Verso Paper Corp.
Form 10-Q
November 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

or

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

For the transition period from __________ to __________

Commission file number: 001-34056

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

Delaware	75-3217389
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
6775 Lenox Center Court, Suite 400, Memphis, Tennessee	38115-4436
(Address of principal executive offices)	(Zip Code)

(901) 369-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes þ No

As of October 31, 2009, the registrant had 52,374,647 outstanding shares of common stock, par value $0.01 per share.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

VERSO PAPER CORP.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars, except share and per share amounts)		September 30, 2009		December 31, 2008
ASSETS				
Current Assets:				
Cash and cash equivalents	$	92,699	$	119,542
Accounts receivable - net		134,344		82,484
Inventories		162,730		195,934
Prepaid expenses and other assets		11,382		2,512
Total Current Assets		401,155		400,472
Property, plant, and equipment - net		1,049,851		1,115,990
Reforestation		13,177		12,725
Intangibles and other assets - net		94,166		88,513
Goodwill		18,695		18,695
Total Assets	$	1,577,044	$	1,636,395
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	$	101,224	$	123,055
Accrued liabilities		88,468		125,565
Current maturities of long-term debt		-		2,850
Total Current Liabilities		189,692		251,470
Long-term debt		1,248,435		1,354,821
Other liabilities		36,879		40,151
Total Liabilities		1,475,006		1,646,442
Commitments and contingencies (Note 12)		-		-
Stockholders' Equity (Deficit):				
Preferred stock -- par value $0.01 (20,000,000 shares authorized, no shares issued)		-		-
Common stock -- par value $0.01 (250,000,000 shares authorized with 52,374,647 shares issued and outstanding on September 30, 2009 and 52,046,647 shares issued and outstanding on December 31, 2008)		524		520
Paid-in-capital		212,013		211,752
Retained deficit		(92,267)		(180,048)
Accumulated other comprehensive loss		(18,232)		(42,271)
Total Stockholders' Equity (Deficit)		102,038		(10,047)
Total Liabilities and Stockholders' Equity	$	1,577,044	$	1,636,395

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

Accounts receivable	$	12,215	$	8,312
Accounts payable		533		4,135

See notes to unaudited condensed consolidated financial statements.

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VERSO PAPER CORP.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of U.S. dollars, except per share data)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net sales	$ 394,663	$ 485,423	$ 979,852	$ 1,390,932
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	338,592	386,042	906,080	1,138,622
Depreciation, amortization, and depletion	33,229	33,769	100,584	100,656
Selling, general, and administrative expenses	15,085	18,285	45,376	58,838
Restructuring and other charges	369	1,117	643	26,553
Operating income (loss)	7,388	46,210	(72,831)	66,263
Interest income	(76)	(126)	(155)	(458)
Interest expense	34,318	27,772	89,900	95,984
Other income, net	(70,349)	-	(250,357)	-
Net income (loss)	$ 43,495	$ 18,564	$ 87,781	$ (29,263)
Earnings (loss) per common share				
Basic	$ 0.84	$ 0.36	$ 1.69	$ (0.65)
Diluted	$ 0.83	$ 0.36	$ 1.69	$ (0.65)
Weighted average common shares outstanding				
Basic	52,082,299	52,046,647	52,058,662	44,893,362
Diluted	52,116,036	52,046,647	52,066,085	44,893,362
Included in the financial statement line items above are related-party transactions as follows (Notes 10 and 11):				
Net sales	$ 42,293	$ 47,780	$ 95,691	$ 128,423
Purchases included in cost of products sold	1,271	1,450	3,355	5,711
Restructuring and other charges	-	(41)	-	23,281

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP.

