Verso Corp
Form 10-Q
November 15, 2016

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

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FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

OR

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

VERSO CORPORATION
(Exact name of registrant as specified in its charter)

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

6775 Lenox Center Court, Suite 400
Memphis, Tennessee 38115-4436
(Address, including zip code, of principal executive offices)
(901) 369-4100
(Registrants' telephone number, including area code)

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

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

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
þ Yes o No

As of October 31, 2016, Verso Corporation had 33,366,784 shares of Class A common stock, par value $0.01 per share, and 1,023,859 shares of Class B common stock, par value $0.01 per share, outstanding.

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Entity Names and Organization

Verso Corporation is the ultimate parent entity and the sole member of Verso Paper Finance Holdings One LLC, which is the sole member of Verso Paper Finance Holdings LLC, which is the sole member of Verso Paper Holdings LLC. As used in this report, the term "Verso" refers to Verso Corporation; the term "Verso Finance" refers to Verso Paper Finance Holdings LLC; the term "Verso Holdings" refers to Verso Paper Holdings LLC; the term "NewPage" refers to NewPage Holdings Inc., which is an indirect, wholly owned subsidiary of Verso; the term "NewPage Corp" refers to NewPage Corporation, which is an indirect, wholly owned subsidiary of NewPage; and the term for any such entity includes its direct and indirect subsidiaries when referring to the entity's consolidated financial condition or results. Unless otherwise noted, references to "the Company," "we," "us," and "our" refer to Verso.

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

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

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

Forward-Looking Statements

In this quarterly report, all statements that are not purely historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or "Securities Act," and Section 21E of the Securities Exchange Act of 1934, as amended, or "Exchange Act." Forward-looking statements may be identified by the words "believe," "expect," "anticipate," "project," "plan," "estimate," "intend" and other similar expressions. They include example, statements relating to our business and operating outlook; assessment of market conditions; and the growth potential of the industry in which we operate. Forward-looking statements are based on currently available business, economic, financial and other information and reflect management's current beliefs, expectations and views with respect to future developments and their potential effects on us. Actual results could vary materially depending on risks and uncertainties that may affect us and our business.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: the impact of our bankruptcy filings and the related Chapter 11 bankruptcy process on our business, financial condition or results of operations; intense competition in the paper manufacturing industry; changes in the costs of raw materials and purchased energy; developments in alternative media, which are expected to adversely affect the demand for some of our key products, and the effectiveness of our responses to these developments; rising

postal costs; any additional closure and other restructuring costs; negative publicity, even if unjustified; any failure to comply with environmental or other laws or regulations, even if inadvertent; legal proceedings or disputes; any labor disputes; and the potential risks and uncertainties described in Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, Part II - Item 1A. “Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, and Part I, Item II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this Quarterly Report on Form 10-Q as well as those discussed in Verso’s other filings with the Securities and Exchange Commission, or the “SEC,” from time to time.  Except as required by law, we assume no obligation to update any forward-looking statement made in this Quarterly Report to reflect subsequent events or circumstances or actual outcomes.

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

| (Dollars in millions) | Predecessor December 31, 2015 | Successor September 30, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4 | $ 7 |
| Accounts receivable, net | 226 | 212 |
| Inventories | 484 | 429 |
| Assets held for sale | 5 | — |
| Prepaid expenses and other assets | 32 | 27 |
| Total current assets | 751 | 675 |
| Property, plant, and equipment, net | 1,857 | 1,170 |
| Intangibles and other assets, net | 102 | 60 |
| Total assets | $ 2,710 | $ 1,905 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 113 | $ 120 |
| Accrued liabilities | 267 | 128 |
| Current maturities of long-term debt | 2,879 | 18 |
| Total current liabilities | 3,259 | 266 |
| Long-term debt | — | 285 |
| Other liabilities | 634 | 719 |
| Total liabilities | 3,893 | 1,270 |
| Commitments and contingencies (Note 12) | — | — |
| Equity: | | |
| Predecessor preferred stock -- par value $0.01 (20,000,000 shares authorized, no shares issued) | — | — |
| Successor preferred stock -- par value $0.01 (50,000,000 shares authorized, no shares issued) | — | — |
| Predecessor common stock -- par value $0.01 (250,000,000 shares authorized with 82,115,543 shares issued and 81,874,254 outstanding on December 31, 2015) | 1 | — |
| Successor common stock -- par value $0.01 (210,000,000 Class A shares authorized with 33,366,784 shares issued and outstanding on September 30, 2016; 40,000,000 Class B shares authorized with 1,023,859 shares issued and outstanding on September 30, 2016) | — | — |
| Treasury stock -- at cost (241,289 shares on December 31, 2015 and no shares on September 30, 2016) | (1 ) | — |
| Predecessor Paid-in-capital | 321 | — |
| Successor Paid-in-capital (including Warrants of $10 million) | — | 675 |
| Retained deficit | (1,402 ) | (40 ) |
| Accumulated other comprehensive loss | (102 ) | — |
| Total (deficit) equity | (1,183 ) | 635 |
| Total liabilities and equity | $ 2,710 | $ 1,905 |

