

Verso Paper Corp.  
Form 10-Q  
August 14, 2014

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

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FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934  
For the quarterly period ended June 30, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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VERSO PAPER CORP.

(Exact name of registrant as specified in its charter)

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

VERSO PAPER HOLDINGS LLC

(Exact name of registrant as specified in its charter)

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

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

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

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

Verso Paper Corp.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Verso Paper Holdings LLC	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

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

Verso Paper Corp.  Yes  No  
Verso Paper Holdings LLC  Yes  No

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

Verso Paper Corp.  
Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Verso Paper Holdings  
LLC  
Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Verso Paper Corp.  Yes  No  
Verso Paper Holdings LLC  Yes  No

As of July 31, 2014, Verso Paper Corp. had 53,327,441 outstanding shares of common stock, par value \$0.01 per share, and Verso Paper Holdings LLC had one outstanding limited liability company interest.

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

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## Entity Names and Organization

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

## Forward-Looking Statements

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

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)	VERSO PAPER		VERSO HOLDINGS	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$6,969	\$11,295	\$6,968	\$11,240
Accounts receivable, net	93,910	104,498	94,036	104,624
Inventories	144,282	137,687	144,282	137,687
Assets held for sale	—	50	—	50
Prepaid expenses and other assets	12,714	20,621	12,714	20,621
Total current assets	257,875	274,151	258,000	274,222
Property, plant, and equipment, net	703,035	742,946	703,035	742,946
Intangibles and other assets, net	76,195	81,455	99,500	104,760
Total assets	\$1,037,105	\$1,098,552	\$1,060,535	\$1,121,928
<b>LIABILITIES AND EQUITY</b>				
Current liabilities:				
Accounts payable	\$80,852	\$88,412	\$80,852	\$88,412
Accrued liabilities	115,749	122,335	115,868	122,435
Current maturities of long-term debt	33,310	13,310	33,310	13,310
Total current liabilities	229,911	224,057	230,030	224,157
Long-term debt	1,302,047	1,235,167	1,325,352	1,258,472
Other liabilities	54,570	56,599	48,396	50,425
Total liabilities	1,586,528	1,515,823	1,603,778	1,533,054
Commitments and contingencies (Note 13)	—	—	—	—
Equity:				
Preferred stock -- par value \$0.01 (20,000,000 shares authorized, no shares issued)	—	—	n/a	n/a
Common stock -- par value \$0.01 (250,000,000 shares authorized with 53,425,505 shares issued and 53,327,441 outstanding on June 30, 2014, and with 53,246,715 shares issued and 53,172,484 outstanding on December 31, 2013)	534	533	n/a	n/a
Treasury stock -- at cost (98,064 shares on June 30, 2014 and 74,231 shares on December 31, 2013)	(164	)(106	) n/a	n/a
Paid-in-capital	221,890	220,960	232,416	231,489
Retained deficit	(760,672	)(627,223	)(764,648	)(631,180
Accumulated other comprehensive loss	(11,011	)(11,435	)(11,011	)(11,435
Total deficit	(549,423	)(417,271	)(543,243	)(411,126
Total liabilities and equity	\$1,037,105	\$1,098,552	\$1,060,535	\$1,121,928

See notes to unaudited condensed consolidated financial statements.

## VERSO PAPER CORP.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in thousands, except per share amounts)	2014	2013	2014	2013
Net sales	\$320,916	\$330,385	\$620,029	\$663,605
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	275,620	293,888	577,997	585,747
Depreciation, amortization, and depletion	25,458	26,307	51,141	52,287
Selling, general, and administrative expenses	17,811	19,180	35,403	37,976
Restructuring charges	—	166	—	1,182
Total operating expenses	318,889	339,541	664,541	677,192
Other operating income	—	(686)	—	(3,971)
Operating income (loss)	2,027	(8,470)	(44,512)	(9,616)
Interest income	(1)	(5)	(1)	(14)
Interest expense	35,675	34,440	70,152	69,100
Other loss, net	9,182	134	18,767	2,706
Loss before income taxes	(42,829)	(43,039)	(133,430)	(81,408)
Income tax expense	10	—	19	9
Net loss	\$(42,839)	\$(43,039)	\$(133,449)	\$(81,417)
Loss per common share:				
Basic	\$(0.80)	\$(0.81)	\$(2.51)	\$(1.53)
Diluted	(0.80)	(0.81)	(2.51)	(1.53)
Weighted average common shares outstanding (in thousands)				
Basic	53,323	53,172	53,256	53,075
Diluted	53,323	53,172	53,256	53,075

See notes to unaudited condensed consolidated financial statements.

## VERSO PAPER CORP.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in thousands)	2014	2013	2014	2013
Net loss	\$(42,839)	\$(43,039)	\$(133,449)	\$(81,417)
Other comprehensive income:				
Derivative financial instruments:				
Reclassification of accumulated other comprehensive loss to net loss	—	101	—	245
Defined benefit pension plan amortization of net loss and prior service cost	211	568	424	1,141
Other comprehensive income	211	669	424	1,386
Comprehensive loss	\$(42,628)	\$(42,370)	\$(133,025)	\$(80,031)

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER HOLDINGS LLC  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net sales	\$320,916	\$330,385	\$620,029	\$663,605
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	275,620	293,888	577,997	585,747
Depreciation, amortization, and depletion	25,458	26,307	51,141	52,287
Selling, general, and administrative expenses	17,811	19,180	35,403	37,976
Restructuring charges	—	166	—	1,182
Total operating expenses	318,889	339,541	664,541	677,192
Other operating income	—	(686)	) —	(3,971)
Operating income (loss)	2,027	(8,470)	) (44,512)	) (9,616)
Interest income	(379)	) (384)	) (758)	) (772)
Interest expense	36,054	34,819	70,910	69,258
Other loss, net	9,182	134	18,767	2,706
Net loss	\$(42,830)	) \$(43,039)	) \$(133,431)	) \$(80,808)

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER HOLDINGS LLC  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net loss	\$(42,830)	) \$(43,039)	) \$(133,431)	) \$(80,808)
Other comprehensive income:				
Derivative financial instruments:				
Reclassification of accumulated other comprehensive loss to net loss	—	101	—	245
Defined benefit pension plan amortization of net loss and prior service cost	211	568	424	1,141
Other comprehensive income	211	669	424	1,386
Comprehensive loss	\$(42,619)	) \$(42,370)	) \$(133,007)	) \$(79,422)

See notes to unaudited condensed consolidated financial statements.



## VERSO PAPER CORP.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013

(Dollars and shares in thousands)	Common Shares	Common Stock	Treasury Shares	Treasury Stock	Paid-in-Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
Balance - December 31, 2012	252,951	\$530	(55 )	\$(84 )	\$ 219,158	\$(516,017)	\$(25,273 )	\$(321,686 )
Net loss	—	—	—	—	—	(81,417 )	—	(81,417 )
Other comprehensive income	—	—	—	—	—	—	1,386	1,386
Common stock issued for restricted stock, net	296	3	(19 )	(22 )	(3 )	—	—	(22 )
Equity award expense	—	—	—	—	898	—	—	898
Balance - June 30, 2013	53,247	\$533	(74 )	\$(106 )	\$ 220,053	\$(597,434)	\$(23,887 )	\$(400,841 )
Balance - December 31, 2013	53,247	\$533	(74 )	\$(106 )	\$ 220,960	\$(627,223)	\$(11,435 )	\$(417,271 )
Net loss	—	—	—	—	—	(133,449 )	—	(133,449 )
Other comprehensive income	—	—	—	—	—	—	424	424
Treasury shares acquired	—	—	(24 )	(58 )	—	—	—	(58 )
Stock option exercise	32	—	—	—	92	—	—	92
Common stock issued for restricted stock, net	146	1	—	—	1	—	—	2
Equity award expense	—	—	—	—	837	—	—	837
Balance - June 30, 2014	53,425	\$534	(98 )	\$(164 )	\$ 221,890	\$(760,672)	\$(11,011 )	\$(549,423 )

See notes to unaudited condensed consolidated financial statements.

## VERSO PAPER HOLDINGS LLC

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013

	Paid-in-Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Member's Equity (Deficit)	
(Dollars in thousands)					
Balance - December 31, 2012	\$ 324,562	\$ (519,888)	)( \$ (25,273)	)( \$ (220,599)	)
Cash distributions	—	(133)	)—	(133)	)
Return of capital	(94,878)	)—	—	(94,878)	)
Net loss	—	(80,808)	)—	(80,808)	)
Other comprehensive income	—	—	1,386	1,386	
Equity award expense	898	—	—	898	
Balance - June 30, 2013	\$ 230,582	\$ (600,829)	)( \$ (23,887)	)( \$ (394,134)	)
Balance - December 31, 2013	\$ 231,489	\$ (631,180)	)( \$ (11,435)	)( \$ (411,126)	)
Cash distributions	—	(37)	)—	(37)	)
Contribution from parent	90	—	—	90	
Net loss	—	(133,431)	)—	(133,431)	)
Other comprehensive income	—	—	424	424	
Equity award expense	837	—	—	837	
Balance - June 30, 2014	\$ 232,416	\$ (764,648)	)( \$ (11,011)	)( \$ (543,243)	)

See notes to unaudited condensed consolidated financial statements.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	VERSO PAPER		VERSO HOLDINGS	
	Six Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
<b>Cash Flows From Operating Activities:</b>				
Net loss	\$(133,449	) \$(81,417	) \$(133,431	) \$(80,808
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation, amortization, and depletion	51,141	52,287	51,141	52,287
Amortization of debt issuance costs	3,695	2,689	3,695	2,659
Accretion of discount on long-term debt	310	278	310	278
Loss (gain) on disposal of assets	235	(4,013	) 235	(4,013
Equity award expense	837	898	837	898
Other, net	12,124	1,151	12,124	1,151
Changes in assets and liabilities:				
Accounts receivable	10,588	(2,042	) 10,588	(2,042
Inventories	(6,607	) (20,606	) (6,607	) (20,606
Prepaid expenses and other assets	(1,697	) 3,022	(1,697	) 3,039
Accounts payable	(4,108	) (11,700	) (4,108	) (11,700
Accrued liabilities	(1,600	) (4,593	) (1,582	) (4,926
Net cash used in operating activities	(68,531	) (64,046	) (68,495	) (63,783
<b>Cash Flows From Investing Activities:</b>				
Proceeds from sale of assets	317	28,341	317	28,341
Transfers from (to) restricted cash, net	1,024	(641	) 1,024	(641
Capital expenditures	(26,979	) (13,793	) (26,979	) (13,793
Other investing activities	5,020	—	5,020	—
Net cash (used in) provided by investing activities	(20,618	) 13,907	(20,618	) 13,907
<b>Cash Flows From Financing Activities:</b>				
Borrowings on revolving credit facilities	188,000	62,500	188,000	62,500
Payments on revolving credit facilities	(100,500	) (55,000	) (100,500	) (55,000
Debt issuance costs	(2,712	) (220	) (2,712	) (220
Repayments of long-term debt	—	(8,501	) —	—
Return of capital	—	—	—	(8,653
Contribution from parent	—	—	90	—
Cash distributions	—	—	(37	) (133
Acquisition of treasury stock	(58	) (22	) —	—
Proceeds from issuance of common stock	93	—	—	—
Net cash provided by (used in) financing activities	84,823	(1,243	) 84,841	(1,506
Change in cash and cash equivalents	(4,326	) (51,382	) (4,272	) (51,382
Cash and cash equivalents at beginning of period	11,295	61,525	11,240	61,470
Cash and cash equivalents at end of period	\$6,969	\$10,143	\$6,968	\$10,088

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER CORP. AND VERSO PAPER HOLDINGS LLC

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2014, AND DECEMBER 31, 2013, AND FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013

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1. BACKGROUND AND BASIS OF PRESENTATION

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

We operate in the following three market segments: coated papers; hardwood market pulp; and other, consisting of specialty papers. Our core business platform is as a producer of coated freesheet and coated groundwood papers. Our products are used primarily in media and marketing applications, including catalogs, magazines, and commercial printing applications such as high-end advertising brochures, annual reports, and direct-mail advertising.

We have historically relied primarily upon cash flow from operations and borrowings under our revolving credit facilities to finance operations, capital expenditures, and debt service requirements. As of June 30, 2014, we had \$1.3 billion in borrowings outstanding under our existing financing arrangements. Also as of June 30, 2014, \$95.4 million was available for future borrowings under our revolving credit facilities. Our debt arrangements contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. 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. If we are unable to repay our indebtedness when due or declared due, the lenders thereunder will also have the right to proceed against the collateral pledged to them to secure the indebtedness. Our indebtedness requires us to dedicate a substantial portion of our cash flows from operations to payments for our debt service, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts, and other corporate purposes. In addition, our indebtedness increases our vulnerability to adverse economic and industry conditions and places us at a competitive disadvantage compared to competitors that have less debt.

No assurance can be given that we will be able to generate sufficient cash flows from operations or that future borrowings will be available under our revolving credit facilities in an amount sufficient to fund our liquidity needs. Our ability to achieve our future projected operating results is largely based on the successful completion of the planned acquisition of NewPage and the synergies expected to be achieved from the acquisition (see Note 4 - Acquisitions and Dispositions). There can be no assurance that the conditions required to complete the acquisition of NewPage, including regulatory clearance, will be satisfied, and satisfying the conditions necessary to achieve the acquisition could take longer and cost more than we expect and delay the effective time of the acquisition for a significant period of time or prevent it from occurring. If the acquisition and the integration of the companies’ respective businesses are not completed within the expected timeframe, or if any additional conditions are imposed in

order to complete the acquisition, the synergies and other benefits that we expect to achieve could be materially and adversely affected, and these situations could result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the acquisition. If we are unable to complete the acquisition of NewPage or otherwise meet our projected performance targets, our liquidity could be adversely impacted and we may need to seek additional sources of liquidity. Our future performance could adversely affect our ability to raise additional capital to fund our operations, and there is no assurance that financing will be available in a sufficient amount, on acceptable terms, or on a timely basis.

Our ability to continue as a going concern is dependent on management's plans, which are centered on the NewPage acquisition, and also include potential asset acquisitions or dispositions, mergers or business combinations with other entities, and continuing to raise funds through debt and/or equity financings. Our future projected operating results for current operations alone raise substantial doubt as to our ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These financial statements do not

include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

This report contains the unaudited condensed consolidated financial statements of Verso Paper and Verso Holdings as of June 30, 2014, and for the three-month and six-month periods ended June 30, 2014 and 2013. The December 31, 2013, condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required annually by accounting principles generally accepted in the United States of America, or "GAAP." In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments that are necessary for the fair presentation of Verso Paper's and Verso Holdings' respective financial conditions, results of operations, and cash flows for the interim periods presented. Except as disclosed in the notes to the unaudited condensed consolidated financial statements, such adjustments are of a normal, recurring nature. Variable interest entities for which Verso Paper or Verso Holdings is the primary beneficiary are consolidated. Intercompany balances and transactions are eliminated in consolidation. The results of operations and cash flows for the interim periods presented may not necessarily be indicative of full-year results. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and notes thereto of Verso Paper and Verso Holdings contained in their respective Annual Reports on Form 10-K for the year ended December 31, 2013.

