | $(44,597 ) | $(72,367 ) | $(42,974 ) |
| Other comprehensive income (loss): | | | | |

| | | | | |
|---|---|---|---|---|
| Derivative financial instruments: | | | | |
| Effective portion of net unrealized losses | (1,246) | (158) | (1,246) | (158) |
| Reclassification from accumulated other comprehensive loss to net loss | 4,640 | 1,271 | 4,640 | 1,271 |
| Defined benefit pension plan amortization of net loss and prior service cost | 565 | 392 | 565 | 392 |
| Other comprehensive income | 3,959 | 1,505 | 3,959 | 1,505 |
| Comprehensive loss | $(69,970) | $(43,092) | $(68,408) | $(41,469) |

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIODS ENDED MARCH 31, 2012 AND 2011

| (Dollars and shares in thousands) | Common Shares | Common Stock | Treasury Shares | Treasury Stock | Paid-in-Capital | Total Retained Deficit | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity (Deficit) |
|---|---|---|---|---|---|---|---|---|
| Balance - December 31, 2010 | 52,467 | $ 525 | - | $ - | $ 214,050 | $ (205,127) | $ (16,254) | $ (6,806) |
| Net loss | - | - | - | - | - | (44,597) | - | (44,597) |
| Other comprehensive income | - | - | - | - | - | - | 1,505 | 1,505 |
| Common stock issued for restricted stock | 153 | 2 | - | - | (2) | - | - | - |
| Stock option exercise | 5 | - | - | - | 15 | - | - | 15 |
| Equity award expense | - | - | - | - | 645 | - | - | 645 |
| Balance - March 31, 2011 | 52,625 | $ 527 | - | $ - | $ 214,708 | $ (249,724) | $ (14,749) | $ (49,238) |
| | | | | | | | | |
| Balance - December 31, 2011 | 52,631 | $ 526 | (26) | $ (53) | $ 216,485 | $ (342,188) | $ (28,658) | $ (153,888) |
| Net loss | - | - | - | - | - | (73,929) | - | (73,929) |
| Other comprehensive income | - | - | - | - | - | - | 3,959 | 3,959 |
| Common stock issued for restricted stock, net | 320 | 4 | (17) | (11) | (4) | - | - | (11) |
| Equity award expense | - | - | - | - | 566 | - | - | 566 |
| Balance - March 31, 2012 | 52,951 | $ 530 | (43) | $ (64) | $ 217,047 | $ (416,117) | $ (24,699) | $ (223,303) |

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER HOLDINGS LLC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY
FOR THE PERIODS ENDED MARCH 31, 2012 AND 2011

| (Dollars in thousands) | Paid-in-Capital | Retained Deficit | Accumulated Other Comprehensive Income (Loss) | Total Member's Equity (Deficit) |
|---|---|---|---|---|
| Balance - December 31, 2010 | $318,690 | $(231,019) | $(16,254) | $71,417 |
| Net loss | - | (42,974) | - | (42,974) |
| Other comprehensive income | - | - | 1,505 | 1,505 |
| Equity award expense | 645 | - | - | 645 |
| Balance - March 31, 2011 | $319,335 | $(273,993) | $(14,749) | $30,593 |
| | | | | |
| Balance - December 31, 2011 | $321,110 | $(353,636) | $(28,658) | $(61,184) |
| Cash distributions | - | (63) | - | (63) |
| Net loss | - | (72,367) | - | (72,367) |
| Other comprehensive income | - | - | 3,959 | 3,959 |
| Equity award expense | 566 | - | - | 566 |
| Balance - March 31, 2012 | $321,676 | $(426,066) | $(24,699) | $(129,089) |

See notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | VERSO PAPER Three Months Ended March 31, | | VERSO HOLDINGS Three Months Ended March 31, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2012 | 2011 | 2012 | 2011 |
| Cash Flows From Operating Activities: | | | | |
| Net loss | $(73,929) | $(44,597) | $(72,367) | $(42,974) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | | |
| Depreciation, amortization, and depletion | 31,423 | 31,347 | 31,423 | 31,347 |
| Amortization of debt issuance costs | 1,323 | 1,468 | 1,233 | 1,378 |
| Accretion of discount on long-term debt | 976 | 1,053 | 976 | 1,053 |
| Loss on early extinguishment of debt | 29,971 | 26,092 | 29,971 | 26,092 |
| Loss (gain) on disposal of fixed assets | (269) | 309 | (269) | 309 |
| Equity award expense | 566 | 645 | 566 | 645 |
| Other - net | 4,529 | (203) | 4,529 | (203) |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | 23,339 | (30,000) | 23,339 | (30,122) |
| Inventories | (25,944) | (26,134) | (25,944) | (26,134) |
| Prepaid expenses and other assets | (262) | (3,031) | (262) | (3,056) |
| Accounts payable | 333 | (1,709) | 215 | (1,718) |
| Accrued liabilities | (62,587) | (37,987) | (63,889) | (39,349) |
| Net cash used in operating activities | (70,531) | (82,747) | (70,479) | (82,732) |
| Cash Flows From Investing Activities: | | | | |
| Proceeds from sale of fixed assets | 378 | 24 | 378 | 24 |
| Transfers (to) from restricted cash, net | (292) | 3,818 | (292) | 3,818 |
| Capital expenditures | (16,990) | (13,242) | (16,990) | (13,242) |
| Net cash used in investing activities | (16,904) | (9,400) | (16,904) | (9,400) |
| Cash Flows From Financing Activities: | | | | |
| Proceeds from long-term debt | 341,191 | 394,618 | 341,191 | 394,618 |
| Debt issuance costs | (6,950) | (10,457) | (6,950) | (10,458) |
| Repayments of long-term debt | (285,455) | (389,998) | (285,455) | (389,998) |
| Cash distributions | - | - | (63) | |
| Acquisition of treasury stock | (11) | - | - | - |
| Proceeds from issuance of common stock | - | 15 | - | - |
| Net cash provided by (used in) financing activities | 48,775 | (5,822) | 48,723 | (5,838) |
| Change in cash and cash equivalents | (38,660) | (97,969) | (38,660) | (97,970) |
| Cash and cash equivalents at beginning of period | 94,869 | 152,780 | 94,795 | 152,706 |
| Cash and cash equivalents at end of period | $56,209 | $54,811 | $56,135 | $54,736 |

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP. AND VERSO PAPER HOLDINGS LLC

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2012, AND DECEMBER 31, 2011, AND FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2012 AND 2011

## 1. BACKGROUND AND BASIS OF PRESENTATION

Within our organization, Verso Paper Corp. is the ultimate parent entity and the sole member of Verso Paper Finance Holdings One LLC, which is the sole member of Verso Paper Finance Holdings LLC, which is the sole member of Verso Paper Holdings LLC. As used in this report, the term “Verso Paper” refers to Verso Paper Corp.; the term “Verso Finance” refers to Verso Paper Finance Holdings LLC; the term “Verso Holdings” refers to Verso Paper Holdings LLC; and the term for any such entity includes its direct and indirect subsidiaries when referring to the entity’s consolidated financial condition or results. Unless otherwise noted, references to “we,” “us,” and “our” refer collectively to Verso Paper and Verso Holdings. Other than Verso Paper’s common stock transactions, Verso Finance’s debt obligation and related financing costs and interest expense, Verso Holdings’ loan to Verso Finance, and the debt obligation of Verso Holdings’ consolidated variable interest entity to Verso Finance, the assets, liabilities, income, expenses and cash flows presented for all periods represent those of Verso Holdings in all material respects. Unless otherwise noted, the information provided pertains to both Verso Paper and Verso Holdings.

We operate in the following three market segments: coated papers; hardwood market pulp; and other, consisting of specialty papers. Our core business platform is as a producer of coated freesheet, coated groundwood, and uncoated supercalendered papers. These products are used in catalogs, magazines, retail inserts, and commercial print.

This report contains the unaudited condensed consolidated financial statements of Verso Paper and Verso Holdings as of March 31, 2012, and for the three-month periods ended March 31, 2012 and 2011. The December 31, 2011, condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required annually by accounting principles generally accepted in the United States of America, or “GAAP.” In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments that are necessary for the fair presentation of Verso Paper’s and Verso Holdings’ respective financial conditions, results of operations, and cash flows for the interim periods presented. Except as disclosed in the notes to the unaudited condensed consolidated financial statements, such adjustments are of a normal, recurring nature. Variable interest entities for which Verso Paper or Verso Holdings is the primary beneficiary are also consolidated. All material intercompany balances and transactions are eliminated. The results of operations and cash flows for the interim periods presented may not necessarily be indicative of full-year results. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and notes thereto of Verso Paper and Verso Holdings contained in their respective Annual Reports on Form 10-K for the year ended December 31, 2011.

## 2. RECENT ACCOUNTING DEVELOPMENTS

ASC Topic 220, Comprehensive Income. Accounting Standards Update, or “ASU,” No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, changes the existing guidance on the presentation of comprehensive income. Entities will have the option of presenting the components of net income and other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Entities no longer have the option of presenting the components of other comprehensive income within the statement of changes in stockholders’ equity. ASU No. 2011-05 is effective on a retrospective basis for fiscal years, and interim periods within those years, beginning after December 15, 2011, which for us is the first quarter of 2012. In December 2011, the Financial Accounting Standards Board, or “FASB,” issued ASU No. 2011-12, “Comprehensive Income – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,” which defers changes in ASU No. 2011-05 that related to the presentation of reclassification adjustments. The adoption of the remaining guidance provided in ASU No. 2011-05 will result in a change to our current presentation of comprehensive income but will have no impact on our financial condition, results of operations, or cash flows.

ASC Topic 820, Fair Value Measurements and Disclosures. ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, provides clarifying guidance on how to measure fair value and additional disclosure requirements. The update does not extend the use of fair value accounting, but does provide guidance on how it should be applied where it is already required or permitted under current GAAP. ASU No. 2011-04 is effective for annual and interim periods beginning after December 15, 2011, which for us is January 1, 2012, and had no impact on our consolidated financial statements.

Other new accounting pronouncements issued but not effective until after March 31, 2012, are not expected to have a significant effect on our consolidated financial statements.

3. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

Earnings Per Share — Verso Paper computes earnings per share by dividing net income or net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income or net loss by the weighted average number of shares outstanding, after giving effect to potentially dilutive common share equivalents outstanding during the period. Potentially dilutive common share equivalents are not included in the computation of diluted earnings per share if they are anti-dilutive.

The following table provides a reconciliation of basic and diluted loss per common share of Verso Paper:

| | VERSO PAPER Three Months Ended March 31, | |
|---|---|---|
| (In thousands, except per share data) | 2012 | 2011 |
| Net loss available to common shareholders | $(73,929) | $(44,597) |
| | | |
| Weighted average common stock outstanding | 52,300 | 52,740 |
| Weighted average restricted stock | 386 | 374 |
| Weighted average common shares outstanding - basic | 52,686 | 53,114 |
| Dilutive shares from stock options | - | - |
| Weighted average common shares outstanding - diluted | 52,686 | 53,114 |
| | | |
| Basic loss per share | $(1.40) | $(0.84) |
| | | |
| Diluted loss per share | $(1.40) | $(0.84) |

In accordance with ASC Topic 260, Earnings Per Share, unvested restricted stock awards issued by Verso Paper contain nonforfeitable rights to dividends and qualify as participating securities. No dividends have been declared or paid in 2012 or 2011.

For the three-month periods ended March 31, 2012 and 2011, respectively, 1,916,000 and 1,552,000 weighted average potentially dilutive shares from options with weighted average exercise prices per share of $3.68 and $3.56, respectively, were excluded from the diluted earnings per share calculation due to the antidilutive effect such shares would have on net loss per common share.

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 Intangibles and other assets on the condensed consolidated balance sheets (see also Note 4).

Inventories by major category include the following:

| (Dollars in thousands) | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Raw materials | $33,421 | $27,953 |
| Woodyard logs | 15,109 | 5,931 |
| Work-in-process | 23,489 | 19,120 |
| Finished goods | 92,982 | 87,585 |
| Replacement parts and other supplies | 27,819 | 26,287 |
| Inventories | $192,820 | $166,876 |

Asset Retirement Obligations — In accordance with ASC Topic 410, Asset Retirement and Environmental Obligations, a liability and an asset are recorded equal to the present value of the estimated costs associated with the retirement of long-lived assets where a legal or contractual obligation exists. The liability is accreted over time, and the asset is depreciated over its useful life. Our asset retirement obligations under this standard relate to closure and post-closure costs for landfills. Revisions to the liability could occur due to changes in the estimated costs or timing of closure or possible new federal or state regulations affecting the closure.

On March 31, 2012, we had $0.8 million of restricted cash included in Intangibles and other assets in the condensed consolidated balance sheet related to an asset retirement obligation in the state of Michigan. This cash deposit is required by the state and may only be used for the future closure of a landfill.

