Verso Corp
Form 10-Q
May 15, 2017

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017

OR

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

VERSO CORPORATION
(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)

8450 Gander Creek Drive
Miamisburg, Ohio 45342
(Address, including zip code, of principal executive offices)
(877) 855-7243
(Registrants' telephone number, including area code)

6775 Lenox Center Court, Suite 400, Memphis, Tennessee 38115-4436
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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). þ Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act:o

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

þ Yes o No

As of April 30, 2017, Verso Corporation had 33,849,104 shares of Class A common stock, par value $0.01 per share, and 541,539 shares of Class B common stock, par value $0.01 per share, outstanding.

Entity Names and Organization

In this report, the term "Verso" refers to Verso Corporation, which is the ultimate parent entity and the issuer of Class A common stock listed on the New York Stock Exchange. In December 2016, Verso Corporation completed a consolidation and reorganization of its subsidiaries, or the "Internal Reorganization." Prior to the Internal Reorganization, Verso was the sole member of Verso Paper Finance Holdings One LLC, which was the sole member of Verso Paper Finance Holdings LLC, which was the sole member of Verso Paper Holdings LLC. As used in this report, the term "Verso Finance" refers to Verso Paper Finance Holdings LLC; the term "Verso Holdings" refers to Verso Paper Holdings LLC; the term "NewPage" refers to NewPage Holdings Inc., which was an indirect, wholly owned subsidiary of Verso; the term "NewPage Corp" refers to NewPage Corporation, which was an indirect, wholly owned subsidiary of NewPage; and the term for any such entity includes its direct and indirect subsidiaries when referring to the entity's consolidated financial condition or results. Each of Verso Finance, Verso Holdings, NewPage and NewPage Corp were either merged into other subsidiaries of Verso, converted into limited liability corporations, and/or renamed in the Internal Reorganization and do not exist on and after the Internal Reorganization. Unless otherwise noted, references to "the Company," "we," "us," and "our" refer to Verso.

As previously disclosed, on January 26, 2016, or the "Petition Date," Verso announced that Verso and substantially all of its direct and indirect subsidiaries, or collectively referred to herein as the "Debtors," filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code, or the "Bankruptcy Code," in the United States Bankruptcy Court for the District of Delaware, or the "Bankruptcy Court." The Chapter 11 filings constituted an event of default and automatic acceleration under the agreements governing all of the Predecessor's (as defined below) debt (excluding the $23 million loan from Verso Finance Holdings to Chase NMTC Verso Investment Fund). The chapter 11 cases, or the "Chapter 11 Cases," were consolidated for procedural purposes only and administered jointly under the caption "In re: Verso Corporation, et al., Case No. 16-10163."

On June 23, 2016, the Bankruptcy Court entered an order, confirming the Debtors' First Modified Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code dated as of June 20, 2016, or the "Plan." On July 15, 2016, or the "Effective Date," the Plan became effective pursuant to its terms and the Debtors emerged from their Chapter 11 Cases (see Note 2).

In accordance with the provisions of Financial Accounting Standards Board, or "FASB," Accounting Standards Codification, or "ASC," 852, Reorganizations, the Debtors adopted fresh-start accounting upon emergence from the Chapter 11 Cases and became a new entity for financial reporting purposes as of July 15, 2016. Accordingly, the Unaudited Condensed Consolidated Financial Statements for the reporting entity subsequent to emergence from the Chapter 11 Cases, or the "Successor," are not comparable to the consolidated financial statements for the reporting entity prior to emergence from the Chapter 11 Cases, or the "Predecessor."

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, or "Securities Act," and Section 21E of the Securities Exchange Act of 1934, as amended, or "Exchange Act." Forward-looking statements may be identified by the words "believe," "expect," "anticipate," "project," "plan," "estimate," "intend" and other similar expressions. They include example, statements relating to our business and operating outlook; assessment of market conditions; and the growth potential of the industry in which we operate. 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. The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: the impact of our bankruptcy filings and the

related Chapter 11 bankruptcy process on our business, financial condition or results of operations; intense competition in the paper manufacturing industry; changes in the costs of raw materials and purchased energy; developments in alternative media, which are expected to adversely affect the demand for some of our key products, and the effectiveness of our responses to these developments; rising postal costs; any additional closure and other restructuring costs; negative publicity, even if unjustified; any failure to comply with environmental or other laws or regulations, even if inadvertent; legal proceedings or disputes; any labor disputes; and the potential risks and uncertainties described in Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2016, Part I, Item II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and other sections of this Quarterly Report on Form 10-Q as well as those discussed in Verso’s other filings with the Securities and Exchange Commission, or the “SEC,” from time to time. We assume no obligation to update any forward-looking statement made in this Quarterly Report to reflect subsequent events or circumstances or actual outcomes.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	Page
Item 1. Financial Statements	
Unaudited Condensed Consolidated Balance Sheets	4
Unaudited Condensed Consolidated Statements of Operations	5
Unaudited Condensed Consolidated Statements of Comprehensive Loss	5
Unaudited Condensed Consolidated Statements of Changes in Stockholders’ Equity (Deficit)	6
Unaudited Condensed Consolidated Statements of Cash Flows	7
Notes to Unaudited Condensed Consolidated Financial Statements	8
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	31
Item 4. Controls and Procedures	32

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	34
Item 1A.	Risk Factors	34
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 3.	Defaults Upon Senior Securities	34
Item 4.	Mine Safety Disclosures	34
Item 5.	Other Information	34
Item 6.	Exhibits	35
SIGNATURES		37
EXHIBIT INDEX		38

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	Successor	
(Dollars in millions)	December 31, 2016	March 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$6	$7
Accounts receivable, net	194	199
Inventories, net	445	462
Prepaid expenses and other assets	20	18
Total current assets	665	686
Property, plant, and equipment, net	1,132	1,107
Intangibles and other assets, net	58	56
Total assets	$1,855	$1,849
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$105	$118
Accrued liabilities	148	120
Current maturities of long-term debt	28	18
Total current liabilities	281	256
Long-term debt	265	311
Pension benefit obligation	491	487
Other liabilities	48	46
Total liabilities	1,085	1,100
Commitments and contingencies (Note 12)		
Equity:		
Successor preferred stock -- par value $0.01 (50,000,000 shares authorized, no shares issued)	—	—
Successor common stock -- par value $0.01 (210,000,000 Class A shares authorized with 33,366,784 shares issued and outstanding on December 31, 2016 and 33,429,799 shares issued and outstanding on March 31, 2017; 40,000,000 Class B shares authorized with 1,023,859 shares issued and outstanding on December 31, 2016 and 960,844 shares issued and outstanding on March 31, 2017)	—	—
Treasury stock -- at cost (no shares on December 31, 2016 or March 31, 2017)	—	—
Successor Paid-in-capital (including Warrants of $10 million)	675	675
Retained deficit	(32)	(53)
Accumulated other comprehensive income	127	127
Total equity	770	749
Total liabilities and equity	$1,855	$1,849

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)	Predecessor Three Months Ended March 31, 2016	Successor Three Months Ended March 31, 2017
Net sales	$ 690	$ 616
Costs and expenses:		
Cost of products sold (exclusive of depreciation, amortization and depletion)	618	560
Depreciation, amortization and depletion	48	33
Selling, general and administrative expenses	47	33
Restructuring charges	144	2
Other operating income	(57)	—
Operating loss	(110)	(12)
Interest expense	26	9
Loss before reorganization items, net	(136)	(21)
Reorganization items, net	(48)	—
Loss before income taxes	(88)	(21)
Income tax expense	—	—
Net loss	$ (88)	$ (21)
Loss per common share:		
Basic	$ (1.07)	$ (0.61)
Diluted	(1.07)	(0.61)
Weighted average common shares outstanding (in thousands)		
Basic	81,869	34,391
Diluted	81,869	34,391

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED
STATEMENTS OF COMPREHENSIVE LOSS

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016	Successor Three Months Ended March 31, 2017
Net loss	$ (88)	$ (21)
Other comprehensive loss	—	—
Comprehensive loss	$ (88)	$ (21)

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock (Predecessor)		Class A (Successor)		Class B (Successor)						Accumulated Other Comprehensive	Total Stockholders' Equity
(Dollars in millions, shares in thousands)	Common Shares	Common Stock	Common Shares	Common Stock	Common Shares	Common Stock	Treasury Shares	Treasury Stock	Paid-in-Capital	Retained Deficit	Income (Loss)	(Deficit)
Balance - December 31, 2015 - Predecessor	82,115	$ 1					(241)	$ (1)	$ 321	$ (1,402)	$ (102)	$ (1,183)
Net loss	—	—					—	—	—	(88)	—	(88)
Treasury shares acquired	—	—					(22)	—	—	—	—	—
Balance - March 31, 2016 - Predecessor	82,115	$ 1					(263)	$ (1)	$ 321	$ (1,490)	$ (102)	$ (1,271)
Balance - December 31, 2016 - Successor			33,367	$ —	1,024	$ —		$ —	$ 675	$ (32)	$ 127	$ 770
Net loss			—	—	—	—	—	—	—	(21)	—	(21)
Class B stock converted to Class A stock			63	—	(63)	—	—	—	—	—	—	—
Balance - March 31, 2017 - Successor			33,430	$ —	961	$ —		$ —	$ 675	$ (53)	$ 127	$ 749