## 2. RECENT ACCOUNTING DEVELOPMENTS

ASC Topic 405, Obligations from Joint and Several Liability Arrangements. In February 2013, the FASB issued Accounting Standards Update, or "ASU," 2013-04, Liabilities (Topic 405), Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. This ASU defines how entities measure obligations from joint and several liability arrangements which are fixed at the reporting date and for which no U.S. GAAP guidance exists. The guidance also requires entities to disclose the nature, amount and other information about those obligations. The ASU is effective for periods beginning after December 15, 2013. Retrospective presentation for all comparative periods presented is required. The adoption of this amendment in the first quarter of 2014, did not have a material impact on the presentation of our consolidated financial statements.

ASC Topic 605, Revenue Recognition. In May 2014, the FASB issued ASU 2014-09, Revenue From Contracts With Customers. This ASU will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for periods beginning after December 15, 2016 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are evaluating the impact of adopting this new accounting standard on our consolidated financial statements.

Other new accounting pronouncements issued but not effective until after June 30, 2014, are not expected to have a significant effect on our consolidated financial statements.

## 3. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

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

share if they are anti-dilutive.

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

(In thousands, except per share data)	VERSO PAPER			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net loss available to common shareholders	\$(42,839	) \$(43,039	) \$(133,449	) \$(81,417
Weighted average common stock outstanding	52,782	52,612	52,730	52,553
Weighted average restricted stock	541	560	526	522
Weighted average common shares outstanding - basic	53,323	53,172	53,256	53,075
Dilutive shares from stock options	—	—	—	—
Weighted average common shares outstanding - diluted	53,323	53,172	53,256	53,075
Basic loss per share	\$(0.80	) \$(0.81	) \$(2.51	) \$(1.53
Diluted loss per share	\$(0.80	) \$(0.81	) \$(2.51	) \$(1.53

In accordance with ASC Topic 260, Earnings Per Share, unvested restricted stock awards issued by Verso Paper contain nonforfeitable rights to dividends and qualify as participating securities. No dividends have been declared or paid in 2014 or 2013.

For the three-month and six-month periods ended June 30, 2014, respectively, 4,974,679 and 4,696,158 weighted average potentially dilutive shares from stock options with weighted average exercise prices per share of \$2.45 and \$2.42, respectively, were excluded from the diluted earnings per share calculation due to the antidilutive effect such shares would have on net loss per common share.

For the three-month and six-month periods ended June 30, 2013, respectively, 4,449,634 and 4,250,052 weighted average potentially dilutive shares from stock options with weighted average exercise prices per share of \$2.38 and \$2.43, respectively, were excluded from the diluted earnings per share calculation due to the antidilutive effect such shares would have on net loss per common share.

**Inventories and Replacement Parts and Other Supplies** — Inventory values include all costs directly associated with manufacturing products: materials, labor, and manufacturing overhead. These values are presented at the lower of cost or market. Costs of raw materials, woodyard logs, work-in-progress, and finished goods are determined using the first-in, first-out method. Replacement parts and other supplies are stated using the average cost method and are reflected in Inventories and Intangibles and other assets on the accompanying condensed consolidated balance sheets (see also Note 5).

Inventories by major category include the following:

(Dollars in thousands)	June 30,	December 31,
	2014	2013
Raw materials	\$21,672	\$25,843
Woodyard logs	2,505	6,602
Work-in-process	15,839	14,738
Finished goods	75,142	60,919
Replacement parts and other supplies	29,124	29,585
Inventories	\$144,282	\$137,687

**Asset Retirement Obligations** — In accordance with ASC Topic 410, Asset Retirement and Environmental Obligations, a liability and an asset are recorded equal to the present value of the estimated costs associated with the retirement of long-lived assets where a legal or contractual obligation exists. The liability is accreted over time, and the asset is depreciated over its useful life. Our asset retirement obligations under this standard relate to closure and post-closure



costs for landfills. Revisions to the liability could occur due to changes in the estimated costs or timing of closure or possible new federal or state regulations affecting the closure. The reduction in the liability for the six months ended June 30, 2014, was primarily the result of revisions to the estimated closure dates of the landfills due to lower than expected usage.

On June 30, 2014, and December 31, 2013, we had \$0.8 million of restricted cash included in Intangibles and 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 our asset retirement obligations which are included in Other liabilities in the accompanying condensed consolidated balance sheets:

(Dollars in thousands)	Six Months Ended	
	June 30,	
	2014	2013
Asset retirement obligations, January 1	\$ 13,194	\$ 11,854
Accretion expense	337	415
Settlement of existing liabilities	(43	)(270
Adjustment to existing liabilities	(3,485	)—
Asset retirement obligations	10,003	11,999
Less: Current portion	(443	)(823
Non-current portion of asset retirement obligations, June 30	\$9,560	\$ 11,176

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

Property, Plant, and Equipment — Property, plant, and equipment is stated at cost, net of accumulated depreciation. Interest is capitalized on projects meeting certain criteria and is included in the cost of the assets. The capitalized interest is depreciated over the same useful lives as the related assets. Expenditures for major repairs and improvements are capitalized, whereas normal repairs and maintenance are expensed as incurred. Capital expenditures in our condensed consolidated statement of cash flows for the six months ended June 30, 2013 included \$13.7 million received from governmental grants associated with a renewable energy project at our mill in Bucksport, Maine, which were used to offset our capital expenditures on the project.

For the three-month and six-month periods ended June 30, 2014, interest costs of \$0.6 million and \$1.2 million were capitalized, respectively. Interest costs of \$0.3 million were capitalized for the three-month and six-month periods ended June 30, 2013.

Depreciation is computed using the straight-line method over the assets' estimated useful lives. Depreciation expense was \$25.3 million and \$50.8 million for the three-month and six-month periods ended June 30, 2014, respectively, compared to \$26.1 million and \$51.9 million for the three-month and six-month periods ended June 30, 2013, respectively.

Accumulated Other Comprehensive Income (Loss) — The following tables summarize the changes in Accumulated other comprehensive income (loss) by balance type for the six months ended June 30, 2014 and 2013:

(Dollars in thousands)	Defined	Total
	Benefit Pension Items	
Accumulated other comprehensive loss as of December 31, 2013	\$(11,435	)(11,435
Amounts reclassified from Accumulated other comprehensive income to Cost of products sold	424	424
Net decrease in other comprehensive loss	424	424

Accumulated other comprehensive loss, net of tax, as of June 30, 2014	\$ (11,011 )	\$ (11,011 )
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(Dollars in thousands)	Losses on Derivative Financial Instruments	Defined Benefit Pension Items	Total
Accumulated other comprehensive loss as of December 31, 2012	\$(335	) \$(24,938	) \$(25,273
Amounts reclassified from Accumulated other comprehensive income to Cost of products sold	245	1,141	1,386
Net decrease in other comprehensive loss	245	1,141	1,386
Accumulated other comprehensive loss, net of tax, as of June 30, 2013	\$(90	) \$(23,797	) \$(23,887

#### 4. ACQUISITIONS AND DISPOSITIONS

On May 28, 2012, our paper mill in Sartell, Minnesota, was damaged by a fire and explosion. As a result of the damages from the fire, management made the decision to permanently close the mill and entered into a formal plan to sell the Sartell mill and related assets during 2012. Management also made the decision to sell the assets of Verso Fiber Farm LLC, or, "Fiber Farm," which was originally created to supply fiber to the Sartell mill. On February 28, 2013, we closed the sale of substantially all of the assets of the Fiber Farm, and the related gain on sale is reflected in Other operating income in the accompanying condensed consolidated statements of operations for the six months ended June 30, 2013. In addition, the sale of substantially all of the assets at our Sartell mill closed on March 8, 2013 and the related gain is included in Other operating income in the accompanying condensed consolidated statements of operations for the six months ended June 30, 2013.

On January 3, 2014, Verso Paper, Verso Merger Sub Inc., a Delaware corporation and an indirect, wholly owned subsidiary of Verso Paper, or "Merger Sub," and NewPage Holdings Inc., a Delaware corporation, or "NewPage," entered into an Agreement and Plan of Merger, or the "Merger Agreement," pursuant to which Merger Sub will merge with and into NewPage on the terms and subject to the conditions set forth in the Merger Agreement, with NewPage surviving the merger as an indirect, wholly owned subsidiary of Verso. The consummation of the NewPage acquisition is subject to the satisfaction of certain conditions and is expected to close in the second half of 2014. Verso has incurred transaction and integration costs of \$18.7 million related to the NewPage acquisition which are included in Other loss, net in the accompanying condensed consolidated statements of operations for the six months ended June 30, 2014.

On February 28, 2014, Verso Bucksport Power LLC, an indirect, wholly owned subsidiary of Verso Paper, purchased from Bucksport Energy LLC, for nominal consideration, its 72% undivided interest in the cogeneration power plant located at our Bucksport mill. Following the transaction, Verso Paper owns, through two of our subsidiaries, the entire ownership interest in the cogeneration power plant. The acquisition was recorded as a step acquisition at the preliminary fair value of the cogeneration power plant in accordance with ASC 805, Business Combinations. The fair value of the cogeneration power plant is preliminary and is subject to further adjustments as additional information becomes available and as additional analyses are performed. Although management believes that the preliminary fair value is reasonable, there can be no assurance that finalization of the fair value determination will not result in material changes.

## 5. INTANGIBLES AND OTHER ASSETS

Intangibles and other assets consist of the following:

(Dollars in thousands)	VERSO PAPER		VERSO HOLDINGS	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Amortizable intangible assets:				
Customer relationships, net of accumulated amortization of \$8.5 million on June 30, 2014, and \$8.2 million on December 31, 2013	\$4,820	\$5,120	\$4,820	\$5,120
Patents, net of accumulated amortization of \$0.9 million on June 30, 2014, and on December 31, 2013	239	296	239	296
Total amortizable intangible assets	5,059	5,416	5,059	5,416
Unamortizable intangible assets:				
Trademarks	16,180	16,180	16,180	16,180
Other assets:				
Financing costs, net of accumulated amortization of \$16.4 million on June 30, 2014, and \$13.6 million on December 31, 2013	25,970	28,761	25,970	28,761
Deferred major repair	11,435	16,218	11,435	16,218
Replacement parts, net	3,148	3,465	3,148	3,465
Loan to affiliate	—	—	23,305	23,305
Restricted cash	2,422	4,946	2,422	4,946
Other	11,981	6,469	11,981	6,469
Total other assets	54,956	59,859	78,261	83,164
Intangibles and other assets	\$76,195	\$81,455	\$99,500	\$104,760

Amortization expense of intangibles was \$0.2 million and \$0.4 million for each of the three-month and six-month periods ended June 30, 2014 and 2013, respectively.

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

(Dollars in thousands)	
2014	\$357
2015	615
2016	567
2017	400
2018	300

## 6. DEBT

A summary of debt is as follows:

(Dollars in thousands)	Original Maturity	June 30, 2014		Fair Value	December 31, 2013	
		Interest Rate	Balance		Balance	Fair Value
Verso Paper Holdings LLC						
Verso Androscoggin Power LLC Revolving Credit Facility	5/5/2015	5.25	% \$20,000	\$20,000	\$—	\$—
Revolving Credit Facilities	5/4/2017	2.51	% 67,500	67,500	—	—
11.75% Senior Secured Notes <sup>(1)</sup>	1/15/2019	11.75	% 425,377	440,866	426,076	448,341
11.75% Secured Notes	1/15/2019	11.75	% 271,573	244,416	271,573	206,629
8.75% Second Priority Senior Secured Notes <sup>(2)</sup>	2/1/2019	8.75	% 395,097	195,624	395,018	130,363
Second Priority Senior Secured Floating Rate Notes	8/1/2014	3.98	% 13,310	9,084	13,310	7,986
11.38% Senior Subordinated Notes	8/1/2016	11.38	% 142,500	68,400	142,500	64,125
Chase NMTC Verso Investment Fund LLC						
Loan from Verso Paper Finance Holdings LLC	12/29/2040	6.50	% 23,305	23,305	23,305	23,305
Total debt for Verso Paper Holdings LLC			\$1,358,662	\$1,069,195	\$1,271,782	\$880,749
Verso Paper Finance Holdings LLC						
Loan from Verso Paper Holdings LLC	12/29/2040	6.50	% 23,305	23,305	23,305	23,305
Less current maturities of long-term debt			(33,310)	(29,084)	(13,310)	(7,986)
Less loans from affiliates			(46,610)	(46,610)	(46,610)	(46,610)
Total long-term debt for Verso Paper Corp.			\$1,302,047	\$1,016,806	\$1,235,167	\$849,458

(1) Par value of \$417,882 on June 30, 2014 and December 31, 2013.

(2) Par value of \$396,000 on June 30, 2014 and December 31, 2013.

We determine the fair value of our long-term debt based on market information and a review of prices and terms available for similar obligations. Our debt is classified as Level 2 within the fair value hierarchy (see also Note 9).

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

(Dollars in thousands)	VERSO PAPER			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest expense	\$34,025	\$33,402	\$67,677	\$66,733
Cash interest paid	839	440	67,110	62,936
Debt issuance cost amortization <sup>(1)</sup>	2,301	1,317	3,695	2,689
	VERSO HOLDINGS			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest expense	\$34,404	\$33,781	\$68,435	\$66,921
Cash interest paid	1,218	818	67,868	63,541
Debt issuance cost amortization <sup>(1)</sup>	2,301	1,317	3,695	2,659

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

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Revolving Credit Facilities. Verso Holdings' \$150.0 million asset-based loan facility, or "ABL Facility," had \$67.5 million outstanding, \$39.9 million in letters of credit issued, and \$25.4 million available for future borrowing as of June 30, 2014. Verso Holdings' \$50.0 million cash-flow facility, or "Cash Flow Facility," had no outstanding balance, no letters of credit issued, and \$50.0 million available for future borrowing as of June 30, 2014. The indebtedness under the revolving credit facilities bears interest at a floating rate based on a margin over a base rate or eurocurrency rate. As of June 30, 2014, the weighted-average interest rate on outstanding advances was 2.51%. Verso Holdings is required to pay a commitment fee to the lenders in respect of the unutilized commitments under the revolving credit facilities and other customary fees. The indebtedness under the ABL Facility and related guarantees are secured by first-priority security interests, subject to permitted liens, in substantially all of Verso Holdings', Verso Finance's, and the subsidiary guarantors' inventory and accounts receivable, or "ABL Priority Collateral," and second-priority security interests, subject to permitted liens, in substantially all of their other assets, or "Notes Priority Collateral." The indebtedness under the Cash Flow Facility and related guarantees are secured, *pari passu* with the 11.75% Senior Secured Notes due 2019 and related guarantees, by first-priority security interests in the Notes Priority Collateral and second-priority security interests in the ABL Priority Collateral. The revolving credit facilities will mature on May 4, 2017, unless, on any of the dates that is 91 days prior to the scheduled maturity of the 11.38% Senior Subordinated Notes, an aggregate principal amount in excess of \$100.0 million of indebtedness under such existing subordinated notes is outstanding, in which case the revolving credit facilities will mature on such earlier date. On January 3, 2014, Verso Holdings entered into certain amendments to the revolving credit facilities in connection with the NewPage acquisition, in which (a) the lenders under each of our revolving credit facilities consented to the NewPage acquisition and the other transactions contemplated by the Merger Agreement, including the incurrence of certain additional indebtedness, (b) the lenders consented to amendments to allow the sale and/or financing of certain non-core assets and (c) the parties agreed to amend our revolving credit facilities to allow for certain other transactions upon the consummation of the NewPage acquisition and the other transactions contemplated by the Merger Agreement.