The following table presents an analysis related to our asset retirement obligations included in Other liabilities in the accompanying condensed consolidated balance sheets:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2012 | 2011 |
| Asset retirement obligations, January 1 | $11,233 | $13,660 |
| Accretion expense | 201 | 195 |
| Settlement of existing liabilities | (56) | (55) |
| Adjustment to existing liabilities | 419 | - |
| Asset retirement obligations, March 31 | $11,797 | $13,800 |

In addition to the above obligations, we may be required to remove certain materials from our facilities, or to remediate them in accordance with current regulations that govern the handling of certain hazardous or potentially hazardous materials. At this time, any such obligations have an indeterminate settlement date, and we believe that adequate information does not exist to reasonably estimate any such potential obligations. Accordingly, we will record a liability for such remediation when sufficient information becomes available to estimate the obligation.

Property, Plant, and Equipment — Property, plant, and equipment is stated at cost, net of accumulated depreciation. Interest is capitalized on projects meeting certain criteria and is included in the cost of the assets. The capitalized interest is depreciated over the same useful lives as the related assets. Expenditures for major repairs and improvements are capitalized, whereas normal repairs and maintenance are expensed as incurred. For both the three-month periods ended March 31, 2012 and 2011, interest costs of 0.7 million were capitalized.

Depreciation is computed using the straight-line method over the assets' estimated useful lives. Depreciation expense was $31.1 million and $30.9 million for the three-month periods ended March 31, 2012 and 2011, respectively.

## 4. INTANGIBLES AND OTHER ASSETS

Intangibles and other assets consist of the following:

| | VERSO PAPER | | VERSO HOLDINGS | |
|---|---|---|---|---|
| (Dollars in thousands) | March 31, 2012 | December 31, 2011 | March 31, 2012 | December 31, 2011 |
| Amortizable intangible assets: | | | | |
| Customer relationships, net of accumulated amortization of $6.9 million on March 31, 2012, and $6.7 million on December 31, 2011 | $6,420 | $6,620 | $6,420 | $6,620 |
| Patents, net of accumulated amortization of $0.7 million on March 31, 2012, and $0.6 million on December 31, 2011 | 497 | 526 | 497 | 526 |
| Total amortizable intangible assets | 6,917 | 7,146 | 6,917 | 7,146 |
| Unamortizable intangible assets: | | | | |
| Trademarks | 21,473 | 21,473 | 21,473 | 21,473 |
| Other assets: | | | | |
| Financing costs, net of accumulated amortization of $15.2 million on March 31, 2012, and $17.8 million on December 31, 2011, for Verso Paper, and net of accumulated amortization of $13.3 million on March 31, 2012, and $16.1 million on December 31, 2011, for Verso Holdings | 26,886 | 24,483 | 26,586 | 24,093 |
| Deferred major repair | 10,221 | 12,294 | 10,221 | 12,294 |
| Replacement parts, net | 3,972 | 4,257 | 3,972 | 4,257 |
| Loan to affiliate | - | - | 23,305 | 23,305 |
| Restricted cash | 3,852 | 3,560 | 3,852 | 3,560 |
| Other | 5,600 | 6,822 | 5,600 | 6,822 |
| Total other assets | 50,531 | 51,416 | 73,536 | 74,331 |
| Intangibles and other assets | $78,921 | $80,035 | $101,926 | $102,950 |

Certain previously reported amounts have been reclassified to agree with current presentation.

Amortization expense of intangibles was $0.2 million and $0.3 million for the three-month periods ended March 31, 2012 and 2011, respectively.

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

| (Dollars in thousands) | |
|---|---|
| 2012 | $686 |
| 2013 | 815 |
| 2014 | 715 |
| 2015 | 615 |
| 2016 | 567 |

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## 5. LONG-TERM DEBT

A summary of long-term debt is as follows:

| (Dollars in thousands) | Original Maturity | Interest Rate | March 31, 2012 Balance | March 31, 2012 Fair Value | December 31, 2011 Balance | December 31, 2011 Fair Value |
|---|---|---|---|---|---|---|
| Verso Paper Holdings LLC | | | | | | |
| Revolving Credit Facility | 8/1/2012 | - | $ - | $ - | $ - | $ - |
| 11.5% Senior Secured Notes (1) | 7/1/2014 | 11.50 % | 42,826 | 46,928 | 302,820 | 316,260 |
| 11.75% Senior Secured Notes (2) | 1/15/2019 | 11.75 % | 341,203 | 348,019 | - | - |
| 8.75% Second Priority Senior Secured Notes (3) | 2/1/2019 | 8.75 % | 394,769 | 227,700 | 394,736 | 257,063 |
| Second Priority Senior Secured Floating Rate Notes | 8/1/2014 | 4.30 % | 180,216 | 155,887 | 180,216 | 112,635 |
| 11.38% Senior Subordinated Notes | 8/1/2016 | 11.38 % | 300,000 | 178,500 | 300,000 | 122,550 |
| Chase NMTC Verso Investment Fund LLC | | | | | | |
| Loan from Verso Paper Finance Holdings LLC | 12/29/2040 | 6.50 % | 23,305 | 23,305 | 23,305 | 23,305 |
| Total long-term debt for Verso Paper Holdings LLC | | | 1,282,319 | 980,339 | 1,201,077 | 831,813 |
| Verso Paper Finance Holdings LLC | | | | | | |
| Senior Unsecured Term Loan | 2/1/2013 | 6.95 % | 86,166 | 47,391 | 84,687 | 46,578 |
| Loan from Verso Paper Holdings LLC | 12/29/2040 | 6.50 % | 23,305 | 23,305 | 23,305 | 23,305 |
| Less current maturities of long-term debt | 2/1/2013 | 6.95 % | (86,166 ) | (47,391 ) | - | - |
| Eliminate loans from affiliates | 12/29/2040 | 6.50 % | (46,610 ) | (46,610 ) | (46,610 ) | (46,610 ) |
| Total long-term debt for Verso Paper Corp. | | | $ 1,259,014 | $ 957,034 | $ 1,262,459 | $ 855,086 |

(1) Par value of $44,427 on March 31, 2012, and $315,000 on December 31, 2011.
(2) Par value of $345,000 on March 31, 2012
(3) Par value of $396,000 on March 31, 2012 and December 31, 2011.

We determine the fair value of our long-term debt based on market information and a review of prices and terms available for similar obligations.

Amounts included in interest expense related to long-term debt and amounts of cash interest payments on long-term debt are as follows:

| | VERSO PAPER | VERSO HOLDINGS |
|---|---|---|

| (Dollars in thousands) | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|---|---|
| Interest expense | $31,473 | $31,647 | $30,362 | $30,693 |
| Cash interest paid | 61,893 | 55,556 | 62,272 | 55,812 |
| Debt issuance cost amortization (1) | 1,323 | 1,468 | 1,233 | 1,378 |

(1) Amortization of debt issuance cost is included in interest expense.

Revolving Credit Facility. Verso Holdings' $200.0 million revolving credit facility had no amounts outstanding, $39.9 million in letters of credit issued, and $160.1 million available for future borrowing as of March 31, 2012. The indebtedness under the revolving credit facility bears interest, payable quarterly, at a rate equal to LIBOR plus 3% or prime plus 2% per year. Verso Holdings is required to pay a commitment fee to the lenders in respect of unutilized commitments under the revolving credit facility at a rate equal to 0.5% per year and customary letter of credit and agency fees. The indebtedness under the revolving credit facility is guaranteed jointly and severally by Verso Finance and each of Verso Holdings' subsidiaries, subject to certain exceptions, and the indebtedness and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The indebtedness under the revolving credit facility and related guarantees are secured by first-priority security interests, subject to permitted liens, in substantially all of Verso Holdings', Verso Finance's, and the subsidiary guarantors' tangible and intangible assets. The revolving credit facility will mature on August 1, 2012.

On May 4, 2012, Verso Holdings entered into new senior credit facilities consisting of a $150.0 million asset-based loan revolving credit facility, or “ABL Facility,” and a $50.0 million cash-flow revolving credit facility, or “Cash Flow Facility.” The new senior credit facilities were used to repay the outstanding indebtedness under the existing $200.0 million revolving credit facility and will be used to provide ongoing working capital and for other general corporate purposes. The indebtedness under the new senior credit facilities bears interest at a floating rate based on a margin over a base rate or eurocurrency rate. As of May 4, 2012, the applicable margin for advances under the ABL Facility was 1.00% for base rate advances and 2.00% for LIBOR advances, and the applicable margin for advances under the Cash Flow Facility was 3.50% for base rate advances and 4.50% for LIBOR advances. Verso Holdings is required to pay a commitment fee to the lenders in respect of the unused commitments under the ABL Facility at an annual rate initially equal to 0.50% and thereafter either 0.375% or 0.50%, based on daily average utilization, and under the Cash Flow Facility at an annual rate of 0.625%. The indebtedness under the new senior credit facilities is guaranteed jointly and severally by Verso Finance and each of Verso Holdings’ subsidiaries, subject to certain exceptions, and the indebtedness and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The indebtedness under the ABL Facility and related guarantees are secured by first-priority security interests, subject to permitted liens, in substantially all of Verso Holdings’, Verso Finance’s, and the subsidiary guarantors’ inventory and accounts receivable, or “ABL Priority Collateral,” and second-priority security interests, subject to permitted liens, in substantially all of their other assets, or “Notes Priority Collateral.” The indebtedness under the Cash Flow Facility and related guarantees are secured, pari passu with the 11.75% senior secured notes due 2019 and related guarantees, by first-priority security interests in the Notes Priority Collateral and second-priority security interests in the ABL Priority Collateral. The new senior credit facilities will mature on May 4, 2017, unless, on any of the dates that is 91 days prior to the earliest scheduled maturity of any of the existing second-lien notes, 11.38% senior subordinated notes, or senior unsecured term loan, an aggregate principal amount in excess of $100.0 million of indebtedness under such existing second-lien notes, subordinated notes or senior unsecured term loan, as applicable, is outstanding, in which case the new senior credit facilities will mature on such earlier date. The new senior credit facilities replace the existing $200.0 million revolving credit facility and are being utilized in lieu of the previously announced commitments from lenders for a $100.0 million accounts receivable securitization facility and a new and/or extended $55.0 million first-priority revolving credit facility.

11.5% Senior Secured Notes due 2014. In June 2009 and January 2010, Verso Holdings issued a total of $350.0 million aggregate principal amount of 11.5% senior secured notes due 2014. In March 2011, Verso Holdings repurchased and retired $35.0 million aggregate principal amount of the notes. Verso Holdings recognized a loss of $3.6 million in the first quarter of 2011 on the repurchased debt, including the write-off of unamortized debt issuance costs and unamortized discount related to the notes. On March 21, 2012, Verso Holdings repurchased and retired $270.6 million aggregate principal amount of the notes pursuant to a tender offer. Verso Holdings recognized a loss of $30.0 million in the first quarter of 2012 on the repurchased debt, including the write-off of unamortized debt issuance costs and unamortized discount related to the notes. On April 30, 2012, Verso Holdings redeemed the remaining outstanding $44.4 million aggregate principal amount of the notes. Following such repurchase and redemption, there are no outstanding 11.5% senior secured notes due 2014.

11.75% Senior Secured Notes due 2019. On March 21, 2012, Verso Holdings issued $345.0 million aggregate principal amount of 11.75% senior secured notes due 2019. The notes bear interest, payable semi-annually, at the rate of 11.75% per year. The notes are guaranteed jointly and severally by each of Verso Holdings’ subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The indebtedness under the notes and related guarantees are secured, pari passu with the Cash Flow Facility and related guarantees, by first-priority security interests in the Notes Priority Collateral and second-priority security interests in the ABL Priority Collateral. The notes will mature on January 15, 2019.

The estimated net proceeds from the March 2012 issuance of the 11.75% senior secured notes, after deducting the discount, underwriting fees and offering expenses, were $332.7 million. On March 21, 2012, Verso Holdings used

$285.5 million of the net proceeds to repurchase and retire $270.6 million aggregate principal amount of its 11.5% senior secured notes due 2014. On April 30, 2012, Verso Holdings paid $48.3 million from the remaining net proceeds and available cash to redeem the remaining outstanding $44.4 million aggregate principal amount of its 11.5% senior secured notes due 2014.

8.75% Second Priority Senior Secured Notes due 2019. In January and February 2011, Verso Holdings issued a $360.0 million and $36.0 million, respectively, aggregate principal amount of 8.75% second priority senior secured notes due 2019. The notes bear interest, payable semi-annually, at the rate of 8.75% per year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The notes and related guarantees are secured by second-priority security interests, subject to permitted liens, in substantially all of Verso Holdings' and the guarantors' tangible and intangible assets, excluding securities of Verso Holdings' affiliates. The notes will mature on February 1, 2019.

The net proceeds from the January 2011 issuance of the 8.75% second priority senior secured notes, after deducting the discount, underwriting fees and offering expenses, were $347.8 million. In the first quarter of 2011, Verso Holdings used a total of $353.9 million of the net proceeds and available cash to repurchase or redeem and retire a total of $337.1 million aggregate principal amount of its 9.13% second priority senior secured notes due 2014. Following such repurchases and redemption, there are no outstanding 9.13% second priority senior secured notes due 2014. Verso Holdings recognized a total loss of $22.5 million in the first quarter of 2011 on the retired debt, including the write-off of unamortized debt issuance costs.

