Verso Corp
Form 10-K
March 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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)

8540 Gander Creek Drive
Miamisburg, Ohio 45342
(Address, including zip code, of principal executive offices)

(877) 855-7243
(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A common stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

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 every Interactive Data File required to be submitted 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 such files). þ Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
			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 Act). o Yes þ No

As of June 30, 2018, the aggregate market value of the voting and non-voting common equity of Verso Corporation held by non-affiliates, computed by reference to the price at which the common equity was last sold on the last business day of the most recently completed second fiscal quarter, was $748,023,544. For purposes of this calculation, only those shares held by directors, executive officers and holders of 10% or more of the voting securities of Verso Corporation have been excluded as held by affiliates. Such exclusion should not be deemed a determination or an admission by Verso Corporation or any such person that such individuals or entities are or were, in fact, affiliates of Verso Corporation.

As of February 15, 2019, Verso Corporation had 34,484,093 shares of Class A common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

The information required by Part III is incorporated by reference from portions of the definitive proxy statement of Verso Corporation to be filed within 120 days after December 31, 2018, pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with the 2019 annual meeting of stockholders of Verso Corporation.

Verso Corporation
Form 10-K
December 31, 2018

TABLE OF CONTENTS

Forward-Looking Statements

In this annual 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, for 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 long-term structural decline and general softening of demand facing the paper industry; 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; intense competition in the paper manufacturing industry; our dependence on a small number of customers for a significant portion of our business; any additional closure and other restructuring costs; our limited ability to control the pricing of our products or pass through increases in our costs to our customers; changes in the costs of raw materials and purchased energy; 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,” as such disclosures may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission, or “SEC,” including subsequent annual reports on Form 10-K and quarterly reports on Form 10-Q. We assume no obligation to update any forward-looking statement made in this annual report to reflect subsequent events or circumstances or actual outcomes.

Market and Industry Information

Market data and other statistical information used throughout this annual report are based on independent industry publications, government publications, reports by market research firms, or other published independent sources. Some data is also based on our good-faith estimates which are derived from our review of internal surveys, as well as the independent sources listed above. Although we believe these sources are reliable, we have not independently verified the information. Industry prices for coated papers provided in this annual report are, unless otherwise expressly noted, derived from RISI, Inc. data. “North American” data included in this annual report that has been derived from RISI, Inc. only includes data from the United States and Canada. Any reference to (a) grade No. 3, grade No. 4 and grade No. 5 coated paper relates to 60 lb. basis weight, 50 lb. basis weight and 34 lb. basis weight, respectively, (b) lightweight coated groundwood paper refers to groundwood paper grades that are a 36 lb. basis weight or less, and (c) ultra-lightweight coated groundwood paper refers to groundwood paper grades that are a 30 lb. basis weight or less. The RISI, Inc. data included in this annual report has been derived from the following RISI, Inc. publications: RISI World Graphic Paper Forecast, January 2019 and RISI Paper Trader: A Monthly Monitor of the North American Graphic Paper Market, December 2018.

PART I

Item 1. Business

In this report, the term “Verso,” “the Company,” “we,” “us,” and “our” refer 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.” For more information on the Internal Reorganization, see below under “History”. After the Internal Reorganization, Verso is the sole member of Verso Holding LLC, which is the sole member of Verso Paper Holding LLC. As used in this report, the term “Verso Holding” refers to Verso Holding LLC, and the term “Verso Paper” refers to Verso Paper Holding LLC. 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. The term “VPH” refers to Verso Paper Holdings LLC. As a result of the International Reorganization, VPH no longer exists.

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, packaging papers, inkjet and digital papers, supercalendered papers and uncoated freesheet. We also produce and sell bleached and unbleached market kraft pulp, which is used to manufacture printing and writing paper grades and tissue products.

We operate fourteen paper machines at seven mills located in Maine, Maryland, Michigan, Minnesota and Wisconsin, as of December 31, 2018. The mills have an aggregate annual production capacity of approximately 3,080,000 tons of paper. In February 2018, we announced plans to upgrade the shuttered No. 3 paper machine at our Androscoggin Mill in Jay, Maine, enabling this equipment to restart for the manufacture of packaging papers. This paper machine was previously idled beginning in January 2017 and shut down in July 2017. The upgrade was completed in the third quarter of 2018 and the No. 3 paper machine increased the aggregate annual paper production capacity by approximately 200,000 tons.

We sell and market our products to approximately 300 customers which comprise approximately 1,600 end-user accounts. We have long-standing relationships with many leading magazine and catalog publishers, commercial printers, specialty retail merchandisers and paper merchants. Our relationships with many of our large customers average more than 20 years. We reach our end-users through several distribution channels, including direct sales, commercial printers, paper merchants and brokers.

History

We began operations on August 1, 2006, when we acquired the assets and certain liabilities comprising the business of the Coated and Supercalendered Papers Division of International Paper. We were formed for the purpose of consummating the acquisition from International Paper. We completed our initial public offering of common stock on the New York Stock Exchange in May 2008. On January 7, 2015, we acquired NewPage Holdings, Inc., also a paper manufacturer, in a merger transaction. The NewPage acquisition provided us with assets in a complementary geographic area, a broader portfolio of products and strategic flexibility to reduce operating costs.

On January 26, 2016, or the “Petition Date,” Verso and substantially all of its direct and indirect subsidiaries, or the “Debtors,” filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States

Bankruptcy Court for the District of Delaware, or the “Bankruptcy Code,” in the United States Bankruptcy Court for the District of Delaware, or the “Bankruptcy Court.” 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, or the “Chapter 11 Cases”. As a result of the Plan, among other things, all of our common stock issued and outstanding immediately prior to the Effective Date was cancelled and our creditors existing immediately prior to the Effective Date received all of our newly issued common stock in exchange for the cancellation of all of our pre-petition indebtedness.

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 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." For more information on the Chapter 11 Cases, including a detail of liabilities subject to compromise and reorganization items, net, see Note 20 to our Consolidated Financial Statements included elsewhere in this report.

In December 2016, Verso Corporation completed a consolidation and reorganization of its subsidiaries. The Internal Reorganization involved several separate, but related, actions consisting of mergers between subsidiaries to reduce their numbers, the conversion of corporate subsidiaries to limited liability companies, the re-domestication of subsidiaries under Delaware law to provide for a uniform and enlightened regulatory framework, the formation of new holding companies to create separate "branches" for Verso's paper-making and energy operations, and name changes of subsidiaries to more appropriately reflect the nature of their assets and operations. Management believes that the Internal Reorganization has afforded greater efficiency and reduced costs in the administration of our subsidiaries.

Verso Corporation was incorporated in 2006 in the state of Delaware. Our principal executive offices are located at 8540 Gander Creek Drive, Miamisburg, Ohio 45342. Our telephone number is (877) 855-7243. Our website address is www.versoco.com. Information on or accessible through our website is not considered part of this annual report.

Industry

Based on total industry 2018 sales and other market research, we estimate the size of the global coated paper industry to be approximately $36 billion, or 38 million tons of coated paper shipments, including approximately $5 billion, or 6 million tons, of coated paper shipments, in North America. Coated paper is used primarily in media and marketing applications, including catalogs, magazines and commercial printing applications, which include high-end advertising brochures, annual reports and direct mail advertising. Demand is generally driven by North American advertising and print media trends, which in turn have historically been correlated with growth in Gross Domestic Product, or "GDP." The coated paper industry has been facing a decline in demand driven primarily by the growth in digital media. See "Item 1A. Risk Factors - Risks Relating to Our Business - The paper industry has been facing a long-term structural decline and our profitability has been adversely impacted by such decline."

In North America, coated papers are classified by brightness and fall into five grades, labeled No. 1 to No. 5, with No. 1 having the highest brightness level and No. 5 having the lowest brightness level. Papers graded No. 1, No. 2 and No. 3 are typically coated freesheet grades. No. 4 and No. 5 papers are predominantly grades containing groundwood. Coated groundwood grades are the preferred grades for catalogs and magazines, while coated freesheet is more commonly used in commercial print applications.

Within the paper industry, specialty papers are products which are given unique characteristics in their manufacture, converting or processing and that have properties suitable for special purposes or custom engineered applications. Specialty papers have unique functional properties and are usually produced in relatively small quantities for a specific product, function or end-use requirement. Commercial and development activities rely largely on defining the unique characteristics of an application, in contrast with other substrates. We have focused on label and converting, flexible packaging and technical paper applications within the specialty papers market. Based on our market research, we estimate the annual demand for specialty papers in all markets to be between 11 million and 14 million tons globally.

Products

We manufacture paper and board products that serve the graphic papers, specialty papers and packaging papers markets. In addition, we manufacture pulp for both internal use and external sales.

Graphic papers. We produce a comprehensive portfolio of graphic paper products for various applications across our customer base. The graphic papers market includes coated freesheet, uncoated freesheet, coated groundwood and supercalendered papers. Freesheet papers are made from bleached kraft pulp, which is produced using a chemical process to break apart wood fibers and dissolve impurities such as lignin. The use of bleached kraft pulp results in a bright, smooth paper with excellent print qualities. Coated freesheet papers contain primarily kraft pulp with less than 10% mechanical pulp in its composition, and is therefore well-suited for high-end commercial applications, premium magazines, catalogs and direct mail. Groundwood papers include a fiber component produced through a mechanical pulping process. The use of such fiber results in a bulkier and more opaque paper that is better suited for applications where lighter weights and/or higher stiffness are required. In addition to mechanical pulp, groundwood papers typically include a kraft pulp component to improve brightness and print quality. Groundwood papers are coated (coated groundwood) for higher quality applications such as catalogs and magazines, or may contain a high percentage of filler content and are calendared (supercalendered) for higher volume applications such as retail inserts. Graphic papers revenues have been declining primarily due to the focus on digital media as opposed to traditional print advertising. Revenues from our graphic papers sales represented 65%, 62% and 62% of our total annual net sales for 2016, 2017 and 2018, respectively.

Specialty papers. We offer customized product solutions for strategic accounts by producing paper grades with customer-specified weight, brightness and pulp mix characteristics, providing customers with cost benefits and/or brand differentiation. Our specialty papers portfolio, which includes a wide range of bleached and natural specialty papers, focuses on functionality, printability and innovative solutions to provide over 200 specialty paper grades for use in an array of applications including label and converting, flexible packing and technical papers. End-uses range from beverage container labels to oil and grease resistant food packaging to pressure sensitive labels and thermal printing papers. Revenues from our specialty papers sales have increased as we continue to focus on new product development and productivity improvements to lessen our overall exposure to the declines in demand in the graphic papers market. Revenues from our specialty papers sales represented 29%, 30% and 31% of our total annual net sales for 2016, 2017 and 2018, respectively.

Packaging papers. Our packaging papers offerings include coated bleached board, kraft linerboard (also referred to as containerboard) and other kraft products. Packaging papers are a strategic growth area for Verso as we transform our total company grade mix to lessen our dependency on graphic printing and writing papers, which have been experiencing a prolonged decline in demand. Coated bleached board is manufactured similar to coated freesheet papers utilizing at least 90% bleached kraft pulp and is typically greater than one-hundredth of an inch in thickness while delivering functionality and convertibility. This product is used in applications such as packaging for point-of-purchase items or as laminated paperboard for box packaging where brand differentiation is desired. Containerboard, commonly called linerboard (outer) and medium (inner), is manufactured utilizing unbleached kraft pulp and is used principally as the outer and inner layers of corrugated boxes. Kraft paper is manufactured with both bleached and unbleached kraft pulp and has a wide variety of end uses, the most recognizable of which include grocery sacks, shopping bags and fast food bags. Revenues from our packaging papers sales represented 2%, 2% and 2% of our total annual net sales for 2016, 2017 and 2018, respectively.

Pulp. We produce and sell Northern Bleached Hardwood Kraft, or “NBHK” pulp. NBHK pulp is produced through the chemical kraft process using hardwoods. Hardwoods typically have shorter length fibers than softwoods and are used in a variety of end-use applications. NBHK describes pulp produced using a chemical process, whereby hardwood chips are combined with chemicals and steam to separate the wood fibers. The fibers are then washed and pressure screened to remove the chemicals and lignin which originally held the fibers together. Finally, the pulp is bleached to the necessary whiteness and brightness. NBHK pulp is used in applications where a brighter and whiter fiber based product is required. We can also offer Northern Bleached Softwood Kraft pulp, de-inked recycled pulp and unbleached virgin kraft pulp to help meet specific customer requirements. Revenues from our pulp sales represented 4%, 6% and 5% of our total annual net sales for 2016, 2017 and 2018, respectively.

Manufacturing

As of December 31, 2018, we operate fourteen paper machines at seven mills located in Maine, Maryland, Michigan, Minnesota and Wisconsin. We believe our graphic, packaging and specialty papers mills are among the most efficient and lowest cost paper mills in North America based on the cash cost of delivery to Chicago, Illinois. We attribute our manufacturing efficiency, in part, to investments made in our mills, our R-GAP manufacturing benchmarking and our cost improvement program. As of December 31, 2018, our mills have a combined annual production capacity of 3,080,000 tons of paper, including graphic, packaging and specialty papers. Our facilities are strategically located within close proximity to major publication printing customers, which affords us the ability to deliver our products more quickly and cost-effectively.

