

Verso Paper Corp.
Form S-1/A
May 14, 2008
Table of Contents

As filed with the Securities and Exchange Commission on May 14, 2008

Registration No. 333-148201

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 7 TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

VERSO PAPER CORP.

(Exact name of registrant as specified in its charter)

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

(State or other jurisdiction of
incorporation or organization)

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

(I.R.S. Employer
Identification No.)

Memphis, Tennessee 38115-4436

(901) 369-4100

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

Michael A. Jackson

President and Chief Executive Officer

Verso Paper Corp.

6775 Lenox Center Court, Suite 400

Memphis, Tennessee 38115-4436

(901) 369-4100

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

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

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

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

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

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

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

Table of Contents

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

Subject to completion, dated May 14, 2008

PRELIMINARY PROSPECTUS

14,000,000 Shares

Common Stock

This is the initial public offering of shares of common stock by Verso Paper Corp. We are offering 14,000,000 shares of our common stock.

Prior to the offering, there has been no public market for our common stock. It is currently estimated that the initial public offering price per share of our common stock will be \$12.00. We have been approved to list our common stock on the New York Stock Exchange under the trading symbol VRS.

Investing in our common stock involves a high degree of risk. Before buying any of these shares of our common stock, you should carefully consider the risk factors described in Risk Factors beginning on page 16 of this prospectus.

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

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

The underwriters may also purchase up to an additional 2,100,000 shares of our common stock from us, at the initial public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus.

The underwriters are offering the shares of our common stock pursuant to a firm commitment underwriting as described under Underwriting. Delivery of the shares of common stock will be made on or about , 2008.

Credit Suisse

Deutsche Bank Securities JPMorgan Lehman Brothers Merrill Lynch & Co. Morgan Stanley

Citi

Utendahl Capital Partners, L.P.

The date of this prospectus is , 2008

Table of Contents

TABLE OF CONTENTS

<u>Market and Industry Information</u>	ii
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	16
<u>Forward-Looking Statements</u>	26
<u>Use of Proceeds</u>	27
<u>Dividend Policy</u>	28
<u>Cash and Capitalization</u>	29
<u>Dilution</u>	31
<u>Selected Historical Combined Financial Data</u>	32
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Industry</u>	53
<u>Business</u>	57
<u>Management</u>	70
<u>Compensation Discussion and Analysis</u>	75
<u>Executive Compensation</u>	83
<u>Principal Stockholders</u>	88
<u>Certain Relationships and Related Party Transactions</u>	91
<u>Description of Capital Stock</u>	93
<u>Shares Eligible for Future Sale</u>	96
<u>Material U.S. Federal Income Tax Considerations for Non-U.S. Holders of Our Common Stock</u>	98
<u>Underwriting</u>	101
<u>Legal Matters</u>	107
<u>Experts</u>	107
<u>Where You Can Find More Information</u>	107
<u>Index to Financial Statements</u>	F-1

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

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

Table of Contents

MARKET AND INDUSTRY INFORMATION

Market data and other statistical information used throughout this prospectus are based on independent industry publications, government publications, reports by market research firms or other published independent sources. Some data are also based on our good faith estimates which are derived from our review of internal surveys, as well as the independent sources listed above. Although we believe these sources are reliable, we have not independently verified the information. Industry prices for coated paper provided in this prospectus are, unless otherwise expressly noted, derived from Resource Information Systems, Inc., or RISI, Inc. data. North American data included in this prospectus that has been derived from RISI, Inc. only includes data from the United States and Canada. U.S. industry pricing data included in this prospectus has been derived from RISI, Inc. data; this data represents pricing from the eastern United States only (as defined by RISI, Inc.). Also, any reference to (i) grade No. 3, grade No. 4 and grade No. 5 coated paper relates to 60 lb. basis weight, 50 lb. basis weight and 34 lb. basis weight, respectively, (ii) lightweight coated groundwood paper refers to groundwood paper grades that are a 36 lb. basis weight or less, and (iii) ultra-lightweight coated groundwood paper refers to groundwood paper grades that are a 30 lb. basis weight or less. Unless otherwise expressly noted, the term consumption as used in this prospectus means apparent consumption as defined by RISI, which is calculated as shipments plus imports less exports. The RISI, Inc. data included in this prospectus has been derived from the following RISI, Inc. publications: RISI World Graphic Paper forecast, April 2008; RISI North American Graphic Paper forecast, April 2008; and RISI Paper Trader: A Monthly Monitor of the North American Graphic Paper Market, March 2008.

Table of Contents

PROSPECTUS SUMMARY

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

Our Company

We are a leading North American supplier of coated papers to catalog and magazine publishers. The market for coated paper, which is comprised of coated groundwood paper and coated freesheet paper, is one of the most attractive segments of the paper industry due to its prospects for volume growth, continued improvement in pricing and the high value-added nature of its products. Coated paper is used primarily in media and marketing applications including catalogs, magazines and commercial printing applications, which include high-end advertising brochures, annual reports and direct mail advertising.

We are North America's second largest producer of coated groundwood paper, which is used primarily for catalogs and magazines. We are also North America's lowest cost producer of coated freesheet paper, which is used primarily for annual reports, brochures and magazine covers. In addition to coated paper, we have a strategic presence in supercalendered paper, which is primarily used for retail inserts. We also produce and sell market pulp, which is used in the manufacture of printing and writing paper grades and tissue products.

Our primary product lines include coated groundwood paper, coated freesheet paper, supercalendered paper and pulp. Our net sales by product line for the year ended December 31, 2007 are illustrated below:

Net Sales by Product Line

We sell and market our products to approximately 100 customers which comprise 650 end-user accounts. We have long-standing relationships with many leading magazine and catalog publishers, commercial printers,

Table of Contents

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

We operate 11 paper machines at four mills located in Maine, Michigan and Minnesota. The mills have a combined annual production capacity of 1,726,000 tons of coated paper, 102,000 tons of supercalendered paper and 874,000 tons of kraft pulp, of which approximately 610,000 tons is consumed internally and the remainder is sold as market pulp. Over our integrated mill system, the total volume of pulp purchased from third parties is approximately balanced by the amount of pulp that we sell to the market. As a result, our business is generally insulated from fluctuations in earnings caused by changes in the price of pulp. Our facilities are strategically located within close proximity to major publication printing customers, which affords us the ability to more quickly and cost-effectively deliver our products. Our facilities also benefit from convenient and cost-effective access to northern softwood fiber, which is required for the production of lightweight and ultra-lightweight coated groundwood papers, two of the more attractive grades of coated paper.

Industry Overview

Based on 2007 sales, the size of the global coated paper industry is estimated to be approximately \$49 billion, or 54 million tons of coated paper demand, including approximately \$12 billion in North America, or 13 million tons of coated paper demand. In North America, coated papers are classified by brightness into five grades, labeled No. 1 to No. 5, with No. 1 having the highest brightness level and basis weight and No. 5 having the lowest brightness level and basis weight. Papers graded No. 1, No. 2 and No. 3 are typically coated freesheet grades. No. 4 and No. 5 papers are predominantly grades containing groundwood. Coated groundwood grades are the preferred grades for catalogs and magazines, while coated freesheet is more commonly used in commercial print applications. The coating process adds a smooth uniform finish to the paper, which produces superior color and print definition. As a result, major uses of coated papers include the printing of catalogs, magazines, annual reports, directories and advertising materials.

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

Growing consumption/demand. Coated paper demand is primarily driven by advertising and print media usage. North American coated paper consumption, which was 13.2 million tons in 2007, has grown at a 2.0% compound annual growth rate since 2001 due to the continued growth of paper used in catalog, magazine and commercial print applications.

Reductions in production capacity and supply. In North America, supply is determined primarily by North American-based coated paper production and is supplemented by imports from Europe and Asia. As a result of recent capacity closures in the North American coated paper industry, the lack of any currently announced capacity additions and the stabilization of imports of coated paper into the United States, we believe that supply should be stable for the near future.

Table of Contents

Favorable operating rates. According to RISI, Inc., the average operating rate for North American coated paper manufacturers, which measures the ratio of shipments from producers in a particular region to capacity of producers in the same region, rose from 86% in 2001 to 97% in 2007, as shipments increased more than capacity during this time period. Following the recently announced reductions in North American production, 2007 coated paper operating rates would have been over 100% on a pro forma basis, reflecting the current tight supply conditions. Historically, high operating rates have resulted in increased prices for coated paper. RISI, Inc. expects the average operating rate for coated groundwood and coated freesheet to remain above 95% and 92% through 2012, respectively, with the average operating rate for coated groundwood expected to be 100% through 2009 because of trends in North American demand, recently completed and announced capacity closures, the lack of any major forecasted North American capacity additions and favorable import trends.

Improving pricing. As a result of the trends identified above, coated paper pricing in the United States is increasing. We have announced and are implementing total price increases of \$245 per ton on our coated groundwood grades and \$190 per ton on most grades of coated freesheet. As we began implementing these price increases, our weighted average paper prices rose from \$797 per ton in the second quarter of 2007 to \$840 per ton in the fourth quarter of 2007. We expect our weighted average paper prices to continue to increase as we further realize these price increases during 2008. In reflection of these market trends, RISI, Inc. forecasts that U.S. prices for grade No. 5 coated paper, 34 lb. basis weight, which is an industry benchmark for coated paper pricing, will rise from an average of \$888 per ton in the second quarter of 2007 to \$1,100 per ton in the fourth quarter of 2008. In addition, RISI, Inc. estimates annual prices for this product to increase from an average of \$923 per ton in 2007 to \$1,083 per ton in 2008 and then to \$1,140 per ton in 2009. See Management's Discussion and Analysis of Financial Condition and Results of Operations Selected Factors that Affect Our Operating Results.

Our Competitive Strengths

We believe that our competitive strengths include the following:

Well positioned to benefit from strengthening coated paper market fundamentals. We believe that we are well positioned to benefit from improving fundamentals in the coated paper industry, which are inherently linked to the balance of supply and demand. Since the second quarter of 2004, supply has decreased due to a reduction in production capacity in both North America and Europe, which was caused primarily by the closure of high cost coated paper mills by our competitors. These mills generally suffered from a combination of higher energy prices, changes in Canadian dollar and euro exchange rates and other inflationary factors. North American producers announced the shutdown of approximately 1.3 million tons of aggregate coated paper capacity that began in the second half of 2007 and will continue throughout 2008, which represents approximately 12% of North American coated paper capacity. Based on favorable supply and demand trends, RISI, Inc. projects that North American coated paper operating rates will remain high for the foreseeable future, with coated groundwood operating rates expected by RISI, Inc. to be approximately 100% in 2008 and 2009.

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

Leading positions in the industry's most attractive segments and products. We are a leading supplier of coated papers to U.S. catalog and magazine publishers. The catalog and magazine end-user segments are among the most attractive within the coated papers industry due to their long-term growth prospects, favorable industry

Table of Contents

dynamics, blue-chip customer base and emphasis on product innovation and development. We maintain a leading position in the U.S. catalog and magazine end-user segments, with estimated segment shares of approximately 24% and 16% in 2007, respectively.

In addition to being focused on the most attractive end-user segments, our product portfolio is also concentrated on the most attractive products in both the paper industry, in general, and the coated paper segment, specifically. Coated papers have been and are expected to be among the fastest growing paper grades in the paper industry, with North American coated paper demand having grown 2.0% per annum since 2001, compared to a demand growth rate of negative 4.7% for newsprint and a demand growth rate of negative 1.8% for uncoated freesheet paper. We are also specifically focused on the fastest growing portions of the coated paper market. For example, we are one of three major North American-based producers of ultra-lightweight coated groundwood paper. Ultra-light weight coated groundwood paper has experienced higher growth than the overall coated paper market, a trend we expect to continue as customers are increasingly demanding lower basis weight products in order to reduce their freight and postage costs. In addition, ultra-lightweight coated papers sell for higher prices and yield higher margins than their higher basis weight counterparts. We believe that we have a competitive advantage in ultra-lightweight coated paper grades due to our investment in specialized equipment and our internal development of special manufacturing processes.

Strong relationships with attractive customer base. We have long-standing relationships with leading publishers, commercial printers, retail merchandisers and paper merchants. Our relationships with our 10 largest coated paper customers average more than 20 years. These customers have historically had stable, on-going paper needs. Our strong relationships with the leading customers in the catalog and magazine end-user segments have allowed us to optimize our mill system to supply orders on an efficient, cost-effective basis. Due to the premium printing requirements of these end-users, we have also been able to shift our product mix towards higher value-added grades, such as lightweight and ultra-lightweight coated groundwood. In addition, 60% of our net sales in 2007 were made pursuant to contracts we maintain with our customers. These contracts help enable us to plan our production runs well in advance, thereby optimizing production over our integrated mill system, which reduces costs and increases overall efficiency. Our relationships with our key customers also allow us to maintain operating rates that are in excess of industry levels. For example, according to RISI, Inc., average operating rates for coated paper producers were 97% in 2007, while our operating rates were 99% in the same period.

Well-invested, low-cost manufacturing facilities. We believe our coated paper mills are among the most efficient and lowest cost coated paper mills in the world based on the cash cost of delivery to Chicago. We attribute our manufacturing efficiency, in part, to the significant historical investments made in our mills. From 1985 to 2006, our former parent, International Paper, invested over \$1.7 billion in growth capital expenditures for new machines, rebuilds, productivity enhancements and capacity expansions. In addition to these expenditures, over \$800 million was invested by International Paper for maintenance and repairs of this equipment, as well as for certain environmental, health and safety projects. International Paper also improved the cost position of our system by closing over 500,000 tons of higher cost coated paper capacity. As a result, we are the owners of well-invested, low-cost production assets. Further, most of our paper production is at mills with integrated pulp production and energy co-generation facilities, which reduces our exposure to price volatility for energy and purchased pulp, two of our largest cost inputs. As we sell approximately the same amount of pulp as we purchase across our integrated production system, we are generally insulated from fluctuations in earnings caused by changes in pulp prices.