UNAUDITED CONDENSED CONSOLIDATED
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2009 AND 2008

(In thousands)	Common Shares	Common Stock	Paid-in-Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
Beginning balance - January 1, 2008	38,046	$ 380	$ 48,489	$ (114,100)	$ (9,870)	$ (75,101)
Issuance of common stock	14,000	140	152,161			152,301
Dividends paid				(1,561)		(1,561)
Net loss	-	-	-	(29,263)	-	(29,263)
Other comprehensive income (loss):						
Net unrealized losses on derivative financial instruments, net of reclassification of $5.8 million of net gains included in net loss	-	-	-	-	(12,755)	(12,755)
Defined benefit pension plan prior service cost amortization	-	-	-	-	654	654
Total other comprehensive loss	-	-	-	-	(12,101)	(12,101)
Comprehensive loss	-	-	-	(29,263)	(12,101)	(41,364)
Equity award expense	-	-	11,126	-	-	11,126
Ending balance - September 30, 2008	52,046	$ 520	$ 211,776	$ (144,924)	$ (21,971)	$ 45,401
Beginning balance - January 1, 2009	52,046	$ 520	$ 211,752	$ (180,048)	$ (42,271)	$ (10,047)
Net income	-	-	-	87,781	-	87,781
Other comprehensive income:						
Net unrealized losses on derivative financial instruments, net of reclassification of $34.0 million of						
	-	-	-	-	23,146	23,146

net losses included in net income						
Defined benefit pension plan:						
Net actuarial loss	-	-	-	-	239	239
Prior service cost amortization	-	-	-	-	654	654
Total other comprehensive income	-	-	-	-	24,039	24,039
Comprehensive income	-	-	-	87,781	24,039	111,820
Common stock issued for restricted stock	328	4	(4)	-	-	-
Equity award expense	-	-	265	-	-	265
Ending balance - September 30, 2009	52,374	$ 524	$ 212,013	$ (92,267)	$ (18,232)	$ 102,038

See notes to unaudited condensed consolidated financial statements.

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VERSO PAPER CORP.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash Flows From Operating Activities:		
Net income (loss)	$87,781	$(29,263)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization, and depletion	100,584	100,656
Amortization of debt issuance costs	4,379	8,418
Accretion of discount on long-term debt	1,144	-
Gain on early extinguishment of debt	(57,827)	-
Loss on disposal of fixed assets	164	213
Equity award expense	265	11,126
Change in unrealized losses on derivatives, net	22,556	(12,755)
Other - net	407	(571)
Changes in assets and liabilities:		
Accounts receivable	(52,371)	(16,726)
Inventories	28,039	(34,555)
Prepaid expenses and other assets	(22,261)	(19,327)
Accounts payable	(21,246)	20,282
Accrued liabilities	(32,392)	(7,815)
Net cash provided by operating activities	59,222	19,683
Cash Flows From Investing Activities:		
Proceeds from sale of fixed assets	83	108
Capital expenditures	(29,965)	(60,286)
Net cash used in investing activities	(29,882)	(60,178)
Cash Flows From Financing Activities:		
Proceeds from sale of common stock, net of issuance cost of $14.3 million	-	153,716
Dividends paid	-	(1,561)
Proceeds from long-term debt	352,838	-
Repayments of long-term debt	(398,924)	(150,138)
Short-term borrowings (repayments)	-	(3,125)
Debt issuance costs	(10,097)	-
Net cash used in financing activities	(56,183)	(1,108)
Change in cash and cash equivalents	(26,843)	(41,603)
Cash and cash equivalents at beginning of period	119,542	58,533
Cash and cash equivalents at end of period	$92,699	$16,930

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2009, AND DECEMBER 31, 2008, AND FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2009 AND 2008

1. BACKGROUND AND BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Verso Paper Corp., a Delaware corporation, and its subsidiaries. Unless otherwise noted, the terms “Verso,” “Verso Paper,” “Company,” “we,” “us,” and “our refer collectively to Verso Paper Corp. and its subsidiaries.

The Company began operations on August 1, 2006, when it acquired the assets and certain liabilities comprising the business of the Coated and Supercalendered Papers Division of International Paper Company, or “International Paper.” The Company was formed by affiliates of Apollo Management, L.P., or “Apollo,” for the purpose of consummating the acquisition from International Paper, or the “Acquisition.” Verso Paper Corp. went public on May 14, 2008, with an initial public offering, or “IPO," of 14 million shares of common stock which generated $152.2 million in net proceeds. Prior to the consummation of the IPO, the accompanying financial statements include the accounts of Verso Paper One Corp., Verso Paper Two Corp., Verso Paper Three Corp., Verso Paper Four Corp., and Verso Paper Five Corp., legal entities under the common control of Verso Paper Management LP.