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016	Successor Three Months Ended March 31, 2017
Cash Flows From Operating Activities:		
Net loss	$ (88)	$ (21)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, amortization, and depletion	48	33
Noncash restructuring charges	137	—
Reorganization items and fresh-start reporting adjustments, net	(71)	—
Periodic pension expense	3	2
Pension plan contributions	(5)	(6)
Amortization of debt issuance cost and discount	1	2
Gain on disposal of assets	(57)	—
Debtor in possession financing costs	21	—
Other, net	1	—
Changes in assets and liabilities:		
Accounts receivable, net	9	(5)
Inventories, net	(10)	(17)
Prepaid expenses and other assets	11	2
Accounts payable	74	16
Accrued liabilities	(10)	(29)
Net cash provided by (used in) operating activities	64	(23)
Cash Flows From Investing Activities:		
Proceeds from sale of assets	63	—
Transfers (to) from restricted cash, net	(3)	—
Capital expenditures	(11)	(10)
Net cash provided by (used in) investing activities	49	(10)
Cash Flows From Financing Activities:		
Borrowings on revolving credit facilities	147	—
Payments on revolving credit facilities	(446)	—
Borrowings on debtor-in-possession revolving credit facilities	204	—
Payments on debtor-in-possession revolving credit facilities	(136)	—
Proceeds from debtor-in-possession term loan	175	—
Borrowings on Exit ABL Facility	—	71
Payments on Exit ABL Facility	—	(25)
Repayment of long-term debt	—	(12)
Debtor in possession financing costs	(21)	—
Net cash (used in) provided by financing activities	(77)	34
Change in cash and cash equivalents	36	1
Cash and cash equivalents at beginning of period	4	6
Cash and cash equivalents at end of period	$ 40	$ 7
Noncash investing and financing activities:		
Reduction in debt for debt modification	$ (1)	$ —

Increase in debt from paid in kind (PIK) interest	2	—

See notes to Unaudited Condensed Consolidated Financial Statements

7

VERSO CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business — We operate in the following two industry segments: paper and pulp. However subsequent to the Effective Date, we determined that the operating loss of the pulp segment is immaterial for disclosure purposes (see Note 13). Our core business platform is as a producer of coated freesheet, specialty and coated groundwood papers. Our products are used primarily in media and marketing applications, including catalogs, magazines, commercial printing applications, such as high-end advertising brochures, annual reports, and direct-mail advertising, and specialty applications, such as flexible packaging and label and converting. Our market kraft pulp is used to manufacture printing, writing, and specialty paper grades and tissue products.

Basis of Presentation — On the Petition Date, Verso announced that the Debtors filed voluntary petitions for relief under the Bankruptcy Code. On June 23, 2016, the Bankruptcy Court entered an order, confirming the Plan. On the Effective Date, the Plan became effective pursuant to its terms and the Debtors emerged from their Chapter 11 Cases (see Note 2).

In accordance with the provisions of ASC 852, Reorganizations, and in conformity with ASC 805, Business Combinations, the Company adopted fresh-start accounting upon emergence from the Chapter 11 Cases and became a new entity for financial reporting purposes as of July 15, 2016. For accounting purposes all emergence related transactions of the Predecessor including the impact of the issuance of the Successor common stock and warrants and entering into the Exit Credit Facilities (as defined below) were recorded as of July 14, 2016. Accordingly, the Unaudited Condensed Consolidated Financial Statements for the Successor are not comparable to the consolidated financial statements for the Predecessor.

Also in connection with the adoption of fresh-start accounting, we elected to make certain material accounting policy changes as described below.

Going Concern — The Unaudited Condensed 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.

Planned Major Maintenance Costs — Prior to the Effective Date, costs for planned major maintenance shutdowns were deferred and then expensed ratably over the period until the next major planned shutdown. Upon the Effective Date, costs for all repair and maintenance activities are expensed in the month that the related activity is performed under the direct expense method of accounting.

Successor Cost of products sold/ Selling, general and administrative expenses — Certain centralized costs attributable to manufacturing overhead, including enterprise-wide human resources management, procurement, and information systems support, recorded in Selling, general, and administrative expenses of the Predecessor are recorded to Cost of products sold of the Successor. The amount recorded to Cost of products sold, related to these costs, in the Unaudited Condensed Consolidated Statement of Operations for the three months ended March 31, 2017 (Successor) is approximately $7 million.

This report contains the Unaudited Condensed Consolidated Financial Statements of Verso as of March 31, 2017 (Successor) and for the three months ended March 31, 2017 (Successor) and March 31, 2016 (Predecessor). The December 31, 2016 (Successor), Unaudited Condensed Consolidated Balance Sheet data was derived from audited

financial statements, but it 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 Unaudited Condensed Consolidated Financial Statements include all adjustments that are necessary for the fair presentation of Verso’s 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, or “VIEs,” for which Verso is the primary beneficiary are consolidated (see Note 11). 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 contained in its Annual Report on Form 10-K for the year ended December 31, 2016.

---

2. BANKRUPTCY RELATED DISCLOSURES

Chapter 11 Filing

On the Petition Date, the Debtors filed the Chapter 11 filings in the Bankruptcy Court. The Chapter 11 filings constituted an event of default and automatic acceleration under the agreements governing all of the Predecessor's debt (excluding the $23 million loan from Verso Finance Holdings to Chase NMTC Verso Investment Fund). The Chapter 11 Cases were consolidated for procedural purposes only and administered jointly under the caption "In re: Verso Corporation, et al., Case No. 16-10163." During the pendency of the Chapter 11 Cases, Verso continued to manage its properties and operated our businesses as a "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

In connection with the Chapter 11 Cases, on January 26, 2016, the Company entered into a Restructuring Support Agreement, or "RSA," with creditors who collectively held at least a majority in principal amount of substantially all tranches of the Company's outstanding debt, or the "Consenting Creditors." The RSA contemplated the implementation of a restructuring through a conversion of approximately $2.4 billion of our outstanding debt into equity. The RSA incorporated the economic terms agreed to by the parties reflected in a term sheet within the RSA. The restructuring transactions were effectuated through the reorganization Plan as described below.

Verso Finance, Verso Holdings and certain of its subsidiaries entered into the Verso DIP Facility (as defined below) for an aggregate principal amount of up to $100 million, and NewPage Corp and certain of its subsidiaries entered into the NewPage DIP ABL Facility (as defined below) for an aggregate principal amount of up to $325 million and the NewPage DIP Term Loan Facility (as defined below) for an aggregate principal amount of $350 million (See Note 7). The NewPage DIP Term Loan Facility consisted of $175 million of new money term loans and $175 million of loans that aggregated and replaced existing loans, or "NewPage DIP Roll Up Loans," to refinance loans outstanding under the existing term loan facility of NewPage Corp that were outstanding on the Petition Date.

We operated in the normal course of business during the reorganization process. Unless otherwise authorized by the Bankruptcy Court, the Bankruptcy Code prohibited us from making payments to creditors for goods furnished and services provided prior to the Petition Date. Vendors were, however, paid for goods furnished and services provided after the Petition Date in the ordinary course of business.

Plan of Reorganization and Emergence from Chapter 11

On March 26, 2016, the Debtors filed the Plan with the Bankruptcy Court together with a disclosure statement in respect of the Plan. The Plan set forth, among other things, the treatment of claims against and equity interests in the Debtors. On June 23, 2016, the Bankruptcy Court entered the Confirmation Order, confirming the Plan. On the Effective Date, the Plan became effective pursuant to its terms and the Debtors emerged from their Chapter 11 Cases. Key components of the Plan included:

- Entry into an asset-based loan facility and a term loan facility upon emergence from Chapter 11 on July 15, 2016. These facilities provided exit financing in an amount sufficient to repay in full all amounts outstanding under the Verso debtor-in-possession credit agreements of Verso Holdings and its subsidiaries, pay fees and expenses related to the facilities and the emergence of Verso and its subsidiaries from bankruptcy. See "Exit Credit Facilities" below.

- The satisfaction in full in cash of claims under the Verso DIP Facility, claims under the NewPage DIP ABL Facility, claims relating to the $175 million of new money term loans under the NewPage DIP Term Loan Facility, and claims entitled to administrative expense or priority status under the Bankruptcy Code.

- Issuance of 34,390,643 shares of stock or 100% of Verso's equity (subject to dilution by warrants issued to certain creditors described below, or "Plan Warrants," and equity issuable to our employees under a management incentive plan) to our existing creditors in exchange for the cancellation of all of the Debtors' pre-petition indebtedness (principal and interest) existing as of the date of bankruptcy totaling $2.6 billion.

- Holders of first-lien secured debt issued by Verso Holdings, including lenders under Verso Holdings' revolving credit facilities and the holders of Verso Holdings' 11.75% senior secured notes due 2019 (issued in 2012 and 2015),

received 17,195,319 shares of Class A common stock, $0.01 par value, or “Class A Common

9

Stock," or 50% of Verso's equity and Plan Warrants to purchase 1,810,035 shares of Class A Common Stock at an initial exercise price of $27.86.

- Lenders under the NewPage Corp senior secured term loan and the $175 million of "rolled up" term loans under the NewPage DIP Term Loan Facility, collectively, received 15,139,745 shares of Class A Common Stock and 1,023,859 shares of Class B common stock, $0.01 par value, or "Class B Common Stock," or 47% of Verso's equity.

- Holders of Verso Holdings' senior debt received 980,133 shares of Class A Common Stock or 2.85% of Verso's equity.

- Holders of Verso Holdings' subordinated (unsecured) debt received 51,587 shares of Class A Common Stock or 0.15% of Verso's equity.

- The satisfaction in full of general unsecured claims in an aggregate settlement totaling a fixed $3 million in cash (except with respect to general unsecured claims against Debtors that have only de minimis assets, which have received no distributions under the Plan).

- All shares of Verso's common stock issued and outstanding immediately prior to the Effective Date were cancelled and discharged.

- The shared services agreement between Verso, NewPage and NewPage Corp was terminated.

- The prior employee incentive plans and other employment agreements were terminated and any awards issued under them were no longer honored, and a new performance incentive plan was adopted by Verso. See "Performance Incentive Plan" below.