Verso Androscoggin Power LLC Revolving Credit Facility. On May 5, 2014, acting through a wholly owned subsidiary, Verso Androscoggin Power LLC, or "VAP," Verso Holdings entered into a credit agreement providing for a \$40.0 million revolving credit facility with Barclays Bank PLC and Credit Suisse AG, Cayman Islands Branch. As of June 30, 2014 the revolving credit facility had a \$20.0 million outstanding balance, and \$20.0 million available for future borrowing. Borrowings under the credit facility bear interest at a rate equal to an applicable margin plus, at the option of VAP, either (a) a base rate determined by reference to the highest of the U.S. federal funds rate plus 0.5%, the prime rate of the administrative agent, and the adjusted LIBOR for a one-month interest period plus 1.00%, or (b) a eurocurrency rate, or "LIBOR," determined by reference to the cost of funds for eurocurrency deposits in dollars in the London interbank market for the interest period relevant to such borrowing adjusted for certain additional costs. As of June 30, 2014, the applicable margin for advances under the credit facility is 2.00% for base rate advances and 3.00% for LIBOR advances. On and after November 5, 2014, the applicable margin for advances under the credit facility will be 3.00% for base rate advances and 4.00% for LIBOR advances. As of June 30, 2014, the weighted-average interest rate on outstanding advances was 5.25%. The credit facility will mature on the earliest to occur of (a) May 5, 2015, (b) the date that is 30 days after the consummation of our pending acquisition of NewPage, and (c) the date that is 60 days after the termination of the Merger Agreement or the abandonment of the NewPage acquisition; however, upon written notice by VAP to the administrative agent, VAP may request that the commitments under the credit facility be converted to extend the maturity date. The indebtedness under the credit facility is secured by substantially all of VAP's assets, which consist principally of four hydroelectric facilities associated with our Androscoggin mill and related electricity transmission equipment. Verso Maine Power Holdings LLC, VAP's sole member, guarantees the payment of the debt outstanding under the credit facility, and its guaranty is secured by a pledge of its equity interest in VAP. Debt issuance costs of approximately \$2.7 million were deferred and will be amortized over the life of the facility.

11.75% Senior Secured Notes due 2019. In 2012, Verso Holdings issued \$345.0 million aggregate principal amount of 11.75% Senior Secured Notes due 2019. The notes bear interest, payable semi-annually, at the rate of 11.75% per



year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The indebtedness under the notes and related guarantees are secured, pari passu with the Cash Flow Facility and related guarantees, by first-priority security interests in the Notes Priority Collateral and second-priority security interests in the ABL Priority Collateral. The notes will mature on January 15, 2019; provided, however, that, if as of 45 days prior to the maturity dates of our 11.375% Senior Subordinated Notes due 2016, more than \$100.0 million of such Senior Subordinated Notes remains outstanding, the notes will mature on that day.

In 2013, Verso Holdings issued \$72.9 million aggregate principal amount of its 11.75% Senior Secured Notes due 2019 to certain lenders holding approximately \$85.8 million aggregate principal amount of Verso Finance's Senior Unsecured Term Loans, and net accrued interest through the closing date, at an exchange rate of 85%, in exchange for the assignment to Verso Finance of its Senior Unsecured Term Loans and the cancellation of such loans. There are no longer any outstanding Senior Unsecured Term Loans. In accordance with ASC Topic 470-60, the notes were recorded at the Unsecured Term Loans value

exchanged and the amount in excess of par will be amortized over the life of the notes. Debt issuance costs of \$2.7 million were expensed as incurred and are recorded in Other loss, net on the accompanying condensed consolidated statements of operations. The exchange and funding of the principal and interest payments on the Senior Unsecured Term Loans are recorded as a Return of capital on Verso Holdings' statement of member's equity and the exchange of \$85.8 million represents a non-cash financing activity on Verso Holding's statement of cash flows.

On July 2, 2014, in accordance with the terms of the Merger Agreement, Verso Holdings and its direct, wholly owned subsidiary, Verso Paper Inc., or collectively the "Issuers," commenced (i) an offer to exchange the Issuers' new Second Priority Adjustable Senior Secured Notes, or "New Second Lien Notes," and warrants issued by Verso Paper that will be mandatorily convertible on a one-for-one basis into shares of Verso Paper's common stock immediately prior to the NewPage acquisition, or "Warrants," for any and all of the Issuers' outstanding 8.75% Second Priority Senior Secured Notes due 2019, or "Old Second Lien Notes" (we refer to this exchange offer as the "Second Lien Notes Exchange Offer"), and (ii) an offer to exchange the Issuers' new Adjustable Senior Subordinated Notes, or "New Subordinated Notes," and Warrants for any and all of the Issuers' outstanding 11.38% Senior Subordinated Notes due 2016, or "Old Subordinated Notes" (we refer to this exchange offer as the "Subordinated Notes Exchange Offer"). On August 1, 2014, approximately \$299.4 million aggregate principal amount of Old Second Lien Notes were tendered and accepted in exchange for a like amount of New Second Lien Notes and approximately 9.3 million Warrants in the Second Lien Notes Exchange Offer, and approximately \$102.0 million aggregate principal amount of Old Subordinated Notes were tendered and accepted in exchange for a like amount of New Subordinated Notes and approximately 5.4 million Warrants in the Subordinated Notes Exchange Offer. In connection with the Second Lien Notes Exchange Offer and the Subordinated Notes Exchange Offer, the Issuers solicited and received consents to amend the Old Second Lien Notes, the Old Subordinated Notes, and the indentures governing such notes, in order to (i) eliminate or waive substantially all of the restrictive covenants contained in the indentures governing such notes, (ii) eliminate certain events of default, (iii) modify covenants regarding mergers and consolidations, and (iv) modify or eliminate certain other provisions, including, in some cases, certain provisions relating to defeasance, contained in such indentures and such notes. In addition, the Issuers solicited and received consents to release the liens and security interests in the collateral securing the Old Second Lien Notes. We refer to the Second Lien Notes Exchange Offer, the Subordinated Notes Exchange Offer, and the transactions in connection therewith collectively as the "Exchange Offers." As of June 30, 2014, we were in compliance with the covenants in our debt agreements.

## 7. RETIREMENT PLANS

We maintain defined benefit pension plans that provide retirement benefits for certain current hourly employees at the Androscoggin and Bucksport mills, and former hourly employees of the Sartell mill. The pension plans provide defined benefits based on years of credited service times a specified flat dollar benefit rate.

The following table summarizes the components of net periodic benefit cost for the three-month and six-month periods ended June 30, 2014 and 2013:

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Components of net periodic benefit cost:				
Service cost	\$1,437	\$1,654	\$2,874	3,307
Interest cost	920	788	1,840	1,558
Expected return on plan assets	(904	)(826	)(1,809	)(1,652
Amortization of prior service cost	163	163	326	326
Amortization of actuarial loss	48	405	98	815
Net periodic benefit cost	\$1,664	\$2,184	\$3,329	\$4,354

The estimated net actuarial loss and prior service cost that are amortized from Accumulated other comprehensive loss and into net periodic pension cost are classified into Cost of products sold on our accompanying condensed consolidated statement of operations.

We make contributions that are sufficient to fully fund our actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act, or “ERISA.” For the three-month and six-month periods ended June 30, 2014, we made contributions to the pension plans of approximately \$1.7 million. In the remainder of 2014, we expect to make cash contributions of approximately \$6.2 million to the pension plans. We made no contributions to the pension plans for the three-month and six-month periods ended June 30, 2013.

## 8. DERIVATIVE INSTRUMENTS AND HEDGES

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

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

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

Effective April 1, 2012, management elected to de-designate the remaining energy swaps that had previously been designated as cash flow hedges and to discontinue hedge accounting prospectively. As a result, all gains and losses from changes in the fair value of our derivative contracts subsequent to March 31, 2012, are recognized immediately in Cost of products sold. Prior to March 31, 2012, to the extent the hedge was effective, the change in fair value was deferred through Accumulated other comprehensive loss. The amount in Accumulated other comprehensive loss at the time a contract is de-designated is reclassified into Cost of products sold when the contract settles, or sooner if management determines that the forecasted transaction is probable of not occurring. Energy swaps continue to be utilized as economic hedges designed to mitigate the risk of changes in commodity and delivery prices for future energy purchase commitments.



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

(Dollars in thousands)	June 30, 2014		December 31, 2013	
	MMBTUs	Fair Value Assets/(Liabilities)	MMBTUs	Fair Value Assets/(Liabilities)
Derivative contracts not currently designated as hedging instruments:				
Fixed price energy swaps:				
Notional amount	4,499,286		6,652,070	
Prepaid expenses and other assets		\$ 2,994		\$ 15,505
Accrued liabilities		(3,247 )		(4,959 )

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

(Dollars in thousands)	Loss Reclassified from Accumulated OCI Three Months Ended June 30,		Loss Recognized on Derivatives	
	2014	2013	2014	2013
Derivative contracts not currently designated as hedging instruments:				
Fixed price energy swaps	\$—	\$(101 )	\$(134 )	\$(3,771 )

(Dollars in thousands)	Loss Reclassified from Accumulated OCI Six Months Ended June 30,		Gain (Loss) Recognized on Derivatives	
	2014	2013	2014	2013
Derivative contracts not currently designated as hedging instruments:				
Fixed price energy swaps	\$—	\$(245 )	\$12,368	\$(1,618 )

Loss reclassified from Accumulated OCI to earnings and gain (loss) recognized on derivatives is included in Cost of products sold.

## 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Observable inputs other than those included in Level 1. For example, quoted prices for similar
- Level 2: assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management's own assumption about the inputs used in pricing the asset or liability at the measurement date.



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

(Dollars in thousands)	Total	Level 1	Level 2	Level 3
June 30, 2014				
Assets:				
Deferred compensation assets	\$3,555	\$3,555	\$—	\$—
Commodity swaps	2,994	—	2,994	—
Liabilities:				
Commodity swaps	\$3,247	\$—	\$3,247	\$—
December 31, 2013				
Assets:				
Commodity swaps	\$15,505	\$—	\$15,505	\$—
Deferred compensation assets	3,495	3,495	—	—
Liabilities:				
Commodity swaps	\$4,959	\$—	\$4,959	\$—

Fair values are based on observable market data.

## 10. RELATED PARTY TRANSACTIONS

**Management Agreement** — In connection with the acquisition of our business from International Paper Company on August 1, 2006, we entered into a management agreement with certain affiliates of Apollo Management, L.P., or “Apollo,” relating to the provision of certain financial and strategic advisory services and consulting services, which will expire on August 1, 2018. Under the management agreement, at any time prior to the expiration of the agreement, Apollo has the right to act, in return for additional fees to be mutually agreed by the parties to the management agreement, as our financial advisor or investment banker for any merger, acquisition, disposition, financing or the like if we decide to engage someone to fill such role. In the event that we are not able to come to an agreement with Apollo in connection with such role, at the closing of any merger, acquisition, disposition or financing or any similar transaction, we have agreed to pay Apollo a fee equal to 1% of the aggregate enterprise value (including the aggregate value of equity securities, warrants, rights and options acquired or retained; indebtedness acquired, assumed or refinanced; and any other consideration or compensation paid in connection with such transaction). We agreed to indemnify Apollo and its affiliates and their directors, officers and representatives for losses relating to the services contemplated by the management agreement and the engagement of affiliates of Apollo pursuant to, and the performance by them of the services contemplated by, the management agreement.

**Distributions to Verso Finance** — On January 31, 2013, Verso Holdings exchanged \$85.8 million of the outstanding principal and accrued interest on the Senior Unsecured Term Loans for \$72.9 million of 11.75% Senior Secured Notes due 2019. The principal and interest of the Senior Unsecured Term Loans remaining after the exchange was funded through cash payments by Verso Holdings. These transactions are reflected as a \$94.9 million return of capital in Verso Holdings' statement of member's equity.

**Verso Quinnesec Renewable Energy Project** — On December 29, 2010, Verso Quinnesec REP LLC, an indirect, wholly-owned subsidiary of Verso Holdings, entered into a financing transaction with Chase NMTC Verso Investment Fund, LLC, or the “Investment Fund,” a consolidated variable interest entity (see Note 12 – New Market Tax Credit Entities). Under this arrangement, Verso Holdings loaned \$23.3 million to Verso Finance at an interest rate of 6.5% per year and with a maturity of December 29, 2040, and Verso Finance, in turn, loaned the funds on similar terms to the Investment Fund. The Investment Fund then contributed the loan proceeds to certain community development entities, which, in turn, loaned the funds on similar terms to Verso Quinnesec REP LLC as partial financing for the renewable energy project at our mill in Quinnesec, Michigan. As of both June 30, 2014, and December 31, 2013, Verso Holdings had a \$23.3 million long-term receivable due from Verso Finance, representing



these funds and accrued interest receivable of \$0.1 million, while the Investment Fund had an outstanding loan of \$23.3 million due to Verso Finance and accrued interest payable of \$0.1 million. In addition, for both the three-month and six-month periods ended June 30, 2014 and 2013, Verso Holdings recognized interest income from Verso Finance of \$0.4 million and \$0.8 million, respectively and the Investment Fund recognized interest expense to Verso Finance of \$0.4 million and \$0.8 million, respectively.