5

The following table provides key information about our mills and operating paper machines' capacity as of December 31, 2018:

Mill/Location	Product/Paper Grades	Paper Machines	Annual Production Capacity (in tons)
Duluth, Minnesota	Supercalendered papers	1	270,000
Escanaba, Michigan	Coated, specialty and uncoated papers	3	730,000
Jay (Androscoggin), Maine	Specialty and packaging papers	3[(1)]	450,000
Luke, Maryland	Coated papers	2	450,000
Quinnesec, Michigan	Coated papers	1	430,000
Stevens Point, Wisconsin	Specialty papers	2	210,000
Wisconsin Rapids, Wisconsin	Coated and packaging papers	2	540,000

(1) In February 2018, we announced a plan to upgrade and restart the No. 3 paper machine at our Androscoggin Mill in Jay, Maine. The upgrade was completed in the third quarter of 2018 and increased the aggregate annual paper production capacity by approximately 200,000 tons.

The basic raw material of the papermaking process is wood pulp. The first stage of papermaking involves converting wood logs to pulp through either a mechanical or chemical process. Before logs can be processed into pulp, they are passed through a debarking drum to remove the bark. Once separated, the bark is burned as fuel in bark boilers. The wood logs are composed of small cellulose fibers which are bound together by a glue-like substance called lignin. The cellulose fibers are then separated from each other through either a mechanical or a kraft pulping process.

After the pulping phase, the fiber furnish is run onto the forming fabric of the paper machine. On the forming fabric, the fibers become interlaced, forming a mat of paper, and much of the water is extracted. The paper web then goes through a pressing and drying process to extract the remaining water. After drying, the web goes through a series of on machine and off machine finishing and converting processes that impact product specific attributes to ensure excellent downstream performance. Finally, the paper is wrapped, labeled and shipped.

We utilize a manufacturing excellence program, called R-GAP, to take advantage of the financial opportunities that exist between the current or historical performance of our mills and the best performance possible given usual and normal constraints (i.e., configuration, geographical and capital constraints). Our continuous improvement process is designed to lower our cost position and enhance operating efficiency through reduced consumption of energy and material inputs, reduced spending on indirect costs and improved productivity, product quality and safety. The program utilizes benchmarking data to identify improvement initiatives and establish performance targets. Detailed action plans are used to monitor the execution of these initiatives and calculate the amount saved. We also use multi-variable testing, lean manufacturing, center of excellence teams, source-of-loss initiatives and best practice sharing to constantly improve our manufacturing processes and products. Since 2001, the Quinnesec Mill has been recognized in the Michigan Occupational Safety and Health Administration's Voluntary Protection Program as a Star facility. The Michigan Voluntary Protection Program Star award is the state's highest recognition for workplace safety programs and performance. In 2018, our Duluth Mill had no reportable safety incidents. Each year we develop and implement new efforts to continue our safety improvement and also share our successes through the mentoring aspects of this important program.

Raw Materials and Suppliers

Our key cost inputs in the papermaking process are wood fiber, chemicals and energy.

Wood Fiber. We source our wood fiber from a broad group of timberland and sawmill owners located in the regions around our mills. Our cost to purchase wood is affected directly by market price of wood in our regional markets and indirectly by the effect of higher fuel cost of logging and transportation of timber to our facilities. While we have in place fiber supply agreements that ensure delivery of a substantial portion of our wood requirements, purchases under these agreements are typically at market rates.

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

Energy. We produce a significant portion of our energy needs for our paper mills from sources such as waste wood, waste water, hydroelectric facilities, liquid biomass from our pulping process and internal energy cogeneration facilities. Our external energy purchases vary across each of our mills and include fuel oil, natural gas, coal and electricity. Our overall energy expenditures are mitigated by our internal energy production capacity and ability to switch between certain energy sources. The use of derivative contracts is also a consideration as part of our risk management strategy to manage our exposure to market fluctuations in energy prices.

Sales, Marketing and Distribution

We reach our end-users through several channels, including merchants, brokers, printers and direct sales to end-users. We sell our products to approximately 300 customers which comprise approximately 1,600 end-user accounts.

Sales to End-Users. In 2018, we sold 35% of our paper products directly to end-users, most of which are specialty converters and catalog and magazine publishers. These customers are typically large, sophisticated buyers who have the scale, resources and expertise to procure paper directly from manufacturers. We also focus on containerboard converters and general commercial print end users. Customers for our pulp products are mostly other paper manufacturers.

Sales to Brokers and Merchants. Our largest indirect paper sales by volume are through brokers and merchants who resell the paper to end-users. In 2018, our sales to brokers and merchants represented 45% of our net sales. Brokers typically act as an intermediary between paper manufacturers and smaller end-users who do not have the scale or resources to cost effectively procure paper directly from manufacturers. The majority of the paper sold to brokers is resold to catalog publishers. We work closely with brokers to achieve share targets in the catalog, magazine and insert end-user markets through collaborative selling.

Merchants are similar to brokers in that they act as an intermediary between the manufacturer and the end-user. However, merchants generally take physical delivery of the product and keep inventory on hand. Merchants tend to deal with smaller end-users that lack the scale to warrant direct delivery from the manufacturer. Coated freesheet comprises the majority of our sales to merchants. In most cases, because they are relatively small, the ultimate end-users of paper sold through merchants are generally regional or local commercial printers. Containerboard is also sold primarily through merchants to converters (box plants and sheet feeder plants).

Sales to Printers. In 2018, our sales to printers represented 20% of our net sales. The majority of these sales were to the two largest publication printers in the United States. Printers also effectively act as an intermediary between manufacturers and end-users in that they directly source paper for printing/converting and then resell it to their customers as a finished product.

The majority of our products are delivered directly from our manufacturing facilities to the printer or converter, regardless of the sales channel. In order to serve the grade No. 3 coated freesheet market, we maintain a network of distribution centers located in the West, Midwest, South and Northeast close to our customer base to provide quick delivery. The majority of our pulp products are delivered to our customers' paper mills.

Our sales force is organized around our sales channels. We maintain an active dialogue with all of our major customers and track product performance and demand across grades. We have a team of sales representatives and marketing professionals organized into three major sales groups that correspond with our sales channels: direct sales support; support to brokers and merchants; and printer support.

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

Customers

We participate in the graphic papers, specialty papers, packaging papers and pulp markets and have developed long-standing relationships with many premier customers in these areas. Our relationships with our ten largest customers average more than 20 years. Our largest customer, Veritiv Corporation, accounted for 19% of our net sales in 2018. In 2018, our ten largest customers (including Veritiv Corporation) accounted for 62% of our net sales. Our key customers in the graphic papers market include Central National-Gottesman, Quad/Graphics, Inc., Meredith/Time, Veritiv Corporation and Midland Paper. Our key customers in the specialty papers market include Avery Dennison, UPM Raflatac and Mactac.

Research and Development

The primary function of our research and development efforts is to work with customers in developing and modifying products to accommodate their evolving needs and to identify cost-saving opportunities within our operations. Over the past several years, examples of our research and development efforts include innovative and performance-driven products for the flexible packaging, label and specialty printing markets.

Intellectual Property

We have several patents and patent applications in the United States and various foreign countries. These patents and patent applications generally relate to various paper manufacturing methods and equipment which may become commercially viable in the future. We also have trademarks for our name, Verso®, as well as for our products such as Sterling®, Futura®, Anthem Plus®, Productolith®, Influence®, Liberty® and Voyager®. In addition to the intellectual property that we own, we license a significant portion of the intellectual property used in our business on a perpetual, royalty-free, non-exclusive basis from International Paper.

Competition

Our business is highly competitive. A significant number of North American competitors produce coated papers, specialty papers, packaging papers and pulp, and several overseas manufacturers, principally from Europe, export to North America. We compete based on a number of factors, including:

- price;
- product availability;
- product quality;
- customer service;
- breadth of product offerings;
- timeliness of product delivery;
- market presence; and
- degree of forward integration.

Foreign competition in North America is affected by the exchange rate of the U.S. dollar relative to other currencies, especially the euro, market prices in North America and other markets, worldwide supply and demand and the cost of ocean-going freight.

While our product offering is broad in terms of grades produced (from coated and uncoated graphical grades, including web and sheeted products, to highly technical specialty grades), our largest offering is in the coated freesheet category, with about two thirds in web form and one third in sheets. This strategy is driven primarily by our alignment with the commercial print market with a secondary focus on catalogs and magazines for our coated freesheet grades. Our specialty grades have each year become a larger portion of our overall shipments each year, and that growth is expected to continue. As of December 31, 2018, our principal competitors include Resolute Forest Products, UPM-Kymmene Corporation, Nine Dragons Paper and Sappi Limited, all of which have North American operations. UPM, Sappi and Nine Dragons Paper are headquartered overseas and also have overseas manufacturing facilities.

Employees

As of December 31, 2018, we had approximately 4,400 employees. Approximately 70% of our hourly workforce is represented by 16 local branches of the following unions: the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Services Workers International Union; the International Brotherhood of

Electrical Workers; the Teamsters, Chauffeurs, Warehousemen and Helpers; the International Association of Machinists and Aerospace Workers; the Office & Professional Employees' International Union; and the United Association of Journeyman and Apprentices of the Plumbing and Pipefitting Industry. All represented employees were covered by a Master Labor Agreement from 2012–2016, that covered wages and benefits. Certain represented mills also had local agreements covering general work rules. The Master Labor Agreement expired in December 2016. The parties are currently engaged in collective bargaining for a new master labor agreement and continue to work under the terms and conditions of their expired agreements. We have not experienced any work stoppages during the past several years and believe that we have a good relationship with our employees.

Environmental and Other Governmental Regulations

We are subject to a wide range of federal, state, regional and local general and industry-specific environmental, health and safety laws and regulations, including without limitation the Federal Water Pollution Control Act of 1972, or “Clean Water Act,” the federal Clean Air Act, the federal Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or “CERCLA,” the federal Occupational Safety and Health Act, the Toxic Substances Control Act, the Emergency Planning & Community Right-To-Know Act, the Oil Pollution Act and similar state and local laws. Our operations at our mills in Maine and Maryland also are subject to a regional regime designed to address climate change, the Regional Greenhouse Gas Initiative, or “RGGI,” which caps the maximum allowable greenhouse gases emitted by sources subject to the RGGI regime. In addition to our mill operational efforts to comply with the cap, we participate in transactions - for example, auctions and the secondary market for allowances under the RGGI - to help comply with the cap. In the future, we may be subject to additional federal, state, regional, local or supranational legislation related to climate change and greenhouse gas controls. Failure to comply with any of the above-noted climate change regulatory and legislative initiatives could have a material adverse effect on our business, financial condition and results of operations.

Among our activities subject to environmental regulation are the emissions of air pollutants, discharges of wastewater and stormwater, operation of dams, storage, handling, treatment and disposal of materials and waste, and remediation of soil, surface water and ground water contamination. Many environmental and health and safety laws and regulations provide for substantial fines or penalties and other civil and criminal sanctions for any failure to comply. In addition, failure to comply with these laws and regulations could result in significant costs for abatement measures, the interruption of our operations and/or, in some cases, facility shutdowns.

Certain environmental laws, such as CERCLA and similar state laws, provide for strict liability, and under certain circumstances joint and several liability, for investigation and remediation of the release of hazardous substances into the environment, including without limitation soil and groundwater. These laws may apply to properties presently or formerly owned or operated by or presently or formerly under the charge, management or control of an entity or its predecessors, as well as to conditions at properties at which waste attributable to an entity or its predecessors was disposed. Under environmental laws, a current or previous owner or operator of real property or a party formerly or previously in charge, management or control of real property and parties that generate or transport hazardous substances that are disposed of at real property, may be held liable for the cost to investigate or clean up that real property and for related damages to natural resources. We handle and dispose of wastes arising from our mill operations, including disposal at on-site landfills. We are required to maintain financial assurance (in the form of letters of credit and other similar instruments) for the expected cost of landfill closure and post-closure care. We could be subject to liability, including liability for investigation and cleanup costs, if contamination is discovered at one of our current or former paper mills or another location where we have disposed of, or arranged for the disposal of, wastes.

Compliance with environmental laws and regulations is a significant factor in our business. We have made, and will continue to make, significant expenditures to comply with these requirements and our permits. We incurred environmental capital expenditures of $4 million, $1 million and $2 million in 2016, 2017 and 2018, respectively, and we anticipate that environmental compliance will require increased capital expenditures and operating expenses over time as environmental laws, regulations, or interpretations thereof, change or the nature of our operations requires us to make significant additional capital expenditures.

Permits are required for the operation of our mills and related facilities. Most such permits are subject to periodic renewal, and all are subject to modification and revocation. We and others have the right to challenge our permit conditions through administrative and legal appeals and review processes. Governmental authorities have the power to enforce compliance with the permits, and violators are subject to civil and criminal penalties, including fines, injunctions or both. Other parties also may have the right to pursue legal actions to enforce compliance with the permits.

We could be subject to potentially significant fines, penalties, criminal sanctions, plant shutdowns, or interruptions in operations for failure to comply with applicable environmental, health and safety laws, regulations and permits.

Available Information

Our website is located at www.versoco.com. We make available free of charge through this website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. The reports can also be found on the SEC’s website located at www.sec.gov.

Item 1A. Risk Factors

Our business is subject to various risks. Set forth below are certain of the more important risks that we face and that could cause our actual results to differ materially from our historical results. Our business could also be affected by other risks that are presently unknown to us or that we currently believe are immaterial to our business.