The net proceeds from the February 2011 issuance of the 8.75% second priority senior secured notes, including a premium and after deducting the underwriting fees and offering expenses, were $36.1 million. In March 2011, Verso Holdings used these net proceeds to redeem and retire $35.0 million aggregate principal amount of its 11.5% senior secured notes due 2014.

Second Priority Senior Secured Floating Rate Notes due 2014. In August 2006, Verso Holdings issued $250.0 million aggregate principal amount of second priority senior secured floating rate notes due 2014. As of March 31, 2012, Verso Holdings had repurchased and retired a total of $69.8 million aggregate principal amount of the notes. The notes bear interest, payable quarterly, at a rate equal to LIBOR plus 3.75% per year. As of March 31, 2012, the interest rate on the notes was 4.30% per year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The notes and related guarantees are secured by second-priority security interests, subject to permitted liens, in substantially all of Verso Holdings' and the guarantors' tangible and intangible assets, excluding securities of Verso Holdings' affiliates. The notes will mature on August 1, 2014.

On March 28, 2012, Verso Holdings commenced an exchange offer and consent solicitation for the outstanding $180.2 million aggregate principal amount of its second priority senior secured floating rate notes due 2014, or the "Second Lien Exchange Offer." On May 11, 2012, pursuant to the Second Lien Exchange Offer, Verso Holdings issued $166.9 million aggregate principal amount of 11.75% secured notes due 2019 and paid approximately $5.0 million in cash in exchange for $166.9 million aggregate principal amount of the second priority senior secured floating rate notes. Following the exchange, $13.3 million aggregate principal amount of the second priority senior secured floating rate notes remain outstanding.

11.38% Senior Subordinated Notes due 2016. In August 2006, Verso Holdings issued $300.0 million aggregate principal amount of 11.38% senior subordinated notes due 2016. The notes bear interest, payable semi-annually, at the rate of 11.38% per year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are unsecured senior subordinated obligations of Verso Holdings and the guarantors, respectively. The notes will mature on August 1, 2016.

On April 25, 2012, Verso Holdings commenced an exchange offer and consent solicitation for up to $157.5 million aggregate principal amount of the outstanding $300.0 million aggregate principal amount of its 11.38% senior subordinated notes due 2016, or the "Subordinated Notes Exchange Offer." On May 11, 2012, pursuant to the

Subordinated Notes Exchange Offer, Verso Holdings issued $104.7 million aggregate principal amount of 11.75% secured notes due 2019 and paid approximately $17.3 million in cash in exchange for $157.5 million aggregate principal amount of the 11.38% senior subordinated notes. Following the exchange, $142.5 million aggregate principal amount of the 11.38% senior subordinated notes remain outstanding.

Loan from Verso Paper Finance Holdings LLC/ Verso Paper Holdings LLC. In December 2010, Verso Quinnesec REP LLC, an indirect, wholly-owned subsidiary of Verso Holdings, entered into a financing transaction with Chase NMTC Verso Investment Fund, LLC, the "Investment Fund," a consolidated variable interest entity (see Note 11 – New Market Tax Credit Entities). Under this arrangement, Verso Holdings loaned $23.3 million to Verso Finance pursuant to a 6.5% loan due 2040, and Verso Finance, in turn, loaned the funds on similar terms to the Investment Fund. The Investment Fund then contributed the loan proceeds to certain community development entities, which, in turn, loaned the funds on similar terms to Verso Quinnesec REP LLC as partial financing for the renewable energy project at our mill in Quinnesec, Michigan.

Senior Unsecured Term Loan. Verso Finance, the parent entity of Verso Holdings, had $86.2 million outstanding on its senior unsecured term loan as of March 31, 2012. The loan allows Verso Finance to pay interest either in cash or in kind through the accumulation of the outstanding principal amount. The loan bears interest, payable quarterly, at a rate equal to LIBOR plus 6.25% per year on interest paid in cash and LIBOR plus 7.00% per year for interest paid in kind, or "PIK," and added to the principal balance. As of March 31, 2012, the weighted-average interest rate on the loan was 6.95% per year. Verso Finance elected to exercise the PIK option for $1.5 million and $1.3 million of interest payments due in the first quarter of 2012 and 2011, respectively. The loan will mature on February 1, 2013. As of March 31, 2012, the loan is included in Current maturities of long-term debt on the accompanying condensed consolidated balance sheet.

As of March 31, 2012, we were in compliance with the covenants in our debt agreements.

## 6. RETIREMENT PLANS

We maintain defined benefit pension plans that provide retirement benefits for hourly employees at the Androscoggin, Bucksport, and Sartell mills who were hired prior to July 1, 2004. These employees generally are eligible to participate in the pension plan upon completion of one year of service and the attainment of age 21. Hourly employees at Bucksport and Sartell who are classified as new hires, and who are not recalled, on or after May 1, 2011, are not eligible to participate in the pension plan, and other employees hired after June 30, 2004, who are not eligible to participate in the pension plans, receive an additional company contribution to their accounts under our 401(k) savings plan. The pension plans provide defined benefits based on years of credited service times a specified flat dollar benefit rate.

The following table summarizes the components of net periodic benefit cost for the three months ended March 31, 2012 and 2011:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2012 | 2011 |
| Components of net periodic benefit cost: | | |
| Service cost | $1,771 | $1,674 |
| Interest cost | 719 | 631 |
| Expected return on plan assets | (698) | (645) |
| Amortization of prior service cost | 196 | 294 |
| Amortization of actuarial loss | 369 | 98 |
| Net periodic benefit cost | $2,357 | $2,052 |

We make contributions that are sufficient to fully fund our actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act (ERISA). In the first quarter of 2012, we made contributions of $1.9 million and made an additional contribution of $2.1 million in April 2012. We expect to make additional contributions of approximately $7.4 million in 2012. We made contributions of $1.5 million in the first quarter of 2011.

ASC Topic 820 provides a common definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions used to value the assets or liabilities (see Note 8 – Fair Value of Financial Instruments for more detail).

The following table sets forth by level, within the fair value hierarchy, the pension plans' assets at fair value as of March 31, 2012, and December 31, 2011.

| (Dollars in thousands) | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| March 31, 2012 | | | | |
| Pooled funds(1): | | | | |
| Fixed income funds(2) | $27,345 | $- | $27,345 | $- |
| Domestic equity funds - large cap | 8,834 | - | 8,834 | - |
| Domestic equity funds - small cap | 1,683 | - | 1,683 | - |
| International equity funds | 1,683 | - | 1,683 | - |
| Money market funds | 1,262 | - | 1,262 | - |
| Other funds(3) | 1,262 | - | 1,262 | - |
| Total assets at fair value | $42,069 | $- | $42,069 | $- |
| December 31, 2011 | | | | |
| Pooled funds(1): | | | | |
| Fixed income funds(2) | $25,274 | $- | $25,274 | $- |
| Domestic equity funds - large cap | 8,165 | - | 8,165 | - |
| Domestic equity funds - small cap | 1,555 | - | 1,555 | - |
| International equity funds | 1,555 | - | 1,555 | - |
| Money market funds | 1,167 | - | 1,167 | - |
| Other funds(3) | 1,167 | - | 1,167 | - |
| Total assets at fair value | $38,883 | $- | $38,883 | $- |

(1) Value is determined based on the net asset value of units held by the plan at period end.

(2) This class consists of funds that invest primarily in corporate debt securities, U.S. federal government obligations, and mortgage- and asset-backed securities.

(3) This class consists of funds that invest primarily in domestic and international corporate debt securities, U.S. federal and other governmental debt securities, real estate investment trusts, and commodity-linked investments.

## 7. DERIVATIVE INSTRUMENTS AND HEDGES

In the normal course of business, we utilize derivatives contracts as part of our risk management strategy to manage our exposure to market fluctuations in energy prices and interest rates. These instruments are subject to credit and market risks in excess of the amount recorded on the balance sheet in accordance with generally accepted accounting principles. Controls and monitoring procedures for these instruments have been established and are routinely reevaluated. Credit risk represents the potential loss that may occur because a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. We manage credit risk by entering into financial instrument transactions only through approved counterparties. Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in commodity prices. We manage market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken.

Derivative instruments are recorded on the balance sheet as other assets or other liabilities measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied. For a cash flow hedge accounted for under ASC Topic 815, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in accumulated other comprehensive income and subsequently reclassified to earnings as the hedged transaction impacts net income. Any ineffective portion of a cash flow hedge is recognized currently in earnings. Cash flows from derivative contracts are reported as operating activities on the consolidated statements of cash flows.

We enter into fixed-price energy swaps as hedges designed to mitigate the risk of changes in commodity prices for forecasted future purchase commitments. These fixed-price swaps involve the exchange of net cash settlements, based on changes in the price of the underlying commodity index compared to the fixed price offering, at specified intervals without the exchange of any underlying principal. Historically, we have designated our energy hedging relationships as cash flow hedges under ASC Topic 815 with net gains or losses attributable to effective hedging recorded in Accumulated other comprehensive income and any ineffectiveness recognized in Cost of products sold.

One of the requirements that we must evaluate when determining whether a contract qualifies for hedge accounting treatment is whether or not the contract is deemed effective. A contract is deemed effective if the change in the fair value of the derivative contract offsets, within a specified range, the change in the anticipated cash flows of the hedged transaction. We must test the effectiveness at the inception of the hedging relationship and quarterly thereafter. If the relationship fails this test at any time, we are required to discontinue hedge accounting treatment prospectively. The requirements necessary to apply hedge accounting to these contracts are complex and must be documented at the inception as well as throughout the term of the contract. If we fail to accurately document these requirements, the contact is not eligible for hedge accounting treatment and any changes in the fair value of the contract must be recognized in current earnings. The accompanying financial statements reflect the discontinuation of hedge accounting for certain contracts that failed to qualify for hedge accounting. Additionally, effective April 1, 2012, management elected to de-designate the remaining energy swaps that had previously been designated as cash flow hedges and to discontinue hedge accounting prospectively. As a result, all gains and losses from changes in the fair value of our derivative contracts subsequent to March 31, 2012, will be recognized immediately in Cost of products sold. Prior to March 31, 2012, to the extent the hedge was effective, the change in fair value was deferred through Accumulated other comprehensive income. The amount in Accumulated other comprehensive income at the time a contract is de-designated is reclassified into Cost of products sold when the contract settles, or sooner if management determines that the forecasted transaction is probable of not occurring. Energy swaps continue to be utilized as economic hedges designed to mitigate the risk of changes in commodity prices for future energy purchase commitments.

The following table presents information about the volume and fair value amounts of our derivative instruments:

| | March 31, 2012 | | | December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|
| | | Fair Value Measurements | | | Fair Value Measurements | | Balance |
| | Notional | Derivative | Derivative | Notional | Derivative | Derivative | Sheet |
| (Dollars in thousands) | Amount | Asset | Liability | Amount | Asset | Liability | Location |
| Derivative contracts designated as hedging instruments | | | | | | | |
| Fixed price energy swaps - MMBtu's | 739,205 | $ - | $ (1,406 ) | 2,988,107 | $ - | $ (4,680 ) | Accrued liabilties |
| Derivative contracts not designated as hedging instruments | | | | | | | |
| Fixed price energy swaps - MMBtu's | 6,347,688 | $ - | $ (12,304 ) | 4,891,187 | $ - | $ (7,663 ) | Accrued liabilties |

Counterparties to the energy swaps we enter into may require us to fund the margin associated with any loss position on the contracts. We had restricted cash deposits totaling $1.1 million related to margin calls on our outstanding energy swaps as of March 31, 2012.

The following tables present information about the effect of our derivative instruments on Accumulated other comprehensive income and the consolidated statements of operations:

| (Dollars in thousands) | Loss Recognized in Accumulated OCI March 31, 2012 | Loss Recognized in Accumulated OCI December 31, 2011 | Loss Reclassified from Accumulated OCI Three Months Ended March 31, 2012 | Loss Reclassified from Accumulated OCI Three Months Ended March 31, 2011 | Location of Loss on Statements of Operations |
|---|---|---|---|---|---|
| Derivative contracts designated as hedging instruments | | | | | |
| Fixed price energy swaps(1) | $(1,551 ) | $(4,826 ) | $(283 ) | $(1,271 ) | (2 ) |
| Derivative contracts not designated as hedging instruments | | | | | |
| Fixed price energy swaps(1) | $- | $- | $(4,357 ) | $- | (2 ) |

(1) Net losses at March 31, 2012, are expected to be reclassified from Accumulated other comprehensive income into earnings within the next 25 months.