Verso Paper Corp. is the indirect parent of Verso Paper Finance Holdings LLC, or “Verso Finance,” and Verso Paper Holdings LLC, or “Verso Holdings,” and is a direct subsidiary of Verso Paper Management LP. Verso Paper Corp. is a holding company whose subsidiaries operate in the following three segments: coated and supercalendered papers; hardwood market pulp; and other, consisting of specialty papers. The Company’s core business platform is as a producer of coated freesheet, coated groundwood, and uncoated supercalendered papers. These products serve customers in the catalog, magazine, inserts, and commercial print markets.

Included in this report are the unaudited condensed consolidated financial statements of the Company as of September 30, 2009, and for the three-month and nine-month periods ended September 30, 2009 and 2008. The December 31, 2008, condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required annually by accounting principles generally accepted in the United States of America. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments that are necessary for the fair presentation of the Company’s financial position, results of operations, and cash flows for the interim periods presented. Except as disclosed in the notes to the unaudited condensed consolidated financial statements, such adjustments are of a normal, recurring nature. All material intercompany balances and transactions are eliminated. Results for the three-month and nine-month periods ended September 30, 2009 and 2008, may not necessarily be indicative of full-year results. It is suggested that these financial statements be read in conjunction with the Company’s audited consolidated and combined financial statements and notes thereto as of December 31, 2008, and for the year then ended.

2. RECENT ACCOUNTING DEVELOPMENTS

Accounting Standards Codification — The Financial Accounting Standards Board, or "FASB," issued Accounting Standards Codification, or "ASC," 105, Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards CodificationTM, or the "Codification," as the source of authoritative U.S. generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission, or "SEC," under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the Codification carries an equal level of authority. All non-grandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed non-authoritative. FASB ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of FASB ASC 105 had no impact on our financial condition, results of operations, or cash flows.

Measuring Liabilities at Fair Value — In August 2009, the FASB issued Accounting Standards Update, or "ASU," 2009-05, Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value, which amends FASB ASC 820, Fair Value Measurements and Disclosures, regarding the fair value measurement of liabilities and provides clarification that in circumstances in which a quoted price in an active market for the identical liabilities is not available, a reporting entity is required to measure fair value using one or more of the techniques provided for in this update. This ASU is effective for the first interim or annual reporting period beginning after issuance, which for the Company will be the fourth quarter of 2009. The adoption of this ASU is not expected to have a material impact on our financial condition, results of operations, or cash flows.

Subsequent Events — FASB ASC 855, Subsequent Events, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. FASB ASC 855 defines (1) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (3) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. FASB ASC 855 is effective prospectively for interim and annual periods ending after June 15, 2009. The adoption of FASB ASC 855 had no impact on our financial condition, results of operations, or cash flows.

Fair Value of Financial Instruments — FASB ASC 825-10-65 updates FASB ASC 825, Financial Instruments, to increase the frequency of fair value disclosures from an annual basis to a quarterly basis. The guidance relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet at fair value. These provisions of FASB ASC 825 are effective for interim and annual periods ending after June 15, 2009. Since these provisions only affect disclosure requirements, the adoption of these provisions under FASB ASC 825 had no impact on our financial condition, results of operations, or cash flows.

Postretirement Benefit Plan Assets — FASB ASC 715-20-65 updates FASB ASC 715, Compensation – Retirement Benefits, to require more detailed disclosures about employers' pension plan assets. New disclosures will include more information on investment strategies, major categories of plan assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of plan assets. These provisions of FASB ASC 715 are effective for fiscal years ending after December 15, 2009. Since these provisions only affect disclosure requirements, the adoption of these provisions under FASB ASC 715 will have no impact on our financial condition, results of operations, or cash flows.

Intangible Assets — FASB ASC 350-30-65 updates FASB ASC 350, Intangibles – Goodwill and Other, and FASB ASC 275, Risks and Uncertainties, to provide guidance on the renewal or extension assumptions used in the determination of the useful life of a recognized intangible asset. The intent is to better match the useful life of the recognized intangible asset to the period of the expected cash flows used to measure its fair value. This guidance is effective for fiscal years and interim periods beginning after December 15, 2008. The adoption of these provisions under FASB ASC 350 and FASB ASC 275 did not have a material impact on our financial condition, results of operations, or cash flows.