## 11. RESTRUCTURING CHARGES

In 2012, we permanently closed our mill in Sartell, Minnesota, and in 2011, we permanently shut down a paper machine at our mill in Bucksport, Maine, and two paper machines at the Sartell mill. The following table details the charges incurred related primarily to the mill closure in 2012 and paper machine shutdowns in 2011 as included in Restructuring charges on our accompanying condensed consolidated statements of operations:

	Three Months Ended June 30,	Six Months Ended June 30,	Cumulative Incurred
(Dollars in thousands)	2013	2013	
Property and equipment	\$—	\$—	\$73,589
Severance and benefit costs	12	651	35,065
Write-off of spare parts and inventory	—	—	9,212
Trademark impairment	—	—	3,693
Write-off of purchase obligations and commitments	—	(594	) 1,826
Other miscellaneous costs	154	1,125	4,861
Total restructuring costs	\$166	\$1,182	\$128,246

There were no restructuring costs incurred during the three-month and six-month periods ended June 30, 2014, and there was no remaining restructuring reserve liability as of June 30, 2014.

## 12. NEW MARKET TAX CREDIT ENTITIES

In December 2010, we entered into a financing transaction with Chase Community Equity, LLC, or “Chase,” related to a \$43.0 million renewable energy project at our mill in Quinnesec, Michigan, in which Chase made a capital contribution and Verso Finance made a loan to Chase NMTC Verso Investment Fund, LLC, or the “Investment Fund,” under a qualified New Markets Tax Credit, or “NMTC,” program, provided for in the Community Renewal Tax Relief Act of 2000. By virtue of its contribution, Chase is entitled to substantially all of the benefits derived from the NMTCs.

This transaction also includes a put/call provision whereby we may be obligated or entitled to repurchase Chase’s interest. We believe that Chase will exercise the put option in December 2017 at the end of the recapture period. The value attributed to the put/call is de minimis. The NMTC is subject to 100% recapture for a period of 7 years as provided in the Internal Revenue Code. We are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, could require us to indemnify Chase for any loss or recapture of NMTCs related to the financing until such time as our obligation to deliver tax benefits is relieved. We do not anticipate any credit recaptures will be required in connection with this arrangement.

We have determined that the Investment Fund is a variable interest entity, or “VIE,” of which we are the primary beneficiary, and have consolidated it in accordance with the accounting standard for consolidation. Chase’s contribution, net of syndication fees, is included in Other liabilities in the accompanying condensed consolidated balance sheets. Direct costs incurred in structuring the financing arrangement are deferred and will be recognized as expense over the term of the loans. Incremental costs to maintain the structure during the compliance period are recognized as incurred.



The following table summarizes the impact of the VIE consolidated by Verso Holdings as of June 30, 2014, and December 31, 2013:

(Dollars in thousands)	VERSO PAPER		VERSO HOLDINGS	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Current assets	\$14	\$15	\$14	\$15
Non-current assets	86	85	23,390	23,390
Total assets	\$100	\$100	\$23,404	\$23,405
Current liabilities	15	15	141	141
Long-term debt	—	—	23,305	23,305
Other non-current liabilities	7,923	7,923	7,923	7,923
Total liabilities	\$7,938	\$7,938	\$31,369	\$31,369

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

### 13. COMMITMENTS AND CONTINGENCIES

Expera Specialty Solutions, LLC — We are a party to a long-term supply agreement with Expera Specialty Solutions, LLC, or “Expera,” for the manufacture of specialty paper products on paper machine no. 5 at our Androscoggin mill in Jay, Maine. The agreement, which expires on June 1, 2017, requires Expera to pay us a variable charge for the paper purchased and a fixed charge for the availability of the paper machine. We are responsible for the machine’s routine maintenance, and Expera is responsible for any capital expenditures specific to the machine. Expera has the right to terminate the agreement if certain events occur.

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

### 14. INFORMATION BY INDUSTRY SEGMENT

Our reporting segments correspond to the following three market segments in which we operate: coated papers, including coated groundwood and coated freesheet; hardwood market pulp; and other, consisting of specialty papers. We operate primarily in one geographic segment, North America. Our products are used primarily in media and marketing applications, including catalogs, magazines, and commercial printing applications such as high-end advertising brochures, annual reports, and direct-mail advertising. Our assets are utilized across segments in our integrated mill system and are not identified by segment or reviewed by management on a segment basis.

The following table summarizes the industry segment data for the three-month and six-month periods ended June 30, 2014 and 2013:

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net sales				
Coated papers	\$225,454	\$253,037	\$443,716	\$503,553
Hardwood market pulp	45,829	38,150	82,049	75,379
Other	49,633	39,198	94,264	84,673
Total	\$320,916	\$330,385	\$620,029	\$663,605
Operating income (loss)				
Coated papers	\$(5,034)	\$(10,344)	\$(49,135)	\$(14,298)
Hardwood market pulp	7,730	3,898	11,659	6,596
Other	(669)	(2,024)	(7,036)	(1,914)
Total	\$2,027	\$(8,470)	\$(44,512)	\$(9,616)
Depreciation, amortization, and depletion				
Coated papers	\$18,078	\$19,900	\$36,918	\$39,123
Hardwood market pulp	4,581	4,356	8,987	8,838
Other	2,799	2,051	5,236	4,326
Total	\$25,458	\$26,307	\$51,141	\$52,287
Capital spending				
Coated papers	\$8,865	\$18,067	\$22,164	\$12,070
Hardwood market pulp	1,525	437	4,486	703
Other	123	750	329	1,020
Total	\$10,513	\$19,254	\$26,979	\$13,793

## 15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

Verso Holdings, or the "Parent Issuer," and its direct, 100% owned subsidiary, Verso Paper Inc., or the "Subsidiary Issuer," are the issuers of the 11.75% Senior Secured Notes due 2019, the 11.75% Secured Notes due 2019, the 8.75% Second Priority Senior Secured Notes due 2019, the Second Priority Senior Secured Floating Rate Notes due 2014, and the 11.38% Senior Subordinated Notes due 2016, or collectively, the "Notes." In accordance with ASU 2013-04 related to joint and several liability arrangements, the Notes have been recorded by the Parent Issuer as it is the intent of the issuers for the Parent Issuer to settle the obligation. The Notes are jointly and severally guaranteed on a full and unconditional basis by the Parent Issuer's direct and indirect, 100% owned subsidiaries, excluding the Subsidiary Issuer, Bucksport Leasing LLC, Verso Quinnesec REP LLC, Verso Bucksport Power LLC, and Verso Androscoggin Power LLC, or collectively, the "Guarantor Subsidiaries." Chase NMTC Verso Investment Fund, LLC, a consolidated VIE of Verso Holdings, is a "Non-Guarantor Affiliate."

Verso Paper Holdings LLC  
Condensed Consolidating Balance Sheet  
June 30, 2014

(Dollars in thousands)	Parent Issuer	Subsidiary Guarantor Issuer	Subsidiaries	Non-Guarantor Subsidiaries	Non-Guarantor Affiliate	Eliminations	Consolidated
<b>ASSETS</b>							
Cash and cash equivalents	\$—	\$—	\$6,953	\$5	\$10	\$—	\$6,968
Accounts receivable, net	—	—	94,036	—	—	—	94,036
Inventories	—	—	144,282	—	—	—	144,282
Prepaid expenses and other assets	—	—	9,402	3,308	4	—	12,714
Current assets	—	—	254,673	3,313	14	—	258,000
Property, plant, and equipment, net	—	—	679,563	23,760	—	(288)	703,035
Intercompany/affiliate receivable	1,399,361	—	2,351	16,847	31,153	(1,449,712)	—
Intangibles and other assets, net <sup>(1)</sup>	—	—	97,289	2,125	86	—	99,500
<b>Total assets</b>	<b>\$1,399,361</b>	<b>\$—</b>	<b>\$1,033,876</b>	<b>\$46,045</b>	<b>\$31,253</b>	<b>\$(1,450,000)</b>	<b>\$1,060,535</b>
<b>LIABILITIES AND MEMBER'S EQUITY</b>							
Accounts payable	\$—	\$—	\$80,006	\$831	\$15	\$—	\$80,852
Accrued liabilities	58,782	—	56,923	37	126	—	115,868
Current maturities of long-term debt	13,310	—	—	20,000	—	—	33,310
Current liabilities	72,092	—	136,929	20,868	141	—	230,030
	—	—	1,416,208	33,504	—	(1,449,712)	—

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Intercompany/affiliate payable

Investment in subsidiaries	568,465	—	12,745	—	—	(581,210)	—
Long-term debt <sup>(2)</sup>	1,302,047	—	—	—	23,305	—	1,325,352
Other liabilities	—	—	40,472	—	8,115	(191)	48,396
Member's (deficit) equity	(543,243)	—	(572,478)	(8,327)	(308)	581,113	(543,243)
Total liabilities and equity	\$1,399,361	\$—	\$1,033,876	\$46,045	\$31,253	\$(1,450,000)	\$1,060,535

(1) Intangibles and other assets, net of Guarantor Subsidiaries include \$23.3 million of a long-term note receivable from Verso Finance.

(2) Long-term debt of Non-Guarantor Affiliate is payable to Verso Finance.

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Verso Paper Holdings LLC  
Condensed Consolidating Balance Sheet  
December 31, 2013

(Dollars in thousands)	Parent Issuer	Subsidiary Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Non- Guarantor Affiliate	Eliminations	Consolidated
<b>ASSETS</b>							
Cash and cash equivalents	\$—	\$—	\$11,230	\$—	\$10	\$—	\$11,240
Accounts receivable, net	—	—	104,624	—	—	—	104,624
Inventories	—	—	137,687	—	—	—	137,687
Assets held for sale	—	—	50	—	—	—	50
Prepaid expenses and other assets	—	—	20,616	—	5	—	20,621
Current assets	—	—	274,207	—	15	—	274,222
Property, plant, and equipment, net	—	—	724,063	19,171	—	(288)	742,946
Intercompany/affiliate receivable	1,335,323	—	1,393	—	31,153	(1,367,869)	—
Intangibles and other assets, net <sup>(1)</sup>	—	—	103,424	1,251	85	—	104,760
<b>Total assets</b>	<b>\$1,335,323</b>	<b>\$—</b>	<b>\$1,103,087</b>	<b>\$20,422</b>	<b>\$31,253</b>	<b>\$(1,368,157)</b>	<b>\$1,121,928</b>
<b>LIABILITIES AND MEMBER'S EQUITY</b>							
Accounts payable	\$—	\$—	\$88,397	\$—	\$15	\$—	\$88,412
Accrued liabilities	58,847	—	63,462	—	126	—	122,435
Current maturities of long-term debt	13,310	—	—	—	—	—	13,310
Current liabilities	72,157	—	151,859	—	141	—	224,157
Intercompany/affiliate payable	—	—	1,335,323	32,546	—	(1,367,869)	—
Investment in subsidiaries <sup>(3)</sup>	439,125	—	12,124	—	—	(451,249)	—
Long-term debt <sup>(2)</sup>	1,235,167	—	—	—	23,305	—	1,258,472
Other liabilities	—	—	42,502	—	8,087	(164)	50,425
Member's (deficit) equity	(411,126)	—	(438,721)	(12,124)	(280)	451,125	(411,126)
<b>Total liabilities and equity</b>	<b>\$1,335,323</b>	<b>\$—</b>	<b>\$1,103,087</b>	<b>\$20,422</b>	<b>\$31,253</b>	<b>\$(1,368,157)</b>	<b>\$1,121,928</b>

(1) Intangibles and other assets, net of Guarantor Subsidiaries include \$23.3 million of a long-term note receivable from Verso Finance.

(2) Long-term debt of Non-Guarantor Affiliate is payable to Verso Finance.

(3) Investment in subsidiaries has been corrected to reflect presentation as a liability in conformity with current year presentation.



## Verso Paper Holdings LLC

Condensed Consolidating Statements of Operations and Comprehensive Income  
Three Months Ended June 30, 2014

	Parent	Subsidiary	Guarantor	Non-	Non-		
(Dollars in thousands)	Issuer	Issuer	Subsidiaries	Guarantor	Guarantor	Eliminations	Consolidated
Net sales	\$—	\$—	\$320,916	\$749	\$—	\$(749)	)\$320,916
Cost of products sold (exclusive of depreciation, amortization, and depletion)	—	—	276,082	287	—	(749)	)275,620
Depreciation, amortization, and depletion	—	—	25,105	353	13	(13)	)25,458
Selling, general, and administrative expenses	—	—	18,158	(355)	)8	—	17,811
Interest income	(35,325)	)—	(379)	)—	(386)	)35,711	(379)
Interest expense	35,325	—	34,677	1,385	378	(35,711)	)36,054
Other loss, net	—	—	9,182	—	—	—	9,182
Equity in net loss of subsidiaries	(42,830)	)—	—	—	—	42,830	—
Net loss	\$(42,830)	)\$—	\$(41,909)	)\$(921)	)\$(13)	)\$42,843	\$(42,830)
Other comprehensive income	211	—	211	—	—	(211)	)211
Comprehensive loss	\$(42,619)	)\$—	\$(41,698)	)\$(921)	)\$(13)	)\$42,632	\$(42,619)

## Verso Paper Holdings LLC

Condensed Consolidating Statements of Operations and Comprehensive Income  
Six Months Ended June 30, 2014

	Parent	Subsidiary	Guarantor	Non-	Non-		
(Dollars in thousands)	Issuer	Issuer	Subsidiaries	Guarantor	Guarantor	Eliminations	Consolidated
Net sales	\$—	\$—	\$620,029	\$749	\$—	\$(749)	)\$620,029
Cost of products sold (exclusive of depreciation, amortization, and depletion)	—	—	578,459	287	—	(749)	)577,997
Depreciation, amortization, and depletion	—	—	50,520	621	27	(27)	)51,141
Selling, general, and administrative expenses	—	—	36,081	(694)	)16	—	35,403
Interest income	(70,354)	)—	(758)	)—	(773)	)71,127	(758)
Interest expense	70,354	—	69,147	1,779	757	(71,127)	)70,910
Other loss, net	—	—	18,767	—	—	—	18,767
Equity in net loss of subsidiaries	(133,431)	)—	—	—	—	133,431	—
Net loss	\$(133,431)	)\$—	\$(132,187)	)\$(1,244)	)\$(27)	)\$133,458	\$(133,431)
Other comprehensive income	424	—	424	—	—	(424)	)424
Comprehensive loss	\$(133,007)	)\$—	\$(131,763)	)\$(1,244)	)\$(27)	)\$133,034	\$(133,007)