Efficient, integrated supply chain with unique service solutions. Coated paper customers have become increasingly focused on supply chain efficiency, cost reduction and lead time minimization. Our Internet-based ordering platforms simplify ordering, tracking and invoicing, and are part of our strategy to continually reduce the cost to serve our customer base. In addition, we operate Nextier Solutions, an Internet-based system designed for collaborative production planning, procurement and inventory management processes throughout the supply chain. Our customers use our systems to maximize supply chain efficiencies, improve communication and reduce operating costs. We believe this provides us with a competitive advantage by enabling us to run our operations

Table of Contents

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

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

Our Business Strategy

Increase revenues. One of our key objectives is to profitably grow sales. We believe we can achieve this goal through the following strategies:

Capitalize on favorable trends in our industry. The coated paper industry is currently benefiting from favorable supply and demand trends and high operating rates, which have resulted in rising sales prices. We are currently implementing several price increases with an announced total increase of \$245 per ton on our coated groundwood grades and \$190 per ton on most of our coated freesheet grades. We expect to grow our revenues and operating profits as these price increases are realized during 2008. Based on our coated paper production capacity, a price increase of \$50 per ton in average selling prices for coated paper, assuming volumes and costs remain constant, equates to \$86 million in additional annual revenues and operating profits.

Leverage our leading market position. We intend to further strengthen our leadership position by increasing our sales to both existing and new potential customers within the catalog and magazine segments, where, as industry leaders, we can offer an enhanced level of products and service. We believe that this competitive advantage will allow us to efficiently grow our business in line or in excess of market volume and price growth.

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

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

Table of Contents

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

Increase productivity. Since 2001, we have significantly reduced production costs and enhanced manufacturing efficiency at our mills. During this period, we reduced total headcount by approximately 20% while overall productivity increased by 15% as measured by production tons per day and by approximately 50% as measured by tons produced per day per employee. Combined with strategies to reduce raw material usage, repair costs and manufacturing overhead, these initiatives have significantly improved financial and operating results. Going forward, we intend to selectively pursue cost reduction and efficiency improvement initiatives based on their cost to achieve, likely success and anticipated payback period.

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

Maximize cash flow. Since the acquisition of our business from International Paper, our senior management team has implemented a focused strategy to maximize profitability and cash flow. With this enhanced management focus, we have managed our working capital, capital expenditures and operational expenditures efficiently to optimize cash flow.

As a result of our former parent's significant growth capital expenditures, we believe that our capacity is sufficient to meet our current growth initiatives without significant additional spending and that future growth capital will be spent only upon the expectation of significant returns. Following 2008, our annual maintenance and environmental capital expenditures are expected to average approximately \$40 million to \$50 million per year for the next few years, which we believe will be sufficient to maintain our productivity and maximize cash flow.

As a result of the way the acquisition of our business was structured, we also expect to pay minimal cash income taxes over the next few years due in part to high tax depreciation deductions we expect to realize. This tax depreciation should reduce future taxable profits from the business and minimize our cash income taxes.

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

Risk Factors

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

Table of Contents

The Merger

We, along with Verso Paper Two Corp., Verso Paper Three Corp., Verso Paper Four Corp. and Verso Paper Five Corp., are the wholly-owned subsidiaries of Verso Paper Management LP. Prior to the effective date of the registration statement of which this prospectus is a part, Verso Paper Two Corp., Verso Paper Three Corp., Verso Paper Four Corp. and Verso Paper Five Corp. will merge with and into us, and we will be the surviving corporation. The combination of us with these four entities is referred to throughout this prospectus as the Merger. Upon consummation of the Merger, Verso Fiber Farm LLC, which is currently a wholly-owned subsidiary of Verso Paper Five Corp., will become our wholly-owned subsidiary. In connection with Verso Fiber Farm LLC becoming our wholly-owned subsidiary, we intend to use a portion of the net proceeds from this offering to repay the outstanding \$4.0 million under the revolving credit facility and the \$10.0 million senior secured term loan of Verso Fiber Farm LLC. See Use of Proceeds. As a result of the Merger, Verso Paper LLC, the chief operating entity through which our business is operated, and each of its subsidiaries, which will include Verso Fiber Farm LLC, will become our wholly-owned indirect subsidiaries. Prior to the Merger, each of Verso Paper Corp., Verso Paper Two Corp., Verso Paper Three Corp. and Verso Paper Four Corp. are holding companies that indirectly own 40%, 30%, 20% and 10% of Verso Paper LLC and our other consolidated subsidiaries, respectively. Prior to the Merger, Verso Paper Five Corp. is a holding company that wholly owns Verso Fiber Farm LLC. See Summary Corporate Structure Pre- and Post-Merger.

Upon consummation of this offering, Apollo will continue to control us with beneficial ownership of 73.1% of our common stock. Although Apollo will have the ability to substantially influence all matters requiring stockholder approval, Apollo does not maintain a role in our day-to-day management and operations other than through its representation on our board of directors by its employees, Messrs. Harris, Kleinman, Zaken and Sambur, solely in their capacity as directors, and any provision of financial and strategic consulting and advisory services under our management agreement with Apollo. The services under the management agreement are advisory in nature and do not provide Apollo with any authority to manage or operate our business and affairs. See Risk Factors Risks Related to Our Common Stock Apollo controls us, and its interests may conflict with or differ from your interests as a stockholder and Certain Relationships and Related Party Transactions Management Agreement. Pursuant to the terms of the management agreement, after the consummation of this offering, Apollo will terminate the annual fee arrangement for its consulting and advisory services in exchange for the present value of all future annual fee payments. The amount of this payment to Apollo is equal to \$23.1 million and will be paid after the completion of this offering. Notwithstanding this payment, the management agreement will continue to be in effect and Apollo will continue to be entitled to receive fees for financial advisory or investment banking services Apollo may provide to us pursuant to the terms of the management agreement. See Certain Relationships and Related Party Transactions Management Agreement.

Additional Information

Our principal executive offices are located at 6775 Lenox Center Court, Suite 400, Memphis, Tennessee 38115-4436. Our telephone number is (901) 369-4100. Our web site address is www.versopaper.com. Information on our web site is not considered part of this prospectus.

Table of Contents

Summary Corporate Structure Pre- and Post-Merger

The following chart represents our summary corporate structure prior to the Merger. The profit interests held by senior management in Verso Paper Management LP are non-voting. See Prospectus Summary The Merger, Compensation Discussion and Analysis Elements of Executive Compensation and Principal Stockholders.

The following chart represents our summary corporate structure immediately following the consummation of the Merger and this offering. Verso Paper Corp. will be the surviving entity of the merger of Verso Paper Corp., Verso Paper Two Corp., Verso Paper Three Corp., Verso Paper Four Corp. and Verso Paper Five Corp. Upon consummation of this offering, members of management holding profit interests in Verso Paper Management LP will have the right to exchange these interests for shares of our common stock held by Verso Paper Management LP. See Prospectus Summary The Merger, Compensation Discussion and Analysis Elements of Executive Compensation and Principal Stockholders.

Table of Contents

The Offering

Shares of common stock offered by us	14,000,000 shares
Common stock to be outstanding after this offering	52,046,647 shares (54,146,647 shares in the event the underwriters elect to exercise their option to purchase additional shares from us in full).
Use of proceeds	We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately \$153.3 million assuming an initial public offering price of \$12.00 per share. We intend to use the net proceeds to repay the outstanding \$4.0 million under the revolving credit facility and the \$10.0 million senior secured term loan of Verso Fiber Farm LLC and to repay a portion of the outstanding \$250.0 million senior unsecured term loan facility of our subsidiary, Verso Paper Finance Holdings LLC, and the 1.0% prepayment penalty related thereto. At the assumed initial public offering price of \$12.00 per share, we would repay \$137.9 million of the amount outstanding under the senior unsecured term loan facility, and the \$1.4 million prepayment penalty related thereto. See Use of Proceeds. Affiliates of certain of the underwriters are lenders under the Verso Fiber Farm LLC and the Verso Finance Holdings LLC facilities and, accordingly, will receive a substantial portion of the proceeds from this offering through such repayment. See Underwriting Relationships.
Dividend policy	We intend to pay quarterly cash dividends on our common stock at an initial annual rate equal to approximately 1% of the initial offering price per share. At an initial public offering price of \$12.00 per share, the quarterly cash dividend would be in an initial annual amount of \$0.12 per share. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend on many factors, including our financial condition, earnings, legal requirements, restrictions in our debt agreements and other factors our board of directors may deem relevant. See Risk Factors Risks Related to Our Common Stock We may be restricted from paying cash dividends on our common stock in the future.
Listing	We have been approved to list our common stock on the New York Stock Exchange under the trading symbol VRS.
Directed share program	At our request, the underwriters have reserved up to 5% of the shares of common stock for sale at the initial public offering price to persons who are directors, officers or employees, or who are otherwise associated with us, through a directed share program. The sales will be made by Smith Barney, a division of Citigroup Global Markets Inc. through a directed share program. We do not know if these persons will choose to purchase all or any portion of these reserved shares, but any purchases they do make will reduce the number of shares available to the general public. See Underwriting.

Table of Contents

The number of shares of common stock to be outstanding after this offering is based on 38,046,647 shares of common stock outstanding upon completion of the Merger and the filing of our amended and restated certificate of incorporation.

Except as otherwise indicated, all information in this prospectus:

gives effect to the Merger and the filing of our amended and restated certificate of incorporation, effecting a 38,047-for-1 stock split with respect to our common stock, which will occur prior to the effective date of the registration statement of which this prospectus is a part; and

assumes no exercise by the underwriters of their option to purchase 2,100,000 additional shares from us in this offering. See Principal Stockholders.

Table of Contents

Summary Combined Financial Data

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

On August 1, 2006, our wholly-owned subsidiary, Verso Paper LLC, acquired the assets and certain of the liabilities of the Coated and Supercalendered Papers Division from International Paper, including the four mills located in Jay and Bucksport, Maine, Quinnesec, Michigan and Sartell, Minnesota, together with other related facilities and assets and certain administrative and sales and marketing functions, pursuant to the terms of a purchase and sale agreement entered into between Verso Paper LLC and International Paper on June 4, 2006. We, along with our subsidiaries, were formed by affiliates of Apollo Global Management LLC for the purpose of consummating the acquisition of the Coated and Supercalendered Papers Division from International Paper, or the Acquisition. Unless otherwise noted, references to Apollo throughout this prospectus refer to the affiliates of Apollo Global Management LLC that control us. In connection with the Acquisition, Verso Paper Holdings LLC issued \$1,185 million of debt, which we refer to as the Financing, consisting of a \$285 million term loan B facility, or the Term Loan B, \$600 million in aggregate principal amount of second priority senior secured notes and \$300 million in aggregate principal amount of senior subordinated notes. We also obtained a \$200 million revolving credit facility, which we refer to, together with the Term Loan B, as the senior secured credit facilities. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

The combined statement of operations data for the year ended December 31, 2005, and for the seven months ended July 31, 2006, have been derived from the combined financial statements of the Coated and Supercalendered Papers Division of International Paper, which we refer to as the Predecessor or the Division, which have been audited by Deloitte & Touche LLP an independent registered public accounting firm, and are included in this prospectus. The combined balance sheet data as of December 31, 2007, and the combined statement of operations data for the five months ended December 31, 2006, and the year ended December 31, 2007, have been derived from the combined financial statements of Verso Paper Corp, which we refer to as the Successor which have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, and are included in this prospectus. The combined balance sheet data as of March 31, 2008, and the statements of operations data for the three months ended March 31, 2007 and 2008, have been derived from the unaudited combined financial statements included in this prospectus. The unaudited financial statements have been prepared on the same basis as the audited financial statements and, in the opinion of our management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information set forth herein. Interim financial statements are not necessarily indicative of results that may be experienced for the fiscal year or any future reporting period.