Risks Relating to our Business

The paper industry has been facing a long-term structural decline and our profitability has been adversely impacted by such decline.

The coated papers industry faces a long-term, structural decline. From 2015 to 2018, demand for printing and writing papers in the United States fell by roughly 14%. U.S. demand for coated freesheet has declined 11% from 2015 to 2018. Similarly, U.S. demand for coated groundwood has declined 19% from 2015 to 2018. The demand for coated papers is expected to continue to steadily decline in the future, with market volumes in 2019 projected to be 3% below 2018 levels.

Fluctuations in supply and demand for our products could have a material adverse effect on our business, financial condition and results of operations. The paper industry is a commodity market to a significant extent and is subject to cyclical market pressures. For example, from 2010 to 2014, prior to the acquisition of NewPage, we experienced a year-over-year average revenue decline of 4.9% partly due to the prolonged decline in demand for coated papers.
A decline in general economic conditions may increase unemployment or lower gross domestic product growth rates to adversely affect demand for our products by our customers. During an economic downturn, end users may reduce magazine subscriptions, contributing to lower demand for our products and advertising in printed magazines and catalogs may also decline, each of which may result in a material adverse effect on our business, financial condition and results of operations. Foreign overcapacity could also result in an increase in the supply of paper products available in the North American market. An increased supply of paper available in North America could put downward pressure on prices and/or cause us to lose sales to competitors, either of which could have a material adverse effect on our business, financial condition and results of operations.

Developments in alternative media could adversely affect the demand for our products.

Trends in advertising, electronic data transmission and storage and the internet have had and likely will continue to have adverse effects on traditional print media, including the use of and demand for our products and those of our customers. Our magazine and catalog publishing customers may increasingly use (both for content and advertising), and compete with businesses that use, other forms of media and advertising and electronic data transmission and storage, particularly the internet, instead of paper made by us. As the use of these alternative media continues to grow, the demand for our paper products will likely continue to decline.

The industry in which we operate is highly competitive.

Competition in our industry is based largely on price. We compete with foreign producers, some of which are lower-cost producers than we are or are subsidized by certain foreign governments. We also face competition from numerous North American coated papers manufacturers. Some of our competitors have advantages over us, including lower raw material and labor costs and are subject to fewer environmental and governmental regulations. Furthermore, due to the trend toward consolidation in our industry, some of our competitors have greater financial and other resources than we do or may be better positioned than we are to compete for certain opportunities. There is no assurance that we will be able to continue to compete effectively in the markets we serve.
Competition could cause us to lower our prices or lose sales to competitors, either of which could have a material adverse effect on our business, financial condition and results of operations. In addition, the following factors will affect our ability to compete:

- product availability;
- the quality of our products;

- our breadth of product offerings;
- our ability to maintain mill efficiencies and to achieve high operating rates;
- manufacturing costs per ton;
- customer service and our ability to distribute our products on time; and

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

We depend on a small number of customers for a significant portion of our business. Furthermore, we may have credit exposure to these customers through extension of trade credits.

Our largest customer, Veritiv Corporation accounted for 19% of our net sales in 2018. In 2018, our ten largest customers (including Veritiv Corporation) accounted for 62% of our net sales. The loss of, or reduction in orders from, any of these customers or other customers could have a material adverse effect on our business, financial condition and results of operations, as could significant customer disputes regarding shipments, price, quality, or other matters.
In addition, we generally do not have long-term contracts with our customers that ensure a continuing level of business from them. Our agreements with our customers are not exclusive and generally do not contain minimum volume purchase commitments. Our relationship with our customers will depend on our ability to continue to meet their needs for quality products and services at competitive prices. If we lose customers or if we experience a significant decline in the level of purchases, we may not be able to quickly replace the lost business volume and our operating results and business could be harmed.

Furthermore, we extend trade credit to certain of these customers to facilitate the purchase of our products, and we rely on these customers' creditworthiness and ability to obtain credit from lenders. Accordingly, a bankruptcy or a significant deterioration in the financial condition of any of these significant customers could have a material adverse effect on our business, financial condition and results of operations, due to a reduction in sales, a longer collection cycle or an inability to collect accounts receivable.

We have limited ability to control the pricing of our products or pass through increases in our costs to our customers. Decreases in demand and prices, or increases in costs, for printing and writing papers could have a material adverse effect on our business, financial condition and results of operations.

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

- Market prices for paper products are a function of supply and demand, factors over which we have limited control. We therefore have limited ability to control the pricing of our products. Market prices of grade No. 3, 60 lb. basis weight paper, which is an industry benchmark for coated freesheet papers pricing, have fluctuated since 2000 from a high of $1,105 per ton to a low of $740 per ton. In addition, since 2000, market prices of grade No. 4, 50 lb. basis weight paper, which is an industry benchmark for coated groundwood papers pricing, have fluctuated between a high of $1,075 per ton to a low of $710 per ton over the same period. Prices are expected to remain strong in 2019. As market conditions determine the price for our paper products, the price for our products could fall below our cash production costs.
- Market prices for paper products typically are not directly affected by raw material costs or other costs of sales, and consequently we have limited ability to pass through increases in these raw materials and/or other sales costs to our customers absent increases in the market price. Thus, even though our costs may increase, we may not have the ability to increase the prices for our products, or the prices for our products may decline.
- The manufacturing of coated papers is highly capital-intensive and a large portion of our operating costs are fixed. Additionally, paper machines are large, complex machines that operate more efficiently when operated continuously. Consequently, both we and our competitors typically continue to run our machines whenever marginal sales exceed the marginal costs, adversely impacting prices at times of lower demand.

Therefore, our ability to achieve acceptable margins is principally dependent on (a) our cost structure, (b) changes in the prices of raw materials, electricity, energy and fuel, which will represent a large component of our operating costs and will fluctuate based upon factors beyond our control and (c) general conditions in the paper market including the demand for paper products, the amount of foreign imports, the amount spent on advertising, the circulation of magazines and catalogs, the use of electronic readers and other devices and postal rates. Any one or more of these economic conditions could affect our sales and operating costs and could have a material adverse effect on our business, financial condition and results of operations.

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

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

We have responded to changing market dynamics by optimizing assets and streamlining our production, including idling or shutting down certain paper machines and facilities. For example, in November 2016, we announced the closure of our Memphis office headquarters and relocation of our Corporate headquarters to Miamisburg, Ohio; in August 2015, we announced plans to shut down the No. 1 pulp dryer and No. 2 paper machine at our Androscoggin Mill in Jay, Maine, and to indefinitely idle our mill in Wickliffe, Kentucky; in April 2016, we announced our decision to permanently close the mill in Wickliffe, Kentucky. If demand for our products continues to decline, or if the pace of decline accelerates, it may be necessary to curtail production even further or permanently shut down certain machines and facilities. In addition to the potential loss of production, curtailments and shutdowns could result in asset impairments or accelerated depreciation and cash closure costs for the affected facilities, including restructuring charges and exit or disposal costs, which could negatively impact our cash flows and have a material adverse effect on our financial condition and results of operations.
Losses related to the impairment of long-lived assets to be held and used are recognized when circumstances, such as continuing losses or demand declines in certain businesses, indicate the carrying value of an asset group may not be recoverable. When indicators that the carrying value of an asset group may not be recoverable are triggered, we evaluate the carrying value of the asset group in relation to its estimated undiscounted future cash flows. If the carrying value of an asset group is greater than the estimated undiscounted future cash flows to be generated by the asset group, an impairment charge is recognized based on the excess of the asset group's carrying value over its fair value. If it is determined that the carrying value of an asset group is recoverable, we review and adjust, as necessary, the estimated useful lives of the assets in the group. If there were to be a triggering event, it is possible that we could record non-cash long-lived asset impairment or accelerated depreciation charges in future periods, which would be recorded as operating expenses and would directly and negatively impact our financial condition and results of operations.
If we are unable to obtain energy or raw materials, including petroleum-based chemicals, at favorable prices, or at all, it could have a material adverse effect on our business, financial condition and results of operations.

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

The supply of energy or raw materials may be adversely affected by, among other things, natural disasters or an outbreak or escalation of hostilities between the United States and any foreign power, and, in particular, events in the Middle East or weather events such as hurricanes could result in a real or perceived shortage of oil or natural gas, which could result in an increase in energy or chemical prices. In addition, wood fiber is a commodity and prices historically have been cyclical. The primary source for wood fiber is timber. Environmental litigation and regulatory developments have caused, and may cause in the future, significant reductions in the amount of timber available for commercial harvest in Canada and the United States. In

addition, future domestic or foreign legislation, litigation advanced by aboriginal groups, litigation concerning the use of timberlands, the protection of endangered species, the promotion of forest biodiversity, and the response to and prevention of wildfires and campaigns or other measures by environmental activists also could affect timber supplies. The availability of harvested timber may further be limited by factors such as fire and fire prevention, insect infestation, disease, ice and wind storms, droughts, floods and other natural and man-made causes. Additionally, due to increased fuel costs, suppliers, distributors and freight carriers have charged fuel surcharges, which have increased our costs. Any significant shortage or significant increase in our energy or raw material costs in circumstances where we cannot raise the price of our products due to market conditions could have a material adverse effect on our business, financial condition and results of operations.
Any disruption in the supply of energy or raw materials also could affect our ability to meet customer demand in a timely manner and could harm our reputation. As we have limited ability to pass through increases in our costs to our customers absent increases in market prices for our products, material increases in the cost of our raw materials could have a material adverse effect on our business, financial condition and results of operations. Furthermore, we may be required to post letters of credit or other financial assurance obligations with certain of our energy and other suppliers, which could limit our financial flexibility.

We may not realize certain projected cost savings or productivity improvements, which could result in lower profitability for our business.

As part of our business strategy, we identify opportunities to improve profitability by reducing costs and enhancing productivity. For example, through our continuous process improvement program, we have implemented focused programs to optimize material and energy sourcing and usage, reduce repair costs and control overhead. We will continue to utilize the process improvement program to drive cost reductions and operating improvements in our mill system and have targeted additional profitability enhancements in the next twelve months. Our strategy assumes that increases in productivity through our continuous process improvement program, including through a more efficient manufacturing process or engineering design enhancements, will result in economies of scale, and global competitive sourcing of our materials will reduce our raw material and other costs. Any cost savings or productivity enhancements that we expect to realize from such efforts may differ materially from our estimates. Cost savings or productivity enhancements that we realize may be offset, in whole or in part, by reductions in pricing or volume, or through increases in other expenses, including raw material, energy or personnel. We cannot assure you that these initiatives will be completed as anticipated or that the benefits we expect will be achieved on a timely basis or at all.

Currency fluctuations may adversely affect our competitive position and selling prices.

We compete with producers from around the world, particularly in North America. In addition to the impact of product supply and demand, changes in the relative strength or weakness of international currencies, particularly the U.S. dollar, can also affect international trade flows in certain products. A stronger U.S. dollar may attract imports, thereby increasing product supply and possibly creating downward pressure on prices. Conversely, a weaker U.S. dollar might encourage U.S. exports, thereby decreasing product supply and possibly creating upward pressure on prices.
Our business may suffer if we do not retain our senior management and other key personnel.

We are highly dependent on the continuing efforts of our senior management team and other key personnel. The loss of services of members of our senior management team and other key personnel could adversely affect our business until suitable replacements can be found. There may be a limited number of persons with the requisite skills to serve in these positions and we may be unable to locate or employ qualified personnel on acceptable terms. In addition, our future success requires us to continue to attract and retain competent personnel. Any failure to attract and retain key personnel could have a material adverse effect on our business and require the incurrence of substantial additional costs to recruit replacement personnel.

Work stoppages and slowdowns and legal action by our unionized employees may have a material adverse effect on our business, financial condition and results of operations.

As of December 31, 2018, approximately 70% of our hourly workforce was represented by 16 local branches of the following unions: the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Services Workers International Union; the International Brotherhood of Electrical Workers; the Teamsters, Chauffeurs, Warehousemen and Helpers; the International Association of Machinists and Aerospace Workers; the Office & Professional Employees' International Union; and the United Association of Journeyman and Apprentices of the Plumbing and Pipefitting Industry. All represented employees were covered by a Master Labor Agreement from 2012-2016, that covered wages and benefits. Certain represented mills also had local agreements covering general work rules. The Master Labor Agreement expired in December

2016. The parties are currently engaged in collective bargaining for a new master labor agreement and continue to work under the terms and conditions of their expired agreements. We may become subject to material cost increases as a result of action taken by the labor unions. This could increase expenses in absolute terms and/or as a percentage of net sales. In addition, although we believe we have a good relationship with our employees, work stoppages or other labor disturbances may occur in the future. Any of these factors could lead to operational delays or increased costs, which could negatively affect our business, financial condition and results of operations.

Security breaches and other disruptions to our information technology infrastructure could interfere with our operations and could compromise our information and the information of our customers and suppliers, exposing us to liability which would cause our business and reputation to suffer.