## Verso Paper Holdings LLC

## Condensed Consolidating Statements of Operations and Comprehensive Income

Three Months Ended June 30, 2013

	Parent	Subsidiary	Guarantor	Non-	Non-			
(Dollars in thousands)	Issuer	Issuer	Subsidiaries	Subsidiary	Affiliate	Eliminations	Consolidated	
Net sales	\$—	\$—	\$330,385	\$—	\$—	\$—	\$330,385	
Cost of products sold (exclusive of depreciation, amortization, and depletion)	—	—	293,888	—	—	—	293,888	
Depreciation, amortization, and depletion	—	—	26,039	268	14	(14	)26,307	
Selling, general, and administrative expenses	—	—	19,605	(433	)8	—	19,180	
Restructuring charges	—	—	166	—	—	—	166	
Other operating income	—	—	(686	)—	—	—	(686	)
Interest income	(34,707	)—	(384	)—	(386	)35,093	(384	)
Interest expense	34,707	—	34,434	393	378	(35,093	)34,819	
Other loss, net	134	—	—	—	—	—	134	
Equity in net loss of subsidiaries	(42,905	)—	—	—	—	42,905	—	
Net loss	\$(43,039	)\$—	\$(42,677	)\$(228	)\$(14	)\$42,919	\$(43,039	)
Other comprehensive income	669	—	669	—	—	(669	)669	
Comprehensive loss	\$(42,370	)\$—	\$(42,008	)\$(228	)\$(14	)\$42,250	\$(42,370	)

## Verso Paper Holdings LLC

## Condensed Consolidating Statements of Operations and Comprehensive Income

Six Months Ended June 30, 2013

	Parent	Subsidiary	Guarantor	Non-	Non-			
(Dollars in thousands)	Issuer	Issuer	Subsidiaries	Subsidiary	Affiliate	Eliminations	Consolidated	
Net sales	\$—	\$—	\$663,605	\$—	\$—	\$—	\$663,605	
Cost of products sold (exclusive of depreciation, amortization, and depletion)	—	—	585,747	—	—	—	585,747	
Depreciation, amortization, and depletion	—	—	51,750	537	28	(28	)52,287	
Selling, general, and administrative expenses	—	—	38,801	(841	)16	—	37,976	
Restructuring charges	—	—	1,182	—	—	—	1,182	
Other operating income	—	—	(3,971	)—	—	—	(3,971	)
Interest income	(68,785	)—	(772	)—	(773	)69,558	(772	)
Interest expense	68,785	—	68,487	787	757	(69,558	)69,258	
Other loss, net	2,706	—	—	—	—	—	2,706	
Equity in net loss of subsidiaries	(78,102	)—	—	—	—	78,102	—	
Net loss	\$(80,808	)\$—	\$(77,619	)\$(483	)\$(28	)\$78,130	\$(80,808	)

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Other comprehensive income	1,386	—	1,386	—	—	(1,386	)1,386
Comprehensive loss	\$(79,422)	\$—	\$(76,233	)\$(483	)\$(28	)\$76,744	\$(79,422 )

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Verso Paper Holdings LLC  
Condensed Consolidating Statements of Cash Flows  
Six Months Ended June 30, 2014

(Dollars in thousands)	Parent Issuer	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Non-Guarantor Affiliate	Eliminations	Consolidated
Net cash used in operating activities	\$—	\$—	\$(69,229	)\$734	\$—	\$—	\$(68,495 )
Cash flows from investing activities:							
Proceeds from sale of assets	—	—	317	—	—	—	317
Transfers from restricted cash	—	—	2,462	(1,438	)—	—	1,024
Capital expenditures	—	—	(26,979	)—	—	—	(26,979 )
Other investing activities	—	—	5,020	—	—	—	5,020
Advances to subsidiaries	(184,669	)—	—	—	—	184,669	—
Payments from subsidiaries	117,116	—	—	—	—	(117,116	)—
Net cash used in investing activities	(67,553	)—	(19,180	)	(1,438 )—	67,553	(20,618 )
Cash flows from financing activities:							
Borrowings on revolving credit facilities	168,000	—	—	20,000	—	—	188,000
Payments on revolving credit facilities	(100,500	)—	—	—	—	—	(100,500 )
Contribution from Verso Paper	90	—	—	—	—	—	90
Cash distributions	(37	)—	—	—	—	—	(37 )
Return of capital to Parent Issuer	—	—	—	(167	)—	167	—
Debt issuance costs	—	—	—	(2,712	)—	—	(2,712 )
Advances from parent	—	—	184,669	—	—	(184,669	)—
Payments to parent	—	—	(100,537	)	(16,412 )—	116,949	—
Net cash provided by financing activities	67,553	—	84,132	709	—	(67,553	)84,841
Change in cash and cash equivalents	—	—	(4,277	)	5	—	(4,272 )
Cash and cash equivalents at beginning of period	—	—	11,230	—	10	—	11,240
Cash and cash equivalents at end of period	\$—	\$—	\$6,953	\$5	\$10	\$—	\$6,968

Verso Paper Holdings LLC  
Condensed Consolidating Statements of Cash Flows  
Six Months Ended June 30, 2013

(Dollars in thousands)	Parent Issuer	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Non-Guarantor Affiliate	Eliminations	Consolidated
Net cash used in operating activities	\$—	\$—	\$(63,827)	)\$51	\$(7	)\$—	\$(63,783 )
Cash flows from investing activities:							
Proceeds from sale of assets	—	—	28,341	—	—	—	28,341
Transfers to restricted cash	—	—	(590	)\$51	)—	—	(641 )
Capital expenditures	—	—	(13,793	)—	—	—	(13,793 )
Return of capital to Parent Issuer	8,653	—	—	—	—	(8,653	)—
Advances to subsidiaries	(62,500	)—	—	—	—	62,500	—
Payments from subsidiaries	55,353	—	—	—	—	(55,353	)—
Net cash provided by investing activities	1,506	—	13,958	(51	)—	(1,506	)13,907
Cash flows from financing activities:							
Borrowings on revolving credit facilities	62,500	—	—	—	—	—	62,500
Payments on revolving credit facilities	(55,000	)—	—	—	—	—	(55,000 )
Debt issuance costs	(220	)—	—	—	—	—	(220 )
Return of capital to Verso Paper	(8,653	)—	—	—	—	—	(8,653 )
Cash distributions	(133	)—	—	—	—	—	(133 )
Return of capital to Parent Issuer	—	—	(8,653	)—	—	8,653	—
Advances from parent	—	—	62,500	—	—	(62,500	)—
Payments to parent	—	—	(55,353	)—	—	55,353	—
Net cash (used in) provided by financing activities	(1,506	)—	(1,506	)—	—	1,506	(1,506 )
Change in cash and cash equivalents	—	—	(51,375	)—	(7	)—	(51,382 )
Cash and cash equivalents at beginning of period	—	—	61,453	—	17	—	61,470
Cash and cash equivalents at end of period	\$—	\$—	\$10,078	\$—	\$10	\$—	\$10,088

Advances to and payments from subsidiaries amounts have been corrected to be presented in investing activities in conformity with current year presentation.

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

### Overview

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

### Financial Summary

Our net sales for the second quarter of 2014 decreased \$9.5 million, or 2.9%, compared to the second quarter of 2013, reflecting a 4.2% decrease in average sales price per ton and a 1.4% increase in total sales volume. Prices for our pulp segment were higher while coated and other segment prices declined. Continued declines in the coated paper market were offset by operational and input price improvements.

On January 3, 2014, Verso Paper, Verso Merger Sub Inc., a Delaware corporation and an indirect, wholly owned subsidiary of Verso Paper, or "Merger Sub," and NewPage Holdings Inc., a Delaware corporation, or "NewPage," entered into an Agreement and Plan of Merger, or the "Merger Agreement," pursuant to which Merger Sub will merge with and into NewPage on the terms and subject to the conditions set forth in the Merger Agreement, with NewPage surviving the merger as an indirect, wholly owned subsidiary of Verso.

On August 1, 2014, in accordance with the terms of the Merger Agreement, Verso Holdings and its direct, wholly owned subsidiary, Verso Paper Inc., or collectively the "Issuers," consummated (i) an offer to exchange the Issuers' new Second Priority Adjustable Senior Secured Notes, or "New Second Lien Notes," and warrants issued by Verso Paper that will be mandatorily convertible on a one-for-one basis into shares of Verso Paper common stock immediately prior to the NewPage acquisition, or "Warrants," for any and all of the Issuers' outstanding 8.75% Second Priority Senior Secured Notes due 2019, or "Old Second Lien Notes" (we refer to this exchange offer as the "Second Lien Notes Exchange Offer"), and (ii) an offer to exchange the Issuers' new Adjustable Senior Subordinated Notes, or "New Subordinated Notes," and Warrants for any and all of the Issuers' outstanding 11.38% Senior Subordinated Notes due 2016, or "Old Subordinated Notes" (we refer to this exchange offer as the "Subordinated Notes Exchange Offer"). We refer to the Second Lien Notes Exchange Offer, the Subordinated Notes Exchange Offer, and the transactions in connection therewith collectively as the "Exchange Offers."

### Results of Operations

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



## VERSO PAPER CORP.

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net sales	\$320,916	\$330,385	\$620,029	\$663,605
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	275,620	293,888	577,997	585,747
Depreciation, amortization, and depletion	25,458	26,307	51,141	52,287
Selling, general, and administrative expenses	17,811	19,180	35,403	37,976
Restructuring charges	—	166	—	1,182
Total operating expenses	318,889	339,541	664,541	677,192
Other operating income	—	(686)	) —	(3,971)
Operating income (loss)	2,027	(8,470)	) (44,512)	) (9,616)
Interest income	(1)	) (5)	) (1)	) (14)
Interest expense	35,675	34,440	70,152	69,100
Other loss, net	9,182	134	18,767	2,706
Loss before income taxes	(42,829)	) (43,039)	) (133,430)	) (81,408)
Income tax expense	10	—	19	9
Net loss	\$(42,839)	) \$(43,039)	) \$(133,449)	) \$(81,417)

## VERSO PAPER HOLDINGS LLC

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net sales	\$320,916	\$330,385	\$620,029	\$663,605
Costs and expenses:				
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	275,620	293,888	577,997	585,747
Depreciation, amortization, and depletion	25,458	26,307	51,141	52,287
Selling, general, and administrative expenses	17,811	19,180	35,403	37,976
Restructuring charges	—	166	—	1,182
Total operating expenses	318,889	339,541	664,541	677,192
Other operating income	—	(686)	) —	(3,971)
Operating income (loss)	2,027	(8,470)	) (44,512)	) (9,616)
Interest income	(379)	) (384)	) (758)	) (772)
Interest expense	36,054	34,819	70,910	69,258
Other loss, net	9,182	134	18,767	2,706
Net loss	\$(42,830)	) \$(43,039)	) \$(133,431)	) \$(80,808)

## Second Quarter of 2014 Compared to Second Quarter of 2013

Net Sales. Net sales for the second quarter of 2014 decreased 2.9% to \$320.9 million from \$330.4 million in the second quarter of 2013, reflecting a 4.2% decrease in average sales price per ton and a 1.4% increase in total sales volume.

Net sales for our coated papers segment decreased 10.9% in the second quarter of 2014 to \$225.4 million from \$253.1 million for the same period in 2013, due to a 6.0% decrease in paper sales volume and a 5.2% decline in average sales



price per ton. The declines in sales volume and price were driven by declining demand for coated papers.

Net sales for our market pulp segment increased 20.1% in the second quarter of 2014 to \$45.8 million from \$38.2 million for the same period in 2013. Sales volume increased 16.1% due to additional sales of excess pulp at our Androscoggin mill driven by favorable market pulp prices. The average sales price per ton increased 3.5% compared to the second quarter of 2013.

Net sales for our other segment increased 26.6% to \$49.7 million in second quarter of 2014 from \$39.1 million in the second quarter of 2013. The overall increase was driven by a 32.8% increase in sales volume, partially offset by a 4.7% decrease in average sales price per ton.

Cost of sales. Cost of sales, including depreciation, amortization, and depletion, was \$301.1 million in the second quarter of 2014 compared to \$320.2 million in 2013, reflecting lower input prices and increased productivity associated with the deferral of annual maintenance outages at our mills. Our gross margin, excluding depreciation, amortization, and depletion, was 14.1% for the second quarter of 2014 compared to 11.0% for the second quarter of 2013. Depreciation, amortization, and depletion expenses were \$25.4 million for the second quarter of 2014 compared to \$26.3 million for the second quarter of 2013.

Selling, general, and administrative. Selling, general, and administrative expenses were \$17.8 million in the second quarter of 2014 compared to \$19.2 million for the second quarter of 2013.

Interest expense. Verso Paper's interest expense for the second quarter of 2014 was \$35.7 million compared to \$34.4 million for the same period in 2013. Verso Holdings' interest expense was \$36.0 million for the second quarter of 2014 compared to \$34.8 million for the same period in 2013.

Other loss, net. Other loss, net for the second quarter of 2014 was \$9.1 million and reflected costs incurred in connection with the NewPage acquisition. Other loss, net of \$0.1 million for the same period in 2013 reflected losses related to debt refinancing.

#### First Six Months of 2014 Compared to First Six Months of 2013

Net Sales. Net sales for the six months ended June 30, 2014, decreased 6.6% to \$620.0 million from \$663.6 million in the six months ended June 30, 2013, due to a 3.6% decline in total sales volume and a 3.1% decrease in average sales price per ton compared to the same period last year.

Net sales for our coated papers segment decreased 11.9% for the six months ended June 30, 2014 to \$443.7 million from \$503.6 million for the same period in 2013, due to a 7.4% decline in paper sales volume. The average sales price per ton of coated paper decreased 4.9% compared to the same period last year.

Net sales for our market pulp segment increased 8.9% for the six months ended June 30, 2014 to \$82.0 million from \$75.4 million for the same period in 2013. The average sales price per ton increased 8.3% compared to the six months ended June 30, 2013 due to improved market conditions. Sales volume increased 0.5% compared to the same period last year.

Net sales for our other segment increased 11.3% to \$94.3 million in the six months ended June 30, 2014 from \$84.6 million in the six months ended June 30, 2013. Sales volume increased 15.8% for the six months ended June 30, 2014 compared to the same period last year, while the average sales price decreased 3.9% compared to the same period last year.

Cost of sales. Cost of sales, including depreciation, amortization, and depletion, was \$629.1 million in the six months ended June 30, 2014 compared to \$638.0 million in 2013. Our gross margin, excluding depreciation, amortization,

and depletion, was 6.8% for the six months ended June 30, 2014 compared to 11.7% for the six months ended June 30, 2013, reflecting higher average sales prices in 2013. Depreciation, amortization, and depletion expenses were \$51.1 million for the six months ended June 30, 2014 compared to \$52.3 million for the six months ended June 30, 2013.

**Selling, general, and administrative.** Selling, general, and administrative expenses were \$35.4 million in the six months ended June 30, 2014 compared to \$38.0 million in 2013 as a result of decreased incentive compensation in light of declining operating performance.

**Restructuring charges.** Restructuring charges for the six months ended June 30, 2013 were \$1.2 million and consisted primarily of facility operations and personnel costs for the former Sartell mill site through the date of sale.