(2) Loss reclassified from Accumulated OCI to earnings is included in Cost of products sold.

| (Dollars in thousands) | Loss Recognized on Derivative Three Months Ended March 31, 2012 | Loss Recognized on Derivative Three Months Ended March 31, 2011 | Loss Recognized on Derivative (Ineffective Portion) Three Months Ended March 31, 2012 | Loss Recognized on Derivative (Ineffective Portion) Three Months Ended March 31, 2011 | Location of Loss on Statements of Operations |
|---|---|---|---|---|---|
| Derivative contracts designated as hedging instruments | | | | | |
| Fixed price energy swaps | $(48 ) | $(346 ) | $(2 ) | $(4 ) | (1 ) |
| Derivative contracts not designated as hedging instruments | | | | | |
| Fixed price energy swaps | $(3,559 ) | $- | $- | $- | (1 ) |

(1) Loss recognized in earnings is included in Cost of products sold.

## 8. FAIR VALUE OF FINANCIAL INSTRUMENTS

We use fair value measurements for the initial recording of certain assets and liabilities, periodic remeasurement of certain assets and liabilities, and disclosures. Fair value is generally defined as the exit price at which an asset or liability could be exchanged in a current transaction between willing, unrelated parties, other than in a forced or liquidation sale.

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions used to value the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumption about the inputs used in pricing the asset or liability at the measurement date.

The following table summarizes the balances of assets and liabilities measured at fair value on a recurring basis:

| (Dollars in thousands) | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| March 31, 2012 | | | | |
| Assets: | | | | |
| Deferred compensation assets | $2,844 | $2,844 | $- | $- |
| Liabilities: | | | | |
| Commodity swaps | $13,710 | $- | $13,710 | $- |
| Deferred compensation liabilities | 2,844 | 2,844 | - | - |
| December 31, 2011 | | | | |
| Assets: | | | | |
| Deferred compensation assets | $2,672 | $2,672 | $- | $- |
| Regional Greenhouse Gas Initiative carbon credits | 425 | - | 425 | - |
| Liabilities: | | | | |
| Commodity swaps | $12,343 | $- | $12,343 | $- |
| Deferred compensation liabilities | 2,672 | 2,672 | - | - |

Fair values are based on observable market data.

We did not record any impairment charges on long-lived assets and no significant events occurred requiring non-financial assets and liabilities to be measured at fair value (subsequent to initial recognition) during the three months ended March 31, 2012 or 2011.

## 9. RELATED PARTY TRANSACTIONS

Sales to and Purchases from related parties — We had net sales to xpedx, a business of International Paper, and its affiliated companies of approximately $31.6 million for the first quarter of 2012, compared to $43.0 million for the same period in 2011. We had purchases from related parties, primarily xpedx and its affiliated companies, of approximately $1.4 million and $1.8 million, included in cost of products sold for the first quarter of 2012 and 2011, respectively.

Accounts receivable from and payable to related parties — We had accounts receivable from xpedx and its affiliated companies of approximately $9.0 million and $9.9 million as of March 31, 2012 and December 31, 2011, respectively. We had accounts payable to related parties, primarily xpedx and its affiliated companies, of approximately $0.5 million and $0.7 million as of March 31, 2012 and December 31, 2011, respectively.

Management Agreement — Subsequent to the Acquisition, we entered into a management agreement with Apollo, relating to the provision of certain financial and strategic advisory services and consulting services, which will expire on August 1, 2018. Under the management agreement, at any time prior to the expiration of the agreement, Apollo has the right to act, in return for additional fees to be mutually agreed by the parties to the management agreement, as our financial advisor or investment banker for any merger, acquisition, disposition, financing or the like if we decide to engage someone to fill such role. In the event that we are not able to come to an agreement with Apollo in connection with such role, at the closing of any merger, acquisition, disposition or financing or any similar transaction, we have agreed to pay Apollo a fee equal to 1% of the aggregate enterprise value (including the aggregate value of equity securities, warrants, rights and options acquired or retained; indebtedness acquired, assumed or refinanced; and any other consideration or compensation paid in connection with such transaction). 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.

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Distributions to Verso Finance — Verso Finance has a senior unsecured term loan which matures on February 1, 2013. The loan allows Verso Finance to pay interest either in cash or in kind through the accumulation of the outstanding principal amount. Verso Finance elected to exercise the PIK option for $1.5 million and $1.3 million of interest payments due in the first quarter of 2012 and 2011, respectively. Verso Finance has no independent operations; consequently, all cash flows used to service its remaining debt obligation will need to be received via distributions from Verso Holdings. Verso Holdings made negligible distributions to Vero Finance for the quarter ended March 31, 2012, and made no distributions for the same period in 2011. Verso Holdings has no obligation to make distributions to Verso Finance.

Verso Quinnesec Renewable Energy Project — On December 29, 2010, Verso Quinnesec REP LLC, an indirect, wholly-owned subsidiary of Verso Holdings, entered into a financing transaction with Chase NMTC Verso Investment Fund, LLC, the "Investment Fund," a consolidated variable interest entity (see Note 11 – New Market Tax Credit Entities). Under this arrangement, Verso Holdings loaned $23.3 million to Verso Finance pursuant to a 6.5% loan due December 29, 2040, and Verso Finance, in turn, loaned the funds on similar terms to the Investment Fund. The Investment Fund then contributed the loan proceeds to certain community development entities, which, in turn, loaned the funds on similar terms to Verso Quinnesec REP LLC as partial financing for the renewable energy project at our mill in Quinnesec, Michigan. As of both March 31, 2012, and December 31, 2011, Verso Holdings had a $23.3 million long-term receivable due from Verso Finance, representing these funds and accrued interest receivable of $0.1 million, while the Investment Fund had an outstanding loan of $23.3 million due to Verso Finance and accrued interest payable of $0.1 million. In addition, for both the three months ended March 31, 2012 and 2011, Verso Holdings recognized interest income from Verso Finance of $0.4 million; and the Investment Fund recognized interest expense to Verso Finance of $0.4 million.

Verso Paper — As of March 31, 2012, Verso Holdings had $0.8 million in current payables due to Verso Paper compared to $0.9 million for 2011. Verso Holdings has made distributions to pay expenses on behalf of Verso Paper. Distributions for the three months ended March 31, 2012 were negligible. No distributions were made for the three months ended March 31, 2011.

## 10. RESTRUCTURING AND OTHER CHARGES

In 2011, we permanently shut down the No. 2 coated groundwood paper machine at our mill in Bucksport, Maine, and two supercalendered paper machines at our mill in Sartell, Minnesota, thereby reducing annual production capacity by 193,000 tons. The following table details the cumulative charges incurred related to the shut-down through March 31, 2012:

| (Dollars in thousands) | Total Restructuring Charges | Recognized and/or paid as of March 31, 2012 | Remaining Costs to be Paid |
|---|---|---|---|
| Severance and benefit costs | $ 15,146 | $ 13,528 | $ 1,618 |
| Accelerated depreciation of property, plant and equipment | 7,068 | 7,068 | - |
| Write-off of related spare parts and inventory | 2,080 | 2,080 | - |
| Other miscellaneous costs | 255 | 187 | 68 |
| Total restructuring costs | $ 24,549 | $ 22,863 | $ 1,686 |

The following details the changes in our associated shut-down liability during the quarter ended March 31, 2012, which is included in Accrued liabilities on our condensed consolidated balance sheets:

| (Dollars in thousands) | | Three Months Ended March 31, 2012 |
|---|---|---|
| Balance of reserve at December 31, 2011 | $ | 10,763 |
| Purchase obligations payments | | (22) |
| Severance and benefit payments | | (9,055) |
| Balance of reserve at March 31, 2012 | $ | 1,686 |

The following table details the charges incurred related to the shut-down as included in Restructuring and other charges on our condensed consolidated statements of operations for the quarter ended March 31, 2012:

| (Dollars in thousands) | | Three Months Ended March 31, 2012 |
|---|---|---|
| Severance and benefit costs | $ | 142 |
| Write-off of related spare parts and inventory | | (198) |
| Other miscellaneous costs | | 141 |
| Total restructuring costs | $ | 85 |

There were no restructuring and other charges for the quarter ended March 31, 2011.

## 11. NEW MARKET TAX CREDIT ENTITIES

In 2010 we entered into a financing transaction with Chase Community Equity, LLC, or "Chase," related to a $43 million renewable energy project at our mill in Quinnesec, Michigan in which Chase made a capital contribution and Verso Finance made a loan to Chase NMTC Verso Investment Fund, LLC, the "Investment Fund," under a qualified New Markets Tax Credit, or "NMTC," program. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000, or the "Act," and is intended to induce capital investment in qualified lower income communities. The Act permits taxpayers to claim credits against their Federal income taxes for up to 39% of qualified investments in the equity of community development entities, or "CDEs." CDEs are privately managed investment institutions that are certified to make qualified low-income community investments, or "QLICIs."

In connection with the financing, Verso Holdings loaned $23.3 million to Verso Finance pursuant to a 6.5% loan due 2040, and Verso Finance, in turn, loaned the funds on similar terms to the Investment Fund. The Investment Fund then contributed the loan proceeds to certain CDEs, which, in turn, loaned the funds on similar terms to Verso Quinnesec REP LLC, our indirect, wholly-owned subsidiary. The proceeds of the loans from the CDEs (including loans representing the capital contribution made by Chase, net of syndication fees) were used to partially fund the renewable energy project.

In 2010 Chase also contributed $9.0 million to the Investment Fund, and as such, Chase is entitled to substantially all of the benefits derived from the NMTCs. This transaction includes a put/call provision whereby we may be obligated or entitled to repurchase Chase's interest. We believe that Chase will exercise the put option in December 2017 at the end of the recapture period. The value attributed to the put/call is de minimis. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. We are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, require us to indemnify

Chase for any loss or recapture of NMTCs related to the financing until such time as our obligation to deliver tax benefits is relieved.  We do not anticipate any credit recaptures will be required in connection with this arrangement.

We have determined that the financing arrangement is a variable interest entity, or "VIE." The ongoing activities of the VIE – collecting and remitting interest and fees and NMTC compliance – were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the VIE. Management considered the contractual arrangements that obligate us to deliver tax benefits and provide various other guarantees to the structure; Chase's lack of a material interest in the underling economics of the project; and the fact that we are obligated to absorb losses of the VIE. We concluded that we are the primary beneficiary and consolidated the VIE in accordance with the accounting standard for consolidation. Chase's contribution, net of syndication fees, is included in Other liabilities in the accompanying condensed consolidated balance sheets. Direct costs incurred in structuring the arrangement are deferred and will be recognized as expense over the term of the notes. Incremental costs to maintain the structure during the compliance period are recognized as incurred.

The following table summarizes the impact of the VIE consolidated by Verso Holdings as of March 31, 2012 and December 31, 2011:

| | VERSO PAPER | | VERSO HOLDINGS | |
|---|---|---|---|---|
| (Dollars in thousands) | March 31, 2012 | December 31, 2011 | March 31, 2012 | December 31, 2011 |
| Current assets | $64 | $81 | $64 | $81 |
| Non-current assets | 85 | 85 | 23,390 | 23,390 |
| Total assets | $149 | $166 | $23,454 | $23,471 |
| Current liabilities | 62 | 79 | 189 | 205 |
| Long-term debt | - | - | 23,305 | 23,305 |
| Other non-current liabilities | 7,923 | 7,923 | 7,923 | 7,923 |
| Total liabilities | $7,985 | $8,002 | $31,417 | $31,433 |

Amounts presented in the condensed consolidated balance sheets and the table above are adjusted for intercompany eliminations.

## 12. COMMITMENTS AND CONTINGENCIES

Bucksport Energy LLC — We have a joint ownership interest with Bucksport Energy LLC, an unrelated third party, in a cogeneration power plant producing steam and electricity. The plant was built in 2000 and is located at and supports our mill in Bucksport, Maine. Each co-owner owns an undivided proportional share of the plant's assets, and we account for this investment under the proportional consolidation method. We own 28% of the steam and electricity produced by the plant. We may purchase our remaining electrical needs from the plant at market rates. We are obligated to purchase the remaining 72% of the steam output from the plant at fuel cost plus a contractually fixed fee per unit of steam. Power generation and operating expenses are divided on the same basis as ownership. As of March 31, 2012, we had $0.2 million of restricted cash which may be used only to fund the ongoing energy operations of this investment included in Intangibles and other assets in the accompanying condensed consolidated balance sheets.

Thilmany, LLC — In connection with the Acquisition, we assumed a twelve-year supply agreement with Thilmany, LLC, or "Thilmany," for the specialty paper products manufactured on paper machine no. 5 our Androscoggin mill in Jay, Maine, which expires on June 1, 2017. The 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 machine's routine maintenance and Thilmany is responsible for any capital expenditures specific to the machine. Thilmany has the right to terminate the agreement if certain events occur.

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

## 13. INFORMATION BY INDUSTRY SEGMENT

Our reporting segments correspond to the following three market segments in which we operate: coated papers, including coated groundwood and coated freesheet; hardwood market pulp; and other, consisting of specialty papers. We operate primarily in one geographic segment, North America. Our products are used primarily in media and marketing applications, including magazines, catalogs and commercial printing applications such as high-end advertising brochures, annual reports and direct-mail advertising.