Table of Contents

	Predecessor Combined			Successor Combined		
	Year Ended December 31, 2005	Seven Months Ended July 31, 2006	Five Months Ended December 31, 2006	Year Ended December 31, 2007	Three Months Ended March 31, 2007	Three Months Ended March 31, 2008
(dollars and tons in millions, except per share data)						
Statement of Operations Data:						
Net sales	\$ 1,603.8	\$ 904.4	\$ 706.8	\$ 1,628.8	\$ 359.8	\$ 453.9
Costs and expenses:						
Costs of products sold exclusive of depreciation and amortization	1,338.2	771.6	589.3	1,403.1	316.3	375.4
Depreciation and amortization	129.4	72.7	48.3	123.2	29.6	32.2
Selling, general and administrative expenses	65.6	34.3	14.4	53.1	11.2	14.2
Restructuring and other charges	10.4	(0.3)	10.1	19.4	5.3	1.7
Operating income (loss)	60.2	26.1	44.7	30.0	(2.6)	30.4
Interest expense	14.8	8.4	49.1	143.0	33.7	33.7
Interest income			(1.8)	(1.5)	(0.9)	(0.2)
Income (loss) before income taxes	45.4	17.7	(2.6)	(111.5)	(35.4)	(3.1)
Provision for income taxes	17.9	7.0				
Net income (loss)	\$ 27.5	\$ 10.7	\$ (2.6)	\$ (111.5)	\$ (35.4)	\$ (3.1)
Per Share Data:						
Earnings (loss) per share			\$ (0.07)	\$ (2.93)	\$ (0.93)	\$ (0.08)
Common shares outstanding			38,046,647	38,046,647	38,046,647	38,046,647
Statement of Cash Flows Data:						
Cash provided by (used in) operating activities	\$ 116.8	\$ 39.3	\$ 128.2	\$ 15.0	\$ (76.6)	\$ (26.1)
Cash used in investing activities	(53.0)	(27.6)	(1,402.0)	(69.1)	(11.0)	(12.8)
Cash (used in) provided by financing activities	(63.8)	(11.6)	1,386.3	0.2	(0.4)	0.1
Other Financial and Operating Data:						
EBITDA(1)	\$ 189.6	\$ 98.8	\$ 93.0	\$ 153.2	\$ 27.0	\$ 62.6
Capital expenditures	53.1	27.7	27.8	70.9	11.0	12.8
Total tons sold	2,024.9	1,145.0	866.4	2,096.3	467.0	522.3

	As of March 31, 2008	
	Actual	As Adjusted(2)
(dollars in millions)		
Balance Sheet Data:		
Cash and cash equivalents	\$ 19.7	\$ 19.8
Working capital(3)	101.7	105.7
Property, plant and equipment, net	1,143.8	1,143.8
Total assets	1,581.2	1,581.1
Net total debt(4)	1,400.0	1,248.0
Stockholders' equity	(74.9)	76.8

Table of Contents

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

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

	Predecessor Combined			Successor Combined		
	Year Ended December 31, 2005	Seven Months Ended July 31, 2006	Five Months Ended December 31, 2006	Year Ended December 31, 2007	Three Months Ended March 31, 2007	Three Months Ended March 31, 2008
	(dollars in millions)					
Net income (loss)	\$ 27.5	\$ 10.7	\$ (2.6)	\$ (111.5)	\$ (35.4)	\$ (3.1)
Interest expense, net:	14.8	8.4	47.3	141.5	32.8	33.5
Income tax expense	17.9	7.0				
Depreciation and amortization	129.4	72.7	48.3	123.2	29.6	32.2
EBITDA	\$ 189.6	\$ 98.8	\$ 93.0	\$ 153.2	\$ 27.0	\$ 62.6

- (2) The as adjusted combined balance sheet data reflects the balance sheet data as of March 31, 2008, adjusted for this offering and the use of the net proceeds therefrom, assuming an initial public offering price of \$12.00 per share. Any additional amounts raised as a result of additional shares sold by us, including as a result of the exercise by the underwriters of their option to purchase additional shares from us, or any increase in the initial public offering price will be used to repay amounts outstanding under the senior unsecured term loan facility of our subsidiary, Verso Paper Finance Holdings LLC, and the 1.0% prepayment penalty. A \$1.00 increase (decrease) in the assumed initial public offering price of \$12.00 per share would decrease (increase) net total debt by approximately \$13.1 million, and increase (decrease) stockholders' equity by \$13.1 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and offering expenses payable by us. For every additional 1,000,000 shares sold by us in this offering, including as a result of the exercise by the underwriters of their option to purchase additional shares from us, stockholders' equity would increase by \$11.3 million, assuming an initial public offering price of \$12.00 per share and after deducting the estimated underwriting discounts and commissions and offering expenses payable by us.
- (3) Working capital is defined as current assets net of current liabilities, excluding the current portion of long-term debt and the Division's accounts payable to International Paper net.
- (4) Net total debt is defined as total debt less cash and cash equivalents.

Table of Contents

Covenant Compliance

Certain covenants contained in the credit agreement governing our subsidiary's senior secured credit facilities and the indentures governing our subsidiary's outstanding notes (i) require the maintenance of a net first lien secured debt to Adjusted EBITDA ratio (as defined below) of 3.25 to 1.0 and (ii) restrict our ability to take certain actions such as incurring additional debt or making acquisitions if we are unable to meet defined Adjusted EBITDA to Fixed Charges (as defined below) and net senior secured debt to Adjusted EBITDA ratios. The covenants restricting our ability to incur additional indebtedness and make future acquisitions require a ratio of Adjusted EBITDA to Fixed Charges of 2.0 to 1.0 and a net senior secured debt to Adjusted EBITDA ratio of 6.0 to 1.0, in each case measured on a trailing four-quarter basis. For the purpose of calculating these ratios, pro forma effect is given to any repayment of debt, such as that contemplated with the net proceeds from this offering, as if such transaction occurred at the beginning of the trailing four-quarter period. Although we do not expect to violate any of the provisions in the agreements governing our outstanding indebtedness, these covenants can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. See Risk Factors Our substantial indebtedness could adversely affect our financial health.

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

Table of Contents

The following table reconciles cash flow from operating activities to EBITDA and Adjusted EBITDA for the periods presented. Statement of operations data for the twelve months ended March 31, 2008, is calculated by subtracting the data for the three months ended March 31, 2007, from the data for the year ended December 31, 2007, and adding the data for three months ended March 31, 2008.

	Three Months Ended March 31, 2007	Year Ended December 31, 2007	Successor Three Months Ended March 31, 2008	Twelve Months Ended March 31, 2008
	(dollars in millions)			
Cash flow from operating activities	\$ (76.6)	\$ 15.0	\$ (26.1)	\$ 65.5
Amortization of debt issuance costs	(1.6)	(6.7)	(1.7)	(6.8)
Interest income	(0.9)	(1.5)	(0.2)	(0.8)
Interest expense	33.7	143.0	33.7	143.0
Loss on disposal of fixed assets	(0.1)	(1.0)	(0.1)	(1.0)
Other, net	(0.2)	1.5	(2.8)	(1.1)
Changes in assets and liabilities, net	72.7	2.9	59.8	(10.0)
EBITDA	\$ 27.0	\$ 153.2	\$ 62.6	\$ 188.8
Operational improvements(a)	1.5	6.1	1.4	6.0
Restructuring, severance and other(b)	5.3	19.4	1.7	15.8
Non-cash compensation/benefits(c)	0.4	0.6	0.1	0.3
Other items, net(d)	0.1	8.0	0.1	8.0
Adjusted EBITDA				\$ 218.9
As adjusted cash interest expense(e)				\$ 123.1
Adjusted EBITDA to as adjusted cash interest expense(e)				1.8
Net senior secured debt to Adjusted EBITDA				3.7
Net first-lien secured debt to Adjusted EBITDA				1.1

(a) Represents the benefit of lower wood cost at our Sartell mill resulting from the harvest of hybrid poplar from our fiber farm.

(b) Includes restructuring and severance as per our financial statements. Restructuring includes transition and other non-recurring costs associated with the Acquisition.

(c) Represents amortization of certain one-time benefit payments.

(d) Represents earnings adjustments for legal and consulting fees, and other miscellaneous non-recurring items.

(e) As adjusted cash interest expense gives effect to this offering, assuming an initial public offering price of \$12.00 per share, and reflects a decrease in cash interest expense for the twelve months ended March 31, 2008 equal to \$14.0 million as a result of the repayment of \$137.9 million of the outstanding \$250.0 million senior unsecured term loan facility of our subsidiary, Verso Paper Finance Holdings LLC, bearing interest at a rate equal to 9.5% as of March 31, 2008, and the repayment of the outstanding \$4.0 million under the revolving credit facility and \$10.0 million senior secured term loan of our subsidiary, Verso Fiber Farm LLC, bearing interest at a rate equal to 6.2% as of March 31, 2008, as if this offering and the use of the net proceeds therefrom were consummated on April 1, 2007. Cash interest

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expense represents gross interest expense related to the debt, excluding amortization of debt issuance costs. Any additional amounts raised as a result of additional shares sold by us or any increase in the initial public offering price will be used to repay amounts outstanding under the senior unsecured term loan facility of our subsidiary, Verso Paper Finance Holdings LLC. For every additional \$1.0 million in aggregate principal amount of outstanding loans under the senior unsecured term loan facility that is repaid with proceeds from this offering, adjusted cash interest expense would be reduced by \$0.1 million.

Table of Contents

RISK FACTORS

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

Risks Relating to our Business

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

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

Market prices for paper products are a function of supply and demand, factors over which we have limited control. We therefore have limited ability to control the pricing of our products. Market prices of grade No. 3, 60 lb. basis weight paper, which is an industry benchmark for coated freesheet paper pricing, have fluctuated from 2000 to 2007 from a high of \$980 per ton to a low of \$705 per ton. In addition, market prices of grade No. 5, 34 lb. basis weight paper, which is an industry benchmark for coated groundwood paper pricing, have fluctuated between a high of \$1,040 per ton to a low of \$795 per ton over the same period. Because market conditions determine the price for our paper products, the price for our products could fall below our cash production costs.

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

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

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

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

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

Table of Contents

imports may increase, which would cause the supply of paper products available in the North American market to increase. Foreign overcapacity also could result in an increase in the supply of paper products available in the North American market. In addition, capacity that has been shutdown in North America could be started. An increased supply of paper available in North America could put downward pressure on prices and/or cause us to lose sales to competitors, either of which could have a material adverse effect on our business, financial condition and results of operations.

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

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

Our cost structure following the Acquisition is not comparable to the cost structure that we experienced in prior periods. Our management has limited experience managing our business as a separate company with a significant amount of indebtedness. We cannot assure you that our cost structure in future periods will be consistent with our current expectations or will permit us to operate our business profitably.

The markets in which we operate are highly competitive.

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

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

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

product availability;

the quality of our products;

our breadth of product offerings;

our ability to maintain plant efficiencies and high operating rates;

Table of Contents

manufacturing costs per ton;

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

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

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

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

The supply of energy or raw materials may be adversely affected by, among other things, hurricanes and other natural disasters or an outbreak or escalation of hostilities between the United States and any foreign power and, in particular, events in the Middle East. For example, wood fiber is a commodity and prices historically have been cyclical. The primary source for wood fiber is timber. Environmental litigation and regulatory developments have caused, and may cause in the future, significant reductions in the amount of timber available for commercial harvest in Canada and the United States. In addition, future domestic or foreign legislation, litigation advanced by aboriginal groups, litigation concerning the use of timberlands, the protection of endangered species, the promotion of forest biodiversity and the response to and prevention of catastrophic wildfires and campaigns or other measures by environmental activists could also affect timber supplies. Availability of harvested timber may further be limited by factors such as fire and fire prevention, insect infestation, disease, ice and wind storms, drought, floods and other natural and man-made causes, thereby reducing supply and increasing prices. Additionally, due to increased fuel costs, suppliers, distributors and freight carriers have charged fuel surcharges, which have increased our costs. Any significant shortage or significant increase in our energy or raw material costs in circumstances where we cannot raise the price of our products due to market conditions could have a material adverse effect on our business, financial condition and results of operations. Any disruption in the supply of energy or raw materials could also affect our ability to meet customer demand in a timely manner and could harm our reputation. Furthermore, we may be required to post letters of credit or other financial assurance obligations with certain of our energy and other suppliers, which could limit our financial flexibility.

Currency fluctuations may adversely affect our business, financial condition and results of operations.

We compete with producers in North America and abroad. Changes in the relative strength or weakness of the U.S. dollar may affect international trade flows of coated paper products. A stronger U.S. dollar may attract imports from foreign producers, increase supply in the United States, and have a downward effect on prices, while a weaker U.S. dollar may encourage U.S. exports. Variations in the exchange rates between the U.S. dollar and other currencies, particularly the Canadian dollar and the euro, may significantly affect our competitive position, including by making it more attractive for foreign producers to restart shut down paper mills or by increasing production capacity in North America and Europe.

Table of Contents

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

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

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

Our business is capital intensive, and we incur capital expenditures on an ongoing basis to maintain our equipment and comply with environmental laws, as well as to enhance the efficiency of our operations. Our capital expenditures were \$71 million in 2007, including \$39 million for maintenance and environmental capital expenditures. We expect to spend approximately \$80 million on capital expenditures during 2008, including approximately \$60 million for maintenance and environmental capital expenditures. Thereafter, our annual maintenance and environmental capital expenditures are expected to average approximately \$40 million to \$50 million per year for the next few years. We anticipate that our available cash resources and cash generated from operations will be sufficient to fund our operating needs and capital expenditures for at least the next year. However, additional capital expenditures may be required in the future in order to maintain our operations and for environmental compliance. If we require additional funds to fund our capital expenditures, we may not be able to obtain them on favorable terms, or we may not be able to obtain them at all. If we cannot maintain or upgrade our facilities and equipment as we require or as necessary to ensure environmental compliance, it could have a material adverse effect on our business, financial condition and results of operations.

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

Our largest customer, the xpedx and Bulkley Dunton business units of International Paper, accounted for approximately 9% of our net sales in 2007. In 2007, our 10 largest customers accounted for approximately 52% of our combined net sales, while our 10 largest end-users accounted for approximately 29% of our combined net sales. The loss of, or reduction in orders from, any of these customers or other customers could have a material adverse effect on our business, financial condition and results of operations, as could significant customer disputes regarding shipments, price, quality or other matters.

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

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

Rising postal costs could weaken demand for our paper products.