In the ordinary course of business, we rely upon information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information and to manage or support a variety of business processes and activities, including supply chain, manufacturing, distribution, invoicing and collection of payments from customers. We use information technology systems to record, process and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. Additionally, we collect and store sensitive data, including intellectual property, proprietary business information, the propriety business information of our customers and suppliers, as well as personally identifiable information of our employees, in data centers and on information technology networks. The secure operation of these information technology networks and the processing and maintenance of this information is critical to our business operations and strategy. Despite security measures and disaster recovery plans, our information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to security breaches, including those caused by physical or electronic break-ins, computer viruses, malware, attacks by hackers, employee error and disruptions caused from unauthorized access and tampering, or other disruptions during the process of upgrading or replacing computer software or hardware, power outages, telecommunication or utility failures or natural disasters or other catastrophic events. The occurrence of any of these events could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disrupt operations and damage our reputation, which could adversely affect our business, financial condition and results of operations.

We depend on third parties for certain transportation services.

We rely primarily on third parties for transportation of our products to our customers and transportation of our raw materials to us, in particular, by truck and train. The transportation industry is subject to legislative and regulatory changes that can affect the economics of those third-party transportation providers by requiring changes in their operating practices or influencing the demand for, and the cost of providing, transportation services. If any third-party transportation provider fails to deliver our products in a timely manner, we may be unable to sell them at full value. Similarly, if any transportation provider fails to deliver raw materials to us in a timely manner, we may be unable to manufacture our products on a timely basis. Shipments of products and raw materials may be delayed due to weather conditions, strikes or other events. Any failure of a third-party transportation provider to deliver raw materials or products in a timely manner could harm our reputation, negatively impact our customer relationships and have a material adverse effect on our business, financial condition and results of operations. In addition, our ability to deliver our products on a timely basis could be adversely affected by the lack of adequate availability of transportation services, especially rail capacity, whether because of work stoppages or otherwise. If any of these third-party transportation providers were to cease operations or cease doing business with us, we may be unable to replace them at a reasonable cost. Furthermore, we may experience increases in the cost of our transportation services as a result of rising fuel costs and surcharges (primarily in diesel fuel). Since we have a limited ability to pass these increased costs through to our customers, they could have a material adverse effect on our business, financial condition and results of operations.

We are subject to various environmental, health and safety laws and regulations that could impose substantial costs or other liabilities upon us and may have a material adverse effect on our business, financial condition and results of operations.

We are subject to a wide range of federal, state, regional and local general and industry-specific environmental, health and safety laws and regulations, including those relating to air emissions (including greenhouse gases and hazardous air pollutants), wastewater discharges, solid and hazardous waste management and disposal, site remediation and natural resources. Compliance with these laws and regulations, and permits issued thereunder, is a significant factor in our business and may be subject to the same or even increased scrutiny and enforcement actions by regulators. We have made, and will continue to make, significant expenditures to comply with these requirements and permits, which may impose increasingly more stringent standards over time as they are renewed or modified by the applicable governmental authorities. In addition, we handle and dispose of waste arising from our mill operations and operate a number of on-site landfills to handle that waste. We are required to maintain financial assurance (in the form of letters of credit and other similar instruments) for the projected cost of closure and post-closure care for these landfill operations. We could be subject to potentially significant fines, penalties, criminal sanctions, plant shutdowns or interruptions in operations for any failure to comply with applicable environmental, health and safety laws, regulations and permits. Moreover, under certain environmental laws, a current or previous owner or operator of real property, and parties that generate or transport hazardous substances that are disposed of at real property, may be held liable for the full cost to investigate or clean up such real property and for related damages to natural resources. We may be subject to liability, including liability for investigation and cleanup costs, if contamination is discovered at one of our current or former paper mills, other properties or other locations where we have disposed of, or arranged for the disposal of, waste.

We may from time to time pursue opportunistic acquisitions the success of which could have a material adverse effect on our business, financial condition and results of operations.

In the past, we have pursued acquisitions to complement or expand our business. If we identify an acquisition candidate, we may not be able to successfully negotiate or finance the acquisition or integrate the acquired businesses with our existing business and services. Future acquisitions could result in potentially dilutive issuances of equity securities and the incurrence of debt and contingent liabilities, amortization expenses and substantial goodwill. The negotiation of any transaction, its completion and subsequent integration of any business acquired may be complex and time consuming, involve significant costs and may result in a distraction of management’s attention from ongoing business operations. We may be affected materially and adversely if we are unable to successfully integrate businesses that we acquire. Similarly, we may divest portions of our business, which may also have material and adverse effects.

Adverse developments in general business and economic conditions could have an adverse effect on the demand for our products, our financial condition and results of operations.

General economic conditions may adversely affect industrial non-durable goods production, consumer spending, commercial printing and advertising activity, and consumer confidence, all of which impact demand for our products. In addition, volatility in the capital and credit markets, which impacts interest and the availability of credit, could have a material adverse effect on our business, financial condition and results of operations. Furthermore, significant changes in, and uncertainty with respect to, legislation, regulations and monetary, tax and trade policy, among other things could have an adverse effect on the demand for our products. While it is not possible to predict whether and when any such changes will occur, changes at the local, state or federal level could significantly impact our business and the industry in which we compete.

We can incur debt from time to time under our ABL Facility and we also may incur additional debt through other means, each of which could adversely affect our financial condition and future financial results.

We had $283 million of borrowing availability under our ABL Facility as of December 31, 2018. We could also incur additional debt in the future through other means. Our ability to make scheduled payments of principal and interest or to refinance our indebtedness depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our current or future debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or dilutive.

We may be unable to maintain compliance with the financial maintenance or other covenants in our ABL Facility, which could result in an event of default under the credit agreement governing the ABL Facility that, if not cured or waived, would have a material adverse effect on our business, financial condition and results of operations.

Under the ABL Facility, Verso Paper is required to maintain a minimum fixed charge coverage ratio when the excess availability under such facility is less than the greater of (a) 10% of the lesser of (i) the borrowing base at such time and (ii) the aggregate amount of revolving facility commitments at such time or (b) $27.5 million. The ABL Facility also contains certain covenants which, among other things, and subject to certain exceptions, restrict Verso Paper and certain of its subsidiaries' ability to incur additional debt or liens, pay dividends, repurchase equity interests, prepay other indebtedness, sell, transfer, lease or dispose of assets and make investments in or merge with another company.

If Verso Paper were to violate any of the covenants under the ABL Facility and were unable to obtain a waiver, it would be considered a default after the expiration of any applicable grace period and no additional borrowings would be available until the default was waived or cured. If Verso Paper were in default under the ABL Facility, then the lenders thereunder may exercise remedies under such facility in accordance with the terms thereof, including declaring all outstanding borrowings immediately due and payable. Certain covenants also apply to, and similarly restrict the operations of, Verso Holding. Any default under our ABL Facility could adversely affect our operations and our ability to satisfy our obligations as they come due.

Restrictive covenants in the agreement governing our ABL Facility may restrict our ability to pursue our business strategies.

The ABL Facility limits our ability and/or our subsidiaries' ability, among other things, to:

- incur additional indebtedness;
- incur liens;
- enter into sale and lease back transactions;
- make investments;
- make capital expenditures;
- consolidate, merge, sell, or otherwise dispose of all or substantially all of our assets;
- pay dividends or make other distributions or repurchase or redeem our stock;
- enter into transactions with our affiliates;
- engage or enter into any new lines of business;
- prepay, redeem or repurchase certain of our indebtedness; and
- amend or modify certain provisions of our, and our subsidiaries', organizational documents.

The ABL Facility also requires us to comply with certain financial maintenance covenants as discussed above.

A breach of any of these restrictive covenants could result in a default under the agreement governing our ABL Facility. If a default occurs, the holders of this agreement may elect to declare all borrowings thereunder outstanding, together with accrued interest and other fees, to be immediately due and payable. The lenders under the ABL Facility would also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we are unable to repay our indebtedness when due or declared due, the lenders thereunder will also have the right to proceed against the collateral pledged to them to secure the indebtedness. If such indebtedness were to be accelerated, our assets may not be sufficient to repay in full our secured indebtedness.

We have certain material pension obligations. Future funding obligations related to these obligations could restrict cash available for our operations, capital expenditures or other requirements or require us to borrow additional funds.

As of December 31, 2018, we have a defined benefit pension plan covering approximately 68% of our employees. As of December 31, 2015, all of our defined benefit pension plans were frozen to new entrants. As of December 31, 2018, the projected benefit obligation for our pension plan was $1,590 million and the fair value of the pension plan assets was $1,162 million. The total underfunded status of the pension obligation calculated on a projected benefit obligation basis as of December 31, 2018 was $428 million. We currently anticipate making future pension benefit payments of $89 million in 2019 (see Note 11 to our Consolidated Financial Statements included elsewhere in this report). A deterioration in the value of plan assets could cause the unfunded status of the pension plan to increase, thereby increasing our obligation to make additional contributions to the plan. In addition, we will require future operating cash flows to fund our pension obligations, which could restrict available cash for our operations, capital expenditures and other requirements. We also may not generate sufficient cash to satisfy these obligations, which could require us to seek funding from other sources, including through additional borrowings, which could materially increase our outstanding debt or debt service requirements.

Litigation could be costly and harmful to our business.

We are involved from time to time, and may currently be involved in, claims and legal proceedings relating to contractual, employment, environmental, intellectual property and other matters incidental to the conduct of our business. Although we do not believe that any currently pending claims or legal proceedings are likely to result in an unfavorable outcome that would have a material adverse effect on our financial condition or results of operations, we may become involved in such claims and legal proceedings that could result in unfavorable outcomes and could have a material adverse effect on our financial condition and results of operations.

Our financial condition and results of operations for periods after our emergence from bankruptcy on July 15, 2016 are not comparable to the financial condition and results of operations for periods prior to July 15, 2016.

On July 15, 2016, the Effective Date of our Plan, we adopted fresh start reporting as a result of the reorganization as prescribed in accordance with generally accepted accounting principles in the United States of America and the provisions of FASB, ASC

852, Reorganizations. As required by fresh start reporting, our assets and liabilities were recorded at fair value by allocating the reorganization value determined in connection with the plan of reorganization. Accordingly, our financial condition and results of operations from and after the Effective Date of our plan of reorganization are not comparable, in various material respects, to the financial condition and results of operations prior to the Effective Date of our Plan.

We may not achieve the expected benefit of our strategic initiatives, including the increasing of our production of packaging papers in order to lessen our dependency on graphic and specialty papers.

We are in a competitive industry and continually striving to improve our performance and productivity. Accordingly, we are adopting new strategic initiatives from time to time. For instance, to offset the decline in demand for graphic papers, we are constantly looking at shifting our product mix with a focus on pulp, packaging papers and specialty papers. To that end, in 2018, we increased our production capabilities for packaging papers by upgrading our previously shuttered No. 3 paper machine at our Androscoggin Mill for the manufacture of packaging papers, such as linerboard. We commenced production of packaging papers at this mill during the third quarter of 2018 and it increased our annual production capacity by approximately 200,000 tons. This undertaking is subject to various risks and uncertainties, many of which are beyond our control and which include, but are not limited to, the following:

- our competitors having more experience with the manufacture and sale of packaging papers and having more fully integrated converting operations; and
- our ability to offer these new products on favorable terms, achieve an adequate market acceptance, manage our inventory and fulfill orders.

As a result of the above factors, we cannot assure you that the benefits we expect from the upgrade of the No. 3 paper machine and our increased production of packaging papers will be achieved. Similarly, we will adopt other strategic initiatives and we cannot assure you that those strategic initiatives will be successful or meet our expectations.

Risks Relating to Verso’s Common Stock

Our stock price may be volatile and stockholders may be unable to sell shares at or above the price at which they purchased them.

Since our emergence from bankruptcy on July 15, 2016 and up to the date of filing this annual report on Form 10-K, our stock price for our common stock ranged from $3.17 per share to $34.60 per share. The market price of our common stock may continue to be highly volatile and could be subject to wide fluctuations. In addition, the trading volume of our common stock may fluctuate and cause significant price variations to occur. Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares of common stock. The market price for our common stock could fluctuate significantly for various reasons, including:

- our operating and financial performance and prospects;
- our quarterly or annual earnings or those of other companies in our industry;
- conditions that impact demand for our paper products;
- the public’s reaction to our press releases, other public announcements and filings with the SEC;
- changes in earnings estimates or recommendations by securities analysts who track our common stock;
- market and industry perception of our success and competitive position within the industry in which we operate;
- strategic actions by us or our competitors, such as acquisitions, dispositions or restructurings;
- changes in government regulations;
- arrival and departure of key personnel;
- changes in our capital structure;

- sales of common stock by us or members of our management team; and
- changes in general market, economic and political conditions in the United States and global economies or financial markets, including those resulting from natural disasters, terrorist attacks, acts of war and responses to such events.

The exercise of all or any number of outstanding Plan Warrants or the issuance of stock-based awards may dilute your holding of shares of our common stock.

As of the date of filing this annual report on Form 10-K, we have outstanding (i) warrants to purchase 1.8 million shares of our common stock, or the "Plan Warrants," and (ii) 1.3 million restricted stock units. In addition, as of the date of filing this annual report on Form 10-K, we have 3.4 million shares of common stock reserved for future issuance under our Verso Corporation Performance Incentive Plan. The exercise of equity awards, including any stock options that we may grant in the future, and

Plan Warrants, and the sale of shares of our common stock underlying any such options or the Plan Warrants, could have an adverse effect on the market for our common stock, including the price that an investor could obtain for their shares. Investors may experience dilution in the net tangible book value of their investment upon the exercise of the Plan Warrants and any stock options that may be granted or issued pursuant to the Verso Corporation Performance Incentive Plan in the future.