- Termination of the Management and Transaction Fee Agreement dated as of August 1, 2006 among Verso Paper LLC, Verso Paper Investments LP, Apollo Management V, L.P., and Apollo Management VI, L.P., and all rights and remedies thereunder were terminated, extinguished, waived and released.

- Employee retirement contracts and collective bargaining agreements were honored by the Company upon emergence.

Plan Warrants

On the Effective Date, and in accordance with the Plan, warrants to purchase up to an aggregate of 1,810,035 shares of Class A Common Stock were issued to holders of first-lien secured debt holders. Each Plan Warrant has a seven year term (commencing on the Effective Date) and has an initial exercise price of $27.86 per share of Class A Common Stock. The warrant agreement governing the Plan Warrants, or the "Warrant Agreement," contains customary anti-dilution adjustments in the event of any stock split, reverse stock split, reclassification, stock dividend or other distributions. In addition, the Warrant Agreement provides for anti-dilution adjustments in the event of below market stock issuances at less than 95% of the average closing price of the Class A Common Stock for the 10 consecutive trading days immediately prior to the applicable determination date, and for pro rata repurchases of Class A Common Stock.
The fair value of the Plan Warrants was estimated on the Effective Date using the Black-Scholes option pricing model. The weighted average assumptions used included a risk free interest rate of 1%, an expected stock price volatility factor of 37% and a dividend rate of 0%. The aggregate fair value of the Plan Warrants was $10 million on the Effective Date.
Performance Incentive Plan
On the Effective Date, pursuant to the operation of the Plan, the Verso Corporation Performance Incentive Plan became effective. The maximum number of shares of Class A Common Stock that may be issued or transferred

pursuant to awards under this plan is 3,620,067. The Compensation Committee of the Board of Directors is the administrator of the Verso Corporation Performance Incentive Plan. There were no stock awards issued on the Effective Date pursuant to the Plan.

Reporting During Bankruptcy

During the pendency of the Debtors' Chapter 11 Cases, expenses, gains and losses directly associated with reorganization proceedings were reported as Reorganization items, net in the Unaudited Condensed Consolidated Statement of Operations and liabilities subject to compromise in the Chapter 11 Cases were segregated from liabilities of non-filing entities, fully secured liabilities not expected to be compromised and from post-petition liabilities. In addition, effective as of the Petition Date and during the pendency of the Debtors' Chapter 11 Cases, the Company ceased recording contractual interest expense on the outstanding pre-petition debt classified as liabilities subject to compromise. Upon the Debtors' emergence from our Chapter 11 Cases, the Company settled and extinguished or reinstated liabilities that were subject to compromise.

Fresh-Start Accounting

Under ASC 852, Reorganizations, fresh-start accounting is required upon emergence from Chapter 11 if (i) the value of the assets of the emerging entity immediately before the date of confirmation is less than the total of all post-petition liabilities and allowed claims; and (ii) holders of existing voting shares immediately before confirmation receive less than 50% of the voting shares of the emerging entity. The Company qualified for and adopted fresh-start accounting as of the Effective Date. Adopting fresh-start accounting results in a new reporting entity with no beginning retained earnings or deficits. The cancellation of all existing shares outstanding on the Effective Date and issuance of new shares of the reorganized entity caused a change of control of the Company under ASC 852. Adoption of fresh-start accounting resulted in Verso becoming a new entity for financial reporting purposes and the recording of the Company's assets and liabilities at their fair value as of the Effective Date in conformity with ASC 805, Business Combinations. The fair values of the Company's assets and liabilities as of that date differed materially from the recorded values of its assets and liabilities as reflected in its historical consolidated financial statements. In addition, the Company's adoption of fresh-start accounting materially affected its results of operations following the fresh-start reporting date, as the Company had a new basis in its assets and liabilities. The Company also adopted various new accounting policies in connection with its adoption of fresh-start accounting. Consequently, the Company's financial statements on or after the Effective Date are not comparable with the financial statements prior to that date and the historical financial statements before the Effective Date are not reliable indicators of its financial condition and results of operations for any period after it adopted fresh-start accounting.

Contractual Interest

Effective January 26, 2016, we discontinued recording interest expense on outstanding pre-petition debt classified as liabilities subject to compromise, or "LSTC". The table below shows contractual interest amounts for debt classified as LSTC calculated in accordance with the respective agreements without giving effect to any penalties as a result of the default on such agreements, which are amounts due under the contractual terms of the outstanding debt. Interest expense reported in the Unaudited Condensed Consolidated Statement of Operations for the three months ended March 31, 2016 (Predecessor) does not include $48 million, per the table below, in contractual interest on pre-petition debt classified as LSTC, which was stayed by the Bankruptcy Court effective on the Petition Date.

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016
Verso Holdings	$ 38
NewPage Corp	10
Total contractual interest	$ 48

Reorganization items, net

Expenses and income directly associated with the Chapter 11 Cases are reported separately in the Unaudited Condensed Consolidated Statement of Operations as Reorganization items, net as required by ASC 852. Reorganization items, net include adjustments to reflect the carrying value of LSTC at their estimated allowed claim amounts, as such adjustments are determined.

The following table presents reorganization items incurred in the three months ended March 31, 2016 (Predecessor), as reported in the Unaudited Condensed Consolidated Statement of Operations:

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016
Professional fees	$ 17
DIP financing cost	21
Write-off of unamortized deferred financing costs, discounts/premiums, and deferred gains[(1)]	(81)
Other	(5)
Total reorganization items, net	$ (48)

(1) Primarily represents $116 million of non-cash reorganization gain off-set by non-cash reorganization expense of $35 million. The gains are recognized as the difference between the Petition Date carrying value of certain Verso notes previously recorded as a troubled debt restructuring and their par value (estimated allowed claim) for such debt and the expenses represent the write-off of debt issuance costs and other carrying value adjustments.

Common Stock Privileges
The 33,366,784 shares of Class A Common Stock and 1,023,859 shares of Class B Common Stock issued in connection with the cancellation of all of the Company’s pre-petition indebtedness are identical and entitle the holders thereof the same rights and privileges, except that the Class B Common Stock is not qualified for listing and trading on the NYSE. One share of Class B Common Stock is convertible into one fully paid and non-assessable share of Class A Common Stock at the option of the holder thereof at any time upon written notice to the Company.

3. RECENT ACCOUNTING DEVELOPMENTS

Accounting Guidance Adopted in 2017

ASC Topic 330, Inventory. In July 2015, the FASB issued Accounting Standard Update, or “ASU,” 2015-11, Simplifying the Measurement of Inventory. This ASU provides that entities should measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. This ASU was effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years. The Company adopted this guidance on January 1, 2017 on a prospective basis and it did not have an impact on our Unaudited Condensed Consolidated Financial Statements.

ASC Topic 718, Stock Compensation. In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The guidance requires all income tax effects of awards (previously presented as a component of total stockholders’ equity) to be recognized in the income statement on a prospective basis. The guidance also requires presentation of excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. The guidance also allows for an accounting policy election to estimate the number of awards that are expected to vest or account for forfeitures when they occur. This ASU was effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years. The Company adopted this guidance on January 1, 2017 on a prospective basis, except for the election of an accounting policy to account for forfeitures as they occur, which was adopted on a modified-retrospective basis. The adoption did not have an impact on our Unaudited Condensed Consolidated

Financial Statements.

Accounting Guidance Not Yet Adopted

ASC Topic 230, Statement of Cash Flows. In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). This ASU adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows, including debt prepayment or extinguishment costs, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, and distributions from certain equity method investees. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the Emerging Issues Task Force). This ASU

adds or clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The guidance requires application on a retrospective basis. We are currently evaluating the impact of this guidance.

ASC Topic 842, Leases. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 supersedes existing lease guidance, including ASC Topic 840, Leases and requires lessees to recognize most leases on their balance sheets for the rights and obligations created by those leases. The guidance also requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases that will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The guidance requires the use of a modified retrospective approach and the Company expects to adopt this guidance for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We expect to recognize a liability and corresponding asset associated with in-scope leases, but we are still in the process of determining those amounts and the processes required to account for leasing activity on an ongoing basis.

ASC Topic 825, Financial Instruments. In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. Under this standard, all equity investments except those accounted for under the equity method are required to be measured at fair value. Equity investments that do not have a readily determinable fair value may, as a practical expedient, be measured at cost, adjusted for changes in observable prices minus impairment. This standard is effective for our interim and annual periods beginning January 1, 2018. This standard must be applied using a cumulative-effect adjustment in net income to the beginning of the fiscal year of adoption, except for equity investments without a readily determinable fair value, which are to be applied prospectively to equity investments as of the adoption date. We are currently evaluating the timing of adoption and the potential impact of this guidance.

ASC Topic 606, Revenue from Contracts with Customers. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This guidance will replace all current 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 was initially 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; however, in August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which defers the effective date to annual reporting periods beginning after December 15, 2017. The FASB has continued to clarify this guidance in various updates during 2015 and 2016, all of which, have the same effective date as the original guidance. We are currently evaluating the impact of this guidance.

ASC Topic 715, Compensation - Retirement Benefits. In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715), which amends the existing guidance relating to the presentation of net periodic benefit cost for an entity’s sponsored defined benefit pension and other postretirement plans. The amendment requires an employer to disaggregate the service cost component from the other components of net benefit cost and provides explicit guidance on how to present the service cost component and other components in the statement of operations. In addition, on a prospective basis, the guidance permits only the service cost component of net benefit cost to be capitalized. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The guidance requires a retrospective method to adopt the presentation of service costs in the statement of operations and a prospective transition to adopt the requirement to limit capitalization. We are currently evaluating the impact of this guidance.

We are evaluating the impact on our Unaudited Condensed Consolidated Financial Statements of other new accounting pronouncements issued but not effective until after March 31, 2017.

4. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

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

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

	Predecessor Three Months Ended March 31, 2016	Successor Three Months Ended March 31, 2017
Net loss available to common shareholders (in millions)	$ (88)	$ (21)
Weighted average common shares outstanding (in thousands)	81,370	34,391
Weighted average restricted shares (in thousands)	499	—
Weighted average common shares outstanding - basic (in thousands)	81,869	34,391
Dilutive shares from stock awards (in thousands)	—	—
Weighted average common shares outstanding - diluted (in thousands)	81,869	34,391
Basic loss per share	$ (1.07)	$ (0.61)
Diluted loss per share	$ (1.07)	$ (0.61)

As a result of the net loss from continuing operations presented for the Successor, 0.3 million restricted stock units and 1.8 million Plan Warrants of the Successor have been excluded from the calculations of diluted earnings per share as their inclusion would be anti-dilutive. In accordance with ASC Topic 260, Earnings Per Share, unvested restricted stock awards issued by the Predecessor contained nonforfeitable rights to dividends and qualified as participating securities. No dividends were declared or paid in the periods presented.

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

The following table summarizes inventories by major category:

	Successor	
(Dollars in millions)	December 31, 2016	March 31, 2017
Raw materials	$95	$ 102
Work-in-process	62	73
Finished goods	264	263
Replacement parts and other supplies	24	24
Inventories, net	$445	$ 462

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 primarily 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.

As of December 31, 2016 (Successor) and March 31, 2017 (Successor), $2 million of restricted cash was included in Intangibles and other assets, net in the Unaudited Condensed Consolidated Balance Sheets related to asset retirement obligations in the state of Michigan. These cash deposits are required by the state and may only be used for the future closure of a landfill.

14

The following table presents activity related to our asset retirement obligations. Long-term obligations are included in Other liabilities and current portions are included in Accrued liabilities in the Unaudited Condensed Consolidated Balance Sheets:

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016	Successor Three Months Ended March 31, 2017
Asset retirement obligations, beginning balance	$ 16	$ 14
Accretion expense	—	—
Settlement of existing liabilities	—	—
Asset retirement obligations, ending balance	16	14
Less: Current portion	—	(2)
Non-current portion of asset retirement obligations, ending balance	$ 16	$ 12

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, no liability for such remediation was recorded.

Property, Plant, and Equipment — Property, plant, and equipment is stated at cost, net of accumulated depreciation. Depreciation expense for the three months ended March 31, 2016 (Predecessor) and March 31, 2017 (Successor) was $47 million and $31 million, respectively. Interest costs capitalized for the three months ended March 31, 2016 (Predecessor) and March 31, 2017 (Successor) were not material. Capital expenditures unpaid for the three months ended March 31, 2016 (Predecessor) and March 31, 2017 (Successor) were zero and $3 million, respectively.

Fair Value of Financial Instruments — The carrying amounts for cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short maturity of these instruments. We determine the fair value of our debt based on market information and a review of prices and terms available for similar obligations. See also Note 2 and Note 7 for additional information regarding the fair value.

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

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

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

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

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

5. ACQUISITIONS AND DISPOSITIONS

Sale of hydroelectric generation facilities — On January 6, 2016, Verso Maine Power Holdings LLC, or “VMPH,” and Verso Androscoggin Power LLC, or “VAP,” two indirect, wholly owned subsidiaries of Verso, entered into a purchase agreement with Eagle Creek Renewable Energy, LLC, or “Eagle Creek,” pursuant to which VMPH sold all the outstanding limited liability company interests of VAP to Eagle Creek for a purchase price of approximately $62 million in cash. VAP owned four hydroelectric generation facilities associated with Verso’s Androscoggin pulp and paper mill located in Jay, Maine. The purchase agreement contains customary representations and warranties by, and customary covenants among, the parties. The parties contemporaneously entered into the purchase agreement and consummated the transaction. For the three months ended March 31, 2016 (Predecessor), we recognized a gain on sale of fixed assets of approximately $55 million which is included in Other operating income in the Unaudited Condensed Consolidated Statement of Operations.

6. INTANGIBLES AND OTHER ASSETS

The following table summarizes intangibles and other assets:

(Dollars in millions)	Successor December 31, 2016	March 31, 2017
Intangible assets:		
Customer relationships, net of accumulated amortization of $1 million on December 31, 2016, and $2 million on March 31, 2017	$ 25	$ 24
Trademarks, net of accumulated amortization of $1 million on December 31, 2016, and $2 million on March 31, 2017 (definite life)	15	14
Other assets:		
Restricted cash	3	3
Other	15	15
Total other assets	$ 18	$ 18
Intangibles and other assets, net	$ 58	$ 56

Amortization expense related to intangible assets for the periods presented is as follows:

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016	Successor Three Months Ended March 31, 2017
Customer Relationships	$ 1	$ 1
Trademarks	—	1

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

(Dollars in millions)	
Remainder of 2017	$4
2018	6
2019	6
2020	6
2021	4

7. DEBT

A summary of debt is as follows:

(Dollars in millions)	Original Maturity	Successor December 31, 2016	March 31, 2017
Revolving Credit Facilities	7/14/2021	$ 112	$ 158
Term Loan at par value	10/14/2021	211	200
Unamortized (discount) premium and debt issuance costs, net		(30)	(29)
Less: Current portion		(28)	(18)
Total long-term debt		$ 265	$ 311

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 Note 4). As of March 31, 2017 (Successor), the fair value of Verso's total debt outstanding was $359 million.

Amounts included in interest expense and amounts of cash interest payments related to long-term debt for the periods presented, are as follows:

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016	Successor Three Months Ended March 31, 2017
Interest expense	$ 26	$ 8
Cash interest paid	2	8
Debt issuance cost and discount amortization[(1)]	1	2

(1) Amortization of debt issuance cost and original issue discount are included in interest expense on the unaudited condensed consolidated statement of operations.

Exit Credit Facilities

On the Effective Date, pursuant to the terms of Plan, Verso Holdings entered into a $375 million asset-based revolving credit facility, or the "Exit ABL Facility," and a $220 million senior secured term loan (with loan proceeds of $198 million after the deduction of the original issue discount), or the "Exit Term Loan Facility," and collectively termed the "Exit Credit Facilities."

Verso Holdings borrowed $340 million under the Exit Credit Facilities on the Effective Date, with available loan proceeds of approximately $318 million, consisting of (i) the borrowing of $120 million under the Exit ABL Facility and (ii) the net borrowing of $198 million ($220 million par value less $22 million of original issue discount) under the Exit Term Loan Facility. The proceeds of the borrowings on the Effective Date under the Exit Credit Facilities were used (i) to repay outstanding indebtedness under the debtor-in-possession financing credit agreements, (ii) to pay outstanding allowed administrative expenses and allowed claims in accordance with the Plan, and (iii) to pay fees, costs and expenses related to and contemplated by the Exit Credit Facilities and emergence by Verso and its subsidiaries from bankruptcy. The proceeds of the borrowings under the Exit ABL Facility after the Effective Date will be used for working capital and general corporate purposes, including permitted acquisitions.

The Exit ABL Facility will mature on July 14, 2021. The outstanding borrowings under the Exit ABL Facility bear interest at a per annum rate equal to, at the option of Verso Holdings, either (i) a customary London interbank offered rate, or "LIBOR," plus an applicable margin ranging from 1.25% to 2.00% or (ii) a customary base rate plus an applicable margin ranging from 0.25% to 1.00%, determined based upon the average excess availability under the Exit ABL Facility. As of March 31, 2017 (Successor), the weighted-average interest rate on outstanding borrowings was 2.99%. Verso Holdings is also required to pay a commitment fee for the unused portion of the Exit ABL Facility, which ranges from 0.25% to 0.375% per annum, based upon the average revolver usage under the Exit ABL Facility. Verso Holdings has the right to prepay loans under the Exit ABL Facility at any time without a prepayment penalty, other than customary "breakage" costs with respect to eurocurrency loans. As of March 31, 2017 (Successor), the outstanding balance of the Exit ABL Facility is $158 million, with $78 million in letters of credit issued, and $134 million is available for future borrowings. The Company incurred $3 million of debt issuance costs associated with the Exit ABL Facility and recorded this amount as a direct deduction of the debt liability, which is being amortized over the life of the Exit ABL Facility.

The Exit Term Loan Facility will mature on October 14, 2021. The outstanding borrowings under the Exit Term Loan Facility bear interest at a rate equal to, at the option of Verso Holdings, either (i) a LIBOR (subject to a floor of 1%) plus 11% or (ii) a customary base rate plus 10%. With respect to LIBOR denominated loans under the Exit Credit Facilities, Verso Holdings may elect an interest period of one, two, three or six months or such other period subject to the terms of the Exit Credit Facilities. As of March 31, 2017 (Successor), the Exit Term Loan's interest rate was 12.15% per annum. The term loans provided under the Exit Term Loan Facility are subject to quarterly principal

amortization payments in an amount equal to the greater of (a) 2.00% of the initial principal amount of the term loans or (b) the excess cash flow in respect of such quarter as further described under the Exit Term Loan Facility; however, if the liquidity, as defined in the Exit Term Loan Facility, of Verso Holdings is less than $75 million at any time during the 90-day period following the due date of such quarterly amortization payment or excess cash flow payment date, then the portion of such amortization amount that results in such liquidity being less than $75 million will not be payable by Verso Holdings, as further described in the Exit Term Loan Facility.