Derivatives and Hedging Activities — FASB ASC 815-10-65 updates FASB ASC 815, Derivatives and Hedging, and 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 FASB ASC 815, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. These provisions of FASB ASC 815 were effective for fiscal years and interim periods beginning after November 15, 2008. Since these provisions only affect disclosure requirements, the adoption of these provisions under FASB ASC 815 had no impact on our financial condition, results of operations, or cash flows.

Business Combinations — FASB ASC 805-10-65 updates FASB ASC 805, Business Combinations, to establish 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. These provisions of FASB ASC 805 are 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. The Company will apply these provisions of FASB ASC 805 to any future acquisitions.

Noncontrolling Interests — FASB ASC 810-10-65, updates FASB ASC 810, Consolidation, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. These provisions of FASB ASC 810 are effective, on a prospective basis, for fiscal years and interim periods beginning on or after December 15, 2008. The presentation and disclosure requirements for existing minority interests should be applied retrospectively for all periods presented. The adoption of these provisions under FASB ASC 810 did not have a material impact on our financial condition, results of operations, or cash flows.

Fair Value Measurements — FASB ASC 820-10-65 updates FASB ASC 820 to define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. FASB ASC 820 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. These provisions of FASB ASC 820 were effective for financial statements issued for fiscal years beginning after November 15, 2007. However, FASB ASC 820-10-65 delayed the implementation of FASB ASC 820 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 fiscal years beginning after November 15, 2008. The adoption of these provisions of FASB ASC 820 did not have a material impact on the Company's financial condition, results of operations, or cash flows.

Other new accounting pronouncements issued but not effective until after September 30, 2009, are not expected to have a significant effect on our financial condition, results of operations, or cash flows.

3. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

Earnings Per Share — The Company computes earnings per share by dividing net income (loss) by the weighted average number of common shares outstanding for each period. Diluted earnings per share are calculated similarly, except that the dilutive effect of the assumed exercise of potentially dilutive securities is included. In accordance with FASB ASC 260, Earnings Per Share, unvested restricted stock awards issued in 2009 contain nonforfeitable rights to dividends and qualify as participating securities. No dividends have been declared or paid in 2009. The following table provides a reconciliation of basic and diluted earnings (loss) per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2009	2008	2009	2008
Net income (loss) available to common shareholders	$ 43,495	$ 18,564	$ 87,781	$ (29,263)
Weighted average common stock outstanding	52,047	52,047	52,047	44,893
Weighted average restricted stock	35	-	12	-
Weighted average common shares outstanding - basic	52,082	52,047	52,059	44,893
Dilutive shares from options	34	-	7	-
Weighted average common shares outstanding - diluted	52,116	52,047	52,066	44,893
Basic earnings (loss) per share	$ 0.84	$ 0.36	$ 1.69	$ (0.65)
Diluted earnings (loss) per share	$ 0.83	$ 0.36	$ 1.69	$ (0.65)

For the three months ended September 30, 2009, 114,000 weighted average potentially dilutive shares from options with a weighted average exercise price per share of $3.66 were excluded from the diluted earnings per share calculation because including such shares would have been antidilutive. Additionally, 20,000 weighted average potentially dilutive shares from options with an exercise price per share of $1.09 were excluded from the diluted earnings per share calculation because these performance-based options are not expected to vest. For the nine months ended September 30, 2009, 94,000 weighted average potentially dilutive shares from options with a weighted average exercise price per share of $2.20 were excluded from the diluted earnings per share calculation because including such shares would have been antidilutive. Additionally, 14,000 weighted average potentially dilutive shares from options with an exercise price per share of $1.09 were excluded from the diluted earnings per share calculation because these performance-based options are not expected to vest. There were no equity awards outstanding in 2008.