**Other operating income.** Other operating income for the six months ended June 30, 2013 was \$4.0 million and consisted of the gain on the sales of the former Sartell mill and the assets of Verso Fiber Farm LLC.

Interest expense. Verso Paper's interest expense for the six months ended June 30, 2014 was \$70.2 million compared to \$69.1 million for the same period in 2013. Verso Holdings' interest expense was \$70.9 million for the six months ended June 30, 2014 compared to \$69.3 million for the same period in 2013.

Other loss, net. Other loss, net was \$18.7 million for the six months ended June 30, 2014 and reflected costs incurred in connection with the NewPage acquisition. Other loss, net of \$2.7 million in the six months ended June 30, 2013, was primarily attributable to losses related to debt refinancing.

#### Reconciliation of Cash Flows from Operating Activities to Adjusted EBITDA

EBITDA consists of earnings before interest, taxes, depreciation, and amortization. EBITDA is a measure commonly used in our industry, and we present EBITDA to enhance your understanding of our operating performance. We use EBITDA as a way of evaluating our performance relative to that of our peers. We believe that EBITDA is an operating performance measure, and not a liquidity measure, that provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles, and ages of related assets among otherwise comparable companies.

Adjusted EBITDA is EBITDA further adjusted to eliminate the impact of certain items that we do not consider to be indicative of the performance of our ongoing operations permitted in calculating covenant compliance under the indentures governing our debt securities. Adjusted EBITDA is modified to align the mark-to-market impact of derivative contracts used to economically hedge a portion of future natural gas purchases with the period in which the contracts settle. You are encouraged to evaluate each adjustment and to consider whether the adjustment is appropriate. In addition, in evaluating adjusted EBITDA, you should be aware that in the future, we may incur expenses similar to the adjustments included in the presentation of Adjusted EBITDA. We believe that the supplemental adjustments applied in calculating Adjusted EBITDA are reasonable and appropriate to provide additional information to investors. We also believe that Adjusted EBITDA is a useful liquidity measurement tool for assessing our ability to meet our future debt service, capital expenditures, and working capital requirements.

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

(Dollars in millions)	VERSO PAPER			
	Six Months	Year	Six Months	Twelve Months
	Ended	Ended	Ended	Ended
	June 30,	December 31,	June 30,	June 30,
2013	2013	2014	2014	
Cash flows from operating activities	\$(64.0	)\$(27.7	)\$(68.5	)\$(32.2
Income tax benefit	—	(0.6	)—	(0.6
Amortization of debt issuance costs	(2.7	)5.4	)3.7	)6.4
Accretion of discount on long-term debt	(0.3	)0.6	)0.3	)0.6
Equity award expense	(0.9	)1.8	)0.8	)1.7
Interest expense	69.1	137.8	70.2	138.9
Gain (loss) on disposal of assets	4.0	4.0	(0.2	)0.2
Other, net	(1.1	)0.8	)12.1	)11.8
Changes in assets and liabilities, net	35.9	25.8	3.3	(6.8
EBITDA	40.0	130.7	(12.1	)78.6
NewPage acquisition-related costs <sup>(1)</sup>	—	5.2	18.7	23.9
Hedge (gains) losses <sup>(2)</sup>	—	(14.3	)10.8	(3.5
Equity award expense <sup>(3)</sup>	0.9	1.8	0.8	1.7
Restructuring charges <sup>(4)</sup>	1.2	1.4	—	0.2
Loss on extinguishment of debt, net <sup>(5)</sup>	2.7	2.8	—	0.1
Other items, net <sup>(6)</sup>	(2.5	)1.9	1.5	5.9
Adjusted EBITDA before pro forma effects of profitability program	42.3	129.5	19.7	106.9

(1) Represents costs incurred in connection with the NewPage acquisition.

(2) Represents unrealized (gains) losses on energy-related derivative contracts.

(3) Represents amortization of non-cash incentive compensation.

(4) Represents costs primarily associated with the closure of the former Sartell mill in 2012.

(5) Represents net losses related to debt refinancing.

(6) Represents miscellaneous non-cash and other earnings adjustments, including the gains on sales of the former Sartell mill and the Fiber Farm assets in 2013.

(Dollars in millions)	VERSO PAPER			
	Six Months	Year	Six Months	Twelve Months
	Ended	Ended	Ended	Ended
	June 30,	December 31,	June 30,	June 30,
2013	2013	2014	2014	
Net loss	\$(81.4	)\$(111.2	)\$(133.4	)\$(163.2
Income tax benefit	—	(0.6	)—	(0.6
Interest expense	69.1	137.8	70.2	138.9
Depreciation, amortization, and depletion	52.3	104.7	51.1	103.5
EBITDA	\$40.0	\$130.7	\$(12.1	)78.6

### Seasonality

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

### Liquidity and Capital Resources

We have historically relied primarily upon cash flows from operations and borrowings under our revolving credit facilities to finance operations, capital expenditures, and debt service requirements. As of June 30, 2014, we had \$1.3 billion in borrowings outstanding under our existing financing arrangements. Also as of June 30, 2014, \$95.4 million was available for future borrowings under our revolving credit facilities. Our debt arrangements contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. 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. If we are unable to repay our indebtedness when due or declared due, the lenders thereunder will also have the right to proceed against the collateral pledged to them to secure the indebtedness. Our indebtedness requires us to dedicate a substantial portion of our cash flows from operations to payments for our debt service, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts, and other corporate purposes. In addition, our indebtedness increases our vulnerability to adverse economic and industry conditions and places us at a competitive disadvantage compared to competitors that have less debt.

No assurance can be given that we will be able to generate sufficient cash flows from operations or that future borrowings will be available under our revolving credit facilities in an amount sufficient to fund our liquidity needs. Our ability to achieve our future projected operating results is largely based on the successful completion of the planned acquisition of NewPage and the synergies expected to be achieved from the acquisition. There can be no assurance that the conditions required to complete the acquisition of NewPage, including regulatory clearance, will be satisfied, and satisfying the conditions necessary to achieve the acquisition could take longer and cost more than we expect and delay the effective time of the acquisition for a significant period of time or prevent it from occurring. If the acquisition and the integration of the companies' respective businesses are not completed within the expected timeframe, or if any additional conditions are imposed in order to complete the acquisition, the synergies and other benefits that we expect to achieve could be materially and adversely affected, and these situations could result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the acquisition. If we are unable to complete the acquisition of NewPage or otherwise meet our projected performance targets, our liquidity could be adversely impacted and we may need to seek additional sources of liquidity. Our future performance could adversely affect our ability to raise additional capital to fund our operations, and there is no assurance that financing will be available in a sufficient amount, on acceptable terms, or on a timely basis.

Our ability to continue as a going concern is dependent on management's plans, which are centered on the NewPage acquisition, and also include potential asset acquisitions or dispositions, mergers or business combinations with other entities, and continuing to raise funds through debt and/or equity financings. Our future projected operating results for current operations alone raise substantial doubt as to our ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These

financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

As we focus on managing our expenses and cash flows, we continue to assess and implement, as appropriate, various earnings enhancement and expense reduction initiatives. Management has developed a company-wide cost reduction program and expects to yield approximately \$27 million of additional cost reductions, of which approximately \$20 million are expected to be realized in the remainder of 2014 and the remaining \$7 million are expected to be realized in 2015. We continue to search for and develop additional cost saving measures; however, no assurance can be given that the anticipated benefits we project will be realized as expected or at all. In addition, we continue to evaluate selling non-strategic assets in the future to obtain additional liquidity.

Verso Paper's and Verso Holdings' cash flows from operating, investing and financing activities, as reflected in the accompanying condensed consolidated statements of cash flows, are summarized in the following table.

(Dollars in thousands)	VERSO PAPER		VERSO HOLDINGS	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net cash (used in) provided by:				
Operating activities	\$(68,531	) \$(64,046	) \$(68,495	) \$(63,783
Investing activities	(20,618	) 13,907	(20,618	) 13,907
Financing activities	84,823	(1,243	) 84,841	(1,506
Net change in cash and cash equivalents	\$ (4,326	) \$(51,382	) \$ (4,272	) \$(51,382

Operating activities. In the first six months of 2014, Verso Paper's net cash used in operating activities of \$68.5 million reflects a net loss of \$133.4 million adjusted for non-cash depreciation, amortization, and accretion of \$55.1 million and an increase in working capital of \$4.3 million. The change in working capital reflects seasonal increases in inventory and a decrease in accounts payable.

In the first six months of 2013, Verso Paper's net cash used in operating activities of \$64.0 million reflected a net loss of \$81.4 million adjusted for non-cash depreciation, amortization, depletion and accretion of \$55.3 million and an increase in working capital of \$39.5 million. The change in working capital reflected a seasonal increase in inventory and a decrease in accounts payable and accrued liabilities related to the timing of supplier and customer rebates as well as cash outflows for items included in the restructuring reserve at the end of the previous year. Verso Holdings' operating cash flows are the same as those of Verso Paper in all material respects.

Investing activities. In the first six months of 2014, Verso Paper's net cash used in investing activities of \$20.6 million reflects capital expenditures of \$27.0 million. This compares to \$13.9 million of net cash provided by investing activities in the first six months of 2013, which included proceeds from the sales of our former Sartell mill and the Fiber Farm assets of \$28.3 million, capital expenditures of \$13.8 million, net of \$13.7 million of governmental grants received in conjunction with a renewable energy project at our mill in Bucksport, Maine. Verso Holdings' investing cash flows are the same as those of Verso Paper.

Financing activities. In the first six months of 2014, Verso Paper's net cash provided by financing activities was \$84.8 million compared to net cash used in financing activities of \$1.2 million in the first six months of 2013. Cash provided by financing activities in the first six months of 2014, resulted primarily from net borrowings on our revolving credit facilities. Cash used in financing activities in the first six months of 2013 represented net borrowings on our revolving credit facilities offset by payments on the Verso Finance Senior Unsecured Term Loans. Verso Holdings' distribution to Verso Finance for payment of the Senior Unsecured Term Loans is reflected as a return of capital in the Statements of Cash Flows.

Revolving Credit Facilities. In 2012, Verso Holdings entered into revolving credit facilities consisting of a \$150.0 million asset-based loan facility, or "ABL Facility," and a \$50.0 million cash-flow facility, or "Cash Flow Facility." Verso Holdings' ABL Facility had \$67.5 million outstanding, \$39.9 million in letters of credit issued, and \$25.4 million available for future borrowing as of June 30, 2014. Verso Holdings' Cash Flow Facility had no outstanding balance, no letters of credit issued, and \$50.0 million available for future borrowing as of June 30, 2014. The indebtedness under the revolving credit facilities bears interest at a floating rate based on a margin over a base rate or eurocurrency rate. As of June 30, 2014, the applicable margin for advances under the ABL Facility was 1.25% for base rate advances and 2.25% for LIBOR advances, and the applicable margin for advances under the Cash Flow Facility was 3.75% for base rate advances and 4.75% for LIBOR advances. As of June 30, 2014, the weighted-average interest rate on outstanding advances was 2.51%. Verso Holdings is required to pay a commitment fee to the lenders in respect of the unused commitments under the ABL Facility at an annual rate of either 0.375% or 0.50%, based on daily average utilization, and under the Cash Flow Facility at an annual rate of 0.625%. The indebtedness under the



revolving credit facilities is guaranteed jointly and severally by Verso Finance and each of Verso Holdings' subsidiaries, subject to certain exceptions, and the indebtedness and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The indebtedness under the ABL Facility and related guarantees are secured by first-priority security interests, subject to permitted liens, in substantially all of Verso Holdings', Verso Finance's, and the subsidiary guarantors' inventory and accounts receivable, or "ABL Priority Collateral," and second-priority security interests, subject to permitted liens, in substantially all of their other assets, or "Notes Priority Collateral." The indebtedness under the Cash Flow Facility and related guarantees are secured, pari passu with the 11.75% Senior Secured Notes due 2019 and related guarantees, by first-priority security interests in the Notes Priority Collateral and second-priority security interests in the ABL Priority Collateral. The revolving facilities will mature on May 4, 2017, unless, on any of the dates that is 91 days prior to the scheduled maturity of the 11.38% Senior Subordinated Notes, an aggregate principal amount in excess of \$100.0 million of

indebtedness under such existing subordinated notes is outstanding, in which case the revolving credit facilities will mature on such earlier date. On January 3, 2014, Verso Holdings entered into certain amendments to the revolving credit facilities in connection with the NewPage acquisition, in which (a) the lenders under each of our revolving credit facilities consented to the NewPage acquisition and the other transactions contemplated by the Merger Agreement, including the incurrence of certain additional indebtedness, (b) the lenders consented to amendments to allow the sale and/or financing of certain non-core assets and (c) the parties agreed to amend our revolving credit facilities to allow for certain other transactions upon the consummation of the NewPage acquisition and the other transactions contemplated by the Merger Agreement.

**Verso Androscoggin Power LLC Revolving Credit Facility.** On May 5, 2014, acting through a wholly owned subsidiary, Verso Androscoggin Power LLC, or "VAP," Verso Holdings entered into a credit agreement providing for a \$40 million revolving credit facility with Barclays Bank PLC and Credit Suisse AG, Cayman Islands Branch. Borrowings under the credit facility bear interest at a rate equal to an applicable margin plus, at the option of VAP, either (a) a base rate determined by reference to the highest of the U.S. federal funds rate plus 0.50%, the prime rate of the administrative agent, and the adjusted LIBOR for a one-month interest period plus 1.00%, or (b) a eurocurrency rate, or "LIBOR," determined by reference to the cost of funds for eurocurrency deposits in dollars in the London interbank market for the interest period relevant to such borrowing adjusted for certain additional costs. As of June 30, 2014, the applicable margin for advances under the credit facility is 2.00% for base rate advances and 3.00% for LIBOR advances. On and after November 5, 2014, the applicable margin for advances under the credit facility will be 3.00% for base rate advances and 4.00% for LIBOR advances. As of June 30, 2014, the weighted-average interest rate on outstanding advances was 5.25%. The credit facility will mature on the earliest to occur of (a) May 5, 2015, (b) the date that is 30 days after the consummation of our pending acquisition of NewPage, and (c) the date that is 60 days after the termination of the Merger Agreement or the abandonment of the NewPage acquisition; however, upon written notice by VAP to the administrative agent, VAP may request that the commitments under the credit facility be converted to extend the maturity date. The indebtedness under the credit facility is secured by substantially all of VAP's assets, which consist principally of four hydroelectric facilities associated with our Androscoggin mill and related electricity transmission equipment. The indebtedness under the credit facility is guaranteed by Verso Maine Power Holdings LLC, or "VMPH," VAP's sole member, and the guaranty is secured by a pledge of VMPH's equity interest in VAP.