A significant portion of paper is used in magazines, catalogs and other promotional mailings. Many of these materials are distributed through the mail. Future increases in the cost of postage could reduce the frequency of

Table of Contents

mailings, reduce the number of pages in magazine and advertising materials and/or cause catalog and magazine publishers to use alternate methods to distribute their materials. Any of the foregoing could decrease the demand for our products, which could materially adversely affect our business, financial condition and results of operations.

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

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

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

As of December 31, 2007, approximately 35% of our employees were represented by labor unions under four collective bargaining agreements at two of our mills. In 2007, we completed successful labor negotiations for three agreements that were up for renewal during the year, and the new agreements will expire in 2011. We may become subject to material cost increases or additional work rules imposed by agreements with labor unions. This could increase expenses in absolute terms and/or as a percentage of net sales. In addition, although we believe we have good relations with our employees, work stoppages or other labor disturbances may occur in the future. Any of these factors could negatively affect our business, financial condition and results of operations.

We depend on third parties for certain transportation services.

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

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

We are subject to a wide range of federal, state and local general and industry-specific environmental, health and safety laws and regulations, including those relating to air emissions, wastewater discharges, solid and hazardous waste management and disposal and site remediation. Compliance with these laws and regulations is a significant factor in our business. We have made, and will continue to make, significant expenditures to comply with these requirements. In addition, we handle and dispose of wastes arising from our mill operations and operate a number of on-site landfills to handle that waste. We maintain financial assurance for the projected cost of closure and post-closure care for these landfill operations. We could be subject to potentially significant fines, penalties, criminal sanctions, plant shutdowns or interruptions in operations for any failure to comply with

Table of Contents

applicable environmental, health and safety laws and regulations. Moreover, under certain environmental laws, a current or previous owner or operator of real property, and parties that generate or transport hazardous substances that are disposed of at real property, may be held liable for the full cost to investigate or clean up such real property and for related damages to natural resources. We may be subject to liability, including liability for investigation and cleanup costs, if contamination is discovered at one of our or our Predecessor's current or former paper mills, other properties or other locations where we or our Predecessor have disposed of, or arranged for the disposal of, wastes. International Paper has agreed to indemnify us, subject to certain limitations, for environmental liabilities associated with former properties and former off-site shipments, as well as for a portion of certain other environmental liabilities. There can be no assurance that International Paper will perform under any of its environmental indemnity obligations, and its failure to do so could have a material adverse effect on our financial condition and results of operations. We also could be subject to claims brought pursuant to applicable laws or regulations for property damage or personal injury resulting from the environmental impact of our operations, including due to human exposure to hazardous substances. Increasingly stringent or new environmental requirements, more aggressive enforcement actions or policies, the discovery of unknown conditions or the bringing of future claims may cause our expenditures for environmental matters to increase, and we may incur material costs associated with these matters. For a further discussion of environmental laws and regulations that affect our business, including the capital expenditures required for environmental compliance, see **Business Environmental and Other Governmental Regulations** and **Business Legal Proceedings**.

Our substantial indebtedness could adversely affect our financial health.

We have and will continue to have a significant amount of indebtedness. On March 31, 2008, after giving effect to this offering and the use of the net proceeds therefrom, we would have had total indebtedness of \$1,267.8 million. After giving effect to this offering and the use of the net proceeds therefrom, the total interest expense on our outstanding indebtedness for each of the next three fiscal years (including 2008) is equal to \$120.0 million, \$119.9 million and \$119.7 million, respectively (assuming the current prevailing interest rates on our outstanding floating rate indebtedness remain the same and outstanding indebtedness is reduced by any required payment of debt).

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

increase our vulnerability to general adverse economic and industry conditions;

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

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

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

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

limit our ability to borrow additional funds.

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

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

Table of Contents

We are a holding company with no operations of our own and depend on our subsidiaries for cash.

All of our operations are conducted through our subsidiaries, and none of our subsidiaries is obligated to make funds available to us. Accordingly, our ability to make payments on any indebtedness or distribute dividends to our stockholders is dependent on the earnings and the distribution of funds from our subsidiaries. The terms of the senior secured credit facilities and the indentures governing the outstanding notes of our subsidiaries significantly restrict our subsidiaries from paying dividends and otherwise transferring assets to us. Furthermore, our subsidiaries are permitted under the terms of the senior secured credit facilities and indentures to incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by our subsidiaries to us. We cannot assure you that the agreements governing the current and future indebtedness of our subsidiaries will permit our subsidiaries to provide us with sufficient dividends, distributions or loans to fund our obligations or pay dividends to our stockholders.

Risks Related to Our Common Stock

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

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

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

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

our operating and financial performance and prospects;

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

the public's reaction to our press releases, other public announcements and filings with the U.S. Securities and Exchange Commission, or SEC;

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

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

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

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

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

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

In addition, in recent years, the stock market has experienced significant price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance

Table of Contents

of the affected companies. Hence, the price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our share price.

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

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

a staggered board of directors;

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

limitations on the removal of directors;

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

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

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

These provisions of our amended and restated certificate of incorporation and bylaws could impede a merger, takeover or other business combination involving us or the replacement of our management or discourage a potential investor from making a tender offer for our common stock, which, under certain circumstances, could reduce the market value of our common stock. See Description of Capital Stock.

We may issue shares of preferred stock in the future that may adversely impact your rights as holders of our common stock.

Our amended and restated certificate of incorporation will authorize us to issue up to 20,000,000 shares of one or more series of preferred stock. Our board of directors will have the authority to fix and determine the relative rights and preferences of the preferred stock, as well as the authority to issue such shares, without further stockholder approval. As a result, our board of directors could authorize the issuance of a series of preferred stock that would grant to holders preferred rights to our assets upon liquidation, the right to receive dividends before dividends are declared to holders of our common stock, and the right to the redemption of such preferred shares, together with a premium, prior to the redemption of any common stock. To the extent that we do issue such additional shares of preferred stock, your rights as holders of common stock could be impaired thereby, including, without limitation, dilution of your ownership interests in us. In addition, shares of preferred stock could be issued with terms calculated to delay or prevent a change in control or make removal of management more difficult, which may not be in your interest as holders of common stock.

We may be restricted from paying cash dividends on our common stock in the future.

We currently intend to declare and pay regular quarterly cash dividends on our common stock. Any payment of future dividends will be at the discretion of our board of directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends, and other considerations that our board of directors deems relevant. The terms of our senior secured credit facilities and indentures governing our outstanding notes may restrict us from paying cash dividends on our common stock. With respect to each of these agreements, the payment of cash dividends on our common stock is considered a

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restricted payment and, with limited exceptions, we are restricted from paying any cash dividends on our common stock unless we satisfy minimum requirements with respect to our cumulative consolidated net income. We will not satisfy the fixed charge coverage ratio upon completion of this offering and therefore, we will need to continue to utilize certain exceptions to the covenants in our

Table of Contents

indentures that will permit the payment of dividends for some period of time. These exceptions diminish over time as they are utilized and we will be required to cease making these dividend payments in the future if we do not eventually satisfy a minimum fixed charge coverage ratio of 2.0 to 1.0. See Prospectus Summary Covenant Compliance. In connection with the payment of any cash dividend, the terms of our senior secured credit facilities also require us to maintain our first lien secured debt ratio and the terms of the indentures governing our outstanding notes require us to maintain our fixed charge coverage ratio. In addition, we will be permitted under the terms of the agreements governing our outstanding debt to incur additional indebtedness that may severely restrict or prohibit the payment of dividends. We cannot assure you that the agreements governing our current and future indebtedness will permit us to pay dividends on our common stock. Accordingly, you may have to sell some or all of your common stock in order to generate cash flow from your investment. You may not receive a gain on your investment when you sell your common stock, and you may lose the entire amount of the investment.

You will suffer immediate and substantial dilution.

The initial public offering price per share of our common stock is substantially higher than our as adjusted net tangible book value per common share will be immediately after the offering. As a result, you will pay a price per share that substantially exceeds the book value of our assets after subtracting our liabilities. At an assumed initial public offering price of \$12.00 per share, you will incur immediate and substantial dilution in the amount of \$11.53 per share.

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

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

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

We may sell additional shares of common stock in subsequent public offerings. Our amended and restated certificate of incorporation will authorize us to issue 250,000,000 shares of common stock, of which 52,046,647 shares will be outstanding upon consummation of this offering. This number includes 14,000,000 shares that we are selling in this offering, which may be resold immediately in the public market. All of the remaining

Table of Contents

38,046,647 shares are restricted from immediate resale under the federal securities laws and the lock-up agreements between our current stockholders and the underwriters described in Underwriting, but may be sold into the market in the near future. These shares will become available for sale at various times following the expiration of the lock-up agreements, which, without the prior consent of Credit Suisse Securities (USA) LLC, is 180 days after the date of this prospectus (which period could be extended by the underwriters for up to an additional 34 days under certain circumstances). Immediately after the expiration of the 180-day lock-up period, the shares will be eligible for resale pursuant to Rule 144 or Rule 701 under the Securities Act of 1933, or the Securities Act, subject to volume limitations and applicable holding period requirements. In addition, immediately following this offering, we intend to file a registration statement registering the offer and sale of shares reserved for issuance under our 2008 Incentive Award Plan under the Securities Act, which shares will not be subject to the 180-day lock-up requirement.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Apollo controls us, and its interests may conflict with or differ from your interests as a stockholder.

After the consummation of this offering, Apollo will beneficially own 73.1% of our common stock. In addition, representatives of Apollo will have the ability to prevent any transaction that requires the approval of directors. As a result, Apollo will have the ability to substantially influence all matters requiring stockholder approval, including the election of our directors and the approval of significant corporate transactions such as mergers, tender offers and the sale of all or substantially all of our assets. The interests of Apollo and its affiliates could conflict with or differ from your interests as a holder of our common stock. For example, the concentration of ownership held by Apollo could delay, defer or prevent a change of control of our company or impede a merger, takeover or other business combination which you may otherwise view favorably. Apollo may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. A sale of a substantial number of shares of stock in the future by funds affiliated with our equity sponsor could cause our stock price to decline in the future.

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

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

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

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

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

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

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

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

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

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately \$153.3 million, based upon an assumed initial public offering price of \$12.00 per share.

We intend to use the net proceeds from this offering to repay a portion of the outstanding \$250.0 million senior unsecured term loan facility of Verso Paper Finance Holdings LLC, as well as the 1.0% prepayment penalty related thereto. At the assumed initial public offering price of \$12.00 per share, we would repay \$137.9 million of the amount outstanding under the senior unsecured term loan facility, and the \$1.4 million prepayment penalty related thereto. The net proceeds from the incurrence of the senior unsecured term loan facility by Verso Paper Finance Holdings LLC were distributed to our equity holders. The senior unsecured term loan facility matures on February 1, 2013, and accrues interest at rate equal to the London Interbank Offered Rate, or LIBOR, plus 6.25%. Credit Suisse Loan Funding LLC, an affiliate of Credit Suisse Securities (USA) LLC, and J.P. Morgan Whitefriars Inc., an affiliate of J.P. Morgan Securities Inc., are lenders under the Verso Paper Finance Holdings LLC senior unsecured term loan facility in the amounts of \$17.5 million and \$10.0 million, respectively, and therefore will receive proceeds from this offering. See Underwriting Relationships.

We intend to use \$14.0 million of the net proceeds from this offering to repay the outstanding \$4.0 million under the revolving credit facility and \$10.0 million senior secured term loan of our subsidiary, Verso Fiber Farm LLC. The revolving credit facility and senior secured term loan of Verso Fiber Farm LLC each mature on August 1, 2010, and accrue interest at a rate equal to LIBOR plus 3.00%. One or more affiliates of Credit Suisse Securities (USA) LLC are lenders under these facilities and therefore will receive proceeds from this offering. See Underwriting Relationships.

Any additional amounts raised as a result of additional shares sold by us, including as a result of the exercise by the underwriters of their option to purchase additional shares from us, or any increase in the initial public offering price will be used to repay amounts outstanding under the senior unsecured term loan facility of our subsidiary, Verso Paper Finance Holdings LLC, including the 1.0% prepayment penalty. A \$1.00 increase (decrease) in the assumed initial public offering price of \$12.00 per share would increase (decrease) the amount we would repay under the senior unsecured term loan facility by approximately \$13.1 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and offering expenses payable by us.

Table of Contents

DIVIDEND POLICY

On January 31, 2007, proceeds in the amount of \$250.0 million from the incurrence of the senior unsecured term loan facility by our subsidiary, Verso Paper Finance Holdings LLC, were distributed to our equity holders. We intend to pay quarterly cash dividends on our common stock at an initial annual rate equal to approximately 1% of the initial offering price per share. At an initial public offering price of \$12.00 per share, the quarterly cash dividend would be in an initial annual amount of \$0.12 per share. However, there can be no assurance that we will declare or pay any cash dividends. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our board of directors may deem relevant. Our ability to pay dividends on our common stock is limited by the covenants of our senior secured credit facilities and the indentures governing our outstanding notes, and may be further restricted by the terms of any of our future debt or preferred securities. See Risk Factors We may be restricted from paying cash dividends on our common stock in the future and Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Table of Contents**CASH AND CAPITALIZATION**

The following table sets forth our cash and cash equivalents and consolidated capitalization as of March 31, 2008, on an actual basis and on an as adjusted basis after giving effect to this offering and the use of the net proceeds therefrom. The as adjusted data does not give effect to the payment of the \$23.1 million fee to Apollo after the consummation of this offering in connection with the termination of the annual fee arrangement for its consulting and advisory services under the management agreement. See Certain Relationships and Related Party Transactions Management Agreement. You should read this table in conjunction with Use of Proceeds, Selected Historical Combined Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our combined financial statements and their notes included elsewhere in this prospectus.