The following table summarizes the industry segment data for the three-month periods ended March 31, 2012 and 2011:

| | VERSO PAPER Three Months Ended March 31, | | VERSO HOLDINGS Three Months Ended March 31, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2012 | 2011 | 2012 | 2011 |
| Net Sales: | | | | |
| Coated papers | $303,215 | $351,690 | $303,215 | $351,690 |
| Hardwood market pulp | 32,870 | 35,737 | 32,870 | 35,737 |
| Other | 39,210 | 29,165 | 39,210 | 29,165 |
| Total | $375,295 | $416,592 | $375,295 | $416,592 |
| Operating Income (Loss): | | | | |
| Coated papers | $(8,862) | 8,173 | $(8,811) | 8,224 |
| Hardwood market pulp | 961 | 9,264 | 961 | 9,264 |
| Other | (4,410) | (3,354) | (4,410) | (3,354) |
| Total | $(12,311) | $14,083 | $(12,260) | $14,134 |
| Depreciation, Amortization, and Depletion: | | | | |
| Coated papers | $24,620 | $25,116 | $24,620 | $25,116 |
| Hardwood market pulp | 4,273 | 4,283 | 4,273 | 4,283 |
| Other | 2,530 | 1,948 | 2,530 | 1,948 |
| Total | $31,423 | $31,347 | $31,423 | $31,347 |
| Capital Spending: | | | | |
| Coated papers | $15,450 | $9,165 | $15,450 | $9,165 |
| Hardwood market pulp | 919 | 3,861 | 919 | 3,861 |
| Other | 621 | 216 | 621 | 216 |
| Total | $16,990 | $13,242 | $16,990 | $13,242 |

14. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

Verso Holdings, the "Parent Issuer," and its direct, 100% owned subsidiary, Verso Paper Inc., the "Subsidiary Issuer," are the issuers of 11.75% senior secured notes due 2019, 11.5% senior secured notes due 2014, 8.75% second priority senior secured notes due 2019, second priority senior secured floating rate notes due 2014, and 11.38% senior subordinated notes due 2016 (collectively, the "Notes"). The Notes are jointly and severally guaranteed on a full and unconditional basis by the Parent Issuer's 100% owned subsidiaries, excluding the Subsidiary Issuer, Bucksport Leasing LLC, and Verso Quinnesec REP LLC, collectively, the "Guarantor Subsidiaries." Chase NMTC Verso Investment Fund, LLC, a consolidated VIE of Verso Holdings, is a "Non-Guarantor Affiliate."

Verso Paper Holdings LLC
Condensed Consolidating Balance Sheet
March 31, 2012

| (Dollars in thousands) | Parent Issuer | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Non-Guarantor Affiliate | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and cash equivalents | $ - | $ - | $ 56,078 | $ - | $ 57 | $ - | $ 56,135 |
| Accounts receivable, net | - | - | 104,873 | 14,676 | - | - | 119,549 |
| Inventories | - | - | 192,820 | - | - | - | 192,820 |
| Prepaid expenses and other assets | - | - | 6,674 | - | 7 | - | 6,681 |
| Current assets | - | - | 360,445 | 14,676 | 64 | - | 375,185 |
| Property, plant, and equipment, net | - | - | 892,503 | 15,195 | - | (288 ) | 907,410 |
| Intercompany/affiliate receivable | 1,300,157 | - | - | 222 | 31,153 | (1,331,532) | - |
| Investment in subsidiaries | (154,865 ) | - | 11 | - | - | 154,854 | - |
| Other non-current assets(1) | - | - | 114,356 | 1,072 | 17 | 68 | 115,513 |
| Total assets | $ 1,145,292 | $ - | $ 1,367,315 | $ 31,165 | $ 31,234 | $ (1,176,898) | $ 1,398,108 |
| LIABILITIES AND MEMBER'S EQUITY | | | | | | | |
| Accounts payable | $ - | $ - | $ 112,957 | $ 8 | $ 62 | $ (7 ) | $ 113,020 |
| Accrued liabilities | 15,367 | - | 62,600 | - | 127 | - | 78,094 |
| Current liabilities | 15,367 | - | 175,557 | 8 | 189 | (7 ) | 191,114 |
| | - | - | 1,300,379 | 31,146 | - | (1,331,525) | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Intercompany/affiliate payable | | | | | | | |
| Long-term debt(2) | 1,259,014 | - | - | - | 23,305 | - | 1,282,319 |
| Other long-term liabilities | - | - | 45,841 | - | 7,923 | - | 53,764 |
| Member's (deficit) equity | (129,089 ) | - | (154,462 ) | 11 | (183 ) | 154,634 | (129,089 ) |
| Total liabilities and equity | $ 1,145,292 | $ - | $ 1,367,315 | $ 31,165 | $ 31,234 | $ (1,176,898) | $ 1,398,108 |

(1) Non-current assets of Guarantor Subsidiaries includes $23.3 million of a long-term note receivable from Verso Finance.
(2) Long-term debt of Non-Guarantor Affiliate is payable to Verso Finance.

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Verso Paper Holdings LLC
Condensed Consolidating Balance Sheet
December 31, 2011

| (Dollars in thousands) | Parent Issuer | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Non-Guarantor Affiliate | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and cash equivalents | $ - | $ - | $ 94,722 | $ - | $ 73 | $ - | $ 94,795 |
| Accounts receivable, net | - | - | 128,213 | - | - | - | 128,213 |
| Inventories | - | - | 166,876 | - | - | - | 166,876 |
| Prepaid expenses and other assets | - | - | 3,230 | - | 8 | - | 3,238 |
| Current assets | - | - | 393,041 | - | 81 | - | 393,122 |
| Property, plant, and equipment, net | - | - | 904,901 | 30,086 | - | (288) | 934,699 |
| Intercompany/affiliate receivable | 1,249,306 | - | - | 340 | 31,153 | (1,280,799) | - |
| Investment in subsidiaries | (84,459) | - | 356 | - | - | 84,103 | - |
| Other non-current assets(1) | - | - | 115,461 | 1,076 | 30 | 54 | 116,621 |
| Total assets | $ 1,164,847 | $ - | $ 1,413,759 | $ 31,502 | $ 31,264 | $ (1,196,930) | $ 1,444,442 |
| LIABILITIES AND MEMBER'S EQUITY | | | | | | | |
| Accounts payable | $ - | $ - | $ 110,517 | $ - | $ 79 | $ (7) | $ 110,589 |
| Accrued liabilities | 48,259 | - | 91,297 | - | 126 | - | 139,682 |
| Current liabilities | 48,259 | - | 201,814 | - | 205 | (7) | 250,271 |
| Intercompany/affiliate payable | - | - | 1,249,646 | 31,146 | - | (1,280,792) | - |
| Long-term debt(2) | 1,177,772 | - | - | - | 23,305 | - | 1,201,077 |
| Other long-term liabilities | - | - | 46,355 | - | 7,923 | - | 54,278 |
| Member's (deficit) equity | (61,184) | - | (84,056) | 356 | (169) | 83,869 | (61,184) |
| Total liabilities and equity | $ 1,164,847 | $ - | $ 1,413,759 | $ 31,502 | $ 31,264 | $ (1,196,930) | $ 1,444,442 |

(1) Other non-current assets of Guarantor Subsidiaries includes $23.3 million of a long-term note receivable from Verso Finance.
(2) Long-term debt of Non-Guarantor Affiliate is payable to Verso Finance.

Verso Paper Holdings LLC
Condensed Consolidating Statements of Operations
Three Months Ended March 31, 2012

| (Dollars in thousands) | Parent Issuer | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Non-Guarantor Affiliate | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net sales | $- | $- | $ 375,295 | $- | $- | $ - | $ 375,295 |
| Cost of products sold (exclusive of depreciation, amortization, and depletion) | - | - | 337,280 | - | - | - | 337,280 |
| Depreciation, amortization, and depletion | - | - | 31,064 | 359 | 14 | (14 ) | 31,423 |
| Selling, general, and administrative expenses | - | - | 19,167 | (408 ) | 8 | - | 18,767 |
| Restructuring and other charges | - | - | 85 | - | - | - | 85 |
| Interest income | (31,188 ) | - | (380 ) | - | (387 ) | 31,575 | (380 ) |
| Interest expense | 31,188 | - | 30,531 | 394 | 379 | (31,575 ) | 30,917 |
| Other loss, net | 29,971 | - | (401 ) | - | - | - | 29,570 |
| Equity in net loss of subsidiaries | (42,396 ) | - | - | - | - | 42,396 | - |
| Net loss | $(72,367 ) | $- | $ (42,051 ) | $(345 ) | $(14 ) | $ 42,410 | $ (72,367 ) |

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Verso Paper Holdings LLC
Condensed Consolidating Statements of Comprehensive Income
Three Months Ended March 31, 2012

| (Dollars in thousands) | Parent Issuer | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Non-Guarantor Affiliate | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| Net Loss | $(72,367) | $- | $ (42,051) | $(345) | $(14) | $ 42,410 | $ (72,367) |
| Other comprehensive income (loss): | | | | | | | |
| Derivative financial instruments: | | | | | | | |
| Effective portion of net unrealized losses | - | - | (1,246) | - | - | - | (1,246) |
| Reclassification from accumulated other comprehensive loss to net loss | - | - | 4,640 | - | - | - | 4,640 |
| Defined benefit pension plan amortization of net loss and prior service cost | - | - | 565 | - | - | - | 565 |
| Other comprehensive income | - | - | 3,959 | - | - | - | 3,959 |
| Comprehensive loss | $(72,367) | $- | $ (38,092) | $(345) | $(14) | $ 42,410 | $ (68,408) |

Verso Paper Holdings LLC
Condensed Consolidating Statements of Operations
Three Months Ended March 31, 2011

| (Dollars in thousands) | Parent Issuer | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Non-Guarantor Affiliate | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| Net sales | $- | $- | $ 416,592 | $- | $- | $ - | $ 416,592 |
| Cost of products sold (exclusive of depreciation, amortization, and depletion) | - | - | 352,528 | - | - | - | 352,528 |
| Depreciation, amortization, and depletion | - | - | 31,341 | 6 | 14 | (14) | 31,347 |
| Selling, general, and administrative expenses | - | - | 18,506 | (24) | 101 | - | 18,583 |
| Interest income | (31,781) | - | (396) | (16) | (387) | 32,168 | (412) |
| Interest expense | 31,781 | - | 30,958 | 394 | 379 | (32,168) | 31,344 |
| Other loss, net | 26,092 | - | 84 | - | - | - | 26,176 |
| | (16,882) | - | - | - | - | 16,882 | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Equity in net loss of subsidiaries | | | | | | | |
| Net loss | $(42,974 ) | $- | $ (16,429 ) | $(360 ) | $(107 ) | $ 16,896 | $ (42,974 ) |

Verso Paper Holdings LLC
Condensed Consolidating Statements of Comprehensive Income
Three Months Ended March 31, 2011

| (Dollars in thousands) | Parent Issuer | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Non-Guarantor Affiliate | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| Net Loss | $(42,974 ) | $- | $ (16,429 ) | $(360 ) | $(107 ) | $ 16,896 | $ (42,974 ) |
| Other comprehensive income (loss): | | | | | | | |
| Derivative financial instruments: | | | | | | | |
| Effective portion of net unrealized losses | - | - | (158 ) | - | - | - | (158 ) |
| Reclassification from accumulated other comprehensive loss to net loss | - | - | 1,271 | - | - | - | 1,271 |
| Defined benefit pension plan amortization of net loss and prior service cost | - | - | 392 | - | - | - | 392 |
| Other comprehensive income | - | - | 1,505 | - | - | - | 1,505 |
| Comprehensive loss | $(42,974 ) | $- | $ (14,924 ) | $(360 ) | $(107 ) | $ 16,896 | $ (41,469 ) |

Verso Paper Holdings LLC
Condensed Consolidating Statements of Cash Flows
Three Months Ended March 31, 2012

| (Dollars in thousands) | Parent Issuer | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Non-Guarantor Affiliate | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| Net cash used in operating activities | $ - | $ - | $ (70,611 ) | $ 148 | $ (16 ) | $ - | $ (70,479 ) |
| Cash flows from investing activities: | | | | | | | |
| Proceeds from sale of fixed assets | - | - | 378 | - | - | - | 378 |
| Transfers to (from) restricted cash | - | - | (288 ) | (4 ) | - | - | (292 ) |
| Return of investment in subsidiaries | 63 | - | (63 ) | - | - | - | |
| Capital expenditures | - | - | (16,846 ) | (144 ) | - | - | (16,990 ) |
| Net cash used in investing activities | 63 | - | (16,819 ) | (148 ) | - | - | (16,904 ) |
| Cash flows from financing activities: | | | | | | | |
| Proceeds from long-term debt | 341,191 | - | - | - | - | - | 341,191 |
| Repayments of long-term debt | (285,455 ) | - | - | - | - | - | (285,455 ) |
| Debt issuance costs | (8,626 ) | - | 1,676 | - | - | - | (6,950 ) |
| Cash distributions | (63 ) | - | - | - | - | - | (63 ) |
| Repayment of advances to subsidiaries | 285,455 | - | (285,455 ) | - | - | - | - |
| Advances to subsidiaries | (332,565 ) | - | 332,565 | - | - | - | - |
| Net cash (used in) provided by financing activities | (63 ) | - | 48,786 | - | - | - | 48,723 |
| Change in cash and cash equivalents | - | - | (38,644 ) | - | (16 ) | - | (38,660 ) |
| Cash and cash equivalents at beginning of period | - | - | 94,722 | - | 73 | - | 94,795 |
| Cash and cash equivalents at end of period | $ - | $ - | $ 56,078 | $ - | $ 57 | $ - | $ 56,135 |