Per the above described quarterly principal amortization, installments due are at least $4 million (subject to increase depending on excess cash flow) for each quarter ending in 2016 through 2021 with the remaining balance due on October 14, 2021. As the result of the excess cash flow requirement, we were obligated to fund an additional principal amortization of $7 million,

which is reflected in our Unaudited Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2017 (Successor). Any voluntary prepayment by Verso Holdings of the term loans under the Exit Term Loan Facility will be subject to customary “breakage” costs with respect to eurocurrency loans and a 2% call premium until July 14, 2018, and a 1% call premium after July 15, 2018, but before July 14, 2020, and thereafter no call premium will apply to any voluntary prepayment of term loans. Such call premium may also apply to certain repricing amendments of the Exit Term Loan Facility as further described therein. The Company incurred $8 million of debt issuance costs associated with the Exit Term Loan Facility and recorded this amount as a direct deduction of the debt liability, which is being amortized over the life of the Exit Term Loan Facility.
All obligations under the Exit Credit Facilities are unconditionally guaranteed by Verso Finance, and certain of the subsidiaries of Verso Holdings and are secured by liens on certain assets of Verso Finance and liens on substantially all of the assets of Verso Holdings and the other guarantor subsidiaries. The security interest with respect to the Exit ABL Facility consists of a first-priority lien on the current assets of Verso Holdings and the guarantor subsidiaries, including accounts receivables, inventory, deposit accounts, securities accounts and commodities accounts, and a second-priority lien on all other collateral. The security interest with respect to the Exit Term Loan Facility, consists of a first-priority lien on all other collateral and second-priority lien on collateral securing the Exit ABL Facility.
The Exit ABL Facility contains financial covenants requiring the Company, among other things, to maintain a minimum fixed charge coverage ratio in certain circumstances and a maximum total net leverage ratio. The Exit Credit Facilities also contain restrictions, among other things and subject to certain exceptions, on the Company’s ability to incur debt or liens, pay dividends, repurchase equity interest, prepay indebtedness, sell or dispose of assets, and make investments in or merge with another company.

DIP Financing

In connection with the Chapter 11 Filings, Verso Finance, Verso Holdings and certain of its subsidiaries entered into an asset-based credit facility in an aggregate principal amount of up to $100 million, or the “Verso DIP Facility,” and NewPage Corp and certain of its subsidiaries entered into an asset-based credit facility in an aggregate principal amount of up to $325 million, or the “NewPage DIP ABL Facility,” and a term loan credit facility in an aggregate principal amount of $350 million, or the “NewPage DIP Term Loan Facility,” together with the NewPage DIP ABL Facility, the “NewPage DIP Facilities,” and NewPage DIP Facilities together with the Verso DIP Facility, the “DIP Facilities.” The NewPage DIP Term Loan Facility consisted of $175 million of new money term loans and $175 million of loans that aggregated and replaced existing loans outstanding on the Petition Date (i.e., such loans were deemed to become loans under the NewPage DIP Term Loan Facility), or “NewPage DIP Roll Up Loans.” On January 28, 2016, up to $550 million in loans under the DIP Facilities became available for borrowing following the entry of an order by the Bankruptcy Court approving the DIP Facilities on an interim basis on January 27, 2016. The Bankruptcy Court entered orders approving the DIP Facilities on a final basis on March 2, 2016.

Borrowings under the Verso DIP Facility bore interest at a rate equal to an applicable margin plus, at Verso Holdings’ and NewPage Corp’s option, either (a) a base rate determined by reference to the highest of (1) the U.S. federal funds rate plus 0.50%, (2) the prime rate of the administrative agent, and (3) the adjusted LIBOR (as defined below) for a one-month interest period plus 1.00%, or (b) a eurocurrency rate, or “LIBOR” determined by reference to the costs 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. The applicable margin for advances under both the Verso DIP Facility and the NewPage DIP ABL was 1.50% for base rate advances and 2.50% for LIBOR advances. The applicable margin for advances under the NewPage DIP Term Loan Facility was 8.50% for base rate advances and 9.50% for LIBOR advances. Interest that accrued on any “rolled-up” term loans under the NewPage DIP Term Loan Facility was capitalized, compounded and added to the unpaid principal amount of such “rolled-up” loans on the applicable interest payment date. Verso Holdings and NewPage Corp paid commitment fees for the unused amount of commitments at an annual rate equal to 0.75% and 0.375%, respectively. The Company incurred $21 million of debt issuance costs associated with the DIP Facility which was recorded as interest expense on the Unaudited Condensed

Consolidated Statement of Operations during the Predecessor period ended March 31, 2016.

The DIP Facilities matured on the Effective Date of the Plan. On the maturity date, the Verso DIP Facility had no balance outstanding and the NewPage DIP ABL Facility had $103 million outstanding balance which was repaid in full using the Exit Credit Facilities entered into on the Effective Date. The NewPage DIP Term Loan Facility of $175 million of new money term loans was also repaid in full, while the $175 million of “rolled up” loans and its capitalized interests of $9 million, totaling to $184 million, were converted into Verso equity (see Note 2).

Pre-petition Debt

The filing of the Chapter 11 Cases by the Debtors on January 26, 2016, constituted an event of default and automatic acceleration under the agreements governing all of our debt (excluding the $23 million loan from Verso Finance to Chase NMTC Verso Investment Fund). As of the date of the filing of the Chapter 11 Cases, approximately $2.5 billion of debt and interest were outstanding under the Predecessor's pre-petition credit agreements, excluding related unamortized deferred financing costs, discounts/premiums, and deferred gains which were written off to Reorganization items, net upon filing the Chapter 11 Cases. All of the Predecessor's prepetition debt and interest were cancelled in exchange for the issuance of 34,390,643 of stock or 100% of the Company's equity.

8. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS

Verso has three defined benefit pension plans covering approximately 80% of our employees. The pension plans provide defined benefits based on years of service multiplied by a flat monetary benefit or based on a percentage of compensation as defined by the respective plan document. As of December 31, 2015, all of our defined benefit pension plans were frozen to new entrants. The majority of our pension plan participants are in the union hourly plan and continue to earn service accruals toward their pension benefits but no longer receive multiplier increases. We also offer a cash balance defined benefit pension plan for certain salaried employees in which participants continue to earn annual interest credits, but no longer earn cash balance benefit credits and a pension plan for certain non-union hourly employees for which benefit accruals are frozen.

The following tables summarize the components of net periodic benefit cost of our pension plans for the periods presented:

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016	Successor Three Months Ended March 31, 2017
Service cost	$ 4	$ 4
Interest cost	17	16
Expected return on plan assets	(18)	(18)
Net periodic benefit cost	$ 3	$ 2

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 as Cost of products sold in our Unaudited Condensed Consolidated Statements of Operations.

We make contributions that are sufficient to fund our actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act. For the three months ended March 31, 2016 (Predecessor) and March 31, 2017 (Successor), we made contributions to the pension plans of $5 million and $6 million, respectively. We expect to make cash contributions of approximately $26 million to the pension plans in the remainder of 2017.

Our other postretirement benefits obligations provide other retirement and post-employment benefits for certain employees, which may include healthcare benefits for certain retirees prior to their reaching age 65, healthcare benefits for certain retirees on and after their reaching age 65, long-term disability benefits, continued group life insurance and extended health and dental benefits. These benefits are provided through various employer- and/or employee-funded postretirement benefit plans. The service and interest costs related to these obligations were not

material for the three months ended March 31, 2016 (Predecessor) and March 31, 2017 (Successor).

As described in Note 2, employee retirement contracts and collective bargaining agreements were honored by the Company after emergence from the Chapter 11 Cases on the Effective Date.

9. 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 Global Management, LLC, or “Apollo,” our then majority owner, relating to the provision of certain financial and strategic advisory services and consulting services, which was scheduled to expire on August 1, 2018. Under the management agreement, Apollo, upon providing notice to us, had 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 similar transaction if we decided to engage someone to fill such role. If Apollo exercised its right to act as our financial advisor or investment banker for any such transaction, and if we were unable to agree with Apollo on its compensation for serving in such role, then at the closing of any merger, acquisition, disposition or financing or similar transaction, we 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 also 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. Apollo did not exercise its right to act as our financial advisor or investment banker for any such transaction in the periods presented and thus, we made no payment to Apollo under the management agreement during those periods. On the Effective Date, in connection with our emergence from bankruptcy, such management agreement was terminated and all rights and remedies thereunder were terminated, extinguished, waived and released.

Transactions with Affiliates — Prior to the Effective Date, we transacted business with affiliates of Apollo from time to time. Our product sales to Apollo affiliates were approximately $6 million for the three months ended March 31, 2016 (Predecessor). Our product purchases from Apollo affiliates were negligible for the Predecessor. As of the Effective date, Apollo is no longer a related party. Upon the Effective Date, several of our significant shareholders became our debt holders. For the three months ended March 31, 2017 (Successor), we did not transact business with affiliates.

10. RESTRUCTURING CHARGES

Corporate Restructuring - In November 2016, Verso announced the closure of its Memphis office headquarters and relocation of its Corporate headquarters to Miamisburg, Ohio. In connection with the Memphis office closure, severance and benefit costs of $1 million were incurred and are included in Accrued liabilities on our Unaudited Condensed Consolidated Balance Sheet of the Successor as of March 31, 2017. The cumulative amount incurred to date for severance and benefit costs related to this restructuring plan is $3 million as of March 31, 2017 (Successor).

The following details the changes in our restructuring reserve liabilities related to the Corporate restructuring including restructuring activities related to the Memphis corporate headquarters closure and NewPage acquisition which are included in Accrued liabilities on our Unaudited Condensed Consolidated Balance Sheets for the Successor:

(Dollars in millions)	Successor Three Months Ended March 31, 2017
Beginning balance of reserve	$ 3
Severance and benefit costs	1
Severance and benefit payments	(2)

Ending balance of reserve	$	2

Androscoggin/Wickliffe Capacity Reductions — On August 20, 2015, Verso announced plans to make production capacity reductions at two of our mills by shutting down the No. 1 pulp dryer and No. 2 paper machine at our mill in Androscoggin, Maine, and by indefinitely idling our mill in Wickliffe, Kentucky. Together, these actions will reduce our production capacity by 430,000 tons of coated paper and 130,000 tons of dried market pulp. On April 5, 2016, we announced our decision to permanently close the Wickliffe mill and the associated Property, plant, and equipment were written down to salvage value. On November 1, 2016, we announced the temporary idling of the No. 3 paper machine at our Androscoggin Mill.