	As of March 31, 2008	
	Actual (dollars in millions)	As Adjusted(1)
Cash	\$ 19.7	\$ 19.8
Debt:		
Short-term debt:		
Fiber farm revolving credit facility(2)	\$ 4.0	\$
Long-term debt, including current portion:		
Verso Paper Holdings revolving credit facility(2)		
Fiber farm term loan	10.0	
Term loan B	255.7	255.7
Second priority senior secured notes (fixed)	350.0	350.0
Second priority senior secured notes (floating)	250.0	250.0
Senior subordinated notes	300.0	300.0
Holding company term loan facility	250.0	112.1
Total long-term debt, excluding current portion	1,415.7	1,267.8
Total debt	\$ 1,419.7	\$ 1,267.8
Stockholders' Equity:		
Common stock, par value \$0.01 per share; actual, 250,000,000 shares authorized, 38,046,647 shares issued and outstanding; as adjusted, 250,000,000 shares authorized, 52,046,647 shares issued and outstanding	\$ 0.4	\$ 0.5
Additional paid-in capital(3)	48.5	205.4
Retained deficit(4)	(117.2)	(122.5)
Accumulated other comprehensive income	(6.6)	(6.6)
Total stockholders' equity	(74.9)	76.8
Total capitalization	\$ 1,344.8	\$ 1,344.6

- (1) The as adjusted data is calculated assuming an initial public offering price of \$12.00 per share. Any additional amounts raised as a result of additional shares sold by us, including as a result of the exercise by the underwriters of their option to purchase additional shares from us, or any increase in the initial public offering price will be used to repay amounts outstanding under the senior unsecured term loan facility of our subsidiary, Verso Paper Finance Holdings LLC, and the 1.0% prepayment penalty. A \$1.00 increase (decrease) in the assumed initial public offering price of \$12.00 per share would decrease (increase) total debt and the amount outstanding under the holding company term loan facility by approximately \$13.1 million, increase (decrease) additional paid-in capital by \$14.0 million, increase (decrease) retained deficit by \$0.9 million and increase (decrease) total stockholders' equity by \$13.1 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and offering expenses payable by us. For every

Table of Contents

additional 1,000,000 shares sold by us in this offering, including as a result of the exercise by the underwriters of their option to purchase additional shares from us, additional paid-in-capital, total stockholders' equity and total capitalization would increase by \$11.3 million, assuming an initial public offering price of \$12.00 per share and after deducting the estimated underwriting discounts and commissions and offering expenses payable by us.

- (2) Represents the revolving credit facilities of our subsidiaries, Verso Paper Holdings LLC, in the amount of \$200.0 million, and Verso Fiber Farm LLC, in the amount of \$5.0 million. No amounts were outstanding under the revolving credit facility of Verso Paper Holdings LLC at March 31, 2008, and there is currently \$169.9 million of availability under the revolving credit facility after deducting \$30.1 million of standby letters of credit that we have obtained. As of March 31, 2008, there was \$4.0 million outstanding under Verso Fiber Farm LLC's revolving credit facility, which will be repaid with the net proceeds from this offering.
- (3) As adjusted Additional paid-in-capital reflects \$153.3 million of proceeds from this offering and \$3.7 million of stock compensation expense related to the accelerated vesting of the Class C Units of Verso Paper Management LP, our parent, held by our management. A \$1.00 increase (decrease) in the assumed initial public offering price of \$12.00 per share would increase (decrease) the stock compensation expense reflected in Additional paid-in-capital by \$0.9 million.
- (4) As adjusted Retained deficit reflects (i) the write-off of \$1.6 million of deferred financing fees and pre-payment penalties associated with the repayment of the senior unsecured term loan facility of Verso Paper Finance Holdings LLC and the revolving and term loan credit facilities of Verso Fiber Farm LLC and (ii) \$3.7 million of stock compensation expense related to the accelerated vesting of the Class C Units of Verso Paper Management LP, our parent, held by our management.

Table of Contents**DILUTION**

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

As of March 31, 2008, our net tangible book value was approximately \$(127.1) million, or \$(3.34) per share. Net tangible book value per share represents total tangible assets less total liabilities, divided by the number of shares of common stock outstanding as of March 31, 2008. After giving effect to the issuance and sale of 14,000,000 shares of common stock in this offering at an assumed initial public offering price of \$12.00 per share and deducting the estimated underwriting discounts and offering expenses that we will pay and the application of the net proceeds therefrom as described under Use of Proceeds, our net tangible book value as of March 31, 2008, would have been approximately \$24.6 million, or \$0.47 per share. This represents an immediate increase in net tangible book value of \$3.81 per share to existing stockholders and an immediate dilution of \$11.53 per share to new investors purchasing common stock in this offering. The following table illustrates this dilution on a per share basis:

Assumed initial public offering price per share	\$ 12.00
Net tangible book value per share as of March 31, 2008	\$ (3.34)
Increase in net tangible book value per share attributable to this offering	3.81
Net tangible book value per share after this offering	\$ 0.47
Dilution per share to new investors	\$ 11.53

A \$1.00 increase (decrease) in the assumed initial public offering price of \$12.00 per share would increase (decrease) our net tangible book value by \$13.2 million, the net tangible book value per share after this offering by \$0.25 per share and the dilution to new investors in this offering by \$0.75 per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and offering expenses payable by us.

The following table sets forth, as of March 31, 2008, the total number of shares of common stock owned by existing stockholders and to be owned by new investors, the total consideration paid and to be paid by each group, and the average price per share paid by our existing stockholders and to be paid by new investors purchasing shares of common stock in this offering, before deducting the estimated underwriting discounts and offering expenses that we will pay:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
	(dollars in millions, except per share data)				
Existing stockholders	38.0	73%	\$ 47.8	22%	\$ 1.26
New investors	14.0	27	168.0	78	12.00
Total	52.0	100.0%	\$ 215.8	100.0%	\$ 4.15

A \$1.00 increase (decrease) in the assumed initial public offering price of \$12.00 per share would increase (decrease) total consideration and total average price per share paid by new investors by \$14.0 million and \$1.00, respectively, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same.

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

The following table sets forth our selected historical financial data. The selected historical statement of operations data for the year ended December 31, 2005, and for the seven months ended July 31, 2006, have been derived from the combined financial statements of the Coated and Supercalendered Papers Division of International Paper, or the Predecessor or the Division, which have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, and are included in this prospectus. The selected historical combined statement of operations data for the years ended December 31, 2003 and 2004, and the combined balance sheet data as of December 31, 2003, 2004 and 2005, have been derived from the combined financial statements of the Coated and Supercalendered Papers Division of International Paper that are not included in this prospectus. The selected balance sheet data as of December 31, 2006 and 2007, and the statement of operations data for the five months ended December 31, 2006 and the year ended December 31, 2007, have been derived from the combined financial statements of Verso Paper Corp., or the Successor, which have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, and are included in this prospectus. The combined balance sheet data as of March 31, 2008, and the statements of operations data for three months ended March 31, 2007 and 2008, have been derived from the unaudited combined financial statements included in this prospectus. The unaudited financial statements have been prepared on the same basis as the audited financial statements and, in the opinion of our management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information set forth herein. Interim financial statements are not necessarily indicative of results that may be experienced for the fiscal year or any future reporting period.

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

	Predecessor Combined Year Ended December 31,			Seven Months Ended July 31, 2006	Five Months Ended December 31 2006	Successor Combined		
	2003	2004	2005			Year Ended December 31, 2007	Three Months Ended March 31, 2007	Three Months Ended March 31, 2008
Statement of Operations Data:								
Net sales	\$ 1,343.1	\$ 1,463.3	\$ 1,603.8	\$ 904.4	\$ 706.8	\$ 1,628.8	\$ 359.8	\$ 453.9
Costs and expenses:								
Cost of products sold exclusive of depreciation and amortization	1,154.1	1,272.5	1,338.2	771.6	589.3	1,403.1	316.3	375.4
Depreciation and amortization	138.3	130.5	129.4	72.7	48.3	123.2	29.6	32.2
Selling, general and administrative expenses	81.4	65.3	65.6	34.3	14.4	53.1	11.2	14.2
Restructuring and other charges	4.5	0.6	10.4	(0.3)	10.1	19.4	5.3	1.7
Operating income (loss)	(35.2)	(5.6)	60.2	26.1	44.7	30.0	(2.6)	30.4
Interest expense	16.3	16.0	14.8	8.4	49.1	143.0	33.7	33.7
Interest income	(0.1)	(0.3)			(1.8)	(1.5)	(0.9)	(0.2)
Income (loss) before income taxes and cumulative effect of change in accounting principle	(51.4)	(21.3)	45.4	17.7	(2.6)	(111.5)	(35.4)	(3.1)
Provision (benefit) for income taxes	(19.8)	(8.2)	17.9	7.0				
Income (loss) before cumulative effect of change in accounting principle	(31.6)	(13.1)	27.5	10.7	(2.6)	(111.5)	(35.4)	(3.1)
Cumulative effect of change in accounting principle	(0.7)							
Net income (loss)	\$ (32.3)	\$ (13.1)	\$ 27.5	\$ 10.7	\$ (2.6)	\$ (111.5)	\$ (35.4)	\$ (3.1)

Table of Contents

	Predecessor Combined			Successor Combined				
	Year Ended December 31,			Seven Months Ended	Five Months Ended	Year Ended	Three Months Ended	Three Months Ended
	2003	2004	2005	July 31, 2006	December 31, 2006	December 31, 2007	March 31, 2007	March 31, 2008

(dollars and tons in millions, except per share data)

Per Share Data:

Earnings (loss) per share					\$ (0.07)	\$ (2.93)	\$ (0.93)	\$ (0.08)
Common shares outstanding					38,046,647	38,046,647	38,046,647	38,046,647

Balance Sheet Data:

Working capital(1)	\$ 78.9	\$ 58.6	\$ 87.8		\$ 153.8	\$ 87.2	\$ 138.6	\$ 101.7
Property, plant and equipment, net	1,384.3	1,363.9	1,287.0		1,212.3	1,160.2	1,194.2	1,143.8
Total assets	1,603.4	1,585.0	1,534.1		1,711.0	1,603.5	1,627.2	1,581.2
Total debt	303.5	302.1	301.2		1,169.3	1,419.6	1,418.8	1,419.7
Stockholders' equity	1,097.0	1,075.3	1,040.0		280.0	(75.1)	3.0	(74.9)

Statement of Cash Flows Data:

Cash provided by (used in) operating activities	\$ 81.0	\$ 123.7	\$ 116.8	\$ 39.3	\$ 128.2	\$ 15.0	\$ (76.6)	\$ (26.1)
Cash used in investing activities	(135.2)	(111.5)	(53.0)	(27.6)	(1,402.0)	(69.1)	(11.0)	(12.8)
Cash (used in) provided by financing activities	54.2	(12.2)	(63.8)	(11.6)	1,386.3	0.2	(0.4)	0.1

Other Financial and Operating Data:

EBITDA(2)	\$ 102.4	\$ 124.9	\$ 189.6	\$ 98.8	\$ 93.0	\$ 153.2	\$ 27.0	\$ 62.6
Capital expenditures	133.3	111.3	53.1	27.7	27.8	70.9	11.0	12.8
Total tons sold	1,934.6	2,064.6	2,024.9	1,145.0	866.4	2,096.3	467.0	522.3

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

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

	Predecessor Combined			Successor Combined				
	Year Ended December 31,			Seven Months Ended	Five Months Ended	Year Ended	Three Months Ended	Three Months Ended
	2003	2004	2005	July 31, 2006	December 31, 2006	December 31, 2007	March 31, 2007	March 31, 2008

(dollars in millions)

Statement of Operations Data:

Net income (loss)	\$ (32.3)	\$ (13.1)	\$ 27.5	\$ 10.7	\$ (2.6)	\$ (111.5)	\$ (35.4)	\$ (3.1)
Interest expense, net	16.2	15.7	14.8	8.4	47.3	141.5	32.8	33.5
Income tax expense (benefit)	(19.8)	(8.2)	17.9	7.0				
Depreciation and amortization	138.3	130.5	129.4	72.7	48.3	123.2	29.6	32.2

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EBITDA	\$ 102.4	\$ 124.9	\$ 189.6	\$ 98.8	\$ 93.0	\$ 153.2	\$ 27.0	\$ 62.6
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Table of Contents

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

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

Overview

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

Stand-Alone Company

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

Selected Factors that Affect our Operating Results

Net Sales

Our sales, which we report net of rebates, allowances and discounts, are a function of the number of tons of paper that we sell and the price at which we sell our paper. The coated paper industry is cyclical, which results in changes in both volume and price. Paper prices historically have been a function of macro-economic factors which influence supply and demand. Price has historically been substantially more variable than volume and can change significantly over relatively short time periods. In the second half of 2006, paper prices began to fall and

Table of Contents

continued to fall into the first half of 2007. We believe this price decline was driven by several factors, including high customer inventories, high producer inventories and cautious purchasing by customers in advance of a scheduled postal rate increase. Some of our North American competitors announced the shutdown of approximately 1.3 million tons of aggregate coated paper capacity that began in the second half of 2007 and will continue throughout 2008, which had become uncompetitive from a cost standpoint. This reduction was equivalent to 12% of North American coated paper capacity. As a result of these recent reductions in production capacity and resulting increases in the average operating rate for North American coated paper manufacturers, coated paper pricing began to strengthen in the second half of 2007. During the second quarter of 2007, we announced a \$60 per ton price increase on all coated paper grades, effective July 1. In reflection of the beginning of this price increase, our weighted average paper prices rose from \$797 per ton in the second quarter of 2007 to \$840 per ton in the fourth quarter of 2007. We expect our weighted average paper prices to continue to increase as we realize this price increase during 2008. We announced two additional price increases in the second half of 2007, totaling a further \$125 per ton on coated groundwood grades and another \$70 per ton on coated freesheet grades. We began implementing the first of these price increases in October 2007 and the other in January 2008. In the first quarter of 2008, we announced another price increase, effective April 1, of an additional \$60 per ton on all coated groundwood grades and another \$60 per ton on coated freesheet grades with a basis weight of 55 lbs or lighter.