Verso Paper Holdings LLC
Condensed Consolidating Statements of Cash Flows
Three Months Ended March 31, 2011

| (Dollars in thousands) | Parent Issuer | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Non-Guarantor Affiliate | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| Net cash used in operating activities | $ - | $ - | $ (81,520 ) | $ (1,224 ) | $ 12 | $ - | $ (82,732 ) |
| Cash flows from investing activities: | | | | | | | |
| Proceeds from sale of fixed assets | - | - | 24 | - | - | - | 24 |
| Transfers to (from) restricted cash | - | - | (307 ) | 4,125 | - | - | 3,818 |
| Capital expenditures | - | - | (10,573 ) | (2,669 ) | - | - | (13,242 ) |
| Net cash used in investing activities | - | - | (10,856 ) | 1,456 | - | - | (9,400 ) |
| Cash flows from financing activities: | | | | | | | |
| Proceeds from long-term debt | 394,618 | - | - | - | - | - | 394,618 |
| Repayments of long-term debt | (389,998 ) | - | - | - | - | - | (389,998 ) |
| Debt issuance costs | (10,378 ) | - | 152 | (232 ) | - | - | (10,458 ) |
| Repayment of advances to subsidiaries | 389,998 | - | (389,998 ) | - | - | - | - |
| Advances to subsidiaries | (384,240 ) | - | 384,240 | - | - | - | - |
| Net cash used in financing activities | - | - | (5,606 ) | (232 ) | - | - | (5,838 ) |
| Change in cash and cash equivalents | - | - | (97,982 ) | - | 12 | - | (97,970 ) |
| Cash and cash equivalents at beginning of period | - | - | 152,702 | - | 4 | - | 152,706 |
| Cash and cash equivalents at end of period | $ - | $ - | $ 54,720 | $ - | $ 16 | $ - | $ 54,736 |

15. SUBSEQUENT EVENTS

On March 7, 2012, Verso Holdings commenced a tender offer to repurchase the outstanding $315.0 million aggregate principal amount of its 11.5% senior secured notes due 2014. On March 21, 2012, Verso Holdings repurchased and retired $270.6 million aggregate principal amount of the notes. On April 30, 2012, Verso Holdings redeemed the remaining outstanding $44.4 million aggregate principal amount of the notes. Following the redemption, there are no outstanding 11.5% senior secured notes due 2014.

On March 21, 2012, Verso Holdings issued $345.0 million aggregate principal amount of 11.75% senior secured notes due 2019. The estimated net proceeds from the issuance of the notes, after deducting the discount, underwriting fees and offering expenses, were $332.7 million. Verso Holdings used the net proceeds to fund the repurchase and redemption of the outstanding $315.0 million aggregate principal amount of its 11.5% senior secured notes due 2014.

On March 28, 2012, Verso Holdings commenced an exchange offer and consent solicitation for the outstanding $180.2 million aggregate principal amount of its second priority senior secured floating rate notes due 2014, or the "Second Lien Exchange Offer." On May 11, 2012, pursuant to the Second Lien Exchange Offer, Verso Holdings issued $166.9 million aggregate principal amount of 11.75% secured notes due 2019 and paid approximately $5.0 million in cash in exchange for $166.9 million aggregate principal amount of the second priority senior secured floating rate notes. Following the exchange, $13.3 million aggregate principal amount of the second priority senior secured floating rate notes remain outstanding.

The 11.75% secured notes due 2019 bear interest, payable semi-annually, at the rate of 11.75% per year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The notes and related guarantees are secured by security interests, subject to permitted liens, in substantially all of Verso Holdings' and the guarantors' tangible and intangible assets. The security interests securing the notes rank junior to those securing the obligations under the ABL Facility, the Cash Flow Facility, and the 11.75% senior secured notes due 2019 and senior to those securing the second priority senior secured floating rate notes due 2014 and the 8.75% second priority senior secured notes due 2019. The notes will mature on January 15, 2019.

On April 25, 2012, Verso Holdings commenced an exchange offer and consent solicitation for up to $157.5 million aggregate principal amount of the outstanding $300.0 million aggregate principal amount of its 11.38% senior subordinated notes due 2016, or the "Subordinated Notes Exchange Offer." On May 11, 2012, pursuant to the Subordinated Notes Exchange Offer, Verso Holdings issued $104.7 million aggregate principal amount of 11.75% secured notes due 2019 and paid approximately $17.3 million in cash in exchange for $157.5 million aggregate principal amount of the 11.38% senior subordinated notes. Following the exchange, $142.5 million aggregate principal amount of the 11.38% senior subordinated notes remain outstanding.

On May 4, 2012, Verso Holdings entered into new senior credit facilities, consisting of a $150.0 million asset-based loan revolving credit facility and a $50.0 million cash-flow revolving credit facility. The new senior credit facilities were used to repay the outstanding indebtedness under the existing $200.0 million revolving credit facility and will be used to provide ongoing working capital and for other general corporate purposes.

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

Overview

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

Financial Summary

Our net sales for the first quarter of 2012 decreased $41.3 million, or 9.9%, reflecting an 8.2% decrease in sales volume and a 1.9% decrease in the average sales price for all of our products. Typically the first quarter is a seasonally slow quarter due to lower demand for coated paper. However, prior year results were positively impacted by unusually high sales volume for coated papers in March of 2011. The decline in sales volume for the first quarter of 2012 was also impacted by the permanent shutdown of three paper machines in the fourth quarter of 2011. The lower average sales price for all of our products reflects a decline in the price of pulp while coated paper prices remained flat compared to the first quarter of 2011. We announced a price increase of $60 per ton on coated groundwood and $30 per ton on coated freesheet, effective, May 1, 2012. Additionally, three pulp price increases, each for $30 per metric ton, have been announced since March 1.

We continue to focus on our capital structure, refinancing our existing senior secured notes due 2014 with new senior secured notes due 2019. On May 4, 2012, Verso Holdings entered into new senior credit facilities, consisting of a $150.0 million asset-backed revolving credit facility, or "ABL Facility," and a $50.0 million cash-flow credit facility, or "Cash Flow Facility." These facilities replaced our existing $200.0 million revolving credit facility. We also initiated exchange offers for our second priority senior secured floating rate notes due 2014 and for a portion of our senior subordinated notes due 2016, both of which will extend our maturity dates to 2019.

Our capital expenditures increased to $17.0 million in the first quarter of 2012 compared to $9.4 million, net of funds transferred from restricted cash, in the same period last year, reflecting our ongoing investment in our renewable energy strategy, including the Bucksport renewable energy project which continues to be on schedule.

Results of Operations

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

| | VERSO PAPER Three Months Ended March 31, | | VERSO HOLDINGS Three Months Ended March 31, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2012 | 2011 | 2012 | 2011 |
| Net sales | $375,295 | $416,592 | $375,295 | $416,592 |
| Costs and expenses: | | | | |
| Cost of products sold - exclusive of depreciation, amortization, and depletion | 337,280 | 352,528 | 337,280 | 352,528 |
| Depreciation, amortization, and depletion | 31,423 | 31,347 | 31,423 | 31,347 |
| Selling, general, and administrative expenses | 18,818 | 18,634 | 18,767 | 18,583 |
| Restructuring and other charges | 85 | - | 85 | - |
| Total operating expenses | 387,606 | 402,509 | 387,555 | 402,458 |
| Operating income (loss) | (12,311) | 14,083 | (12,260) | 14,134 |
| Interest income | (2) | (34) | (380) | (412) |
| Interest expense | 32,119 | 32,389 | 30,917 | 31,344 |
| Other loss, net | 29,570 | 26,327 | 29,570 | 26,176 |
| Loss before income taxes | (73,998) | (44,599) | (72,367) | (42,974) |
| Income tax benefit | (69) | (2) | - | - |
| Net loss | $(73,929) | $(44,597) | $(72,367) | $(42,974) |

First Quarter of 2012 Compared to First Quarter of 2011

Net Sales. Net sales for the first quarter of 2012 decreased 9.9%, to $375.3 million from $416.6 million in the first quarter of 2011, as total sales volume decreased 8.2%. The decline in total sales volume reflects the unusually high sales volume for coated papers in March of 2011 and the permanent shutdown of three paper machines in the fourth quarter of 2011. The average sales price for all of our products decreased 1.9%, reflecting a decline in the price of pulp.

Net sales for our coated papers segment decreased 13.8% in the first quarter of 2012 to $303.2 million from $351.7 million for the same period in 2011, due to a 13.8% decrease in paper sales volume while the average paper sales price per ton remained flat.

Net sales for our market pulp segment decreased 8.0% to $32.9 million in the first quarter of 2012 from $35.7 million for the same period in 2011. This decline reflects a 14.8% decrease in the average sales price per ton, which was partially offset by an increase of 8.0% in sales volume compared to the first quarter of 2011.

Net sales for our other segment increased 34.4% to $39.2 million in the first quarter of 2012 from $29.2 million in the first quarter of 2011. The improvement in 2012 was due to a 33.6% increase in sales volume, reflecting the continued development of new paper product offerings for our customers. The average sales price per ton was up slightly.

Cost of sales. Cost of sales, including depreciation, amortization, and depletion, was $368.7 million in the first quarter of 2012 compared to $383.9 million in 2011. Our gross margin, excluding depreciation, amortization, and depletion, was 10.1% for the first quarter of 2012 compared to 15.4% for the first quarter of 2011. Depreciation, amortization, and depletion expenses were $31.4 million in both the first quarter of 2012 and 2011.

Selling, general, and administrative. Selling, general, and administrative expenses were $18.8 million in the first quarter of 2012 compared to $18.6 million for the same period in 2011.

Interest expense. Verso Paper's interest expense for the first quarter of 2012 was $32.1 million compared to $32.4 million for the same period in 2011. Verso Holdings' interest expense for the first quarter of 2012 was $30.9 million compared to $31.3 million for the same period in 2011.

Other loss, net. Other loss, net for Verso Paper was $29.6 million in the first quarter of 2012 compared to $26.3 million in the first quarter of 2011. Other loss, net for Verso Holdings was $29.6 million in the first quarter of 2012 compared to $26.2 million in the first quarter of 2011. Included in the results for the first quarter of 2012 and 2011, respectively, were losses of $30.0 million and $26.1 million related to the early retirement of debt in connection with debt refinancing.

Reconciliation of Cash Flows from Operating Activities to Adjusted EBITDA

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. Adjusted EBITDA is EBITDA further adjusted to exclude unusual items and other pro forma adjustments permitted in calculating covenant compliance under the indentures governing our notes. Adjusted EBITDA is modified to align the mark-to-market impact of derivative contracts used to economically hedge a portion of future natural gas purchases with the period in which the contracts settle. We believe that Adjusted EBITDA is an important measure that supplements discussions and analysis of our results of operations. We believe that it is useful to investors to provide disclosures of our results of operations on the same basis as that used by management. Management relies upon Adjusted EBITDA as a primary measure to review and assess operating performance of its business and its management team. Adjusted EBITDA is also used to determine compliance with our financial covenants. We believe that the inclusion of the supplemental adjustments applied in calculating Adjusted EBITDA are reasonable and appropriate to provide additional information to investors.