Our Amended and Restated Bylaws, our Amended and Restated Certificate of Incorporation and Delaware law contain provisions that could discourage another company from acquiring us and may prevent attempts by our stockholders to replace or remove our current management.

Provisions of our Amended and Restated Bylaws and Amended and Restated Certificate of Incorporation, which became effective on the Effective Date, and Delaware law may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which our stockholders might otherwise receive a premium for their shares. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace or remove our board of directors. These provisions include:

- not providing for cumulative voting in the election of directors;
- requiring at least a supermajority vote of our stockholders to amend our Amended and Restated Bylaws or certain provisions of our Amended and Restated Certificate of Incorporation;
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings;
- prohibiting stockholder action by written consent; and
- authorizing the issuance of “blank check” preferred stock without any need for action by stockholders.

Together, these charter and statutory provisions could make the removal of management more difficult and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our Class A Common Stock. The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of the Company, thereby potentially reducing the likelihood that our stockholders could receive a premium for their common stock in an acquisition.

Our Amended and Restated Certificate of Incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

Our Amended and Restated Certificate of Incorporation provides that, unless we consent in writing to alternative forums, the Court of Chancery of the State of Delaware will be the exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us by our directors, officers, or stockholders, (iii) any action asserting a claim against us arising under the Delaware General Corporation Law or to which the Delaware General Corporation Law confers jurisdiction on the Court of Chancery of the State of Delaware, or (iv) any action asserting a claim governed by the internal affairs doctrine. We may consent in writing to alternative forums. By becoming a stockholder in Verso, you will be deemed to have notice of and have consented to these provisions of our Amended and Restated Certificate of Incorporation. This choice of forum provision in our Amended and Restated Certificate of Incorporation may limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

We currently do not plan to pay dividends on our common stock and, consequentially, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.

We do not anticipate paying any cash dividends on our common stock for the foreseeable future. Any decision to pay dividends on our common stock in the future will be at the discretion of our board of directors in light of conditions then existing, including factors such as our results of operations, financial condition and requirements, business condition, covenants under any applicable contractual arrangements, including our indebtedness.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2018, we operate fourteen paper machines at seven mills located in Maine, Maryland, Michigan, Minnesota and Wisconsin with a total annual paper production capacity of approximately 3,080,000 tons.

Our material facilities as of December 31, 2018 are shown in the following table:

Location	Use	Owned/Leased
Miamisburg, Ohio	corporate office	leased
Duluth, Minnesota	paper mill	owned
Escanaba, Michigan	paper mill	owned
Jay (Androscoggin), Maine	paper mill/kraft pulp mill	owned
Luke, Maryland	paper mill, warehouse and converting	owned
Quinnesec, Michigan	paper mill/kraft pulp mill	owned
Stevens Point, Wisconsin	paper mill	owned
Wisconsin Rapids, Wisconsin	paper mill, warehouse and converting	owned

Item 3. Legal Proceedings

We are involved from time to time in legal proceedings incidental to the conduct of our business. While any proceeding or litigation has the element of uncertainty, we believe that the outcome of any of these lawsuits or claims that are pending or threatened or all of them combined (other than those that cannot be assessed due to their preliminary nature) will not have a material effect on the Consolidated Financial Statements (see Note 17 to our Consolidated Financial Statements included elsewhere in this report).

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

In connection with the Company’s reorganization and emergence from bankruptcy, all shares of common stock outstanding prior to emergence were cancelled on July 15, 2016. On July 15, 2016, the Company’s new Class A common stock was listed on the New York Stock Exchange under the symbol “VRS” on July 18, 2016.

Holders

As of February 15, 2019, there were 62 stockholders of record of our Class A common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, including 34,212,804 shares of our Class A common stock where the registered shareholder is Cede & Co., we are unable to estimate the total number of stockholders represented by these record holders.

Dividends

We have not declared or paid any cash dividends on shares of our Successor common stock during the years ended December 31, 2018 and 2017. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our board of directors may deem relevant.

Issuer Repurchases of Equity Securities

There were no repurchases of equity securities by Verso in the fourth quarter of 2018.

Performance Graph

The following performance graph and related information shall not be deemed “soliciting material” or “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act except to the extent that it is specifically incorporated by reference into such filing.

The following graph compares the cumulative total stockholder return of our common stock with the cumulative total return of the Russell 2000 Index and a peer group index(1) for the period July 19, 2016 (our first day of trading on the NYSE following the Effective Date) through December 31, 2018. The graph assumes that $100 was invested in our common stock, the Russell 2000 Index and the peer group index at the close of business on July 19, 2016, and that all dividends were reinvested. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

	Verso Corporation	Peer Group	Russell 2000
July 19, 2016	$ 100.00	$100.00	$100.00
December 30, 2016	59.17	108.63	113.05
December 29, 2017	146.42	133.92	127.91
December 31, 2018	186.67	105.15	112.34

(1) The peer group index includes companies in a similar industry which were used by Verso for compensation decisions in 2018. The peer group index includes: Bemis Company, Inc., Clearwater Paper Corporation, Domtar Corporation, P.H. Glatfelter Company, Graphic Packaging Holding Company, Greif, Inc., Neenah Paper, Inc., Packaging Corporation of America, Resolute Forest Products Inc., Schweitzer-Mauduit International, Inc. and Sonoco Products Company.

Item 6. Selected Financial Data

The following table presents our selected historical financial data as of and for the years ended December 31, 2014 and 2015 (Predecessor), for the period from January 1, 2016 to July 14, 2016 (Predecessor), for the period from July 15, 2016 to December 31, 2016 (Successor) and for the years ended December 31, 2017 and 2018 (Successor). The following information is only a summary and has been derived from the Consolidated Financial Statements. It should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and their related notes, and the other financial information, included elsewhere in this annual report. Historical results are not indicative of future results.

(Dollars in millions except per share amounts)	Predecessor Year Ended December 31, 2014	Predecessor Year Ended December 31, 2015	January 1, 2016 Through July 14, 2016	Successor July 15, 2016 Through December 31, 2016	Successor Year Ended December 31, 2017	Successor Year Ended December 31, 2018
Statement of Operations Data:						
Net sales	$1,297	$3,122	$1,417	$1,224	$2,461	$2,682
Costs and expenses:						
Cost of products sold - (exclusive of depreciation and amortization)(1)	1,174	2,738	1,250	1,126	2,250	2,321
Depreciation and amortization	91	308	100	93	115	111
Selling, general and administrative expenses(1)	70	190	96	53	107	102
Restructuring charges	135	54	151	11	9	1
Other operating (income) expense(2)	—	1	(57)	8	1	(5)
Operating income (loss)	(173)	(169)	(123)	(67)	(21)	152
Interest expense	142	270	39	17	38	33
Other (income) expense(1)(3)	41	(14)	(2)	(32)	(21)	(52)
Income (loss) before reorganization items, net	(356)	(425)	(160)	(52)	(38)	171
Reorganization items, net(4)	—	—	(1,338)	—	—	—
Income (loss) before income taxes	(356)	(425)	1,178	(52)	(38)	171
Income tax expense (benefit)	(3)	(3)	—	(20)	(8)	—
Net income (loss)	$(353)	$(422)	$1,178	$(32)	$(30)	$171
Per Share Data:						
Income (loss) per common share:						
Basic	$(6.62)	$(5.19)	$14.39	$(0.93)	$(0.87)	$4.97
Diluted	(6.62)	(5.19)	14.39	(0.93)	(0.87)	4.88
Weighted average common shares outstanding (in thousands):						
Basic	53,293	81,295	81,847	34,391	34,432	34,514
Diluted	53,293	81,295	81,847	34,391	34,432	35,096
Statement of Cash Flows Data:						
Cash provided by (used in) operating activities	$(58)	$(266)	$25	$17	$153	$283
Cash provided by (used in) investing activities(5)	(26)	110	32	(41)	(40)	(52)
Cash provided by (used in) financing activities	78	153	(11)	(20)	(113)	(212)
Other Financial and Operating Data:						
EBITDA(6)	$(123)	$153	$1,317	$58	$115	$315
Capital expenditures	(42)	(64)	(31)	(42)	(40)	(73)
Total tons sold (in thousands)	1,624	3,647	1,676	1,473	2,959	2,927
Balance Sheet Data:						
Working capital(7)	$5	$371	$463	$412	$309	$300
Property, plant and equipment, net	531	1,857	1,180	1,132	1,062	1,016
Total assets	855	2,710	2,006	1,855	1,732	1,699
Total debt	1,304	2,879	310	293	190	—
Total equity (deficit)	(784)	(1,183)	675	770	746	906

(1) Previously reported amounts have been revised to reflect the effect of the retrospective adoption of ASU 2017-07, Compensation - Retirement Benefits on January 1, 2018 (see Note 2 to our Consolidated Financial Statements included elsewhere in this report).

(2) Other operating (income) expense for the period from January 1, 2016 to July 14, 2016 (Predecessor) primarily reflects the gain on sale of hydroelectric facilities in January 2016.

(3) Other (income) expense in 2014 (Predecessor) reflects costs incurred in connection with the NewPage acquisition. Other (income) expense in 2018 (Successor) includes $42 million of income related to countervailing duty settlement gains pursuant to the Settlement Agreement (as defined below).

(4) Reorganization items, net, for the period from January 1, 2016 to July 14, 2016 (Predecessor) represented expenses and income directly associated with the Predecessor's bankruptcy filing on the Petition Date. This amount represents primarily a gain on settlement of liabilities subject to compromise of $1,992 million, partially offset by a loss of $651 million due to the revaluation of our assets and liabilities as part of the application of fresh start accounting as of the Effective Date (see Note 20 to our Consolidated Financial Statements included elsewhere in this report).

(5) Previously reported amounts have been revised to reflect the effect of the retrospective presentation change related to restricted cash on the Statements of Cash Flows associated with the adoption of ASU 2016-18, Statement of Cash Flows on January 1, 2018 (see Note 2 to our Consolidated Financial Statements included elsewhere in this report).

(6) EBITDA consists of earnings before interest, taxes, depreciation and amortization. Our use of EBITDA is further discussed in the "Reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA" section of Item 7 herein. The following table reconciles net income (loss) to EBITDA for the periods presented:

	Predecessor			Successor		
			January 1, 2016 Through	July 15, 2016 Through		
	Year Ended December 31,		July 14,	December 31,	Year Ended December 31,	
(Dollars in millions)	2014	2015	2016	2016	2017	2018
Reconciliation of net income (loss) to EBITDA:						
Net income (loss)	$(353)	$(422)	$ 1,178	$(32)	$(30)	$171
Income tax expense (benefit)	(3)	(3)	—	(20)	(8)	—
Interest expense	142	270	39	17	38	33
Depreciation and amortization	91	308	100	93	115	111
EBITDA	$(123)	$153	$ 1,317	$58	$115	$315

(7) Working capital is defined as current assets net of current liabilities, excluding the current portion of long-term debt.

Item 7. 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, packaging papers, inkjet and digital papers, 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.

We operate fourteen paper machines at seven mills located in Maine, Maryland, Michigan, Minnesota and Wisconsin with a total annual paper production capacity of approximately 3,080,000 tons of paper as of December 31, 2018.

Financial Overview

In 2018, net sales increased $221 million, or 9% compared to 2017, which was primarily attributable to an increase in specialty papers sales volume, increased price across all product lines and favorable product mix, partially offset by lower volume in graphic papers and external pulp sales due to internal pulp needs. Total company sales volume was down from 2,959 thousand tons during the year ended December 31, 2017, to 2,927 thousand tons during the year ended December 31, 2018, driven by general softening of demand for coated papers, partially offset by an increase in packaging papers volume from the restart of previously shuttered No. 3 paper machine at our Androscoggin Mill. In 2017, net sales decreased $180 million, or 7% as total sales volume decreased 6% and price per ton decreased 1% compared to 2016. The decreases in volume and pricing were driven by general softening of demand for coated papers and our capacity reductions at our Androscoggin Mill. Our gross margin, excluding depreciation and amortization expenses, was 13% in 2018 compared to 9% in 2017.

2018 Developments

Upgrade/Restart Paper Machine at Androscoggin Mill

On February 15, 2018, we announced plans to upgrade the shuttered No. 3 paper machine and pulp line at our Androscoggin Mill in Jay, Maine, enabling this equipment to restart for the manufacture of packaging papers. The restart was completed in the third quarter of 2018. This project created approximately 120 full-time jobs at our Androscoggin Mill and increased the aggregate annual paper production capacity by approximately 200,000 tons. The total capital cost of the project was $18 million, $4 million of which came from a Maine Technology Asset Fund 2.0 challenge grant administered by the Maine Technology Institute. Funds from the grant were received in full in 2018 as certain milestones in the project were reached.

Settlement Agreement

On March 20, 2018, we entered into a settlement agreement, or "the Settlement Agreement," with Canadian producers of supercalendered papers, Port Hawkesbury Paper Limited Partnership and certain related entities, collectively, "Port Hawkesbury" and Irving Paper Limited, or "Irving". In accordance with the terms of the Settlement Agreement, we filed with the U.S. Department of Commerce, or "Commerce," a written request for a "no interest" changed circumstances review by Commerce of the final countervailing duty order, or the "CVD Order," issued by Commerce on December 10, 2015, imposing tariffs on supercalendered papers imported into the United States from Canada since August 3, 2015. We refer to this request as the "Changed Circumstances Request". We included in our Changed Circumstances Request, among other things, a request that Commerce revoke the CVD Order retroactively to August 3, 2015, which, if granted, would result in refunds to Canadian producers of supercalendered papers of all countervailing duties collected on supercalendered papers imported into the United States from such producers under the CVD Order.