**11.75% Senior Secured Notes due 2019.** In 2012, Verso Holdings issued \$345.0 million aggregate principal amount of 11.75% Senior Secured Notes due 2019. In 2013, Verso Holdings issued \$72.9 million aggregate principal amount of its 11.75% Senior Secured Notes due 2019 to certain lenders holding approximately \$85.8 million aggregate principal amount of Verso Finance's Senior Unsecured Term Loans, and net accrued interest through the closing date, at an exchange rate of 85%, in exchange for the assignment to Verso Finance of its Senior Unsecured Term Loans and the cancellation of such loans. After such exchange there are no longer any outstanding Senior Unsecured Term Loans.

The 11.75% Senior Secured Notes due 2019 issued in 2012 and 2013 constitute one class of securities. The notes bear interest, payable semi-annually, at the rate of 11.75% per year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The indebtedness under the notes and related guarantees are secured, *pari passu* with the Cash Flow Facility and related guarantees, by first-priority security interests in the Notes Priority Collateral and second-priority security interests in the ABL Priority Collateral. The notes will mature on January 15, 2019; provided, however, that, if as of 45 days prior to the maturity date of our 11.38% Senior Subordinated Notes due 2016, more than \$100.0 million of such Senior Subordinated Notes remains outstanding, the notes will mature on that day.

11.75% Secured Notes due 2019. In 2012, Verso Holdings issued \$271.6 million aggregate principal amount of 11.75% Secured Notes due 2019. The notes bear interest, payable semi-annually, at the rate of 11.75% per year. The notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. The notes and related guarantees are secured by security interests, subject to permitted liens, in substantially all of Verso Holdings' and the guarantors' tangible and intangible assets. The security interests securing the notes rank junior to those securing the obligations under the ABL Facility, the Cash Flow Facility, and the 11.75% Senior Secured Notes due 2019 and rank senior to those securing the 8.75% Second Priority Senior Secured Notes due 2019. The notes will mature on January 15, 2019.

8.75% Second Priority Senior Secured Notes due 2019. In 2011, Verso Holdings issued \$396.0 million aggregate principal amount of 8.75% Second Priority Senior Secured Notes due 2019, or "Old Second Lien Notes." The Old Second Lien Notes bear interest, payable semi-annually, at the rate of 8.75% per year. The Old Second Lien Notes are guaranteed jointly and severally by each of Verso Holdings' subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. On August 1, 2014, approximately \$299.4 million aggregate principal amount of Old Second Lien Notes were tendered and accepted in exchange for a like amount of New Second Lien Notes and approximately 9.3 million Warrants in the Second Lien Notes Exchange Offer. Following the settlement of the

Second Lien Notes Exchange Offer, approximately \$96.6 million aggregate principal amount of the Old Second Lien Notes remain outstanding. As of August 1, 2014, the Old Second Lien Notes were amended by a supplemental indenture so as to (i) eliminate or waive substantially all of the restrictive covenants contained in the indenture governing such notes, (ii) eliminate certain events of default, (iii) modify covenants regarding mergers and consolidations, and (iv) modify or eliminate certain other provisions, including, in some cases, certain provisions relating to defeasance, contained in such indenture and such notes. In addition, as of August 1, 2014, the Old Second Lien Notes are no longer secured by any collateral. The Old Second Lien Notes will mature on February 1, 2019.

Second Priority Adjustable Senior Secured Notes. On August 1, 2014, Verso Holdings issued approximately \$299.4 million aggregate principal amount of the Second Priority Adjustable Senior Secured Notes, or “New Second Lien Notes,” and approximately 9.3 million Warrants in exchange for a like amount of the Old Second Lien Notes in the Second Lien Notes Exchange Offer. Interest is payable semi-annually on the New Second Lien Notes. The New Second Lien Notes are guaranteed jointly and severally by each of Verso Holdings’ subsidiaries, subject to certain exceptions, and the notes and guarantees are senior secured obligations of Verso Holdings and the guarantors, respectively. Following the consummation of the NewPage acquisition, the New Second Lien Notes will be guaranteed by NewPage. The New Second Lien Notes will not be guaranteed by the subsidiaries of NewPage, nor will any of the assets of such subsidiaries constitute collateral for the New Second Lien Notes.

Prior to the consummation of the NewPage acquisition, the New Second Lien Notes bear interest at a rate of 8.75% per annum and mature on February 1, 2019. On and after the consummation of the NewPage acquisition, the terms and conditions of the New Second Lien Notes will be adjusted so that, among other adjustments, (i) the principal amount of the New Second Lien Notes will be adjusted such that a holder of \$1,000 principal amount of New Second Lien Notes immediately prior to the NewPage acquisition will hold \$593.75 principal amount of New Second Lien Notes immediately following the NewPage acquisition, (ii) the maturity date of the New Second Lien Notes will be extended from February 1, 2019, to August 1, 2020, and (iii) the interest rate will be adjusted such that the New Second Lien Notes will bear interest from and after the date of the consummation of the NewPage acquisition at a rate of 10.00% per annum payable in cash plus 3.0% per annum payable by increasing the principal amount of the outstanding New Second Lien Notes or by issuing additional New Second Lien Notes. The New Second Lien Notes provide for a special interest payment in the event that the NewPage acquisition does not occur.

Second Priority Senior Secured Floating Rate Notes due 2014. In 2006, Verso Holdings issued \$250.0 million aggregate principal amount of Second Priority Senior Secured Floating Rate Notes due 2014. As of June 30, 2014, \$13.3 million aggregate principal amount of the notes were outstanding. The notes bear interest, payable quarterly, at a rate equal to LIBOR plus 3.75% per year. As of June 30, 2014, the interest rate on the notes was 3.98% per year. The notes were guaranteed jointly and severally by each of Verso Holdings’ subsidiaries, subject to certain exceptions. As of June 30, 2014, the balance of the notes was included in Current maturities of long-term debt on the accompanying condensed consolidated balance sheet. The notes matured and were paid on August 1, 2014.

11.38% Senior Subordinated Notes due 2016. In 2006, Verso Holdings issued \$300.0 million aggregate principal amount of 11.38% Senior Subordinated Notes due 2016, or “Old Subordinated Notes.” As of June 30, 2014, \$142.5 million aggregate principal amount of the Old Subordinated Notes remained outstanding. The Old Subordinated Notes bear interest, payable semi-annually, at the rate of 11.38% per year. The Old Subordinated Notes are guaranteed jointly and severally by each of Verso Holdings’ subsidiaries, subject to certain exceptions, and the notes and guarantees are unsecured senior subordinated obligations of Verso Holdings and the guarantors, respectively. On August 1, 2014, approximately \$102.0 million aggregate principal amount of the Old Subordinated Notes were tendered and accepted in exchange for a like amount of New Subordinated Notes and approximately 5.4 million Warrants in the Subordinated Notes Exchange Offer. Following the settlement of the Subordinated Notes Exchange Offer, approximately \$40.5 million aggregate principal amount of the Old Subordinated Notes remain outstanding. As of August 1, 2014, the Old Subordinated Notes were amended by a supplemental indenture so as to (i) eliminate or waive substantially all of the restrictive covenants contained in the indenture governing such notes, (ii) eliminate certain events of default, (iii) modify covenants regarding mergers and consolidations, and (iv) modify or eliminate

certain other provisions, including, in some cases, certain provisions relating to defeasance, contained in such indenture and such notes. The Old Subordinated Notes will mature on August 1, 2016.

Adjustable Senior Subordinated Notes. On August 1, 2014, Verso Holdings issued approximately \$102.0 million aggregate principal amount of the Adjustable Senior Subordinated Notes, or “New Subordinated Notes,” and approximately 5.4 million Warrants in exchange for a like amount of the Old Subordinated Notes in the Subordinated Notes Exchange Offer. The New Subordinated Notes are guaranteed jointly and severally by each of Verso Holdings’ subsidiaries, subject to certain exceptions, and the notes and guarantees are unsecured senior subordinated obligations of Verso Holdings and the guarantors, respectively. Following the consummation of the NewPage acquisition, the New Subordinated Notes will be guaranteed by NewPage, but not its subsidiaries.

Prior to the consummation of the NewPage acquisition, the New Subordinated Notes bear interest at a rate of 11.38% per annum and mature on August 1, 2016. On and after the consummation of the NewPage acquisition, the terms and conditions of the New Subordinated Notes will be adjusted so that, among other adjustments, (i) the principal amount of the New Subordinated Notes will be adjusted such that a holder of \$1,000 principal amount of New Subordinated Notes immediately prior to the NewPage acquisition will hold \$620 principal amount of New Subordinated Notes immediately following the NewPage acquisition, (ii) the maturity date of the New Subordinated Notes will be extended from August 1, 2016, to August 1, 2020, and (iii) the interest rate will be adjusted such that the New Subordinated Notes will bear interest from and after the date of the consummation of the NewPage acquisition at a rate of 11.00% per annum payable in cash plus 5.0% per annum payable by increasing the principal amount of the outstanding New Subordinated Notes or by issuing additional New Subordinated Notes. The New Subordinated Notes provide for a special interest payment in the event that the NewPage acquisition does not occur.

Loan from Verso Paper Finance Holdings LLC/ Verso Paper Holdings LLC. In 2010, Verso Quinnesec REP LLC, an indirect, wholly-owned subsidiary of Verso Holdings, entered into a financing transaction with Chase NMTC Verso Investment Fund, LLC, or the "Investment Fund," a consolidated variable interest entity. Under this arrangement, Verso Holdings loaned \$23.3 million to Verso Finance at an interest rate of 6.5% per year and with a maturity of December 29, 2040, and Verso Finance, in turn, loaned the funds on similar terms to the Investment Fund. The Investment Fund then contributed the loan proceeds to certain community development entities, which, in turn, loaned the funds on similar terms to Verso Quinnesec REP LLC as partial financing for the renewable energy project at our mill in Quinnesec, Michigan.

As a holding company, Verso Paper's investments in its operating subsidiaries constitute substantially all of its operating assets. Consequently, Verso Paper's subsidiaries conduct all of its consolidated operations and own substantially all of its operating assets. Verso Paper's principal source of the cash it needs to pay its debts is the cash that its subsidiaries generate from their operations and their borrowings. Verso Paper's subsidiaries are not obligated to make funds available to it. The terms of the revolving credit facilities and the indentures governing the outstanding notes of Verso Paper's subsidiaries significantly restrict its subsidiaries from paying dividends and otherwise transferring assets to Verso Paper. Furthermore, Verso Paper's subsidiaries are permitted under the terms of the revolving 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 Verso Paper. Although the terms of the debt agreements of Verso Paper's subsidiaries do not restrict its operating subsidiaries from obtaining funds from their respective subsidiaries to fund their operations and payments on indebtedness, there can be no assurance that the agreements governing the current and future indebtedness of its subsidiaries will permit its subsidiaries to provide Verso Paper with sufficient dividends, distributions or loans to fund its obligations or pay dividends to its stockholders.

We may elect to retire our outstanding debt in open market purchases, privately negotiated transactions, or otherwise. These repurchases may be funded through available cash from operations and borrowings under our revolving credit facilities. Such repurchases are dependent on prevailing market conditions, our liquidity requirements, contractual restrictions, and other factors.

Warrants. On August 1, 2014, Verso Paper issued approximately 14.7 million Warrants that are mandatorily convertible on a one-for-one basis into approximately 14.7 million shares of Verso Paper common stock immediately prior to the consummation of the NewPage acquisition (and are not otherwise exercisable or convertible). The Warrants were issued by Verso Paper as part of the consideration for the approximately \$299.4 million aggregate principal amount of Old Second Lien Notes and approximately \$102.0 million aggregate principal amount of Old Subordinated Notes that were tendered and accepted in the Exchange Offers.

Financing Transactions in Connection with NewPage Acquisition. On January 3, 2014, Verso Paper, Merger Sub and NewPage entered into the Merger Agreement, pursuant to which Merger Sub will merge with and into NewPage on the terms and subject to the conditions set forth in the Merger Agreement, with NewPage surviving the merger as an indirect, wholly owned subsidiary of Verso.

The Merger Agreement provides for a series of transactions pursuant to which the equity holders of NewPage will receive (i) \$250 million in cash, approximately \$243 million of which has been paid to NewPage's stockholders as a dividend from the proceeds of the NewPage term loan facility, plus the cash actually received by NewPage in respect of any exercises of NewPage stock options between the date of the Merger Agreement and the closing of the NewPage acquisition; (ii) up to \$650 million aggregate principal amount of New First Lien Notes (valued at face value) to be issued at closing; and (iii) shares of Verso Paper common stock representing 20% (subject to potential upward adjustment to 25% under certain circumstances) of the sum of the outstanding shares of Verso Paper common stock as of the date immediately prior to closing and the shares, if

any, underlying vested, in-the-money stock options as of the signing of the Merger Agreement, or collectively the “Merger Consideration.” The amount of New First Lien Notes to be issued in the NewPage acquisition is subject to downward adjustment, in an amount not to exceed \$27 million in value, if NewPage makes certain restricted payments between September 30, 2013, and the closing of the NewPage acquisition. If the NewPage acquisition has not closed by August 31, 2014, and the reason for the failure to close by such date, or any subsequent delay in closing after such date, is solely the result of Verso Paper’s failure to take certain actions to satisfy certain closing conditions, the amount of Verso Paper common stock to be issued as Merger Consideration will increase in monthly increments by up to 5% so that the total amount of Verso Paper common stock issued as part of the Merger Consideration would be up to 25% of the sum of the outstanding shares as of the date immediately prior to closing and the shares, if any, underlying vested, in-the-money stock options as of the signing of the Merger Agreement.

As described above, on January 3, 2014, in connection with the entry into the Merger Agreement, we entered into amendments of our revolving credit facilities such that (a) the lenders under each of our revolving credit facilities consented to the NewPage acquisition and the other transactions contemplated by the Merger Agreement, including the incurrence of certain additional indebtedness, (b) the lenders consented to amendments to allow the sale and/or financing of certain non-core assets and (c) the parties agreed to amend our revolving credit facilities to allow for certain other transactions upon the consummation of the NewPage acquisition and the other transactions contemplated by the Merger Agreement. The pricing terms, maturities and commitments under our revolving credit facilities remain unchanged.

At the time of the closing of the NewPage acquisition, we expect to issue up to \$650 million aggregate principal amount of the New First Lien Notes to the current stockholders of NewPage as part of the Merger Consideration. The New First Lien Notes will be substantially similar to the existing 11.75% Senior Secured Notes due 2019, except for certain additional restrictive covenants and that we expect that we will not be permitted to repurchase them for one year after their issuance date unless we pay the holders a make-whole premium.

The issuers and guarantors of our debt securities (including the New First Lien Notes) and the borrower and guarantors of our revolving credit facilities will not guarantee the obligations under NewPage’s term loan facility and NewPage’s ABL facility, and the borrower and guarantors under NewPage’s term loan facility and NewPage’s ABL facility will not guarantee the obligations under our debt securities and credit facilities. Upon the consummation of the NewPage acquisition, NewPage (but not its subsidiaries) will guarantee certain of our debt securities and our credit facilities as required by the terms governing such debt.

