

Verso Corp
Form 10-K
March 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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
 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 (Commission File Number) (IRS Employer
or Organization) 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. Yes 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. Yes 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. Yes 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). Yes
 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.

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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 Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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.

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

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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.

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

In February 2018, we announced a plan to upgrade and restart the No. 3 paper machine at our Androscoggin Mill (1) 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.

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	Predecessor		Successor			
	Year Ended December 31,		January 1, 2016 Through July 14,	July 15, 2016 Through December 31,	Year Ended December 31,	
(Dollars in millions except per share amounts)	2014	2015	2016	2016	2017	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):						