On July 5, 2018, Commerce granted our request and revoked the countervailing duties retroactively to August 3, 2015, the date the tariffs were originally imposed, which will result in a refund to Canadian producers of supercalendered papers of the countervailing duties previously collected on supercalendered papers imported into the United States from such producers. Pursuant to the Settlement Agreement, Irving and Port Hawkesbury agreed to pay us a percentage, totaling up to $42 million, of the duties refunded to such parties over time. During the year ended December 31, 2018, we received $42 million in settlement payments which are included in Other (income) expense on our Consolidated Statements of Operations.

Sale of Wickliffe Mill

On August 16, 2018, Verso Paper entered into a purchase agreement with Global Win Wickliffe LLC, pursuant to which Verso Paper agreed to sell one of Verso's subsidiaries, Verso Wickliffe LLC ("Verso Wickliffe") for a purchase price of $16 million in cash. Verso Wickliffe owned substantially all of the assets that comprised the Wickliffe Mill and related operations. We previously announced our decision to permanently close the Wickliffe Mill in April 2016. The sale closed on September 5, 2018, and resulted in a gain of $9 million, included in Other operating (income) expense on our Consolidated Statements of Operations for the year ended December 31, 2018.

Selected Factors Affecting Operating Results

Net Sales

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

We are primarily focused on serving the following end-user categories: specialty converters, containerboard converters, general commercial print, catalogs and magazine publishers. Coated papers demand is primarily driven by advertising and print media usage. To offset the decline in demand for graphic papers, we are constantly looking at new product development and production improvements to reposition our assets into more stable markets with increased focus on specialty papers, packaging papers and pulp.

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

We reach our end-users through several channels, including merchants, brokers, printers and direct sales to end-users. We sell our products to approximately 300 customers which comprise approximately 1,600 end-user accounts. In 2018, our largest customer, Veritiv Corporation, accounted for 19% of our net sales.

Cost of Products Sold

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

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

Wood Fiber. We source our wood fiber from a broad group of timberland and sawmill owners located in the regions around our mills. Our cost to purchase wood is affected directly by market price of wood in our regional markets and indirectly by the effect of higher fuel cost of logging and transportation of timber to our facilities. While we have in place fiber supply agreements that ensure delivery of a substantial portion of our wood requirements, purchases under these agreements are typically at market rates.

Energy. We produce a significant portion of our energy needs for our paper mills from sources such as waste wood, waste water, hydroelectric facilities, liquid biomass from our pulping process and internal energy cogeneration facilities. Our external energy purchases vary across each of our mills and include fuel oil, natural gas, coal and electricity. Our overall energy expenditures are mitigated by our internal energy production capacity and ability to switch between certain energy sources. We also from time to time utilize derivative contracts as part of our risk management strategy to manage our exposure to market fluctuations in energy prices.

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

Maintenance. Maintenance expense includes day-to-day maintenance, equipment repairs and larger maintenance projects, such as paper machine shutdowns for periodic maintenance. Maintenance activities can produce year-to-year fluctuations in our maintenance expenses. In conjunction with our periodic maintenance shutdowns, we have incidental incremental costs that are primarily comprised of unabsorbed fixed costs from lower production volumes and other incremental costs for purchased materials and energy that would otherwise be produced as part of the normal operation of our mills.

Depreciation and Amortization.

Depreciation and amortization expense represents the periodic charge to earnings through which the cost of tangible assets and intangible assets are recognized over the asset's life. Capital investments can increase our asset basis and produce year-to-year fluctuations in expense.

Selling, General and Administrative Expenses

The principal components of our Selling, general and administrative expenses are wages, salaries and benefits for our office personnel at our headquarters and our sales force, travel and entertainment expenses, advertising expenses, expenses relating to certain information technology systems and research and development expenses.

Effect of Inflation

While inflationary increases on certain raw materials such as energy, wood fiber and chemicals have an impact on our operating results, sales prices and volumes are more strongly influenced by supply and demand factors in specific markets and by exchange rate fluctuations than by inflationary factors.

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 papers industry. Our third and fourth quarters are generally our strongest quarters 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.

Critical Accounting Policies

Our accounting policies are fundamental to understanding management's discussion and analysis of financial condition and results of operations. Our Consolidated Financial Statements are prepared in conformity with GAAP. The preparation of the financial statements requires management to make certain judgments and assumptions in determining accounting estimates. Accounting estimates are considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and different estimates reasonably could have been used in the current period, or changes in the accounting estimate are reasonably likely to occur from period to period, that would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations.

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

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

Impairment of long-lived assets

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

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

On April 5, 2016, we announced that we would permanently close our paper mill located in Wickliffe, Kentucky, which had been idle since November 2015. The decision to close the mill resulted in restructuring charges of $160 million for the year ended December 31, 2016. The associated Property, plant and equipment were written down to salvage value resulting in a non-cash restructuring charge of $127 million during the first quarter of 2016.

In the third quarter of 2016, we concluded that actual operating results were lower than those projected in the Plan. Such circumstance constituted a triggering event requiring management to conduct a Step 1 impairment test. Based on the results of the Step 1 impairment test, we concluded that the undiscounted estimated future cash flows associated with our remaining long-lived assets exceeded their carrying value and no impairment was recorded.

In the fourth quarter of 2016, based on our plans to temporarily idle 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 and an additional $6 million of accelerated depreciation during the first quarter of 2017, which is included in Depreciation and amortization in our Consolidated Statements of Operations. As a result of the acceleration of depreciation, no impairment charge was required to be recorded with the temporary idling of the No. 3 paper machine and associated equipment at our Androscoggin Mill (see Note 14 to our Consolidated Financial Statements included elsewhere in this report).

Intangible assets are comprised of customer relationships with a useful life of 10 years and trademarks with a useful life of five years. During 2017 and 2018, there were no indicators requiring evaluation of impairment for these definite-lived intangible assets.

Pension

We offer various pension and retirement benefits to certain employees. As of December 31, 2015, all of our defined benefit pension plans were frozen to new entrants. The calculation of the obligations and related expenses under the plan requires the use of actuarial valuation methods and assumptions, including the expected long-term rate of return on plan assets, discount rates, increases in future medical cost and mortality rates. The table below shows assumptions used by us for the periods shown:

	Predecessor	Successor		
	January 1, 2016 Through July 14, 2016	July 15, 2016 Through December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2018

Weighted average assumptions used to determine benefit obligations as of end of period:				
Discount rate	3.43 %	3.99 %	3.51 %	4.17 %
Weighted average assumptions used to determine net periodic pension cost for the period:				
Discount rate	4.17 %	3.43 %	3.98 %	3.51 %
Expected long-term return on plan assets	6.75 %	6.75 %	6.50 %	6.50 %

After consultation with our actuaries, we determine these actuarial assumptions on December 31 of each year to calculate liability information as of that date and pension expense for the following year. The expected long-term rate of return on plan

27

assets is based on projected rates of return for current and planned asset classes in the plan's investment portfolio. The discount rate is generally based on the yield of high-quality corporate fixed-income investments.
Actuarial valuations and assumptions used in the determination of future values of plan assets and liabilities are subject to management judgment and may differ significantly if different assumptions are used. The following table highlights the sensitivity of our pension obligations and 2019 net periodic pension (income) expense to changes in these assumptions, assuming all other assumptions remain constant.

Change in Assumption	Impact on 2019 Net Periodic Pension (Income) Expense	Impact on Pension Benefit Obligation
0.25 percentage point decrease in discount rate	Decrease $2 million	Increase $47 million
0.25 percentage point increase in discount rate	Decrease $1 million	Decrease $45 million
0.25 percentage point decrease in expected rate of return on assets	Increase $3 million	
0.25 percentage point increase in expected rate of return on assets	Decrease $3 million	

Contingent liabilities

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

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

Fresh start accounting

Upon our emergence from the Chapter 11 Cases, we adopted fresh start accounting in accordance with the provisions of ASC 852, Reorganizations, which resulted in us becoming a new entity for financial reporting purposes. Upon adoption of fresh start accounting, our assets and liabilities were recorded at their fair values as of the Effective Date. The Effective Date fair values of our assets and liabilities differed materially from the recorded values of our assets and liabilities as reflected in our historical consolidated balance sheet. The effects of the Plan and the application of fresh start accounting were reflected in our Consolidated Financial Statements as of July 14, 2016 and the related adjustments thereto were recorded in our Consolidated Statement of Operations as reorganization items for the period January 1, to July 14, 2016 (Predecessor).

As a result, our Consolidated Balance Sheets and Consolidated Statements of Operations subsequent to the Effective Date are not comparable to our consolidated balance sheets and statements of operations prior to the Effective Date. Our Consolidated Financial Statements and related footnotes are presented with a black line division which delineates the lack of comparability between amounts presented after July 14, 2016 and dates on or prior to July 14, 2016. Our financial results for future periods following the application of fresh start accounting will be different from historical trends and the differences may be material.

Recent Accounting Pronouncements

For a description of recently issued and adopted accounting pronouncements, including the respective dates of adoption and expected effects on our results of operations and financial condition, see Part II, Item 8, Note 2 of Notes to Consolidated Financial Statements, which is incorporated by reference in response to this item.

Financial Reporting After Emergence from Bankruptcy and Presentation of Predecessor and Successor

Management's discussion and analysis of the results of operations and of liquidity compares the year ended December 31, 2018 to the year ended December 31, 2017, and the year ended December 31, 2017 to the year ended December 31, 2016. References to "Predecessor" refer to the Company prior to the Effective Date. Operating results for the Predecessor and Successor 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, whether Predecessor and/or Successor, as appropriate. Presentation of the combined financial information of the Predecessor and Successor for the year ended December 31, 2016 is not in accordance with generally accepted accounting principles in the United States of America, or "GAAP." However, we believe that for purposes of discussion and analysis in this annual report, the combined financial results are useful for management and investors to assess the Company's ongoing financial and operational performance and trends. See Note 1, Summary of Business and Significant Accounting Policies and Note 20, Bankruptcy Related Disclosures to our Consolidated Financial Statements included elsewhere in this report for additional information.

Results of Operations

The following table sets forth the historical results of operations of Verso for the periods presented. The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related notes thereto included elsewhere in this annual report.

(Dollars in millions)	Predecessor January 1, 2016 Through July 14, 2016	Successor July 15, 2016 Through December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2018
Net sales	$ 1,417	$ 1,224	$ 2,461	$ 2,682
Costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	1,250	1,126	2,250	2,321
Depreciation and amortization	100	93	115	111
Selling, general and administrative expenses	96	53	107	102
Restructuring charges	151	11	9	1
Other operating (income) expense	(57)	8	1	(5)
Operating income (loss)	(123)	(67)	(21)	152
Interest expense	39	17	38	33
Other (income) expense	(2)	(32)	(21)	(52)
Income (loss) before reorganization items, net	(160)	(52)	(38)	171
Reorganization items, net	(1,338)	—	—	—
Income (loss) before income taxes	1,178	(52)	(38)	171
Income tax expense (benefit)	—	(20)	(8)	—
Net income (loss)	$ 1,178	$ (32)	$ (30)	$ 171

2018 Compared to 2017

Net Sales. Net sales for the year ended December 31, 2018 increased by $221 million or 9% compared to the prior year. This increase in sales is primarily attributable to an increase in specialty papers sales volume, increased price across all product lines and favorable product mix, partially offset by lower volume in graphic papers and external pulp sales due to internal pulp needs. Total company sales volume was down from 2,959 thousand tons during the year ended December 31, 2017, to 2,927 thousand tons during the year ended December 31, 2018, driven by general softening of demand for coated papers, partially offset by an increase in packaging papers volume from the restart of previously shuttered No. 3 paper machine at our Androscoggin Mill.

Operating income. Operating income was $152 million in 2018, an increase of $173 million when compared to an operating loss of $21 million in 2017.

Our 2018 results were positively impacted by:

- Favorable average net selling price and product mix ($233 million).
- Lower operating expenses ($4 million) driven by decreased downtime.
- Lower depreciation and amortization expense ($4 million) attributable to capacity reductions at our Androscoggin Mill, in which $6 million of accelerated depreciation was recognized in the first quarter of 2017 in connection with the temporary idling of the No. 3 paper machine.

- Lower Selling, general and administrative expenses ($5 million) because of cost reduction initiatives implemented across the Company, partially offset by higher costs associated with our strategic alternatives initiative and non-cash equity award expense. As a percentage of net sales, Selling, general and administrative expenses were 3.8% for the year ended December 31, 2018, and 4.3% for the year ended December 31, 2017.
- Lower restructuring charges ($8 million) primarily associated with the announced closure and relocation of the Memphis office headquarters and closure of our Wickliffe Mill in 2017.
- An increase in Other operating income ($6 million) driven by the gain on sale of our Wickliffe Mill in 2018, partially offset by fees associated with our prior Chapter 11 Cases.