During preparation of the Company's consolidated financial statements for the year ended December 31, 2008, management determined that there were errors in its previously reported loss per common share and weighted average common shares outstanding for the nine-month period ended September 30, 2008, resulting from its inadvertent use of the number of common shares outstanding at the end of the period in computing loss per share rather than the actual weighted average common shares outstanding for this period. As a result, loss per share and weighted average shares reported above have been restated from amounts previously reported to correct these errors. The restatement has no other effects to the Company's consolidated financial statements. The restatement had the following effects:

	As Previously Reported	As Restated
Nine months ended September 30, 2008		
Loss per common share	$ (0.56)	$ (0.65)
Weighted average common shares outstanding (thousands)	52,047	44,893

Inventories and Replacement Parts and Other Supplies — Inventory values include all costs directly associated with manufacturing products: materials, labor, and manufacturing overhead. These values are presented at the lower of cost or market. Costs of raw materials, work-in-progress, and finished goods are determined using the first-in, first-out method. Replacement parts and other supplies are stated using the average cost method.

Inventories by major category include the following:

(In thousands of U.S. dollars)	September 30, 2009	December 31, 2008
Raw materials	$ 24,765	$ 29,858
Woodyard logs	4,726	7,970
Work-in-process	26,930	19,001
Finished goods	80,087	113,050
Replacement parts and other supplies	26,222	26,055
Inventories	$ 162,730	$ 195,934

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

On September 30, 2009, the Company had $0.8 million of restricted cash included in Other assets in the accompanying condensed consolidated balance sheet related to an asset retirement obligation in the state of Michigan. This cash deposit is required by the state and may only be used for the future closure of a landfill. The following table presents an analysis related to the Company's asset retirement obligations included in Other liabilities in the accompanying balance sheets:

	Nine Months Ended September 30,	
(In thousands of U.S. dollars)	2009	2008
Asset retirement obligations, January 1	$ 14,028	$ 11,614
New liabilities	-	1,091
Accretion expense	572	435
Settlement of existing liabilities	(1,058)	(1,020)
Adjustment to existing liabilities	(159)	2,030
Asset retirement obligations, September 30	$ 13,383	$ 14,150

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

Property, Plant, and Equipment — Property, plant, and equipment is stated at cost, net of accumulated depreciation. Interest is capitalized on projects meeting certain criteria and is included in the cost of the assets. The capitalized interest is depreciated over the same useful lives as the related assets. Expenditures for major repairs and improvements are capitalized, whereas normal repairs and maintenance are expensed as incurred. For the three-month and nine-month periods ended September 30, 2009, interest costs of $0.1 million and $0.5 million, respectively, were capitalized. For the three-month and nine-month periods ended September 30, 2008, interest costs of $0.4 million and $1.2 million, respectively, were capitalized.

Depreciation is computed using the straight-line method over the assets' estimated useful lives. Depreciation expense was $31.4 million and $94.3 million for the three-month and nine-month periods ended September 30, 2009, compared to $31.7 million and $95.0 million for the three-month and nine-month periods ended September 30, 2008, respectively.

4. INTANGIBLES AND OTHER ASSETS

Intangibles and other assets consist of the following:

(In thousands of U.S. dollars)	September 30, 2009	December 31, 2008
Amortizable intangible assets:		
Customer relationships - net of accumulated amortization of $4.2 million and $3.3 million, respectively	$ 9,045	$ 10,020
Patents - net of accumulated amortization of $0.36 million and $0.28 million, respectively	784	870
Total amortizable intangible assets	9,829	10,890
Unamortizable intangible assets:		
Trademarks	21,473	21,473
Other assets:		
Financing costs-net of accumulated amortization of $13.1 million and $14.3 million, respectively	30,691	33,465
Deferred major repair	10,070	9,543
Deferred software cost-net of accumulated amortization of $4.4 million and $3.0 million, respectively	1,861	2,746
Replacement parts-net	3,546	5,625
Other	16,696	4,771
Total other assets	62,864	56,150
Intangibles and other assets	$ 94,166	$ 88,513

Amounts reflected in depreciation, amortization, and depletion expense related to intangibles and other assets are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands of U.S. dollars)	2009	2008	2009	2008
Intangible amortization	$ 354	$ 392	$ 1,061	$ 1,174
Software amortization	495	$ 443	1,373	$ 1,287
Replacement parts amortization (1)	908	$ 1,260	3,680	3,127

(1) The value of current replacement parts is included in inventory.