Because EBITDA and Adjusted EBITDA are not measurements determined in accordance with U.S. GAAP and are susceptible to varying calculations, EBITDA and Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures presented by other companies. You should consider our EBITDA and Adjusted EBITDA in addition to, and not as a substitute for, or superior to, our operating or net income or cash flows from operating activities, determined in accordance with U.S. GAAP.

| | Verso Paper | | | |
|---|---|---|---|---|
| (Dollars in millions) | Three Months Ended March 31, 2011 | Year Ended December 31, 2011 | Three Months Ended March 31, 2012 | Twelve Months Ended March 31, 2012 |
| Cash flows from operating activities | $ (82.7) | $ 14.5 | $ (70.5) | $ 26.7 |
| Income tax expense | - | 0.2 | (0.1 ) | 0.1 |
| Amortization of debt issuance costs | (1.5 ) | (5.4 ) | (1.3 ) | (5.2 ) |
| Accretion of discount on long-term debt | (1.0 ) | (4.1 ) | (1.0 ) | (4.1 ) |
| Loss on early extinguishment of debt, net | (26.1) | (26.1 ) | (30.0) | (30.0 ) |
| Goodwill impairment | - | (18.7 ) | - | (18.7 ) |
| Equity award expense | (0.6 ) | (2.4 ) | (0.6 ) | (2.4 ) |
| Interest income | - | (0.1 ) | - | (0.1 ) |
| Interest expense | 32.4 | 126.6 | 32.1 | 126.3 |
| Other, net | (0.1 ) | (1.3 ) | (4.3 ) | (5.5 ) |
| Changes in assets and liabilities, net | 98.8 | 31.7 | 65.2 | (1.9 ) |
| EBITDA | 19.2 | 114.9 | (10.5) | 85.2 |
| Loss on early extinguishment of debt, net(1) | 26.1 | 26.1 | 30.0 | 30.0 |
| Goodwill impairment(2) | - | 18.7 | - | 18.7 |
| Restructuring and other charges(3) | - | 24.5 | 0.1 | 24.6 |
| Hedge losses(4) | - | 7.5 | 4.7 | 12.2 |
| Equity award expense(5) | 0.6 | 2.4 | 0.6 | 2.4 |
| Other items, net(6) | 1.1 | 8.4 | 0.4 | 7.7 |
| Adjusted EBITDA before pro forma effects of profitability program | 47.0 | 202.5 | 25.3 | 180.8 |

(1) Represents net losses related to debt refinancing.
(2) Represents impairment of goodwill allocated to the coated paper segment.
(3) Represents costs associated with the shut-down of three paper machines.
(4) Represents unrealized losses on energy-related derivative contracts.
(5) Represents amortization of non-cash incentive compensation.
(6) Represents earnings adjustments for product development costs and other miscellaneous non-recurring items.

Seasonality

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

Liquidity and Capital Resources

We rely primarily upon cash flow from operations and borrowings under our revolving credit facility to finance operations, capital expenditures, and fluctuations in debt service requirements. As of March 31, 2012, $160.1 million was available for future borrowing under our revolving credit facility. 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 we will be able to generate sufficient cash flows from operations or that future borrowings will be available under our revolving credit facility in an amount sufficient to fund our liquidity needs. As we focus on managing our expenses and cash flows, we continue to assess and implement, as appropriate, various earnings and expense reduction initiatives. Management has developed a company-wide cost reduction program and expects this program to yield an additional $58 million in cost reductions and continues to search for and develop additional cost savings measures.

Verso Paper's and Verso Holdings' cash flows from operating, investing and financing activities, as reflected in the Unaudited Condensed Consolidated Statements of Cash Flows are summarized in the following table.

| | VERSO PAPER Three Months Ended March 31, | | VERSO HOLDINGS Three Months Ended March 31, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2012 | 2011 | 2012 | 2011 |
| Net cash provided by (used in): | | | | |
| Operating activities | $(70,531) | $(82,747) | $(70,479) | $(82,732) |
| Investing activities | (16,904) | (9,400) | (16,904) | (9,400) |
| Financing activities | 48,775 | (5,822) | 48,723 | (5,838) |
| Net change in cash and cash equivalents | $(38,660) | $(97,969) | $(38,660) | $(97,970) |

Operating activities. In the first quarter of 2012, Verso Paper's net cash used in operating activities of $70.5 million reflects a net loss of $73.9 million adjusted for non-cash depreciation, amortization, depletion and accretion and non-cash losses on early extinguishment of debt of $63.7 million and an increase in working capital of $67.8 million, primarily due to a decrease in accrued liabilities resulting from normal fluctuations in accrued interest payable. In the first quarter of 2011, Verso Paper's net cash used in operating activities of $82.7 million reflects a net loss of $44.6 million adjusted for non-cash depreciation, amortization, depletion and accretion and non-cash losses on the early extinguishment of debt of $60.0 million and an increase in working capital of $102.7 million, which included increases in inventory and accounts receivable and a decrease in accrued liabilities. The increases in inventory and accounts receivable reflect the improved demand for our products and the decrease in accrued liabilities is the result of normal fluctuations in accrued interest payable. Verso Holdings' operating cash flows are the same as those of Verso Paper in all material respects.

Investing activities. In the first quarter of 2012, Verso Paper's net cash used in investing activities of $16.9 million reflects capital expenditures. This compares to $9.4 million of net cash used in investing activities in the first quarter of 2011, reflecting $13.2 million in capital expenditures net of funds transferred from cash restricted for use on a renewable energy project at our mill in Quinnesec, Michigan. Verso Holdings' investing cash flows are the same as those of Verso Paper.

Financing activities. In the first quarter of 2012, Verso Paper's net cash provided by financing activities was $48.8 million, reflecting $334.2 million in cash received from the issuance of $345.0 million aggregate principal amount of 11.75% senior secured notes due 2019 after discount, underwriting fees and issuance costs, net of cash payments of $285.5 million to repurchase $270.6 million of our 11.5% senior secured notes due 2014 and pay related fees and charges. In April 2012, Verso Holdings redeemed the remaining outstanding $44.4 million aggregate principal amounts of the 11.5% senior secured notes due 2014. In the first quarter of 2011, Verso Paper's net cash used in financing activities was $5.8 million, reflecting cash payments of $390.0 million to repurchase $337.1 million of our 9.13% second priority senior secured notes and $35.0 million of our 11.5% first priority senior secured notes and pay related fees and charges, net of $384.2 million in cash received from the issuance of $396.0 million aggregate principal amount of 8.75% second priority senior secured notes net of discount, underwriting fees and issuance costs. Verso Holdings' financing cash flows are the same as those of Verso Paper in all material respects.

Revolving Credit Facility. Verso Holdings' $200.0 million revolving credit facility had no amounts outstanding, $39.9 million in letters of credit issued, and $160.1 million available for future borrowing as of March 31, 2012. The indebtedness under the revolving credit facility bears interest, payable quarterly, at a rate equal to LIBOR plus 3% or prime plus 2% per year. Verso Holdings is required to pay a commitment fee to the lenders in respect of unutilized commitments under the revolving credit facility at a rate equal to 0.5% per year and customary letter of credit and agency fees. The indebtedness under the revolving credit facility is guaranteed jointly and severally by Verso Finance and each of Verso Holdings' subsidiaries, subject to certain exceptions, and the indebtedness and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The indebtedness under the revolving credit facility and related guarantees are secured by first-priority security interests, subject to permitted liens, in substantially all of Verso Holdings', Verso Finance's, and the subsidiary guarantors' tangible and intangible assets. The revolving credit facility will mature on August 1, 2012.

On May 4, 2012, Verso Holdings entered into new senior credit facilities consisting of a $150.0 million ABL Facility and a $50.0 million Cash Flow Facility. The new senior credit facilities were used to repay the outstanding indebtedness under the existing $200.0 million revolving credit facility and will be used to provide ongoing working capital and for other general corporate purposes. The indebtedness under the new senior credit facilities bears interest at a floating rate based on a margin over a base rate or eurocurrency rate. As of May 4, 2012, the applicable margin for advances under the ABL Facility was 1.00% for base rate advances and 2.00% for LIBOR advances, and the applicable margin for advances under the Cash Flow Facility was 3.50% for base rate advances and 4.50% for LIBOR advances. Verso Holdings is required to pay a commitment fee to the lenders in respect of the unused commitments under the ABL Facility at an annual rate initially equal to 0.50% and thereafter either 0.375% or 0.50%, based on daily average utilization, and under the Cash Flow Facility at an annual rate of 0.625%. The indebtedness under the new senior credit facilities is guaranteed jointly and severally by Verso Finance and each of Verso Holdings' subsidiaries, subject to certain exceptions, and the indebtedness and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The indebtedness under the ABL Facility and related guarantees are secured by first-priority security interests, subject to permitted liens, in substantially all of Verso Holdings', Verso Finance's, and the subsidiary guarantors' inventory and accounts receivable, or "ABL Priority Collateral," and second-priority security interests, subject to permitted liens, in substantially all of their other assets, or "Notes Priority Collateral." The indebtedness under the Cash Flow Facility and related guarantees are secured, pari passu with the 11.75% senior secured notes due 2019 and related guarantees, by first-priority security interests in the Notes Priority Collateral and second-priority security interests in the ABL Priority Collateral. The new senior credit facilities will mature on May 4, 2017, unless, on any of the dates that is 91 days prior to the earliest scheduled maturity of any of the existing second-lien notes, 11.38% senior subordinated notes, or senior unsecured term loan, an aggregate principal amount in excess of $100.0 million of indebtedness under such existing second-lien notes, subordinated notes or senior unsecured term loan, as applicable, is outstanding, in which case the new senior credit facilities will mature on such earlier date. The new senior credit facilities replaces the existing $200.0 million revolving credit facility and is being utilized in lieu of the previously announced commitments from lenders for a $100.0 million accounts receivable securitization facility and a new and/or extended $55.0 million first-priority revolving credit facility.

11.5% Senior Secured Notes due 2014. In June 2009 and January 2010, Verso Holdings issued a total of $350.0 million aggregate principal amount of 11.5% senior secured notes due 2014. In March 2011, Verso Holdings repurchased and retired $35.0 million aggregate principal amount of the notes. On March 21, 2012, Verso Holdings repurchased and retired $270.6 million aggregate principal amount of the notes pursuant to a tender offer. On April 30, 2012, Verso Holdings redeemed the remaining outstanding $44.4 million aggregate principal amount of the notes. Following such repurchase and redemption, there are no outstanding 11.5% senior secured notes due 2014.

11.75% Senior Secured Notes due 2019. On March 21, 2012, Verso Holdings issued $345.0 million aggregate principal amount of 11.75% senior secured notes due 2019. The notes bear interest, payable semi-annually, at the rate of 11.75% per year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The indebtedness under the notes and related guarantees are secured, pari passu with the Cash Flow Facility and related guarantees, by first-priority security interests in the Notes Priority Collateral and second-priority security interests in the ABL Priority Collateral. The notes will mature on January 15, 2019.

The estimated net proceeds from the March 2012 issuance of the 11.75% senior secured notes, after deducting the discount, underwriting fees and offering expenses, were $332.7 million. On March 21, 2012, Verso Holdings used $285.5 million of the net proceeds to repurchase and retire $270.6 million aggregate principal amount of its 11.5% senior secured notes due 2014. On April 30, 2012, Verso Holdings paid $48.3 million from the remaining net proceeds and available cash to redeem the remaining outstanding $44.4 million aggregate principal amount of its 11.5% senior secured notes due 2014.

8.75% Second Priority Senior Secured Notes due 2019. In January and February 2011, Verso Holdings issued $360.0 million and $36.0 million, respectively, aggregate principal amount of 8.75% second priority senior secured notes due 2019. The notes bear interest, payable semi-annually, at the rate of 8.75% per year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The notes and related guarantees are secured by second-priority security interests, subject to permitted liens, in substantially all of Verso Holdings' and the guarantors' tangible and intangible assets, excluding securities of Verso Holdings' affiliates. The notes will mature on February 1, 2019.

The net proceeds from the January 2011 issuance of the 8.75% second priority senior secured notes, after deducting the discount, underwriting fees and offering expenses, were $347.8 million. In the first quarter of 2011, Verso Holdings used a total of $353.9 million of the net proceeds and available cash to repurchase or redeem and retire a total of $337.1 million aggregate principal amount of its 9.13% second priority senior secured notes due 2014. Following such repurchases and redemption, there are no outstanding 9.13% second priority senior secured notes due 2014.

The net proceeds from the February 2011 issuance of the 8.75% second priority senior secured notes, including a premium and after deducting the underwriting fees and offering expenses, were $36.1 million. In March 2011, Verso Holdings used these net proceeds to redeem and retire $35.0 million aggregate principal amount of its 11.5% senior secured notes due 2014.

Second Priority Senior Secured Floating Rate Notes due 2014. In August 2006, Verso Holdings issued $250.0 million aggregate principal amount of second priority senior secured floating rate notes due 2014. As of March 31, 2012, Verso Holdings had repurchased and retired a total of $69.8 million aggregate principal amount of the notes. The notes bear interest, payable quarterly, at a rate equal to LIBOR plus 3.75% per year. As of March 31, 2012, the interest rate on the notes was 4.30% per year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The notes and related guarantees are secured by second-priority security interests, subject to permitted liens, in substantially all of Verso Holdings' and the guarantors' tangible and intangible assets, excluding securities of Verso Holdings' affiliates. The notes will mature on August 1, 2014.

On March 28, 2012, Verso Holdings commenced an exchange offer and consent solicitation for the outstanding $180.2 million aggregate principal amount of its second priority senior secured floating rate notes due 2014, or the "Second Lien Exchange Offer." On May 11, 2012, pursuant to the Second Lien Exchange Offer, Verso Holdings issued $166.9 million aggregate principal amount of 11.75% secured notes due 2019 and paid approximately $5.0 million in cash in exchange for $166.9 million aggregate principal amount of the second priority senior secured floating rate notes. Following the exchange, $13.3 million aggregate principal amount of the second priority senior secured floating rate notes remain outstanding.