The following table details the charges incurred related primarily to the Androscoggin/Wickliffe Capacity Reductions and primarily attributable to the paper segment as included in Restructuring charges on our Unaudited Condensed Consolidated Statements of Operations for the Predecessor:

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016	Cumulative Incurred
Property and equipment write down	$ 127	$ 127
Severance and benefit costs	6	22
Write-off of spare parts and inventory	9	12
Write-off of purchase obligations and commitments	2	3
Other miscellaneous costs	—	1
Total restructuring costs	$ 144	$ 165

The following table details the charges incurred related primarily to the Androscoggin/Wickliffe Capacity Reductions and primarily attributable to the paper segment as included in Restructuring charges on our Unaudited Condensed Consolidated Statements of Operations for the Successor:

(Dollars in millions)	Successor Three Months Ended March 31, 2017	Cumulative Incurred
Severance and benefit costs	$ —	$ 5
Write-off of purchase obligations and commitments	—	1
Other miscellaneous costs	1	4
Total restructuring costs	$ 1	$ 10

The following details the changes in our restructuring reserve liabilities related to the Androscoggin/Wickliffe Capacity Reductions during the three months ended March 31, 2017 (Successor), which are included in Accrued liabilities on our Unaudited Condensed Consolidated Balance Sheets:

(Dollars in millions)	Successor Three Months Ended March 31, 2017
Beginning balance of reserve	$ 6
Purchase obligations	1
Payments on purchase obligations	(1)
Ending balance of reserve	$ 6

In connection with the temporary idling of the No. 3 paper machine at our Androscoggin mill, we determined a reduction in the useful life of the machine was necessary and accordingly recognized $43 million of accelerated depreciation during the fourth quarter of 2016 (Successor). During the three months ended March 31, 2017

(Successor), an additional $6 million of accelerated depreciation was recognized, which is included in Depreciation, amortization, and depletion in our Unaudited Condensed Consolidated Statements of Operations.

11. NEW MARKET TAX CREDIT ENTITIES

In 2010, we entered into a financing transaction with Chase Community Equity, LLC, or “Chase,” related to a $43 million renewable energy project at our mill in Quinnesec, Michigan, in which Chase made a capital contribution and Verso Finance made a loan to Chase NMTC Verso Investment Fund, LLC, 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 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 Unaudited Condensed Consolidated Balance Sheets. The impact of the VIE was $8 million of Other liabilities for the Successor as of December 31, 2016 and March 31, 2017. 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.

12. COMMITMENTS AND CONTINGENCIES

Represented Employees — Approximately 70% of our hourly workforce is represented by unions. All represented employees were covered by the Master Labor Agreement 2012–2016, dated as of December 21, 2012, covering wages and benefits; certain represented mills also had local agreements covering general work rules, until the expiration of the Master Labor Agreement in December of 2016. The parties continue to have a dialogue toward reaching a new agreement. In the interim, each of the represented sites has local agreements which govern wages and benefits, along with terms and conditions of employment on the local level. In the event the Master Labor Agreement is not renegotiated, management will bargain site by site as local agreements reach their respective expiration dates.

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 Unaudited Condensed Consolidated Financial Statements.

13. INFORMATION BY INDUSTRY SEGMENT

We have two operating segments, paper and pulp, however, subsequent to the Effective Date, we have determined that the operating loss of the pulp segment is immaterial for disclosure purposes. Our paper 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 market kraft pulp is used to manufacture printing, writing, and specialty paper grades and tissue products. 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. We operate primarily in one geographic segment, North America.

The following table summarizes the industry segment data for the three months ended March 31, 2016 (Predecessor):

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016
Net Sales	
Paper	$ 660
Pulp	40
Intercompany eliminations	(10)
Total	$ 690
Operating loss[1]	
Paper	$ (93)
Pulp	(17)
Total	$ (110)
Depreciation, amortization, and depletion	
Paper	$ 44
Pulp	4
Total	$ 48
Capital expenditures	
Paper	$ 8
Pulp	3
Total	$ 11

(1) Operating losses for the three months ended March 31, 2016 (Predecessor) include $129 million of Restructuring charges attributable to the paper segment and $15 million of Restructuring charges attributable to the pulp segment.

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

Overview

We are the leading North American producer of coated papers, which are used primarily in commercial print, magazines, catalogs, high-end advertising brochures and annual reports, among other media and marketing publications. We produce a wide range of products, ranging from coated freesheet and coated groundwood, to specialty papers, to inkjet and digital paper, supercalendered papers, and uncoated freesheet. We also produce and sell market kraft pulp, which is used to manufacture printing and writing paper grades and tissue products.

Headquartered in Miamisburg, Ohio (formerly Memphis, Tennessee), Verso operates seven mills located in Maine, Maryland, Michigan, Minnesota, and Wisconsin with a total annual paper production capacity of approximately 3,155,000 tons of paper and approximately 290,000 tons of pulp.

Background

Emergence from Chapter 11

On January 26, 2016, or the “Petition Date,” we and substantially all of our direct and indirect subsidiaries, collectively, the “Debtors,” filed voluntary petitions for relief, or the “Chapter 11 Filings,” under Chapter 11 of Title 11 of the United States Code, or the “Bankruptcy Code,” in the United States Bankruptcy Court for the District of Delaware, the “Bankruptcy Court.” The Chapter 11 Filings constituted an event of default and automatic acceleration under the agreements governing all of our debt (excluding the $23 million loan from Verso Finance Holdings to Chase NMTC Verso Investment Fund). The chapter 11 cases, or the “Chapter 11 Cases,” were consolidated for procedural purposes only and administered jointly under the caption “In re: Verso Corporation, et al., Case No. 16-10163.” During the pendency of the Chapter 11 Cases, we continued to manage our properties and operate our businesses as a “debtor-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

In connection with the Chapter 11 Cases, Verso Finance, Verso Holdings and certain of its subsidiaries entered into the Verso DIP Facility for an aggregate principal amount of up to $100 million, and NewPage Corp and certain of its subsidiaries entered into the NewPage DIP ABL Facility for an aggregate principal amount of up to $325 million and the NewPage DIP Term Loan Facility for an aggregate principal amount of $350 million (see Note 7). The NewPage DIP Term Loan Facility consisted of $175 million of new money term loans and $175 million of roll up loans refinancing loans outstanding under the existing term loan facility of NewPage Corp outstanding on the Petition Date. The Verso DIP Facility, NewPage DIP ABL Facility and NewPage DIP Term Loan Facility are collectively referred to as the “DIP Facilities”.

On March 26, 2016, the Debtors filed a proposed joint plan of reorganization, (as amended, the “Plan,”) with the Bankruptcy Court together with a disclosure statement in respect of the Plan. The Plan set forth, among other things, the treatment of claims against and equity interests in the Debtors. On June 23, 2016, the Bankruptcy Court entered an order, or the “Confirmation Order,” confirming the Plan. On July 15, 2016, or the “Effective Date,” the Plan became effective pursuant to its terms and the Debtors emerged from their Chapter 11 Cases.

On the Effective Date, by operation of the Plan, among other things:

- Verso issued 33,366,784 shares of its new Class A common stock, par value $0.01 per share, or “Class A Common Stock,” 1,023,859 shares of its new Class B common stock, par value $0.01 per share, or “Class B Common Stock,” and warrants to purchase up to an aggregate of 1,810,035 shares of Class A Common Stock, or “Plan Warrants,” in exchange for the elimination of $2.6 billion of the Debtor’s outstanding indebtedness (principal and accrued interest);
- The satisfaction in full of general unsecured claims in aggregate settlement totaling $3 million in cash (except with respect to general unsecured claims against Debtors that have only de minimis assets, which will receive no

distributions under the Plan);

- All shares of Verso's common stock issued and outstanding immediately prior to the Effective Date were cancelled and discharged;
- The shared services agreement between Verso, NewPage and NewPage Corp was terminated;

24

- The prior employee incentive plans and other employment agreements were terminated and any awards issued under them were no longer honored, and a new performance incentive plan was adopted by Verso;
- Termination of the Management and Transaction Fee Agreement dated as of August 1, 2006 among Verso Paper LLC, Verso Paper Investments LP, Apollo Management V, L.P., and Apollo Management VI, L.P., and all rights and remedies thereunder were terminated, extinguished, waived and released; and
- Employee retirement contracts and collective bargaining agreements will be honored by the Company upon emergence.

Pursuant to the Plan, on the Effective Date, the Company entered into a $375 million asset-based revolving credit facility or the “Exit ABL Facility, and a senior secured term loan agreement or the “Exit Term Loan Facility” that provides for term loan commitments of $220 million or collectively the “Exit Credit Facilities.” Further, Verso Holdings borrowed $340 million under the Exit Credit Facilities on the Effective Date, with available loan proceeds of approximately $318 million, consisting of (i) the borrowing of $120 million under the Exit ABL Facility and (ii) the borrowing of $198 million ($220 million net of Original Issue Discount) under the Exit Term Loan Facility. The proceeds of the borrowings on the Effective Date under the Credit Facilities were used (i) to repay outstanding indebtedness under the DIP Facilities, (ii) to pay outstanding allowed administrative expenses and allowed claims in accordance with the Plan, and (iii) to pay fees, costs and expenses related to and contemplated by the Exit Credit Facilities and emergence by Verso and its subsidiaries from bankruptcy.

Financial Reporting Under Reorganization

See Note 2 of our Unaudited Condensed Consolidating Financial Statements for further discussion of financial reporting implications related to our Chapter 11 Cases, and emergence therefrom.