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

(In thousands of U.S. dollars)	
Remainder of 2009	$354
2010	1,265
2011	1,065
2012	915
2013	815

5. LONG-TERM DEBT

A summary of long-term debt is as follows:

			As of September 30, 2009		As of December 31, 2008	
(In thousands of U.S. dollars)	Original Maturity	Effective Interest Rate	Balance	Fair Value	Balance	Fair Value
Verso Paper Holdings LLC						
First Priority Revolving Credit Facility	8/1/2012	3.25 %	$45,000	$45,000	$92,083	$66,760
First Priority Term Loan	8/1/2013	-	-	-	253,588	183,851
Senior Secured Notes - Fixed	7/1/2014	13.75 %	300,040	333,125	-	-
Second Priority Senior Secured Notes - Fixed	8/1/2014	9.13 %	337,080	260,900	350,000	141,750
Second Priority Senior Secured Notes - Floating	8/1/2014	4.23 %	188,216	121,964	250,000	80,000
Senior Subordinated Notes	8/1/2016	11.38 %	300,000	196,800	300,000	90,000
Verso Paper Finance Holdings LLC						
Senior Unsecured Term Loan	2/1/2013	6.78 %	78,099	21,477	112,000	33,600
			1,248,435	979,266	1,357,671	595,961
Less current maturities			-	-	(2,850)	(2,066)
Long-term debt			$1,248,435	$979,266	$1,354,821	$593,895

The Company determines the fair value of its long-term debt based on market information and a review of prices and terms available for similar obligations.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands of U.S. dollars)	2009	2008	2009	2008
Interest expense	$32,976	$26,667	$86,007	$88,791
Cash interest paid	37,273	44,011	83,619	111,854
Debt issuance cost amortization (1)	1,398	1,505	4,379	8,418

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

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Verso Finance has a senior unsecured term loan which matures on February 1, 2013. In May 2008, the Company used a portion of the net proceeds from its IPO to repay $138 million of the outstanding principal of the term loan and to pay a related $1.4 million prepayment penalty. During the third quarter of 2009, the Company repurchased $14.7 million of the term loan for a total price of $4.4 million, which resulted in a gain of $10.0 million, net of write-off of unamortized debt issuance costs. For the nine months ended September 30, 2009, the Company has repurchased $41.4 million of the term loan for a total purchase price of $10.2 million, which resulted in a gain of $30.5 million, net of the write-off of unamortized debt issuance costs. The net gain is recognized in Other income, net on the condensed consolidated statement of operations. As of September 30, 2009, $4.1 million was included in Accounts payable on the condensed consolidated balance sheet for debt purchases that had not settled. The term loan allows Verso Finance to pay interest either in cash or in-kind through the accumulation of the outstanding principal amount. Verso Finance has elected to exercise the PIK option for $8.0 million of interest payments due through September 30, 2009.

During the third quarter of 2009, the Company repurchased and retired $26.3 million of the second priority senior secured floating rate notes due on August 1, 2014, for a total purchase price of $16.0 million, which resulted in a gain of $9.7 million, net of the write-off of unamortized debt issuance costs. The Company also repurchased and retired $12.9 million of the second priority senior secured fixed rate notes due on August 1, 2014, for a total purchase price of $7.9 million, which resulted in a gain of $4.7 million, net of the write-off of unamortized debt issuance costs. For the nine months ended September 30, 2009, the Company has repurchased and retired $74.7 million of these fixed and floating rate notes for a total purchase price of $38.1 million, which resulted in gains of $34.8 million, net of the write-off of unamortized debt issuance costs. In addition, the Company de-designated the interest rate swap hedging interest payments on these notes and recognized losses of $1.3 million on the interest rate swap. The net gain resulting from these transactions is recognized in Other income, net on the condensed consolidated statement of operations.