The 11.75% secured notes due 2019 bear interest, payable semi-annually, at the rate of 11.75% per year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The notes and related guarantees are secured by security interests, subject to permitted liens, in substantially all of Verso Holdings' and the guarantors' tangible and intangible assets. The security interests securing the notes rank junior to those securing the obligations under the ABL Facility, the Cash Flow Facility, and the 11.75% senior secured notes due 2019 and senior to those securing the second priority senior secured floating rate notes due 2014 and the 8.75% second priority senior secured notes due 2019. The notes will mature on January 15, 2019.

11.38% Senior Subordinated Notes due 2016. In August 2006, Verso Holdings issued $300.0 million aggregate principal amount of 11.38% senior subordinated notes due 2016. The notes bear interest, payable semi-annually, at the rate of 11.38% per year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are unsecured senior subordinated obligations of Verso Holdings and the guarantors, respectively. The notes will mature on August 1, 2016.

On April 25, 2012, Verso Holdings commenced an exchange offer and consent solicitation for up to $157.5 million aggregate principal amount of the outstanding $300.0 million aggregate principal amount of its 11.38% senior subordinated notes due 2016, or the "Subordinated Notes Exchange Offer." On May 11, 2012, pursuant to the Subordinated Notes Exchange Offer, Verso Holdings issued $104.7 million aggregate principal amount of 11.75% secured notes due 2019 and paid approximately $17.3 million in cash in exchange for $157.5 million aggregate principal amount of the 11.38% senior subordinated notes. Following the exchange, $142.5 million aggregate principal amount of the 11.38% senior subordinated notes remain outstanding.

Loan from Verso Paper Finance Holdings LLC/ Verso Paper Holdings LLC. In December 2010, Verso Quinnesec REP LLC, an indirect, wholly-owned subsidiary of Verso Holdings, entered into a financing transaction with Chase NMTC Verso Investment Fund, LLC, the “Investment Fund,” a consolidated variable interest entity (see Note 11 – New Market Tax Credit Entities). Under this arrangement, Verso Holdings loaned $23.3 million to Verso Finance pursuant to a 6.5% loan due 2040, and Verso Finance, in turn, loaned the funds on similar terms to the Investment Fund. The Investment Fund then contributed the loan proceeds to certain community development entities, which, in turn, loaned the funds on similar terms to Verso Quinnesec REP LLC as partial financing for the renewable energy project at our mill in Quinnesec, Michigan.

Senior Unsecured Term Loan. Verso Finance, the parent entity of Verso Holdings, had $86.2 million outstanding on its senior unsecured term loan as of March 31, 2012. The loan allows Verso Finance to pay interest either in cash or in kind through the accumulation of the outstanding principal amount. The loan bears interest, payable quarterly, at a rate equal to LIBOR plus 6.25% per year on interest paid in cash and LIBOR plus 7.00% per year for interest paid in kind, or “PIK,” and added to the principal balance. As of March 31, 2012, the weighted-average interest rate on the loan was 6.95% per year. Verso Finance elected to exercise the PIK option for $1.5 million and $1.3 million of interest payments due in the first quarter of 2012 and 2011, respectively. The loan will mature on February 1, 2013. As of March 31, 2012, the loan is included in Current maturities of long-term debt on the accompanying condensed consolidated balance sheet.

Covenant Compliance

The credit agreement and the indentures governing our notes contain affirmative covenants as well as restrictive covenants which limit our ability to, among other things, incur additional indebtedness; pay dividends or make other distributions; repurchase or redeem our stock; make investments; sell assets, including capital stock of restricted subsidiaries; enter into agreements restricting our subsidiaries’ ability to pay dividends; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; enter into transactions with our affiliates; and incur liens. These covenants can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. As of March 31, 2012, we were in compliance with the covenants in our debt agreements.

Critical Accounting Policies

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

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

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

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

Goodwill and other intangible assets are accounted for in accordance with ASC Topic 350. Intangible assets primarily consist of trademarks, customer-related intangible assets and patents obtained through business acquisitions. We have identified the following trademarks as intangible assets with an indefinite life: Influence®, Liberty®, and Advocate®. We assess goodwill and indefinite-lived intangible assets at least annually for impairment or more frequently if events occur or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Goodwill is evaluated at the reporting unit level and has been allocated to the “Coated” segment.

During 2011, based on a combination of factors, including the difficult market conditions which resulted in a decline in customer demand and excess capacity in the coated paper markets and high raw material, energy and distribution costs which have challenged the profitability of our products, we concluded that sufficient indicators existed to require us to perform an interim goodwill impairment analysis. Upon finalizing our analysis during the fourth quarter of 2011, Verso Paper recognized a goodwill impairment charge of $18.7 million and Verso Holdings recognized a goodwill impairment charge of $10.5 million. We had no goodwill remaining as of December 31, 2011.

Management believes that the accounting estimates associated with determining fair value as part of the impairment analysis are critical accounting estimates because estimates and assumptions are made about our future performance and cash flows. The estimated fair value is generally determined on the basis of discounted future cash flows. We also consider a market-based approach and a combination of both. While management uses the best information available to estimate future performance and cash flows, future adjustments to management’s projections may be necessary if economic conditions differ substantially from the assumptions used in making the estimates.

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Paper Prices

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

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

Many of our customers provide us with forecasts of their paper needs, which allows us to plan our production runs in advance, optimizing production over our integrated mill system and thereby reducing costs and increasing overall efficiency. Generally, our sales agreements do not extend beyond the calendar year. Typically, our sales agreements provide for quarterly price adjustments based on market price movements.

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 125 customers.

Interest Rates

We have issued fixed- and floating-rate debt in order to manage our variability to cash flows from interest rates. Borrowings under the revolving credit facility, the second priority senior secured floating rate notes, and Verso Finance's senior unsecured term loan accrue interest at variable rates; however, there were no amounts outstanding under the revolving credit facility as of March 31, 2012. A 100 basis point increase in quoted interest rates on Verso Paper's outstanding floating-rate debt as of March 31, 2012, would increase annual interest expense by $2.7 million (of which $0.9 million is attributable to Verso Finance's senior unsecured term loan on which we have elected to pay interest in kind). A 100 basis point increase in quoted interest rates on Verso Holdings' outstanding floating-rate notes as of March 31, 2012, would increase annual interest expense by $1.8 million. While we may enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

Derivatives

In the normal course of business, we utilize derivatives contracts as part of our risk management strategy to manage our exposure to market fluctuations in energy prices and interest rates. These instruments are subject to credit and market risks in excess of the amount recorded on the balance sheet in accordance with generally accepted accounting principles. Controls and monitoring procedures for these instruments have been established and are routinely reevaluated. We have an Energy Risk Management Policy which was adopted by our board of directors and is monitored by an Energy Risk Management Committee composed of our senior management. In addition, we have an Interest Rate Risk Committee which was formed to monitor our Interest Rate Risk Management Policy. Credit risk represents the potential loss that may occur because a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. We manage credit risk by entering into financial instrument transactions only through approved counterparties. Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in commodity prices or interest rates. We manage market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken.

We do not hedge the entire exposure of our operations from commodity price volatility for a variety of reasons. To the extent that we do not hedge against commodity price volatility, our results of operations may be affected either favorably or unfavorably by a shift in the future price curve. As of March 31, 2012, we had net unrealized losses of $13.7 million on open commodity contracts with maturities of one to twenty-five months. These derivative instruments involve the exchange of net cash settlements, based on changes in the price of the underlying commodity index compared to the fixed price offering, at specified intervals without the exchange of any underlying principal. A 10% decrease in commodity prices would have a negative impact of approximately $2.0 million on the fair value of such instruments. This quantification of exposure to market risk does not take into account the offsetting impact of changes in prices on anticipated future energy purchases.

Commodity Prices

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

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

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

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

Off-Balance Sheet Arrangements

None.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of Verso Paper's disclosure controls and procedures as of March 31, 2012. Based upon this evaluation, and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2012.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of Verso Holdings' disclosure controls and procedures as of March 31, 2012. Based upon this evaluation, and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2012.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the fiscal quarter ended March 31, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

For a detailed discussion of risk factors affecting us, see “Part I – Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

Stock Repurchases under 2008 Incentive Award Plan

Participants in our 2008 Incentive Award Plan, or the “Plan,” may elect to surrender to us restricted shares of our common stock issued to them pursuant to awards granted under the Plan to satisfy the applicable federal, state, local and foreign tax withholding obligations that arise upon the vesting of their shares of restricted stock under the Plan. Shares of restricted stock surrendered to us to meet tax withholding obligations are deemed to be repurchased pursuant to the Plan. We repurchased shares of restricted stock to meet participants’ tax withholding obligations during the first three months of 2012 as follows:

| Period | Total Number of Shares Purchased | Average Price Paid per Share |
|---|---|---|
| January 1 - January 31, 2012 | 1,533 | $ 0.99 |
| February 1 - February 29, 2012 | - | - |
| March 1 - March 31, 2012 | 6,838 | 1.44 |
| Total for the three months ended March 31, 2012 | 8,371 | $ 1.36 |

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On May 10, 2012, our board of directors adopted and implemented the 2012 Executive Long-Term Incentive Program, or “Program.” The purposes of the Program are to retain our highly qualified executives, to provide an incentive for their continued superior work, and to motivate them toward even higher achievement and business results. The principal features of the Program are as follows:

The participants in the Program are the seven executives who report directly to our President and Chief Executive Officer.

Each participant in the Program is eligible to receive a long-term cash bonus award, or “LTIP Award,” equal to the base salary paid or payable to the participant in 2012 and 2013.

A participant’s LTIP Award will vest as follows: (a) 50% of the LTIP Award, or “2012 Tranche,” will vest on December 31, 2012, if the participant is employed by us or one of our subsidiaries continuously from January 1, 2012, through December 31, 2012; and (b) 50% of the LTIP Award, or “2013 Tranche,” will vest on December 31, 2013, if the participant is employed by us or one of our subsidiaries continuously from January 1, 2013, through December 31, 2013.

The vested portions of a participant’s LTIP Award will be eligible for payment as follows: (a) 70% of the 2012 Tranche will be paid in January 2013; and (b) 30% of the 2012 Tranche and 100% of the 2013 Tranche will be paid in January 2014.

On May 10, 2012, our board of directors also authorized us to amend and restate the Confidentiality and Non-Competition Agreement, or “Prior Agreement,” to which we are a party with each of our executives other than our President and Chief Executive Officer. In the Prior Agreement, each executive agreed to abide by certain confidentiality, non-competition and other obligations, and we agreed to provide the executive with certain benefits and payments after his employment with us ends, in order to protect our valuable competitive information and business relationships to which the executive is allowed access in the performance of his employment duties for us. In the Amended and Restated Confidentiality and Non-Competition Agreement, the parties have agree to modify the Prior Agreement in the following principal ways:

The primary post-employment payment by us to the executive would increase from 100% of the executive’s annual base salary to an amount equal to between 145% and 180% of the executive’s annual base salary, depending on the executive, and would be payable to the executive regardless of whether or when the executive obtains new employment.

The executive would enter into a comprehensive waiver and release of claims agreement with us following the termination of the executive’s employment.

ITEM 6. EXHIBITS

The following exhibits are included with this report:

| Exhibit Number | Description |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Verso Paper Corp.(1) |
| 3.2 | Amended and Restated Bylaws of Verso Paper Corp.(2) |
| 3.3 | Certificate of Formation, as amended, of Verso Paper Holdings LLC.(3) |
| 3.4 | Amended and Restated Limited Liability Company Agreement of Verso Paper Holdings LLC.(3) |
| 10.1 | 2012 Executive Long-Term Incentive Program. |
| 10.2 | Amended and Restated Confidentiality and Non-Competition Agreement between Verso Paper Corp. and each of its executives (form). |
| 12 | Computation of Ratio of Earnings to Fixed Charges. |
| 31.1 | Certification of Principal Executive Officer of Verso Paper Corp. pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934. |
| 31.2 | Certification of Principal Financial Officer of Verso Paper Corp. pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934. |
| 31.3 | Certification of Principal Executive Officer of Verso Paper Holdings LLC pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934. |
| 31.4 | Certification of Principal Financial Officer of Verso Paper Holdings LLC pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934. |
| 32.1 | Certification of Principal Executive Officer of Verso Paper Corp. pursuant to Rule 13a-14(b) under Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| 32.2 | Certification of Principal Financial Officer of Verso Paper Corp. pursuant to Rule 13a-14(b) under Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code. |
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| 32.4 | Certification of Principal Financial Officer of Verso Paper Holdings LLC pursuant to Rule 13a-14(b) under Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code. |

(1) Incorporated by reference to Amendment No. 5 to Verso Paper Corp.'s Registration Statement on Form S-1 (Registration Statement No. 333-148201), filed with the Securities and Exchange Commission (the "SEC") on May 8, 2008.

(2) Incorporated by reference to Amendment No. 3 to Verso Paper Corp.'s Registration Statement on Form S-1 (Registration Statement No. 333-148201), filed with the SEC on April 28, 2008.

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

SIGNATURES

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

Date: May 14, 2012

VERSO PAPER CORP.

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

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

Date: May 14, 2012

VERSO PAPER HOLDINGS LLC

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

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

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