Capacity Reductions

On November 1, 2016, we announced plans to reduce production capacity by temporarily idling the No. 3 paper machine at our Androscoggin, Maine facility.

On April 5, 2016, we announced that we will permanently close our paper mill located in Wickliffe, Kentucky, which has been idle since November 2015. The decision to close the mill resulted in restructuring charges of approximately $1 million and $144 million for the three months ended March 31, 2017 (Successor) and March 31, 2016 (Predecessor), respectively. The associated Property, plant, and equipment were written down to salvage value resulting in a non-cash restructuring charge of $127 million for the three months ended March 31, 2016 (Predecessor).

Presentation of Predecessor and Successor

We adopted fresh-start reporting as of the Effective Date. As a result of the application of fresh-start reporting, our financial statements for periods prior to the Effective Date are not comparable to those for periods subsequent to the Effective Date. References in this report to “Successor” refer to the Company on or after the Effective Date. References to “Predecessor” refer to the Company prior to the Effective Date. Operating results for the Successor and Predecessor periods are not necessarily indicative of the results to be expected for a full year. References such as the “Company,” “we,” “our” and “us” refer to Verso Corporation and its consolidated subsidiaries, whether Predecessor and/or Successor, as appropriate.

Results of Operations

The following tables set forth the historical results of operations of Verso for the periods indicated below. The following discussion of our financial condition and results of operations should be read in conjunction with our Unaudited Condensed Consolidated Financial Statements and notes thereto included elsewhere in this quarterly report.

Three Months Ended March 31, 2017 (Successor) Compared to Three Months Ended March 31, 2016 (Predecessor)

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016	Successor Three Months Ended March 31, 2017	Three Month $ Change
Net sales	$ 690	$ 616	$ (74)
Costs and expenses:			
Cost of products sold (exclusive of depreciation, amortization and depletion)	618	560	(58)
Depreciation, amortization and depletion	48	33	(15)
Selling, general and administrative expenses	47	33	(14)
Restructuring charges	144	2	(142)
Other operating income	(57)	—	57
Operating loss	(110)	(12)	98
Interest expense	26	9	(17)
Loss before reorganization items, net	(136)	(21)	115
Reorganization items, net	(48)	—	48
Loss before income taxes	(88)	(21)	67
Income tax expense	—	—	—
Net loss	$ (88)	$ (21)	$ 67

Net Sales. Net sales for the three months ended March 31, 2017 (Successor) decreased by $74 million or 11% compared to the three months ended March 31, 2016 (Predecessor). This decrease was attributable to a 8% decrease in total sales volume, from 811 thousand tons during the three months ended March 31, 2016 (Predecessor) to 743 thousand tons for the same period of the current year (Successor), and a 3% reduction in price, from $851 per ton during the three months ended March 31, 2016 (Predecessor) to $829 per ton for the same period of the current year (Successor). The decrease in sales volume resulted in a $62 million decrease in revenue, while the reduced pricing resulted in an additional $12 million decrease in revenue. The decrease in volume and pricing were driven by general softening of demand for coated papers, our capacity reductions at our Androscoggin mill and the closure of the Wickliffe mill.

Cost of sales. Cost of products sold, excluding depreciation, amortization, and depletion expenses, decreased $58 million, or 9%, in the three months ended March 31, 2017 (Successor), compared to the three months ended March 31, 2016 (Predecessor). Our gross margin, excluding depreciation, amortization, and depletion expenses, was 9.1% for the three months ended March 31, 2017 (Successor), compared to 10.4% for the three months ended March 31, 2016 (Predecessor), reflecting an incremental decrease of $16 million in gross margin. Gross margin was negatively impacted by the decrease in sales volume and the effects of two accounting policy changes adopted in conjunction with fresh-start accounting, including approximately $7 million of certain centralized costs related to manufacturing overhead previously recorded in Selling, general, and administrative expenses of the Predecessor that are now recorded in Cost of products sold of the Successor.

Depreciation, amortization, and depletion. Depreciation, amortization, and depletion expenses for the three months ended March 31, 2017 (Successor) decreased $15 million, or 31%, from the three months ended March 31, 2016 (Predecessor). The reduction in depreciation, amortization, and depletion is attributable to the capacity reductions at our Androscoggin mill, the closure of the Wickliffe mill and the reduction in the carrying value of our property, plant and equipment as a result of the adoption of fresh-start accounting.

Selling, general and administrative. Selling, general and administrative expenses for the three months ended March 31, 2017 (Successor) decreased $14 million, or 30%, compared to the same period of the prior year (Predecessor) primarily attributable to a change in accounting policy adopted in connection with fresh-start accounting. As described in Cost of sales above, approximately $7 million of certain centralized costs related to manufacturing overhead previously recorded in Selling, general, and administrative expenses of the Predecessor are now recorded in Cost of products sold of the Successor. In addition, Selling, general and administrative expenses for the three months ended March 31, 2016 (Predecessor) included $6 million in costs incurred in connection with advisory and legal services related to planning for the Chapter 11 Cases. As a percentage of sales, Selling, general and administrative was 5.4% for the three months ended March 31, 2017 (Successor) and 6.8% for the three months ended March 31, 2016 (Predecessor).

Restructuring charges. Restructuring charges for the three months ended March 31, 2017 (Successor) decreased $142 million from the same period of the prior year (Predecessor). Restructuring charges during the three months ended March 31, 2017 (Successor) are primarily associated with the announced closure and relocation of the Memphis office headquarters and closure of the Wickliffe mill. Restructuring charges during the three months ended March 31, 2016 (Predecessor) consisted primarily of non-cash fixed asset write-down charges from the permanent closure of the Wickliffe mill.

Other operating income. There was no other operating income or expense for the three months ended March 31, 2017 (Successor), compared to other operating income of $57 million for the three months ended March 31, 2016 (Predecessor) attributable to the sale of hydroelectric facilities in January 2016.

Interest expense. Interest expense for the three months ended March 31, 2017 (Successor) decreased $17 million, or 65%, compared to the three months ended March 31, 2016 (Predecessor). For the three months ended March 31, 2016 (Predecessor), we ceased recording interest expense as of the Petition Date on outstanding pre-petition debt classified as liabilities subject to compromise. Such interest on pre-petition debt was stayed by the Bankruptcy Court effective on the Petition Date. During the pendency of the bankruptcy, we incurred interest expense on the DIP Facilities. For periods subsequent to the Effective Date, we incurred interest expense on the outstanding balance of the Exit Credit Facilities.

Reorganization items, net. Reorganization items, net, which represent expenses and income directly associated with the Predecessor’s bankruptcy filing on January 26, 2016, resulted in a net gain of $48 million for the three months ended March 31, 2016 (Predecessor). This amount represents expenses and income directly associated with the Chapter 11 Cases. Reorganization items, net also include adjustments to reflect the carrying value of liabilities subject to compromise at their estimated allowed claim amounts, as such adjustments are determined. The adjustment of the carrying value of our debt to the estimated allowed claim of its stated principal balance resulted in a gain of $81 million.

Reconciliation of Net Loss to Adjusted EBITDA

EBITDA consists of earnings before interest, taxes, depreciation, and amortization. Adjusted EBITDA reflects adjustments to EBITDA to eliminate the impact of certain items that we do not consider to be indicative of our performance. We use EBITDA and Adjusted EBITDA as a way of evaluating our performance relative to that of our peers and to assess compliance with our credit facilities. We believe that Adjusted EBITDA is an operating performance measure commonly used in our industry that provides investors and analysts with a measure of ongoing operating results unaffected by differences in capital structures, capital investment cycles, and ages of related assets among otherwise comparable companies.

We believe that the supplemental adjustments applied in calculating Adjusted EBITDA are reasonable and appropriate to provide additional information to investors.

Because EBITDA and Adjusted EBITDA are not measurements determined in accordance with GAAP and are susceptible to varying calculations, EBITDA and Adjusted EBITDA, as presented, may not be comparable to similarly titled measures of 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.

The following table reconciles net loss to EBITDA and Adjusted EBITDA for the periods presented:

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016	Successor Three Months Ended March 31, 2017
Net loss	$ (88)	$ (21)
Income tax expense	—	—
Interest expense, net	26	9
Depreciation, amortization and depletion	48	33
EBITDA	$ (14)	$ 21
Adjustments to EBITDA:		
Reorganization items, net (1)	(48)	—
Restructuring charges (2)	144	2
Gains on disposal of assets (3)	(57)	—
Pre-reorganization costs (4)	6	—
Other items, net (5)	9	3
Adjusted EBITDA	$ 40	$ 26

(1) Net gains associated with the Chapter 11 Cases.
(2) For 2017, charges are primarily associated with the announced closure and relocation of the Memphis office headquarters and closure of the Wickliffe mill. For 2016, changes are primarily associated with the closure of the Wickliffe mill, of which $137 million is non-cash.
(3) Realized gains on the sale of assets, which are primarily attributable to the sale of hydroelectric facilities in January 2016.
(4) Costs incurred in connection with advisory and legal services related to planning for the Chapter 11 Cases.
(5) For 2017, costs incurred in connection with the re-engineering of information systems, amortization of non-cash incentive compensation, costs associated with the temporary idling of the No. 3 paper machine at the Androscoggin mill, and miscellaneous other non-recurring adjustments. For 2016, costs associated with the indefinite idling of the Wickliffe mill, amortization of non-cash incentive compensation, unrealized losses (gains) on energy-related derivative contracts, and miscellaneous non-cash and other earnings adjustments.