These net increases were partially offset by:
- Higher input costs ($46 million) across all categories including chemicals, energy, wood fiber, and purchased pulp.
- Higher planned major maintenance costs ($16 million) primarily because of bi-annual major maintenance expenses at our Quinnesec Mill and a significant outage at our Wisconsin Rapids Mill.
- Higher freight costs ($23 million).

Interest expense. Interest expense for the year ended December 31, 2018 decreased $5 million or 13% compared to the year ended December 31, 2017. Interest expense for the year ended December 31, 2018 and December 31, 2017 includes $15 million and $2 million, respectively, in non-cash accelerated amortization of debt issuance cost and discounts associated with the voluntary principal prepayments and excess cash flow payments on our prior term loan facility. This increase in accelerated amortization expense was more than offset by reduced interest expense in 2018 from the reduction in amounts outstanding under the ABL Facility and the payoff of the prior term loan facility on September 10, 2018.

Other (income) expense. Other income of $52 million for the year ended December 31, 2018 includes $42 million of income related to the Settlement Agreement. Other income for the year ended December 31, 2017 includes $7 million related to the extinguishment of our obligation in December 2017 in connection with the unwind of a New Market Tax Credit transaction (see Note 16 to our Consolidated Financial Statements included elsewhere in this report). Additionally, the years ended December 31, 2018 and December 31, 2017 include income of $12 million and $14 million, respectively, associated with the non-operating components of net periodic pension and other postretirement cost (income) in connection with the adoption of ASU 2017-07 (see Note 2 to our Consolidated Financial Statements included elsewhere in this report).

Income tax expense (benefit). Income tax benefit was $8 million for the year ended December 31, 2017, of which we allocated $2 million of tax expense to other comprehensive income and recognized a $2 million tax benefit in continuing operations. Also, on December 22, 2017, the federal government enacted new tax reform legislation. The provisions of the U.S. Tax Cuts and Jobs Act of 2017, or the “Tax Act,” included a reduction in the corporate income tax rate from 35% to 21%, as well as a repeal of the alternative minimum tax and provisions allowing for the refund of any minimum tax credit carryovers. We recognized a tax benefit of $6 million in 2017 related to the recognition of a minimum tax credit carryover receivable. We expect to receive this refund over time starting in 2019 through 2022.

2017 Compared to 2016

Net Sales. Net sales for the year ended December 31, 2017 decreased by $180 million or 7% compared to the prior year. This decrease was attributable to a 6% decrease in total sales volume, from 3,149 thousand tons in 2016 to 2,959 thousand tons in 2017, and a 1% reduction in average price/mix from $839 per ton in 2016 to $832 per ton in 2017. The decrease in sales volume resulted in a $159 million decrease in revenue, while the reduced pricing, partially offset by improvement in product mix, resulted in an additional $21 million decrease in revenue. The decreases in volume and pricing were driven by general softening of demand for coated papers and our capacity reductions at our Androscoggin Mill.

Cost of sales. Cost of products sold, excluding depreciation and amortization expenses, decreased $126 million or 5% in the year ended December 31, 2017 compared to the prior year. Our gross margin, excluding depreciation and amortization expenses, was 8.6% for the year ended December 31, 2017 compared to 10.0% for the year ended December 31, 2016 reflecting an incremental decrease of $54 million in gross margin. Gross margin was negatively impacted by lower sales volume, lower sales prices, inflation in chemicals and energy costs and inventory reduction initiatives, partially offset by lower wood fiber costs, reductions in manufacturing overhead costs and inventory fair value adjustments associated with fresh start accounting in 2016.

Depreciation and amortization. Depreciation and amortization expenses decreased $78 million or 40% from the prior year. The reduction in Depreciation and amortization 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, net, as a result of the adoption of fresh start accounting.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2017 decreased $42 million or 28% compared to the prior year primarily attributable to cost reduction initiatives implemented across the Company and a change in accounting policy adopted in connection with fresh start accounting related to certain centralized manufacturing overhead costs of $15 million previously presented in Selling, general and administrative expenses of the Predecessor that are now presented in Cost of products sold of the Successor. In addition, Selling, general and administrative expenses for the year ended December 31, 2016 included $6 million in costs incurred in connection with pre-reorganization advisory and legal services related to planning for the Chapter 11 Cases. As a percentage of net sales, Selling, general and administrative expense was 4% for the year ended December 31, 2017 and 6% for the year ended December 31, 2016.

Restructuring charges. Restructuring charges for the year ended December 31, 2017 decreased $153 million from the prior year. Restructuring charges for the year ended December 31, 2017 are primarily associated with the announced closure and relocation of the Memphis office headquarters and closure of the Wickliffe Mill. Restructuring charges for the year ended December 31, 2016 consisted primarily of non-cash fixed asset write-down charges of $127 million and $15 million of severance and benefit costs related primarily to the production capacity reductions and permanent closure of our Wickliffe Mill.

Other operating (income) expense. Other operating income for the year ended December 31, 2017 decreased $50 million, primarily attributable to the sale of hydroelectric facilities in January 2016, partially offset by costs incurred for professional fees paid for legal, consulting and other bankruptcy related costs and services.

Interest expense. Interest expense for the year ended December 31, 2017 decreased $18 million or 32% compared to the prior year. For the year ended December 31, 2016, we ceased recording interest expense as of the Petition Date on outstanding pre-petition debt classified as Liabilities subject to compromise, or “LSTC.” Such interest on pre-petition debt was stayed by the Bankruptcy Court effective on the Petition Date. During the pendency of the bankruptcy, the Predecessor incurred interest expense on its debtor-in-possession facilities. For periods subsequent to the Effective Date, the Successor incurred interest expense on the outstanding balance of our ABL Facility and prior term loan facility.

Other (income) expense. Other income for the year ended December 31, 2017 and December 31, 2016 include income of $14 million and $32 million, respectively, associated with the non-operating components of net periodic pension and other postretirement cost (income) in connection with the adoption of ASU 2017-07 (see Note 2 to our Consolidated Financial Statements included elsewhere in this report). In addition, Other income for the year ended December 31, 2017 includes $7 million related to the extinguishment of our obligation in December 2017 in connection with the unwind of a New Market Tax Credit transaction (see Note 16 to our Consolidated Financial Statements included elsewhere in this report).

Reorganization items, net. Reorganization items, net, which represent expenses and income associated with the Chapter 11 Cases, resulted in a net gain of $1,338 million for the period from January 1, 2016 through July 14, 2016 (Predecessor). This amount was driven primarily by a gain on settlement of LSTC and the DIP Facilities of $1,992 million offset by a loss of $651 million due to the revaluation of our assets and liabilities as part of the application of fresh start accounting as of the Effective Date. Additionally, we recognized a gain of $81 million associated with the write-off of unamortized deferred financing costs related to pre-petition debt. We also incurred $52 million of professional fees paid for legal, consulting and other bankruptcy-related costs and services.

Income tax expense (benefit). Income tax benefit decreased $12 million in 2017 compared to the prior year. In 2017, we allocated $2 million of tax expense to other comprehensive income and recognized a $2 million tax benefit in continuing operations. Also, on December 22, 2017, the federal government enacted new tax reform legislation. The provisions of the Tax Act included a reduction in the corporate income tax rate from 35% to 21%, as well as a repeal of the alternative minimum tax and provisions allowing for the refund of any minimum tax credit carryovers. We recognized a tax benefit of $6 million in 2017 related to the recognition of a minimum tax credit carryover receivable. We expect to receive this refund over time starting in 2019 through 2022. In 2016, we allocated $20 million of tax expense to other comprehensive income and recognized a $20 million tax benefit in continuing operations.

Reconciliation of Net Income (Loss) to EBITDA and 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 EBITDA and Adjusted EBITDA are non-GAAP operating performance measures commonly used in our industry that provide investors and analysts with measures 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 (loss), which are determined in accordance with GAAP.

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

	Predecessor	Successor		
	January 1, 2016	July 15, 2016	Year	Year
	Through	Through	Ended	Ended
	July 14,	December 31,	December 31,	December 31,
(Dollars in millions)	2016	2016	2017	2018
Net income (loss)	$ 1,178	$ (32)	$ (30)	$ 171
Income tax expense (benefit)	—	(20)	(8)	—
Interest expense	39	17	38	33
Depreciation and amortization	100	93	115	111
EBITDA	$ 1,317	$ 58	$ 115	$ 315
Adjustments to EBITDA:				
Reorganization items, net (1)	(1,338)	—	—	—
Restructuring charges (2)	151	11	9	1
Non-cash equity award compensation (3)	4	1	1	8
Androscoggin PM No. 3 startup (4)	—	—	—	10
Countervailing duty settlement (5)	—	—	—	(42)
Fresh start accounting adjustments (6)	3	46	—	—
(Gain) loss on sale or disposal of assets (7)	(57)	2	3	(8)
Pre- and post-reorganization costs (8)	6	8	1	4
Other severance costs (9)	2	3	6	—
Strategic initiatives costs (10)	—	—	3	5
Extinguishment of NMTC obligation (11)	—	—	(7)	—
Other items, net (12)	7	4	3	3
Adjusted EBITDA	$ 95	$ 133	$ 134	$ 296

(1) Net gains associated with the Chapter 11 Cases.

(2) For 2016, charges are primarily associated with the closure of the Wickliffe Mill, of which $137 million is non-cash. For 2017 and 2018, charges are primarily associated with the closure and relocation of the Memphis office headquarters and closure of the Wickliffe Mill.

(3) Amortization of non-cash incentive compensation.

(4) Costs incurred in connection with the upgrade of previously shuttered No. 3 paper machine and pulp line at the Androscoggin Mill.

(5) Countervailing duty settlement gains pursuant to the Settlement Agreement.

(6) Non-cash charges related to the one-time impacts of adopting fresh start accounting.

(7) Realized (gains) and losses on the disposal of assets, which are primarily attributable to the sale of hydroelectric facilities in January 2016 and the sale of the Wickliffe Mill in September 2018.

(8) Costs incurred in connection with advisory and legal services related to planning for and emerging from the Chapter 11 Cases.

(9) Severance and related benefit costs not associated with restructuring activities.
(10) Professional fees and other charges associated with the strategic alternatives initiative.
(11) Extinguishment of obligation in December 2017 in connection with the unwind of a New Market Tax Credit (NMTC) transaction entered in 2010. See Note 16 to our Consolidated Financial Statements included elsewhere in this report.
(12) Costs associated with the indefinite idling of the Wickliffe Mill and unrealized losses (gains) on energy-related derivative contracts in 2016, costs incurred in connection with the re-engineering of information systems and costs associated with the temporary idling of the No. 3 paper machine at the Androscoggin Mill in 2017, and other miscellaneous adjustments in 2016, 2017 and 2018.

Liquidity and Capital Resources

Our principal cash requirements include ongoing operating costs: working capital needs, capital expenditures for maintenance and strategic investments and pension contributions. While changes in these ongoing operating costs can impact operating cash generation, we believe that our planning and strategies on pricing and cost control have resulted in our improved cash flows from operations in recent years. We also from time to time utilize factoring of accounts receivable (for example, quick pay programs sponsored by customers) as an alternative source of funds when cost is favorable to our ABL Facility or due to other considerations. We believe our cash and cash equivalents at December 31, 2018, future cash generated from operations and, to the extent necessary, the availability under our ABL Facility will be sufficient to meet these needs for at least the next twelve months. Our ability to sustain our working capital position is subject to a number of risks that we discuss in "Part I, Item 1A, Risk Factors," included elsewhere in this report.
As of December 31, 2018, we had cash and cash equivalents of $26 million while the outstanding balance of our ABL Facility was zero, with $34 million issued in letters of credit and $283 million available for future borrowings.
As of February 15, 2019, we had outstanding borrowings of $35 million under our ABL Facility, which reflect normal first quarter working capital activity.

During the year ended December 31, 2018, we repaid in full our prior term loan facility. We made scheduled principal payments totaling $9 million and mandatory repayments as a result of the excess cash flow requirement of $21 million during the year ended December 31, 2018. We elected to make additional voluntary principal prepayments on the prior term loan facility totaling $116 million to repay the term loan facility in full from our available liquidity. Our prior term loan facility was repaid in full on September 10, 2018.

During the year ended December 31, 2017, we elected to make voluntary principal prepayments totaling $40 million on the prior term loan facility, from available liquidity including amounts under our ABL Facility, and applied these payments against the final maturity amount due in October 2021.
Our cash flows from operating, investing and financing activities, as reflected in the accompanying Consolidated Statements of Cash Flows, are summarized in the following table.

	Predecessor	Successor		
(Dollars in millions)	January 1, 2016 Through July 14, 2016	July 15, 2016 Through December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2018
Net cash provided by (used in):				
Operating activities	$ 25	$ 17	$ 153	$ 283
Investing activities	32	(41)	(40)	(52)
Financing activities	(11)	(20)	(113)	(212)

Change in cash and cash equivalents and restricted cash	$ 46	$ (44)	$ —	$ 19

Operating Activities
Our operating cash flow requirements are primarily for salaries and benefits, the purchase of raw materials including wood fiber, chemicals and energy, and other expenses such as maintenance and warehousing costs. In 2018, our net cash provided by operating activities of $283 million primarily reflects a net income of $171 million adjusted for noncash depreciation and amortization of $111 million, $19 million of noncash amortization of debt issuance cost and discount and $31 million of cash provided by working capital related changes, partially offset by pension plan contributions of $43 million.