Exchange Offers. On July 2, 2014, in accordance with the terms of the Merger Agreement, the Issuers commenced (i) the Second Lien Notes Exchange Offer providing for the exchange of New Second Lien Notes and Warrants for any and all of the Issuers’ outstanding Old Second Lien Notes and (ii) the Subordinated Notes Exchange Offer providing for the exchange of New Subordinated Notes and Warrants for any and all of the Issuers’ outstanding Old Subordinated Notes. On August 1, 2014, approximately \$299.4 million aggregate principal amount of Old Second Lien Notes were tendered and accepted in exchange for a like amount of New Second Lien Notes and approximately 9.3 million Warrants in the Second Lien Notes Exchange Offer, and approximately \$102.0 million aggregate principal amount of Old Subordinated Notes were tendered and accepted in exchange for a like amount of New Subordinated Notes and approximately 5.4 million Warrants in the Subordinated Notes Exchange Offer. In connection with the Second Lien Notes Exchange Offer and the Subordinated Notes Exchange Offer, the Issuers solicited and received consents to amend the Old Second Lien Notes, the Old Subordinated Notes and the indentures governing such notes, in order to (i) eliminate or waive substantially all of the restrictive covenants contained in the indentures governing such notes, (ii) eliminate certain events of default, (iii) modify covenants regarding mergers and consolidations, and (iv) modify or eliminate certain other provisions, including, in some cases, certain provisions relating to defeasance, contained in such indentures and such notes. In addition, the Issuers solicited and received consents to release the liens and security interests in the collateral securing the Old Second Lien Notes.



## Covenant Compliance

The credit agreements for our revolving credit facilities and the indentures governing our notes contain affirmative covenants as well as restrictive covenants that limit our ability to, among other things, incur additional indebtedness; pay dividends or make other distributions; repurchase or redeem our stock; make investments; sell assets, including capital stock of restricted subsidiaries; enter into agreements restricting our subsidiaries' ability to pay dividends; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; enter into transactions with our affiliates; and incur liens. These covenants can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. The material covenants in the indentures that are impacted by the calculation of Adjusted EBITDA are those that govern the amount of indebtedness that Verso Holdings and its subsidiaries may incur, whether Verso Holdings may make certain dividends, distributions or payments on subordinated indebtedness, and whether Verso Holdings may merge with

another company. Although there are limited baskets for incurring indebtedness contained in the indentures, the primary means for incurring additional indebtedness under the Indentures is to have a pro forma Fixed Charge Coverage Ratio of at least 2.00 to 1.00 after the incurrence of such additional indebtedness. This same test also applies to most dividends and other payments made in respect of Verso Holdings' equity and subordinated indebtedness and also to whether Verso Holdings may merge with another company. In the case of a merger, Verso Holdings may merge so long as either its Fixed Charge Coverage Ratio is at least 2.00 to 1.00 or that same ratio improves after giving pro forma effect to the merger. If Verso Holdings were not able to meet the Fixed Charge Coverage Ratio requirement contained in these covenants, it would limit our long-term growth prospects, as it would severely hinder Verso Holdings' ability to incur additional indebtedness for the purpose of completing acquisitions or capital improvement programs, among other things. In addition, if the ratio test were not met, distributions by Verso Holdings to Verso Paper would also be severely restricted. As of June 30, 2014, we were in compliance with the covenants in our debt agreements.

### Critical Accounting Policies

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

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

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

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

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

Management believes that the accounting estimates associated with determining fair value as part of the impairment analysis are critical accounting estimates because estimates and assumptions are made about our future performance and cash flows. The estimated fair value is generally determined on the basis of discounted future cash flows. We also consider a market-based approach and a combination of both. While management uses the best information

available to estimate future performance and cash flows, future adjustments to management's projections may be necessary if economic conditions differ substantially from the assumptions used in making the estimates.

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

Contingent liabilities. A liability is contingent if the outcome or amount is not presently known, but may become known in the future as a result of the occurrence of some uncertain future event. We estimate our contingent liabilities based on management's estimates about the probability of outcomes and their ability to estimate the range of exposure. Accounting

standards require that a liability be recorded if management determines that it is probable that a loss has occurred and the loss can be reasonably estimated. In addition, it must be probable that the loss will be confirmed by some future event. As part of the estimation process, management is required to make assumptions about matters that are by their nature highly uncertain.

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

#### Recent Accounting Developments

ASC Topic 405, Obligations from Joint and Several Liability Arrangements. In February 2013, the FASB issued Accounting Standards Update, or "ASU," 2013-04, Liabilities (Topic 405), Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. This ASU defines how entities measure obligations from joint and several liability arrangements which are fixed at the reporting date and for which no U.S. GAAP guidance exists. The guidance also requires entities to disclose the nature, amount and other information about those obligations. The ASU is effective for periods beginning after December 15, 2013. Retrospective presentation for all comparative periods presented is required. The adoption of this amendment in the first quarter of 2014, did not have a material impact on the presentation of our consolidated financial statements.

ASC Topic 605, Revenue Recognition. In May 2014, the FASB issued ASU 2014-09, Revenue From Contracts With Customers. This ASU will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for periods beginning after December 15, 2016 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are evaluating the impact of adopting this new accounting standard on our consolidated financial statements.

Other new accounting pronouncements issued but not effective until after June 30, 2014, are not expected to have a significant effect on our consolidated financial statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

#### Paper Prices

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

We are primarily focused on serving two end-use segments: catalogs and magazines. Coated paper demand is primarily driven by advertising and print media usage. Advertising spending and magazine and catalog circulation

tend to correlate with gross domestic product, or “GDP,” in the United States, as they rise with a strong economy and contract with a weak economy.

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

We reach our end-users through several channels, including printers, brokers, paper merchants, and direct sales to end-users. We sell and market our products to approximately 130 customers. During the first half of the year, Quad/Graphics, Inc. and Central National-Gottesman, Inc. accounted for approximately 13% and 11% of our net sales, respectively.

## Interest Rates

We have issued fixed- and floating-rate debt in order to manage our variability to cash flows from interest rates. Borrowings under the revolving credit facilities and the Second Priority Senior Secured Floating Rate Notes due 2014 accrue interest at variable rates. A 100 basis point increase in quoted interest rates on our outstanding floating-rate debt as of June 30, 2014, would increase annual interest expense by \$1.0 million. While we may enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

## Derivatives

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

We do not hedge the entire exposure of our operations from commodity price volatility for a variety of reasons. To the extent that we do not hedge against commodity price volatility, our results of operations may be affected either favorably or unfavorably by a shift in the future price curve. As of June 30, 2014, we had liabilities for net unrealized losses of \$0.3 million on open commodity contracts with maturities of one to twelve months. These derivative instruments involve the exchange of net cash settlements, based on changes in the price of the underlying commodity index compared to the fixed price offering, at specified intervals without the exchange of any underlying principal. A 10% decrease in commodity prices would have a negative impact of approximately \$2.9 million on the fair value of such instruments. This quantification of exposure to market risk does not take into account the offsetting impact of changes in prices on anticipated future energy purchases.

## Commodity Prices

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

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

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

Energy. We produce approximately 52% of our energy needs for our paper mills from sources such as waste wood, waste water, hydroelectric facilities, liquid biomass from our pulping process, 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 and ability to switch between certain energy sources mitigates the volatility of our overall energy expenditures, we expect prices for energy to remain volatile for the foreseeable future. We utilize derivative contracts as part of our risk management strategy to manage our exposure to market fluctuations in energy prices.

Off-Balance Sheet Arrangements

None.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of Verso Paper's disclosure controls and procedures as of June 30, 2014. Based upon this evaluation, and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that Verso Paper's disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2014.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of Verso Holdings' disclosure controls and procedures as of June 30, 2014. Based upon this evaluation, and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that Verso Holdings' disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2014.

Changes in Internal Control Over Financial Reporting

There was no change in Verso Paper's internal control over financial reporting during the fiscal quarter ended June 30, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

There was no change in Verso Holdings' internal control over financial reporting during the fiscal quarter ended June 30, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

For a detailed discussion of risk factors affecting us, see “Part I – Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

On August 1, 2014, Verso Paper issued 14,701,832 Warrants that are mandatorily convertible on a one-for-one basis into 14,701,832 shares of Verso Paper common stock immediately prior to the consummation of the NewPage acquisition (and are not otherwise exercisable or convertible). The Warrants were issued by Verso Paper as part of the consideration for the approximately \$299.4 million aggregate principal amount of Old Second Lien Notes and approximately \$102.0 million aggregate principal amount of Old Subordinated Notes that were tendered and accepted in the Exchange Offers. The Warrants were issued in transactions exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following exhibits are included with this report:

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Verso Paper Corp. <sup>(1)</sup>
3.2	Amended and Restated Bylaws of Verso Paper Corp. <sup>(2)</sup>
3.3	Certificate of Formation, as amended, of Verso Paper Holdings LLC. <sup>(3)</sup>
3.4	Amended and Restated Limited Liability Company Agreement of Verso Paper Holdings LLC. <sup>(3)</sup>
4.1	Indenture dated as of August 1, 2014, among Verso Paper Holdings LLC, Verso Paper Inc., the guarantors named therein and Wilmington Trust, National Association, as trustee, with respect to the Second Priority Adjustable Senior Secured Notes. <sup>(4)</sup>
4.2	Indenture dated as of August 1, 2014, among Verso Paper Holdings LLC, Verso Paper Inc., the guarantors named therein and Wilmington Trust, National Association, as trustee, with respect to the Adjustable Senior Subordinated Notes. <sup>(4)</sup>
4.3	Warrant Agreement, dated as of August 1, 2014, among Verso Paper Corp. and Registrar & Transfer Co., as warrant agent, with respect to the Warrants for Common Stock. <sup>(4)</sup>
4.4	Notes Registration Rights Agreement dated as of August 1, 2014, among Verso Paper Holdings LLC, Verso Paper Inc., the subsidiaries of Verso Paper Holdings LLC named therein and Evercore Group LLC, Credit Suisse Securities (USA) LLC and Barclays Capital Inc., as dealer managers. <sup>(4)</sup>
4.5	Common Stock Registration Rights Agreement dated as of August 1, 2014, among Verso Paper Corp. and Evercore Group LLC, Credit Suisse Securities (USA) LLC and Barclays Capital Inc., as dealer managers. <sup>(4)</sup>
4.6	Second Supplemental Indenture dated as of August 1, 2014, by and among Verso Paper Holdings LLC, Verso Paper Inc., the guarantors party thereto and Wilmington Trust Company, as trustee, to the Indenture, dated as of January 26, 2011, by and among Verso Paper Holdings LLC, Verso Paper Inc., the guarantors named therein, and Wilmington Trust Company, as trustee, pursuant to which the 8.75% Second Priority Senior Secured Notes due 2019 were issued. <sup>(4)</sup>
4.7	Fourth Supplemental Indenture dated as of August 1, 2014, by and among Verso Paper Holdings LLC, Verso Paper Inc., the guarantors party thereto and Wilmington Trust Company, as trustee, to the Indenture, dated as of August 1, 2006, by and among Verso Paper Holdings LLC, Verso Paper Inc., the guarantors named therein, and Wilmington Trust Company, as trustee, pursuant to which the 11 % Senior Subordinated Notes due 2016 were issued. <sup>(4)</sup>
10.1	Credit Agreement dated as of May 5, 2014, among Verso Maine Power Holdings LLC, Verso Androscoggin Power LLC, the lenders party thereto, Barclays Bank PLC, as administrative agent and collateral agent, and Barclays Bank PLC and Credit Suisse Securities (USA) LLC, as joint lead arrangers and joint book runners. <sup>(5)</sup>
10.2	Joinder and Supplement No. 6 to Intercreditor Agreement dated as of August 1, 2014, among Wilmington Trust, National Association, as second priority agent and as second priority designated agent, Citibank, N.A., as intercreditor agent, Wilmington Trust Company, as former second priority designated agent, Verso Paper Inc., Verso Paper Finance Holdings LLC, Verso Paper Holdings LLC and the subsidiaries of Verso Paper Holdings LLC named therein. <sup>(4)</sup>
10.3	Collateral Agreement dated as of August 1, 2014, among Verso Paper Holdings LLC, Verso Paper Inc., each subsidiary of Verso Paper Holdings LLC party thereto, and Wilmington Trust, National Association, as collateral agent. <sup>(4)</sup>
10.4	Amended and Restated Collateral Agreement dated as of August 1, 2014, Verso Paper Holdings LLC, Verso Paper Inc., each subsidiary of Verso Paper Holdings LLC party thereto, and Wilmington Trust, National Association, as collateral agent. <sup>(4)</sup>



- 12 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Certification of Principal Executive Officer of Verso Paper Corp. pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.
- 31.2 Certification of Principal Financial Officer of Verso Paper Corp. pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.
- 31.3 Certification of Principal Executive Officer of Verso Paper Holdings LLC pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.
- 31.4 Certification of Principal Financial Officer of Verso Paper Holdings LLC pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.
- 32.1 Certification of Principal Executive Officer of Verso Paper Corp. pursuant to Rule 13a-14(b) under Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.
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- (1) Incorporated by reference to Amendment No. 5 to Verso Paper Corp.'s Registration Statement on Form S-1 (Registration Statement No. 333-148201), filed with the Securities and Exchange Commission (the "SEC") on May 8, 2008.
- (2) Incorporated by reference to Verso Paper Corp.'s Current Report on Form 8-K, filed with the SEC on October 30, 2013.
- (3) Incorporated by reference to Verso Paper Holdings LLC's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 12, 2008.
- (4) Incorporated by reference to Verso Paper Corp.'s and Verso Paper Holdings LLC's Current Report on Form 8-K, filed with the SEC on August 7, 2014.
- (5) Incorporated by reference to Verso Paper Holdings LLC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, filed with the SEC on May 7, 2014.

SIGNATURES

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

Date: August 14, 2014

VERSO PAPER CORP.

By: /s/ David J. Paterson  
David J. Paterson  
President and Chief Executive Officer

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

Date: August 14, 2014

VERSO PAPER HOLDINGS LLC

By: /s/ David J. Paterson  
David J. Paterson  
President and Chief Executive Officer

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

EXHIBIT INDEX

The following exhibits are included with this report:

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Verso Paper Corp. <sup>(1)</sup>
3.2	Amended and Restated Bylaws of Verso Paper Corp. <sup>(2)</sup>
3.3	Certificate of Formation, as amended, of Verso Paper Holdings LLC. <sup>(3)</sup>
3.4	Amended and Restated Limited Liability Company Agreement of Verso Paper Holdings LLC. <sup>(3)</sup>
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