See notes to Unaudited Condensed Consolidated Financial Statements.

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VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| (Dollars in millions, except per share amounts) | Predecessor Three Months Ended September 30, 2015 | Predecessor July 1, 2016 Through July 14, 2016 | Successor July 15, 2016 Through September 30, 2016 |
|---|---|---|---|
| Net sales | $782 | $97 | $ 578 |
| Costs and expenses: | | | |
| Cost of products sold (exclusive of depreciation, amortization and depletion) | 677 | 83 | 559 |
| Depreciation, amortization and depletion | 60 | 7 | 24 |
| Selling, general and administrative expenses | 33 | 8 | 23 |
| Restructuring charges | 55 | — | 2 |
| Other operating expense | — | — | 2 |
| Operating loss | (43 ) | (1 ) | (32 ) |
| Interest expense | 68 | 2 | 8 |
| Loss before reorganization items, net | (111 ) | (3 ) | (40 ) |
| Reorganization items, net | — | (1,302 ) | — |
| (Loss) income before income taxes | (111 ) | 1,299 | (40 ) |
| Income tax benefit | — | — | — |
| Net (loss) income | $(111 ) | $1,299 | $ (40 ) |
| (Loss) income per common share: | | | |
| Basic | $(1.36) | $15.88 | $ (1.16 ) |
| Diluted | (1.36 ) | 15.88 | (1.16 ) |
| Weighted average common shares outstanding (in thousands) | | | |
| Basic | 81,842 | 81,823 | 34,391 |
| Diluted | 81,842 | 81,823 | 34,391 |

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS, CONTINUED

| (Dollars in millions, except per share amounts) | Predecessor | | Successor |
|---|---|---|---|
| | Nine Months Ended September 30, 2015 | January 1, 2016 Through July 14, 2016 | July 15, 2016 Through September 30, 2016 |
| Net sales | $2,366 | $1,417 | $578 |
| Costs and expenses: | | | |
| Cost of products sold (exclusive of depreciation, amortization and depletion) | 2,062 | 1,249 | 559 |
| Depreciation, amortization and depletion | 181 | 100 | 24 |
| Selling, general and administrative expenses | 134 | 95 | 23 |
| Restructuring charges | 83 | 151 | 2 |
| Other operating (income) expense | — | (57) | 2 |
| Operating loss | (94) | (121) | (32) |
| Interest expense | 201 | 39 | 8 |
| Loss before reorganization items, net | (295) | (160) | (40) |
| Reorganization items, net | — | (1,338) | — |
| (Loss) income before income taxes | (295) | 1,178 | (40) |
| Income tax benefit | (2) | — | — |
| Net (loss) income | $(293) | $1,178 | $(40) |
| (Loss) income per common share: | | | |
| Basic | $(3.61) | $14.39 | $(1.16) |
| Diluted | (3.61) | 14.39 | (1.16) |
| Weighted average common shares outstanding (in thousands) | | | |
| Basic | 81,099 | 81,847 | 34,391 |
| Diluted | 81,099 | 81,847 | 34,391 |

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (Dollars in millions, except per share amounts) | Predecessor Three Months Ended September 30, 2015 | Predecessor July 1, 2016 Through July 14, 2016 | Successor July 15, 2016 Through September 30, 2016 |
|---|---|---|---|
| Net (loss) income | $(111) | $ 1,299 | $ (40) |
| Defined benefit pension plan amortization of net loss and prior service cost | 1 | — | — |
| Other comprehensive income | 1 | — | — |
| Comprehensive (loss) income | $(110) | $ 1,299 | $ (40) |

| (Dollars in millions, except per share amounts) | Predecessor Nine Months Ended September 30, 2015 | Predecessor January 1, 2016 Through July 14, 2016 | Successor July 15, 2016 Through September 30, 2016 |
|---|---|---|---|
| Net (loss) income | $(293) | $ 1,178 | $ (40) |
| Defined benefit pension plan amortization of net loss and prior service cost | 2 | 1 | — |
| Other comprehensive income | 2 | 1 | — |
| Comprehensive (loss) income | $(291) | $ 1,179 | $ (40) |

See notes to Unaudited Condensed Consolidated Financial Statements.