In 2017, our net cash provided by operating activities of $153 million reflects a net loss of $30 million, pension plan contributions of $32 million, deferred taxes of $8 million, offset by noncash depreciation and amortization of $115 million and cash provided by working capital related changes of $99 million.

For the period from July 15, 2016 through December 31, 2016 (Successor), our net cash provided by operating activities of $17 million reflects a net loss of $32 million, adjusted noncash postretirement gain of $25 million and deferred taxes of $20 million, offset by noncash depreciation and amortization of $96 million and cash provided by working capital related changes of $19 million. For the period from January 1, 2016 through July 14, 2016 (Predecessor), our net cash provided by operating activities of $25 million was driven by net income of $1,178 million, net cash provided by working capital related changes of $34 million, non-cash depreciation and amortization, gain on sale of assets and non-cash restructuring charges of $180 million and the adjustment for debtor-in-possession financing costs of $22 million, partially offset by noncash reorganization items of $1,390 million.

Investing Activities

In 2018, our net cash used in investing activities of $52 million consisted primarily of $73 million for capital expenditures, of which $18 million related to the upgrade/restart of the No. 3 paper machine and pulp line at our Androscoggin Mill. Our capital expenditures were partially offset by $4 million in cash received from a grant administered by the Maine Technology Institute related to the No. 3 paper machine upgrade/restart and $17 million in proceeds from the sale of assets, of which $16 million related to the sale of our Wickliffe Mill.

In 2017, our net cash used in investing activities consisted of $40 million of capital expenditures.

For the period from July 15, 2016 through December 31, 2016 (Successor), our net cash used in investing activities consisted primarily of $42 million for capital expenditures. For the period from January 1, 2016 through July 14, 2016 (Predecessor), our net cash provided by investing activities of $32 million consisted primarily of $63 million of proceeds from the sale of certain hydroelectric generation facilities and related assets, partially offset by $31 million of capital expenditures.

Our annual capital expenditures for 2019 are expected to be between $100 million and $110 million.

Financing Activities

In 2018, our net cash used in financing activities of $212 million consisted primarily of $146 million in payments on the prior term loan facility, which included $9 million in scheduled principal payments, $21 million as a result of the excess cash flow requirement and $116 million in additional voluntary principal prepayments, and net payments of $65 million on the ABL Facility.

In 2017, our net cash used in financing activities of $113 million consisted primarily of $65 million in payments on the prior term loan facility, which included $18 million in scheduled principal payments, $7 million as a result of the excess cash flow requirement and $40 million in additional voluntary principal prepayments, and net payments of $47 million on the ABL Facility.

In the period from July 15, 2016 to December 31, 2016 (Successor), net cash used in financing activities of $20 million consisted primarily of net payments of $8 million on the ABL Facility and $9 million on the prior term loan facility. In the period from January 1, 2016 to July 14, 2016 (Predecessor), net cash used in financing activities of $11 million consisted primarily of net payments on pre-petition revolving credit facilities of $299 million, $30 million of debt issuance costs, partially offset by proceeds from the ABL Facility of $120 million and proceeds net of original issue discount of the prior term loan facility of $198 million.

Credit Facilities

On the Effective Date, pursuant to the terms of the Plan, VPH entered into a $375 million asset-based revolving credit facility, or the “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, collectively, the “Credit Facilities.” As noted above, the term loan facility was repaid in full on September 10, 2018.

On February 6, 2019, Verso Paper, as borrower, and Verso Holding entered into a second amendment, or the “ABL Amendment,” to the ABL Facility. As a result of the ABL Amendment, the ABL Facility provides for revolving commitments of $350 million, with a $100 million sublimit for letters of credit and a $35 million sublimit for swingline loans. Verso Paper may request one or more incremental revolving commitments in an aggregate principal amount up to the excess, if any, of (a) the greater of (i) $75 million and (ii) the excess of the borrowing base at such time over the amount of the revolving facility commitments at such time, over (b) the aggregate amount of all incremental revolving facility commitments established prior to such time under the ABL Facility; however, the lenders are not obligated to increase the revolving commitments upon any such request. Availability under the ABL Facility is subject to customary borrowing conditions. The ABL Facility will mature on February 6, 2024.

Outstanding borrowings under the ABL Facility will now bear interest at an annual rate equal to, at the option of Verso Paper, either (i) a customary London interbank offered rate plus an applicable margin ranging from 1.25% to 1.75% or (ii) a customary base rate plus an applicable margin ranging from 0.25% to 0.75%, determined based upon the average excess availability under the ABL Facility. Verso Paper also is required to pay a commitment fee for the unused portion of the ABL Facility of 0.25% per year, based upon the average revolver usage under the ABL Facility. As of December 31, 2018, we had no outstanding borrowings under the ABL Facility, with $34 million issued in letters of credit, and $283 million available for future borrowings.

All obligations under the ABL Facility are unconditionally guaranteed by Verso Holding, and certain of the subsidiaries of Verso Paper. The security interest with respect to the ABL Facility consists of a first-priority lien on certain assets of Verso Paper, Verso Holding and the other guarantor subsidiaries, including accounts receivable, inventory, certain deposit accounts, securities accounts and commodities accounts.

The 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 ABL Facility also contains 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 Paper were to violate any of the covenants under the ABL Facility and were unable to obtain a waiver, it would be considered a default after the expiration of any applicable grace period. If Verso Paper were in default under the ABL Facility, then the lenders thereunder may exercise remedies in accordance with the terms thereof. In addition, if Verso Paper were in default under the ABL Facility, no additional borrowings under the ABL Facility would be available until the default was waived or cured. The ABL Facility provides 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 December 31, 2018 (Successor), we were in compliance with the covenants in our ABL Facility.

Off-Balance Sheet Arrangements
None.

35

Contractual Obligations

The following table reflects our contractual obligations associated with our debt and other obligations as of December 31, 2018:

	Payments Due by Period				
(Dollars in millions)	Total	2019	2020-2021	2022-2023	Thereafter
Operating leases[1]	$14	$6	$ 7	$ 1	$ —
Fiber supply agreements[2]	117	29	28	4	56
Purchase obligations[3]	54	18	23	8	5
Other long-term obligations[4]	32	1	9	5	17
Total	$217	$54	$ 67	$ 18	$ 78
Other Commercial Obligations					
Standby letters of credit[5]	$34	$34	$ —	$ —	$ —
Total	$34	$34	$ —	$ —	$ —

(1) Future minimum rental payments due under non-cancelable operating leases that have initial or remaining lease terms in excess of one year.

(2) The contractual obligations consist of the minimum required expenditure to be made pursuant to the fiber supply agreements.

(3) Unconditional purchase obligations in the ordinary course of business for the purchase of certain raw materials, energy and services.

(4) Pension benefit obligation has been excluded from the Contractual Obligations table. See Note 11 to the Consolidated Financial Statements included elsewhere in this report for more information.

(5) We are required to post letters of credit or other financial assurance obligations with certain energy and other suppliers and certain other parties.

Item 7A. 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 more variable than volume and can change significantly over relatively short time periods. Price is also subject to volatility due to fluctuations in foreign exchange rates of the U.S. dollar relative to other currencies, especially the euro, which can lead to lower average sales price realization.

We are primarily focused on serving the following end-user markets: specialty converters, containerboard converters, general commercial print, catalogs and magazine publishers. Coated papers demand is primarily driven by advertising and print media usage. Advertising spending and magazine and catalog circulation tend to correlate with gross domestic product, or “GDP,” in the United States, as they rise with a strong economy and contract with a weak economy, which impacts media spend which further impacts magazine and catalog subscriptions.

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

We reach our end-users through several channels, including merchants, brokers, printers and direct sales to end-users. We sell our products to approximately 300 customers which comprise approximately 1,600 end-user accounts. In 2018, our largest customer, Veritiv Corporation, accounted for 19% of our net sales.

Interest Rates

As of December 31, 2018, we had no borrowings outstanding under our ABL Facility. Borrowings under our ABL Facility bear interest at a variable rate based on LIBOR or a customary base rate, in each case plus an applicable margin. See above under “Liquidity and Capital Resources - Credit Facilities” for additional information.

While we may enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

Commodity Prices

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

Wood Fiber. We source our wood fiber from a broad group of timberland and sawmill owners located in the regions around our mills. Our cost to purchase wood is affected directly by market price of wood in our regional markets and indirectly by the effect of higher fuel cost of logging and transportation of timber to our facilities. While we have in place fiber supply agreements that ensure delivery of a substantial portion of our wood requirements, purchases under these agreements are typically at market rates.

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

Energy. We produce a significant portion of our energy needs for our paper mills from sources such as waste wood, waste water, hydroelectric facilities, liquid biomass from our pulping process and internal energy cogeneration facilities. Our external energy purchases vary across each of our mills and include fuel oil, natural gas, coal and electricity. Our overall energy expenditures are mitigated by our internal energy production capacity and ability to switch between certain energy sources. The use of derivative contracts is also a consideration as part of our risk management strategy to manage our exposure to market fluctuations in energy prices.

Item 8. Financial Statements and Supplementary Data

Verso Corporation
Consolidated Financial Statements

Index to Financial Statements

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of Verso Corporation's internal control over financial reporting as of December 31, 2018, based upon the guidelines established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Verso Corporation's internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Based on the results of our evaluation, our management concluded that Verso Corporation's internal control over financial reporting was effective as of December 31, 2018. We reviewed the results of management's assessment with our Audit Committee.

The effectiveness of Verso Corporation's internal control over financial reporting as of December 31, 2018, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their attestation report which appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Verso Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Verso Corporation and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows, for the years ended December 31, 2018, December 31, 2017, the period July 15, 2016 through December 31, 2016 (Successor Period Operations) and the period January 1, 2016 through July 14, 2016 (Predecessor Period Operations) and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years ended December 31, 2018, December 31, 2017, the period of July 15, 2016 through December 31, 2016 (Successor Period Operations) and the period January 1, 2016 through July 14, 2016 (Predecessor Period Operations), in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Dayton, Ohio
March 1, 2019

We have served as the Company's auditor since 2006.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Verso Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Verso Corporation and subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated March 1, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Dayton, Ohio
March 1, 2019

VERSO CORPORATION
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	December 31, 2017	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7	$ 26
Accounts receivable, net	208	197
Inventories	385	398
Prepaid expenses and other assets	14	12
Total current assets	614	633
Property, plant and equipment, net	1,062	1,016
Intangibles and other assets, net	56	50
Total assets	$ 1,732	$ 1,699
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 176	$ 215
Accrued and other liabilities	129	118
Current maturities of long-term debt	60	—
Total current liabilities	365	333
Long-term debt	130	—
Pension benefit obligation	457	428
Other long-term liabilities	34	32
Total liabilities	986	793
Commitments and contingencies (Note 17)		
Equity:		
Preferred stock -- par value $0.01 (50,000,000 shares authorized, no shares issued)	—	—
Common stock -- par value $0.01 (210,000,000 Class A shares authorized with 34,173,571 shares issued and 34,164,434 outstanding on December 31, 2017 and 34,569,917 shares issued and 34,484,093 outstanding on December 31, 2018; 40,000,000 Class B shares authorized with 291,039 shares issued and outstanding on December 31, 2017 and no shares issued and outstanding on December 31, 2018)	—	—
Treasury stock -- at cost (9,137 shares on December 31, 2017 and 85,824 shares on December 31, 2018)	—	(2)
Paid-in-capital (including Warrants of $10 million)	676	686
Retained earnings (deficit)	(62)	102
Accumulated other comprehensive income	132	120
Total equity	746	906
Total liabilities and equity	$ 1,732	$ 1,699

See Notes to Consolidated Financial Statements.

VERSO CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)	Predecessor January 1, 2016 Through July 14, 2016	Successor July 15, 2016 Through December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2018
Net sales	$ 1,417	$ 1,224	$ 2,461	$ 2,682
Costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	1,250	1,126	2,250	2,321
Depreciation and amortization	100	93	115	111
Selling, general and administrative expenses	96	53	107	102
Restructuring charges	151	11	9	1
Other operating (income) expense	(57)	8	1	(5)
Operating income (loss)	(123)	(67)	(21)	152
Interest expense	39	17	38	33
Other (income) expense	(2)	(32)	(21)	(52)
Income (loss) before reorganization items, net	(160)	(52)	(38)	171
Reorganization items, net	(1,338)	—	—	—
Income (loss) before income taxes	1,178	(52)	(38)	171
Income tax expense (benefit)	—	(20)	(8)	—
Net income (loss)	$ 1,178	$ (32)	$ (30)	$ 171
Income (loss) per common share:				
Basic	$ 14.39	$ (0.93)	$ (0.87)	$ 4.97
Diluted	14.39	(0.93)	(0.87)	4.88
Weighted average common shares outstanding (in thousands):				
Basic	81,847	34,391	34,432	34,514
Diluted	81,847	34,391	34,432	35,096

See Notes to Consolidated Financial Statements.

VERSO CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in millions)	Predecessor January 1, 2016 Through July 14, 2016	Successor July 15, 2016 Through December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2018
Net income (loss)	$ 1,178	$ (32)	$ (30)	$ 171
Other comprehensive income (loss), net of tax:				
Defined benefit pension/other postretirement plans:				
Pension/other postretirement liability adjustment, net	—	127	5	(20)
Amortization of net actuarial loss	1	—	—	1

Other comprehensive income (loss), net of tax	1	127	5