We are primarily focused on serving two end-user segments: (i) catalogs and (ii) magazines. In 2007, we believe we had a leading market share for the catalog and magazine segments of coated papers. Coated paper demand is primarily driven by advertising and print media usage. Advertising spending and magazine and catalog circulation tend to be correlated with GDP in the United States and rise with a strong economy.

The majority of our products are sold via contracts we maintain with our customers. Contracted sales are more prevalent for coated groundwood paper, as opposed to coated freesheet paper, which is more often sold without a contract. Our contracts generally specify the volumes to be sold to the customer over the contract term, as well as the pricing parameters for those sales. Most of our contracts are negotiated on an annual basis, with only a few having terms extending beyond one year. Typically, our contracts provide for quarterly price adjustments based on market price movements. These contracts help enable us to plan our production runs well in advance, thereby optimizing production over our integrated mill system.

We reach our end-users through several channels, including printers, brokers, paper merchants and direct sales to end-users. We sell and market our products to approximately 100 customers which comprise 650 end-user accounts. In 2007, no single customer accounted for more than 10% of our total net sales.

Costs of Products Sold

The principal components of our cost of sales are chemicals, wood, energy, labor, maintenance and depreciation and amortization. Costs for commodities, including chemicals, wood and energy, are the most variable component of our cost of sales because the prices of many of the commodities that we use can fluctuate substantially, sometimes within a relatively short period of time. In addition, our aggregate commodity purchases fluctuate based on the volume of paper that we produce.

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

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

Table of Contents

for our total chemical costs to be lower than that experienced over the last two years. However, we expect imbalances in supply and demand will drive higher prices for certain chemicals such as starch and sodium chlorate.

Wood. Our costs to purchase wood are affected directly by market costs of wood in our regional markets and indirectly by the effect of higher fuel costs on logging and transportation of timber to our facilities. While we have in place fiber supply agreements that ensure a substantial portion of our wood requirements, purchases under these agreements are typically at market rates. In 2008, we will begin to utilize wood harvested from our 23,000-acre hybrid poplar fiber farm located near Alexandria, Minnesota, which should reduce our wood costs.

Energy. We produce a large portion of our energy requirements, historically producing approximately 50% of our energy needs for our coated paper mills from sources such as waste wood and paper, 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 will increase in a high energy cost environment. As a result, high energy prices will have a negative impact on our profitability if we are not successful in mitigating these costs through added operational efficiencies or other means. As prices fluctuate, we have some ability to switch between certain energy sources in order to minimize costs. We also utilize derivatives contracts as part of our risk management strategy to manage our exposure to market fluctuations in energy prices.

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

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

Depreciation and amortization

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

Selling, General and Administrative Expenses

The principal components of our selling, general and administrative expenses are wages, salaries and benefits for our office personnel at our headquarters and our sales force, travel and entertainment expenses, advertising expenses, expenses relating to certain information technology systems and research and development expenses. Also included are allocations of costs for corporate functions historically provided to us by International Paper. For further information about allocated costs, see Corporate Allocations. In addition, we pay a management fee to Apollo on an annual basis pursuant to a management agreement we entered into with Apollo after the consummation of the Acquisition. Upon consummation of this offering, we expect that the fee arrangement with Apollo will be terminated pursuant to the terms of the management agreement. Also, in connection with the accelerated vesting of the Class C units of Verso Paper Management LP, our parent, held by management upon consummation of this offering, we expect to incur \$8.2 million of additional stock

Table of Contents

compensation expense. A \$1.00 increase (decrease) in the initial public offering price of \$12.00 per share, would increase (decrease) the expected stock compensation expense by \$0.9 million.

Taxes

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

Corporate Allocations

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

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

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

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

Expense allocations from International Paper reflected in the income (loss) in the Predecessor's historical combined statements of operations were as follows:

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

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- (1) Includes severance payments associated with various headcount reduction initiatives of \$7.2 million for 2005.

Table of Contents

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

Critical Accounting Policies and Significant Accounting Estimates

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

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

Accounting policies whose application may have a significant effect on the reported results of operations and financial position, and that can require judgments by management that affect their application, include Statement of Financial Accounting Standards, or SFAS, No. 5, *Accounting for Contingencies*, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, SFAS No. 142, *Goodwill and Other Intangible Assets*, SFAS No. 87, *Employers' Accounting for Pensions*, and SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

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

Goodwill and other intangible assets are accounted for in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Intangible assets primarily consist of trademarks, customer-related intangible assets and patents obtained through business acquisitions. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The impairment evaluation of the carrying amount of goodwill and other intangible assets with indefinite lives is conducted annually or more frequently if events or changes in circumstances indicate that an asset might be impaired. Goodwill is evaluated at the reporting unit level. Goodwill has been allocated to the Coated segment.

The evaluation for impairment is performed by comparing the carrying amount of these assets to their estimated fair value. If impairment is indicated, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is generally determined on the basis of discounted future cash flows. Management believes the accounting estimates associated with determining fair value as part of the impairment test is a critical accounting estimate, because estimates and assumptions are made about our future performance and cash flows. While management uses the best information available to estimate future performance and cash flows, future adjustments to management's projections may be necessary if economic conditions differ substantially from the assumptions used in making the estimates.

Table of Contents

Pension and Postretirement 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, and mortality rates. Actuarial valuations and assumptions used in the determination of future values of plan assets and liabilities are subject to management judgment and may differ significantly if different assumptions are used.

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

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

Recent Accounting Developments

Derivatives and Hedging Activities. In March 2008, the Financial Accounting Standards Board, or FASB, issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Since SFAS No. 161 only addresses disclosure requirements, the adoption of SFAS No. 161 will have no impact on our combined results of operations or combined financial position.

Business Combinations. In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. SFAS No. 141-R establishes principles and requirements for how an acquirer recognizes and measures identifiable assets acquired, liabilities assumed and noncontrolling interests; recognizes and measures goodwill acquired in a business combination or gain from a bargain purchase; and establishes disclosure requirements. SFAS No. 141-R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. We will apply the provisions of SFAS No. 141-R to any future acquisitions.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective, on a prospective basis, for fiscal years, and interim periods within those years, beginning on or after December 15, 2008. The presentation and disclosure requirements for existing minority interests should be applied retrospectively for all periods presented. Early adoption is prohibited. The impact of adopting SFAS No. 160 is not expected to have a material impact on our combined results of operations or combined financial position.

Fair Value Option for Financial Assets and Financial Liabilities. In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115*, which permits an entity to measure certain financial assets and financial liabilities at fair

Table of Contents

value. SFAS No. 159's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity's fiscal year beginning after November 15, 2007. The impact of adopting SFAS No. 159 did not have a material impact on our combined results of operations or combined financial position.

Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 does not address what to measure at fair value; instead, it addresses how to measure fair value. SFAS No. 157 applies (with limited exceptions) to existing standards that require assets and liabilities to be measured at fair value. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires new disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. However, FSP 157-2, *Effective Date of FASB Statement No. 157*, delayed the implementation of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to years beginning after November 15, 2008. The impact of adopting the initial provisions of SFAS No. 157 did not have a material impact on our combined results of operations or combined financial position. The impact of adopting the remaining provisions of SFAS No. 157 is not expected to have a material impact on our combined results of operations or combined financial position.

Results of Operations

The following table sets forth certain historical combined financial information for the years ended December 31, 2005, 2006 and 2007 and the three months ended March 31, 2007 and 2008. For comparison purposes, we have presented the results of operations for the year ended December 31, 2006, on a combined basis, consisting of the historical results of operations of our Predecessor for the seven months ended July 31, 2006, and the historical results of operations for the Successor for the five months ended December 31, 2006. We believe that this approach is beneficial to the reader by providing an easier-to-read discussion of the results of operations and provides the reader with information from which to analyze our financial results that is consistent with the manner that management reviews and analyzes results of operations.

U.S. GAAP does not contemplate the combination of the financial results of our Predecessor and Successor, as the combined information does not include any pro forma assumptions or adjustments and, as a result, does not fully reflect the significant impact the Acquisition has had on our financial statements. In particular, the pro forma impact of fair value adjustments to personal property and other property and equipment due to the allocation of the purchase price to assets acquired and liabilities assumed resulted in a lower depreciation expense for the Successor. The pro forma impact of these adjustments on the Predecessor's results of operations for the seven months ended July 31, 2006, would have been a reduction of \$5.4 million in depreciation expense. In addition, intangible assets recognized through the allocation of the purchase price to assets acquired and liabilities assumed resulted in incremental amortization expense for the Successor. The pro forma impact on the Predecessor's results of operations for the seven months ended July 31, 2006, would have been \$0.4 million of amortization expense, resulting in a net pro forma reduction in depreciation and amortization expense of \$5.0 million for the year ended December 31, 2006.

Table of Contents

Cost of sales in the following discussion includes the cost of products sold and depreciation and amortization. The following table and discussion should be read in conjunction with the information contained in our historical combined financial statements and the notes thereto included elsewhere in this prospectus. However, our historical results of operations set forth below and elsewhere in this prospectus may not necessarily reflect what would have occurred if we had been a separate, stand-alone entity during the periods presented or what will occur in the future.

	Predecessor		Successor	Non-GAAP Combined Successor and Predecessor		Successor	
	Year Ended December 31, 2005	Seven Months Ended July 31, 2006	Five Months Ended December 31, 2006	Year Ended December 31, 2006	Year Ended December 31, 2007	Three Months Ended March 31, 2007	Three Months Ended March 31, 2008
	(dollars in millions)						
Net sales	\$ 1,603.8	\$ 904.4	\$ 706.8	\$ 1,611.2	\$ 1,628.8	\$ 359.8	\$ 453.9
Cost and expenses:							
Cost of products sold excluding depreciation and amortization	1,338.2	771.6	589.3	1,360.9	1,403.1	316.3	375.4
Depreciation and amortization	129.4	72.7	48.3	121.0	123.2	29.6	32.2
Selling, general, and administrative	65.6	34.3	14.4	48.7	53.1	11.2	14.2
Restructuring and other charges	10.4	(0.3)	10.1	9.8	19.4	5.3	1.7
Operating income (loss)	60.2	26.1	44.7	70.8	30.0	(2.6)	30.4
Interest expense	14.8	8.4	49.1	57.5	143.0	33.7	33.7
Interest income			(1.8)	(1.8)	(1.5)	(0.9)	(0.2)
Income (loss) before income taxes	45.4	17.7	(2.6)	15.1	(111.5)	(35.4)	(3.1)
Income tax expense	17.9	7.0		7.0			
Net income (loss)	\$ 27.5	\$ 10.7	\$ (2.6)	\$ 8.1	\$ (111.5)	\$ (35.4)	\$ (3.1)

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Net Sales. Net sales for first quarter 2008 increased 26% to \$453.9 million from \$359.8 million in first quarter 2007. The improvement was the result of an 11.8% increase in sales volume coupled with a 12.8% increase in average sales prices for first quarter 2008 compared to the same period in 2007.

Net sales for our coated and supercalendered papers segment increased to \$404.9 million in first quarter 2008 from \$314.8 million in first quarter 2007. The increase reflects a 14.8% increase in paper volumes and a 12.0% increase in average paper sales prices for first quarter 2008 compared to first quarter 2007.

Net sales for our market pulp segment were \$39.1 million for first quarter 2008 compared to \$36.0 million for the same period in 2007. This increase was due to an 11.2% increase in average sales prices compared to first quarter 2007. Partially offsetting this increase was a 2.5% decline in volume as internal consumption increased.

Net sales for our other segment were \$9.9 million for first quarter 2008 compared to \$9.0 million for first quarter 2007. The improvement in net sales for our other segment during the first quarter 2008 reflects an 11.0% increase in average sales prices, partially offset by a 1.2% decrease in sales volume compared to first quarter 2007.

Cost of sales. Cost of sales increased 17.8% to \$407.6 million in first quarter 2008 compared to \$345.9 million for the same period in 2007, primarily driven by higher sales volume and increased prices of certain commodities we use in our production. Our gross margin, excluding depreciation and amortization, was 17.3% for first quarter 2008, compared to 12.1% for first quarter 2007. This increase reflects the increase in average sales prices during first quarter 2008. Depreciation and amortization expense was \$32.2 million in first quarter 2008 compared to \$29.6 million in 2007.

Table of Contents

Selling, general and administrative. Selling, general and administrative expenses were \$14.2 million in first quarter 2008 compared to \$11.2 million for the same period in 2007, primarily reflecting costs associated with the development of our infrastructure as a stand-alone organization.

Interest expense. Interest expense was \$33.7 million in first quarter 2008, the same amount as the interest expense for the same period in 2007.