On June 11, 2009, Verso Holdings issued $325.0 million aggregate principal amount of 11.5% senior secured notes due July 1, 2014. These notes are secured by substantially all of the property and assets of Verso Holdings. The notes are secured on a ratable and pari passu basis with Verso Holdings' senior secured credit facility. The net proceeds after deducting the discount, underwriting fees, and issuance costs were $288.8 million, which funds were used to repay in full $252.9 million outstanding on Verso Holdings' first priority term loan and to temporarily reduce the debt outstanding under the revolving credit facility by $35.0 million. The write-off of unamortized debt issuance costs related to the term loan resulted in a loss of $5.9 million, which was recognized in Other income, net on the condensed consolidated statement of operations.

6. RETIREMENT PLANS

The Company maintains a defined benefit pension plan that provides retirement benefits to hourly employees at the Androscoggin, Bucksport, and Sartell mills. The plan provides defined benefits based on years of credited service times a specified flat dollar benefit rate.

The Company makes contributions that are sufficient to fully fund its actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act (ERISA). In the third quarter of 2009, the Company made contributions of $2.9 million with $1.9 million attributable to the 2009 plan year and $1.0 million attributable to the 2008 plan year. In the third quarter of 2008, the Company made contributions of $3.6 million with $2.1 million attributable to the 2008 plan year and $1.5 million attributable to the 2007 plan year. For the nine months ended September 30, 2009, contributions totaled $5.0 million, with $3.8 million attributable to the 2009 plan year and $1.2 million attributable to the 2008 plan year. For the nine months ended September 30, 2008, contributions totaled $7.3 million, with $4.3 million attributable to the 2008 plan year and $3.0 million attributable to the 2007 plan year. The Company expects to make additional contributions of $1.9 million in 2009 related to the 2009 plan year.

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The expected return on plan assets assumption for 2009 will be 7.50%. The following table summarizes the components of net periodic expense:

(In thousands of U.S. dollars)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Components of net periodic benefit cost:				
Service cost	$1,591	$1,494	$4,775	$4,482
Interest cost	380	250	1,142	749
Expected return on plan assets	(308)	(191)	(926)	(572)
Amortization of prior service cost	218	218	654	654
Actuarial loss	81	-	239	-
Net periodic benefit cost	$1,962	$1,771	$5,884	$5,313

The Company also sponsors a 401(k) plan to provide salaried and hourly employees an opportunity to accumulate personal funds and to provide additional benefits for retirement. Contributions may be made on a before-tax basis to the plan. As determined by the provisions of the plan, the Company matches the employees' basic voluntary contributions; however, in response to the challenging economic conditions, the Company suspended its matching contributions to the 401(k) plan for exempt and non-exempt salaried employees beginning April 3, 2009, which will reduce expense by approximately $3.0 million on an annual basis.

In the third quarter of 2009, the Company offered a voluntary early retirement program to certain eligible employees. The offer was accepted by 71 employees. The Company's voluntary early retirement program resulted in a charge of $4.2 million to cost of products sold, consisting of separation and accrued medical and dental benefits, and is expected to result in an annual cost savings of $7.1 million. The voluntary early retirement program is expected to be completed by June 30, 2010. The Company also initiated a reduction in workforce resulting in the elimination of eight positions which is expected to be completed by December 31, 2009. The reduction in workforce resulted in a charge of $0.5 million to selling, general, and administrative expense, consisting of separation and accrued medical and dental benefits, and is expected to result in annual cost savings of $0.8 million.

7. EQUITY AWARDS

The Verso Paper Corp. 2008 Incentive Award Plan, as amended, or the “Incentive Plan,” authorizes the issuance of stock awards covering up to 4,250,000 shares of common stock of the Company. Under the Incentive Plan, stock awards may be granted to employees and non-employee directors upon approval by the board of directors. The Company has issued non-qualified stock options to certain non-employee directors that vest upon grant and expire 10 years from the date of grant. The Company also has issued both time-based and performance-based non-qualified stock options to officers and management employees in 2009. These time-based options vest one to three years from the date of grant and expire seven years from the date of grant. The performance-based options vest one to three years from the date of grant based on the achievement of certain performance criteria tied to Verso’s calculation of Adjusted EBITDA and expire seven years from the date of grant. However, the performance period has not begun and performance criteria have not been communicated to the participants for 41,998 of these performance-based options, and thus no expense has been recognized related to these options.

A summary of stock option plan activity (including the performance-based options) for the nine months ended September 30, 2009, is provided below:

	Weighted	Weighted