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. Our third quarter is generally our strongest quarter for volume and revenue, 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

Our historical negative cash flows from operations caused an inability to support our significant interest payments and debt maturities and a need to refinance and/or extend the maturities of our outstanding debt. On January 26, 2016, Verso and substantially all of its direct and indirect subsidiaries filed voluntary petitions for relief under the Bankruptcy Code in the Bankruptcy Court. The Chapter 11 Filings constituted an event of default and automatic

acceleration under the agreements governing all of our debt (excluding the $23 million loan from Verso Finance Holdings to Chase NMTC Verso Investment Fund).
As described in Note 2 and Note 7, Verso emerged from its Chapter 11 Cases on July 15, 2016. Pursuant to the Plan, on July 15, 2016, we entered into a $375 million Exit ABL Facility and a $220 million Exit Term Loan Facility. We borrowed $340 million under the Exit Credit Facilities on July 15, 2016, with available loan proceeds of approximately $318 million, consisting of $120 million of borrowings under the asset-based revolving credit facility and $198 million ($220 million net of Original Issue Discount) of borrowings under the term loan agreement. On July 15, 2016, we paid in full amounts outstanding related to its DIP Facilities with proceeds from the Exit Credit Facilities. As of March 31, 2017 (Successor), the outstanding balance of the Exit ABL Facility is $158 million, with $78 million in letters of credit issued, and $134 million available for future borrowings.

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

(Dollars in millions)	Predecessor Three Months Ended March 31, 2016	Successor Three Months Ended March 31, 2017
Net cash provided by (used in):		
Operating activities	$ 64	$ (23)
Investing activities	49	(10)
Financing activities	(77)	34
Net change in cash and cash equivalents	$ 36	$ 1

Operating activities. In the first three months of 2017 (Successor), net cash used in operating activities of $23 million, primarily reflects a net loss of $21 million and cash used for working capital of $33 million primarily due to payments that reduced our accrued liabilities. These changes are offset by non-cash depreciation, amortization, and depletion of $33 million. In the first three months of 2016 (Predecessor), net cash provided by operating activities of $64 million, reflects a net loss of $88 million, a net gain from reorganization items and fresh-start reporting adjustments of $71 million, and a gain on disposal of assets of $57 million, offset by noncash depreciation, amortization, and depletion of $48 million, noncash restructuring charges of $137 million and cash provided from working capital of $74 million primarily due to interest and vendor payments stayed by the Chapter 11 Filings.

Investing activities. In the first three months of 2017 (Successor), net cash used in investing activities of $10 million, consists primarily of cash used for capital expenditures. In the first three months of 2016 (Predecessor), net cash provided by investing activities of $49 million, consists primarily of $63 million of proceeds from the sale of certain hydroelectric generation facilities and related assets, partially offset by $11 million of capital expenditures.

Financing activities. In the first three months of 2017 (Successor), net cash provided by financing activities of $34 million, results primarily from net borrowings of $46 million on our Exit ABL Facility offset by $12 million of repayments related to the Exit Term Loan Facility. In first three months of 2016 (Predecessor), net cash used in financing activities of $77 million, results primarily from net payments on pre-petition revolving credit facilities of $299 million, offset by proceeds from debtor-in-possession revolving credit facilities of $68 million and debtor-in-possession term loan of $175 million. Cash flows used in financing activities in the first three months of 2016 (Predecessor) also include $21 million of debt issuance costs associated with debtor-in-possession financing.

Exit Credit Facilities. On the Effective Date, pursuant to the terms of Plan, Verso Holdings entered into a $375 million Exit ABL Facility and an Exit Term Loan Facility that provides for term loan commitments of $220 million with loan proceeds of $198 million after the deduction of the original issue discount of $22 million.

Verso Holdings borrowed $340 million under the Exit Credit Facilities on the Effective Date, with available loan proceeds of approximately $318 million, consisting of (i) the borrowing of $120 million under the Exit ABL Facility and (ii) the net borrowing of $198 million ($220 million par value less $22 million of original issue discount) under the Exit Term Loan Facility. The proceeds of the borrowings on the Effective Date under the Exit Credit Facilities were used (i) to repay outstanding indebtedness under the debtor-in-possession financing credit agreements, (ii) to pay outstanding allowed administrative expenses and allowed claims in accordance with the Plan, and (iii) to pay fees, costs and expenses related to and contemplated by the Exit Credit Facilities and emergence by Verso and its subsidiaries from bankruptcy. The proceeds of the borrowings under the Exit ABL Facility after the Effective Date

will be used for working capital and general corporate purposes, including permitted acquisitions.

The Exit ABL Facility will mature on July 14, 2021. The outstanding borrowings under the Exit ABL Facility bear interest at a per annum rate equal to, at the option of Verso Holdings, either (i) a customary London interbank offered rate, or “LIBOR,” plus an applicable margin ranging from 1.25% to 2.00% or (ii) a customary base rate plus an applicable margin ranging from 0.25% to 1.00%, determined based upon the average excess availability under the Exit ABL Facility. Verso Holdings is also required to pay a commitment fee for the unused portion of the Exit ABL Facility, which ranges from 0.25% to 0.375% per annum, based upon the average revolver usage under the Exit ABL Facility. Verso Holdings has the right to prepay loans under the Exit ABL Facility at any time without a prepayment penalty, other than customary “breakage” costs with respect to

eurocurrency loans. As of March 31, 2017 (Successor), the outstanding balance of the Exit ABL Facility is $158 million, with $78 million in letters of credit issued, and $134 million available for future borrowings. We incurred $3 million of debt issuance costs associated with the Exit ABL Facility and recorded this amount as a direct deduction of the debt liability, which is being amortized over the life of the Exit ABL Facility.

The Exit Term Loan Facility will mature on October 14, 2021. The outstanding borrowings under the Exit Term Loan Facility bear interest at a rate equal to, at the option of Verso Holdings, either (i) LIBOR (subject to a floor of 1%) plus 11% or (ii) a customary base rate plus 10%. With respect to LIBOR denominated loans under the Exit Credit Facilities, Verso Holdings may elect an interest period of one, two, three or six months or such other period subject to the terms of the Exit Credit Facilities. As of March 31, 2017 (Successor), the Exit Term Loan's interest rate was 12.15% per annum. The term loans provided under the Exit Term Loan Facility are subject to quarterly principal amortization payments in an amount equal to the greater of (a) 2.00% of the initial principal amount of the term loans or (b) the excess cash flow in respect of such quarter as further described under the Exit Term Loan Facility; however, if the liquidity, as defined in the Exit Term Loan Facility, of Verso Holdings is less than $75 million at any time during the 90-day period following the due date of such quarterly amortization payment or excess cash flow payment date, then the portion of such amortization amount that results in such liquidity being less than $75 million will not be payable by Verso Holdings, as further described in the Exit Term Loan Facility.

Per the described quarterly principal amortization, installments due are $4 million (subject to increase depending on excess cash flow) for each quarter ending in 2016 through 2021 with the remaining balance due on October 14, 2021. As the result of the excess cash flow requirement, we were obligated to fund an additional principal amortization of $7 million, which is reflected in our Unaudited Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2017 (Successor). Any voluntary prepayment by Verso Holdings of the term loans under the Exit Term Loan Facility will be subject to customary "breakage" costs with respect to eurocurrency loans and a 2% call premium until July 14, 2018, and a 1% call premium after July 15, 2018, but before July 14, 2020, and thereafter no call premium will apply to any voluntary prepayment of term loans. Such call premium may also apply to certain repricing amendments of the Exit Term Loan Facility as further described therein. We incurred $8 million of debt issuance costs associated with the Exit Term Loan Facility and recorded this amount as a direct deduction of the debt liability, which is being amortized over the life of the Exit Term Loan Facility.

All obligations under the Exit Credit Facilities are unconditionally guaranteed by Verso Finance, and certain of the subsidiaries of Verso Holdings and are secured by liens on certain assets of Verso Finance and liens on substantially all of the assets of Verso Holdings and the other guarantor subsidiaries. The security interest with respect to the Exit ABL Facility consists of a first-priority lien on the current assets of Verso Holdings and the guarantor subsidiaries, including accounts receivables, inventory, deposit accounts, securities accounts and commodities accounts, and a second-priority lien on all other collateral. The security interest with respect to the Exit Term Loan Facility, consists of a first-priority lien on all other collateral and second-priority lien on collateral securing the Exit ABL Facility.

The Exit ABL Facility contains financial covenants requiring us, among other things, to maintain a minimum fixed charge coverage ratio in certain circumstances and a maximum total net leverage ratio. The Exit Credit Facilities also contain restrictions, among other things and subject to certain exceptions, on our ability to incur debt or liens, pay dividends, repurchase equity interest, prepay indebtedness, sell or dispose of assets, and make investments in or merge with another company.

If Verso Holdings were to violate any of the covenants under the Exit ABL Facility or the Exit Term Loan Facility and were unable to obtain a waiver, it would be considered a default after the expiration of any applicable grace period. If Verso Holdings were in default under any Exit Credit Facility, then the lenders thereunder may exercise remedies under such Exit Credit Facility in accordance with the terms thereof. In addition, if Verso Holdings were in default under the Exit ABL Facility, no additional borrowings under the Exit ABL Facility would be available until the default was waived or cured. The Exit Credit Facilities provide for customary events of default, including a cross-event of default provision in respect of any other existing debt instrument having an aggregate principal amount that exceeds $25 million.

As of March 31, 2017, we were in compliance with the covenants in our Exit Credit Facilities.

Critical Accounting Policies

Our accounting policies are fundamental to understanding management's discussion and analysis of financial condition and results of operations. Our Unaudited Condensed Consolidated Financial Statements are prepared in conformity with GAAP 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.

For a discussion of our critical accounting policies and estimates, see "Critical Accounting Policies" included in our Annual Report on Form 10-K for the year ended December 31, 2016, under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2016.

Recent Accounting Developments

See Note 3, "Recent Accounting Developments" in the Notes to our Unaudited Condensed 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. Paper prices historically have been a function of macroeconomic factors that influence supply and demand. Price has historically been substantially m