Restructuring and other charges. Restructuring and other charges are comprised of transition and other non-recurring costs associated with the Acquisition and carve out of our operations from those of International Paper, including costs of a transition services agreement with International Paper. The charges for the three-month periods ended March 31, 2008 and 2007, were \$1.7 million and \$5.3 million, respectively. The charges in 2008 and 2007 included \$0.2 million and \$2.2 million, respectively, of transition services agreement costs. We are no longer operating under the transition services agreement.

2007 Successor to 2006 Combined Successor and Predecessor

Net Sales. Net sales for the year ended December 31, 2007 were \$1,628.8 million compared to \$1,611.2 million for the year ended December 31, 2006, an increase of 1.1%. The increase was the result of a 4.2% increase in the tons sold in 2007. This increase was partially offset by a 3.0% decrease in our average sales price per ton for all of our products over the comparable period.

Net sales for our coated and supercalendered papers segment were \$1,443.2 million for the year ended December 31, 2007, compared to \$1,425.2 million for the year ended December 31, 2006, an increase of 1.3%. The increase was primarily due to higher paper volumes, which increased by 6.1% compared to 2006, partially offset by lower paper prices, which decreased 4.6% over the comparable period.

Net sales for our hardwood market pulp segment were \$148.0 million for the year ended December 31, 2007, compared to \$147.0 million for the year ended December 31, 2006, an increase of 0.7%. The increase was due to higher sales prices of 5.9%, while volumes decreased 5.0% due to an increase in internal consumption.

Net sales for our other segment were \$37.6 million for the year ended December 31, 2007, compared to \$39.0 million for the year ended December 31, 2006, a decrease of 3.7%. This decrease reflects a 4.1% decline in sales volume, partially offset by a 0.5% increase in average sales prices compared to 2006.

Cost of sales. Cost of sales for the year ended December 31, 2007, was \$1,526.3 million compared to \$1,481.9 million for the year ended December 31, 2006, an increase of 3.0%, primarily driven by higher sales volume. Although the prices of certain commodities we use in our production were higher in 2007, the operational efficiencies and improvements we have implemented, including through our R-GAP improvement program, more than offset the increased prices of raw materials. Our gross margin, excluding depreciation and amortization, was 13.9% for the year ended December 31, 2007, compared to 15.5% for the same period in 2006. This decline reflects the lower average sales prices in 2007. Depreciation and amortization expense for the year ended December 31, 2007, was \$123.2 million compared to \$121.0 million for the year ended December 31, 2006.

Selling, general and administrative. Selling, general and administrative expenses were \$53.1 million for the year ended December 31, 2007, compared to \$48.7 million for the same period in 2006, an increase of 9.1%. For the period following the closing of the Acquisition, selling, general and administrative expenses reflect the annual expenses we incurred as a stand-alone business. We expect these costs to increase in 2008 as a result of further incremental costs associated with operating on a stand-alone basis subsequent to the Acquisition.

Interest expense. Interest expense for the year ended December 31, 2007, increased to \$143.0 million from \$57.5 million for the same period in 2006 due to the debt issued as part of the Acquisition and the issuance of the

Table of Contents

\$250 million senior unsecured floating-rate term loan in January 2007. Interest expense for the year ended December 31, 2007, includes \$137.0 million of cash interest expense on our outstanding indebtedness and \$5.5 million of non-cash interest expense, including amortization of deferred debt issuance costs.

Restructuring and other charges. Restructuring and other charges include one-time costs for us to operate as a stand-alone business. The charges for the year ended December 31, 2007, were \$19.4 million compared to \$10.1 million for the five-month period ended December 31, 2006. In conjunction with the Acquisition, we entered into a transition services agreement with International Paper whereby International Paper continued to provide certain services that were necessary for us to run as a stand-alone business. Included in restructuring and other charges for the year ended December 31, 2007, were charges of \$4.7 million incurred under the transition services agreement compared to \$6.1 million for the five months ended December 31, 2006. We are no longer operating under the transition services agreement.

Income tax expense. For the year ended December 31, 2007, and for the five-month period from August 1, 2006 to December 31, 2006, we incurred no income taxes, compared to income tax expense of \$7.0 million for our Predecessor for the seven months ended July 31, 2006.

2006 Combined Successor and Predecessor to 2005 Predecessor

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

Net sales for our coated and supercalendered papers segment were \$1,425.2 million for the year ended December 31, 2006, compared to \$1,400.6 million for the year ended December 31, 2005, an increase of 1.8%. The increase was primarily due to higher paper prices, which increased by 0.9% compared to paper prices in 2005 and higher paper volumes of 0.8% over the comparable period.

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

Net sales for our other segment were \$39.0 million for the year ended December 31, 2006, compared to \$63.4 million for the year ended December 31, 2005, a decrease of 38.5%. The decrease was primarily due to the absence of sales in 2006 from paper machine No. 1 at our Androscoggin mill, which was shutdown during 2005 and converted from the production of uncoated paper to the production of softwood pulp used to supply our Bucksport mill.

Cost of sales. Cost of sales for the year ended December 31, 2006 was \$1,481.9 million, which included a \$5.9 million inventory fair value adjustment, compared to \$1,467.6 million for the year ended December 31, 2005, an increase of 1.0%. Our gross margin, excluding depreciation expense, for the year ended December 31, 2006 was 15.5%, compared to 16.6% for the same period in 2005. Excluding the fair value of inventory adjustment, the gross margin for the year ended December 31, 2006 was 15.9%. Depreciation expense for the year ended December 31, 2006 was \$121.0 million compared to \$129.4 million for the year ended December 31, 2005.

Selling, general and administrative. Selling, general and administrative expenses were \$48.7 million for the year ended December 31, 2006, compared to \$65.6 million for the same period in 2005, a decrease of 25.8%. The decrease is primarily due to the elimination of an allocation from International Paper for corporate services related to the operation of paper machine No. 1 at the Androscoggin mill, which was shutdown during 2005 and due to the elimination of an allocation from International Paper for corporate services during the five months

Table of Contents

ended December 31, 2006 compared to receiving a full allocation for the year ended December 31, 2005. For the period following the closing of the Acquisition, selling, general and administrative expenses reflect the actual expenses we incurred as a stand-alone business.

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

Restructuring and other charges. Restructuring and other charges in the Successor period are one-time transaction costs for us to run as a stand-alone business. The charges for the five-month period ended December 31, 2006, were \$10.1 million which included \$6.1 million of transition service agreement costs. In the Predecessor period, restructuring and other charges are severance and related costs associated with the permanent shutdown of the No. 1 paper machine at the Androscoggin mill. The charges for the year ended December 31, 2005, were \$10.4 million, which included \$3.2 million of asset impairment.

Income tax expense. The income tax expense of \$7.0 million for the year ended December 31, 2006, is a decrease in tax expense compared to the year ended December 31, 2005 of \$17.9 million, primarily due to our being treated as a partnership for federal tax purposes during the period from August 1, 2006, through December 31, 2006.

Liquidity and Capital Resources

We rely primarily upon cash flow from operations and borrowings under our revolving credit facilities to finance operations, capital expenditures and fluctuations in debt service requirements. We currently have \$169.9 million of availability under our revolving credit facility, which is currently undrawn, after deducting for \$30.1 million of standby letters of credit that we have issued.

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, make scheduled principal and interest payments, and provide funds for working capital, capital expenditures and other needs of the business for at least the next twelve months. However, no assurance can be given that this will be the case, and we may require additional debt or equity financing to meet our working capital requirements. We expect to spend approximately \$80 million on capital expenditures during 2008, including approximately \$60 million for maintenance and environmental capital expenditures. Thereafter, our annual maintenance and environmental capital expenditures are expected to average approximately \$40 million to \$50 million per year for the next few years.

In addition, as a holding company, our investments in our operating subsidiaries, including Verso Paper LLC, constitute substantially all of our operating assets. Consequently, our subsidiaries conduct all of our consolidated operations and own substantially all of our operating assets. Our principal source of the cash we need to pay our debts is the cash that our subsidiaries generate from their operations and their borrowings. Our subsidiaries are not obligated to make funds available to us. The terms of the senior secured credit facilities and the indentures governing the outstanding notes of our subsidiaries significantly restrict our subsidiaries from paying dividends and otherwise transferring assets to us. Furthermore, our subsidiaries will be permitted under the terms of the senior secured credit facilities and the indentures to incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to us. Although the terms of the debt agreements of our subsidiaries do not restrict our operating subsidiaries from obtaining funds from their respective subsidiaries to fund their operations and payments on indebtedness, we cannot assure you that the agreements governing the current and future indebtedness of our subsidiaries will permit our subsidiaries to provide us with sufficient dividends, distributions or loans to fund our obligations or pay dividends to our stockholders.

Cash provided by operating activities. For the three months ended March 31, 2008, operating activities used net cash of \$26.1 million, compared to \$76.6 million of net cash used during the three months ended March 31,

Table of Contents

2007. The decline in net cash used in operating activities was primarily due to improved performance, with a net loss of \$3.1 million in first quarter 2008 compared to a net loss of \$35.4 million in 2007 and working capital improvements driven by the rising pricing environment for our products.

For the year ended December 31, 2007, our operating activities generated net cash of \$15.0 million, compared to \$167.5 million of net cash generated during the comparable period in 2006. The decline was primarily due to a net loss of \$111.5 million in 2007, compared to net income of \$8.1 million in 2006. Operating activities in 2005 generated net cash of approximately \$116.8 million compared to \$167.5 million in 2006. The increase in 2006 was primarily driven by improved operations and working capital improvements.

Cash used in investing activities. For the three-month periods ended March 31, 2008 and 2007, we used \$12.8 million and \$11.0 million, respectively, of net cash in investing activities due to investments in capital expenditures.

For the year ended December 31, 2007, we used \$69.1 million of net cash in investing activities, primarily due to investments in capital expenditures. This compares to \$1,429.6 million of net cash used during the comparable period in 2006, which reflects the \$1.4 billion in cash paid for the Acquisition. In 2005, we used \$53.0 million of net cash in investing activities, primarily due to investments in capital expenditures.

Cash used in financing activities. For the three months ended March 31, 2008 and 2007, financing activities provided net cash of \$0.1 million, as an increase in short-term borrowings offset principal payments on long-term debt. This compares to \$0.4 million of net cash used in 2007 due to principal payments on debt. In addition, 2007 cash flows from financing activities included \$242 million of net proceeds from the issuance of the senior unsecured term loan, which proceeds were then distributed to our equity holders.

For the year ended December 31, 2007, the net impact of our financing activities was de minimis. The proceeds from the incurrence of the senior unsecured term loan facility by our subsidiary, Verso Paper Finance Holdings LLC, on January 31, 2007, were distributed to our equity holders. In 2006, net cash provided by financing activities was \$1,374.7 million, reflecting the net proceeds from the debt issuance and equity contributions. In 2005, financing activities used \$63.8 million, driven by distributions of operating cash flows, net of investing activities, to International Paper.

Indebtedness. Our aggregate indebtedness at March 31, 2008, was \$1,419.7 million, including the current portion of our outstanding borrowings.

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

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

a \$200 million revolving credit facility with a maturity of six years. No amounts were outstanding as of March 31, 2008. Letters of credit of \$30.1 million were issued as of March 31, 2008.

The senior secured credit facilities of Verso Paper Holdings LLC are secured by first priority pledges of all the equity interests owned by Verso Paper Holdings LLC in its subsidiaries. These senior secured credit facilities also are secured by first priority interests in, and mortgages on, substantially all tangible and intangible assets of Verso Paper Holdings LLC and each of its direct and indirect subsidiaries. The term loan facility bears interest at a rate equal to LIBOR plus 1.75% and the interest rate was 4.4% at March 31, 2008. The revolving credit facility bears interest at a rate equal to LIBOR plus 2.00%. The obligations under the senior secured credit facilities of Verso Paper Holdings LLC are unconditionally guaranteed by Verso Paper Finance Holdings LLC, parent company of Verso Paper Holdings LLC, and subject to certain exceptions, each of its direct and indirect subsidiaries. In addition to paying interest on outstanding principal under these senior secured credit facilities,

Table of Contents

Verso Paper Holdings LLC is required to pay a commitment fee to the lenders under the revolving credit facility in respect of unutilized commitments at a rate equal to 0.50% per annum (subject to reduction upon attainment of certain first lien leverage ratios). Verso Paper Holdings LLC also pays customary letter of credit and agency fees.

The senior secured credit facilities of Verso Paper Holdings LLC are governed by a credit agreement, dated August 1, 2006, among Verso Paper Finance Holdings LLC, Verso Paper Holdings LLC, the Lenders party thereto, Credit Suisse, Cayman Islands Branch, as Administrative Agent, Lehman Brothers Inc., as Syndication Agent, and Citigroup Global Markets Inc. and Banc of America Securities LLC, as Documentation Agents.

On August 1, 2006, Verso Paper Holdings LLC completed an offering of \$350 million in aggregate principal amount of 9 ¹/₈% second-priority senior fixed rate notes due 2014, \$250 million in aggregate principal amount of second-priority senior secured floating rate notes due 2014 and \$300 million in aggregate principal amount of 11 ³/₈% senior subordinated notes due 2016. The floating rate notes bear interest at a rate equal to LIBOR plus 3.75% and the interest rate was 7.0% at March 31, 2008. The proceeds of the note offerings were used to finance the Acquisition and to pay related fees and expenses. Our second-priority senior secured notes have the benefit of a second-priority security interest in the collateral securing our senior secured credit facilities. The fixed rate notes pay interest semi-annually and the variable rate notes pay interest quarterly. The senior subordinated notes are unsecured and pay interest semi-annually.

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

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

a \$5 million revolving credit facility with a maturity of four years, of which \$4.0 million was outstanding as of March 31, 2008. The senior secured credit facilities of Verso Fiber Farm LLC are secured by first priority interests in, and mortgages on, substantially all tangible and intangible assets of Verso Fiber Farm LLC. The fiber farm term loan facility bears interest at a rate equal to LIBOR plus 3.00% and the interest rate at March 31, 2008 was 6.2%. The fiber farm revolving credit facility also bears interest at a rate equal to LIBOR plus 3.00%. All amounts outstanding under the senior secured credit facilities of Verso Fiber Farm LLC will be repaid with a portion of the net proceeds from this offering.

The senior secured credit facilities of Verso Fiber Farm LLC are governed by a credit agreement, dated August 1, 2006, among Verso Fiber Farm LLC, the Lenders party thereto, and Credit Suisse, Cayman Islands Branch, as Administrative Agent.

On January 31, 2007, our subsidiary, Verso Paper Finance Holdings LLC, entered into a \$250 million senior unsecured term loan facility with a maturity of six years. The loan allows the borrower to pay interest either in cash or in kind through the accumulation of the outstanding principal amount. The senior unsecured term loan facility bears interest at a rate equal to LIBOR plus 6.25% and the interest rate at March 31, 2008 was 9.5%. The net proceeds from the incurrence of the term loan facility were distributed to our equity holders.

The senior unsecured term loan facility of Verso Paper Finance Holdings LLC is governed by a credit agreement, dated January 31, 2007, among Verso Paper Finance Holdings LLC, Verso Paper Finance Holdings Inc., the Lenders party thereto, Credit Suisse, as Administrative Agent, and Citigroup Global Markets Inc., as Syndication Agent.

All of our senior secured credit facilities contain various restrictive covenants. They prohibit our subsidiaries from prepaying other indebtedness and require us to maintain a maximum consolidated first lien

Table of Contents

leverage ratio. In addition, our senior secured credit facilities, among other things, restrict our ability to incur indebtedness or liens, make investments or declare or pay any dividends. The indentures governing our second priority senior secured notes and our senior subordinated notes limit our ability to, among other things, to (i) incur additional indebtedness; (ii) pay dividends or make other distributions or repurchase or redeem our stock; (iii) make investments; (iv) sell assets, including capital stock of restricted subsidiaries; (v) enter into agreements restricting our subsidiaries' ability to pay dividends; (vi) consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; (vii) enter into transactions with our affiliates; and (viii) incur liens. As of March 31, 2008, we believe we were in compliance with all of the covenants contained in the agreements governing our outstanding indebtedness.

Seasonality

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

Covenant Compliance

Certain covenants contained in the credit agreement governing our senior secured credit facilities and the indentures governing our outstanding notes (i) require the maintenance of a net first lien secured debt to Adjusted EBITDA (as defined below) ratio of 3.25 to 1.0 and (ii) restrict our ability to take certain actions such as incurring additional debt or making acquisitions if we are unable to meet defined Adjusted EBITDA to Fixed Charges (as defined below) and net senior secured debt to Adjusted EBITDA ratios. The covenants restricting our ability to incur additional indebtedness and make future acquisitions require a ratio of Adjusted EBITDA to Fixed Charges of 2.0 to 1.0 and a ratio of net senior secured debt to Adjusted EBITDA of 6.0 to 1.0, in each case measured on a trailing four-quarter basis. For the purpose of calculating these ratios, pro forma effect is given to any repayment of debt, such as that contemplated with the net proceeds from this offering, as if such transaction occurred at the beginning of the trailing four-quarter period. Although we do not expect to violate any of the provisions in the agreements governing our outstanding indebtedness, these covenants can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. See **Risk Factors** Our substantial indebtedness could adversely affect our financial health.

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

Table of Contents

The following table reconciles cash flow from operating activities to EBITDA and Adjusted EBITDA for the periods presented. Statement of operations data for the twelve months ended March 31, 2008, is calculated by subtracting the data for the three months ended March 31, 2007, from the data for the year ended December 31, 2007, and adding the data for three months ended March 31, 2008.

	Three Months		Successor	
	Ended March 31, 2007	Year Ended December 31, 2007	Three Months Ended March 31, 2008	Twelve Months Ended March 31, 2008
	(dollars in millions)			
Cash flow from operating activities	\$ (76.6)	\$ 15.0	\$ (26.1)	\$ 65.5
Amortization of debt issuance costs	(1.6)	(6.7)	(1.7)	(6.8)
Interest income	(0.9)	(1.5)	(0.2)	(0.8)
Interest expense	33.7	143.0	33.7	143.0
Loss on disposal of fixed assets	(0.1)	(1.0)	(0.1)	(1.0)
Other, net	(0.2)	1.5	(2.8)	(1.1)
Changes in assets and liabilities, net	72.7	2.9	59.8	(10.0)
EBITDA	\$ 27.0	\$ 153.2	\$ 62.6	\$ 188.8
Operational improvements(a)	1.5	6.1	1.4	6.0
Restructuring, severance and other(b)	5.3	19.4	1.7	15.8
Non-cash compensation/ benefits(c)	0.4	0.6	0.1	0.3
Other items, net(d)	0.1	8.0	0.1	8.0
Adjusted EBITDA				\$ 218.9
As adjusted cash interest expense(e)				\$ 123.1
Adjusted EBITDA to as adjusted cash interest expense(e)				1.8
Net senior secured debt to Adjusted EBITDA				3.7
Net first-lien secured debt to Adjusted EBITDA				1.1

- (a) Represents the benefit of lower wood cost at our Sartell mill resulting from the harvest of hybrid poplar from our fiber farm.
- (b) Includes restructuring and severance as per our financial statements. Restructuring includes transition and other non-recurring costs associated with the Acquisition.
- (c) Represents amortization of certain one-time benefit payments.
- (d) Represents earnings adjustments for legal and consulting fees, and other miscellaneous non-recurring items.
- (e) As adjusted cash interest expense gives effect to this offering, assuming an initial public offering price of \$12.00 per share, and reflects a decrease in cash interest expense for the twelve months ended March 31, 2008 equal to \$14.0 million as a result of the repayment of \$137.9 million of the outstanding \$250.0 million senior unsecured term loan facility of our subsidiary, Verso Paper Finance Holdings LLC, bearing interest at a rate equal to 9.5% as of March 31, 2008, and the repayment of the outstanding \$4.0 million under the revolving credit facility and \$10.0 million senior secured term loan of our subsidiary, Verso Fiber Farm LLC, bearing interest at a rate equal to 6.2%

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as of March 31, 2008, as if this offering and the use of the net proceeds therefrom were consummated on April 1, 2007. Cash interest expense represents gross interest expense related to the debt, excluding amortization of debt issuance costs. Any additional amounts raised as a result of additional shares sold by us or any increase in the initial public offering price will be used to repay amounts outstanding under the senior unsecured term loan facility of our subsidiary, Verso Paper Finance Holdings LLC. For every additional \$1.0 million in aggregate principal amount of outstanding loans under the senior unsecured term loan facility that is repaid with proceeds from this offering, adjusted cash interest expense would be reduced by \$0.1 million.

Effect of Inflation

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

Table of Contents

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

Contractual Obligations

The following table reflects our contractual obligations and commercial commitments as of December 31, 2007. Commercial commitments include lines of credit, guarantees and other potential cash outflows resulting from a contingent event that requires our performance pursuant to a funding commitment.

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
		(dollars in millions)			
Long-term debt(1)	\$ 2,290.9	\$ 134.4	\$ 277.5	\$ 264.9	\$ 1,614.1
Operating leases	16.3	5.7	7.2	2.2	1.2
Purchase obligations(2)	123.1	47.8	27.7	5.5	42.1
Management agreement(3)	25.0	2.5	5.0	5.0	12.5
Other long-term liabilities reflected on our balance sheet under U.S. GAAP(4)	30.2	1.1	0.3	1.2	27.6
Total	\$ 2,495.50	\$ 191.5	\$ 317.7	\$ 278.8	\$ 1,697.5

- (1) Long-term debt includes principal payments, commitment fees and accrued interest payable. A portion of our interest expense is at a variable rate and has been calculated using current LIBOR. Actual payments could vary.
- (2) Purchase obligations include our unconditional purchase obligations for power purchase agreements (gas and electricity), machine clothing and other commitments for advertising, raw materials or storeroom inventory.
- (3) Pursuant to the terms of the management agreement, which expires on August 1, 2018, we pay Apollo an annual fee for its consulting and advising services in an amount equal to the greater of \$2.5 million and 1.25% of our Adjusted EBITDA, as defined in the indentures governing our outstanding notes. The amount included in the table assumes a minimum annual payment of \$2.5 million. After the consummation of this offering, Apollo will terminate the annual fee arrangement under the management agreement in return for a one-time fee in the amount of \$23.1 million. See Certain Relationships and Related Party Transactions Management Agreement.
- (4) Other long-term liabilities reflected above represent the gross amount of asset retirement obligations.

Qualitative and Quantitative Disclosure about Market Risk

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

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

We are primarily focused on serving two end-user segments: catalogs and magazines. Coated paper demand is primarily driven by advertising and print media usage. Advertising spending and magazine and catalog circulation tend to be correlated with GDP in the United States and rise with a strong economy. The majority of

Table of Contents

our products are sold via contracts we maintain with our customers. Contracted sales are more prevalent for coated groundwood paper, as opposed to coated freesheet paper, which is more often sold without a contract. Our contracts generally specify the volumes to be sold to the customer over the contract term, as well as the pricing parameters for those sales. The large portion of contracted sales allows us to plan our production runs well in advance, optimizing production over our integrated mill system and thereby reducing costs and increasing overall efficiency.

We reach our end-users through several channels, including printers, brokers, paper merchants and direct sales to end-users. We sell and market our products to approximately 100 customers. In 2008, no single customer accounted for more than 10% of our total net sales.

Interest Rate Risk. We issued fixed- and floating-rate debt to finance the Acquisition in order to manage our variability to cash flows from interest rates. Borrowings under our senior secured credit facilities and our floating-rate notes accrue interest at variable rates, and a 100 basis point increase in quoted interest rates on our debt balances outstanding as of March 31, 2008, after giving effect to this offering and the use of proceeds therefrom, under our senior secured credit facilities and our floating-rate notes would increase our annual interest expense by \$5.1 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 adopted by the Executive Committee of our Board of Directors and monitored by an Energy Risk Management Committee, which is comprised of 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 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, 2008, we had net unrealized gains of \$3.2 million on open commodity swaps with maturities of one to seven months. 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. A 10% decrease in commodity prices would have a negative impact of approximately \$1.6 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.

We entered into a \$250 million notional value receive-variable, pay-fixed interest rate swap in connection with our outstanding floating rate notes that mature in 2014. We are hedging the cash flow exposure on our quarterly variable-rate interest payments due to changes in the benchmark interest rate (three-month LIBOR). On March 31, 2008, the fair value of this swap was an unrealized loss of \$1.6 million. A 10% decrease in interest rates would have a negative impact of approximately \$1.2 million on the fair value of such instruments.

Commodity Price Risk. We are subject to changes in our cost of sales caused by movements underlying commodity prices. The principal components of our cost of sales are chemicals, wood, energy, labor,

Table of Contents

maintenance and depreciation and amortization. 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, titanium dioxide and others. We purchase these chemicals from a variety of suppliers and are not dependent on any single supplier to satisfy our chemical needs.

Wood. Our costs to purchase wood are affected directly by market costs of wood in our regional markets and indirectly by the effect of higher fuel costs on logging and transportation of timber to our facilities. While we have in place fiber supply agreements that ensure a substantial portion of our wood requirements, purchases under these agreements are typically at market rates. In 2008, as we begin to utilize wood harvested from our 23,000-acre hybrid poplar fiber farm located near Alexandria, Minnesota, our ongoing wood costs should be positively impacted.

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 will 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 also utilize derivatives contracts as part of our risk management strategy to manage our exposure to market fluctuations in energy prices.

Table of Contents

INDUSTRY

Coated Paper Industry Overview

Based on 2007 sales, the size of the global coated paper industry is estimated to be approximately \$49 billion, or 54 million tons of coated paper shipments, including approximately \$12 billion in North America, or 13 million tons of coated paper demand. In North America, coated papers are classified by brightness into five grades, labeled No. 1 to No. 5, with No. 1 having the highest brightness level and No. 5 having the lowest brightness level. Papers graded No. 1, No. 2 and No. 3 are typically coated freesheet grades. No. 4 and No. 5 papers are predominantly groundwood containing grades. Coated groundwood grades are the preferred grades for catalogs and magazines, while coated freesheet is more commonly used in commercial print applications. The coating process adds a smooth uniform finish to the paper, which produces superior color and print definition. As a result, major uses of coated papers include the printing of catalogs, magazines, annual reports, directories and advertising materials.

End-User Overview

Catalogs. Catalog publishers are among the largest users of coated papers in North America with 2007 coated paper consumption of approximately 2.7 million tons of the total 3.5 million tons of all types of paper consumed in United States catalog production. Large national catalogs are published in a wide range of sizes and weights, requiring paper producers to offer a broad range of products to suit the individual needs of different catalog retailers.

According to RISI, Inc., coated groundwood represents approximately 62% of catalog paper demand in the United States, with coated freesheet accounting for 14% and other types of paper accounting for the remaining 24%. Major growth drivers in this segment include increasing demand for catalogs