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

| (Dollars in millions, shares in thousands) | Class A Common Shares | Class A Common Stock | Class B (Successor) Common Shares | Class B (Successor) Common Stock | Treasury Shares | Treasury Stock | Paid-in-Capital | Retained Deficit | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity (Deficit) |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance - December 31, 2014 - Predecessor | 53,435 | $ 1 | | | (98) | $ — | $ 222 | $ (980) | $ (27) | $ (784) |
| Net loss | — | — | | | — | — | — | (293) | — | (293) |
| Other comprehensive income | — | — | | | — | — | — | — | 2 | 2 |
| Treasury shares acquired | — | — | | | (140) | (1) | — | — | — | (1) |
| Stock option exercise | 14 | — | | | — | — | — | — | — | — |
| Common stock issued for restricted stock, net | 357 | — | | | — | — | — | — | — | — |
| Stock issued for NewPage acquisition | 13,607 | — | | | — | — | 46 | — | — | 46 |
| Stock issued for convertible warrants | 14,702 | — | | | — | — | 50 | — | — | 50 |
| Equity award expense | — | — | | | — | — | 2 | — | — | 2 |
| Balance - September 30, 2015 - Predecessor | 82,115 | $ 1 | | | (238) | $ (1) | $ 320 | $ (1,273) | $ (25) | $ (978) |
| | | | | | | | | | | |
| Balance - December 31, 2015 - Predecessor | 82,115 | $ 1 | | | (241) | $ (1) | $ 321 | $ (1,402) | $ (102) | $ (1,183) |
| Net income for the period January 1 to July 14 | — | — | | | — | — | — | 1,178 | — | 1,178 |
| Other comprehensive income | — | — | | | — | — | — | — | 1 | 1 |
| Treasury shares acquired | — | — | | | (52) | — | — | — | — | — |
| Equity award expense | — | — | | | — | — | 4 | — | — | 4 |
| Cancellation of Predecessor common stock | (82,115) | (1) | | | 293 | 1 | — | — | — | — |
| Elimination of Predecessor additional paid-in-capital, accumulated deficit, and accumulated other comprehensive loss | — | — | | | — | — | (325) | 224 | 101 | — |
| Issuance of Successor common stock and stock purchase warrants | 33,367 | — | 1,024 | — | — | — | 675 | — | — | 675 |
| Balance - July 14, 2016 - Predecessor | 33,367 | $ — | 1,024 | $ | — | $ — | $ 675 | $— | $ — | $ 675 |
| | | | | | | | | | | |
| Balance - July 15, 2016 - Successor | 33,367 | $ — | 1,024 | $ | $ — | $ — | $ 675 | $— | $ — | $ 675 |
| Net loss for the period July 15 to September 30 | — | — | — | — | — | — | — | (40) | — | (40) |
| Equity award expense | — | — | — | — | — | — | — | — | — | — |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Balance - September 30, 2016 - Successor | 33,367 | $ — | 1,024 | $ — | $ — | $ 675 | $ (40) | $ — | $ 635 |

See notes to Unaudited Condensed Consolidated Financial Statements.

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VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Predecessor | | Successor |
|---|---|---|---|
| (Dollars in millions) | Nine Months Ended September 30, 2015 | January 1, 2016 Through July 14, 2016 | July 15, 2016 Through September 30, 2016 |
| Net cash (used in) provided by operating activities | $(284) | $ 25 | $ (13) |
| Cash Flows From Investing Activities: | | | |
| Proceeds from sale of assets | 51 | 63 | — |
| Transfers from (to) restricted cash, net | 1 | (3) | 3 |
| Capital expenditures | (48) | (31) | (21) |
| Cash acquired in acquisition | 128 | — | — |
| Other investing activities | (5) | — | — |
| Net cash provided by (used in) investing activities | 127 | 29 | (18) |
| Cash Flows From Financing Activities: | | | |
| Borrowings on revolving credit facilities | 673 | 147 | — |
| Payments on revolving credit facilities | (512) | (446) | — |
| Borrowings on debtor-in-possession revolving credit facilities | — | 275 | — |
| Payments on debtor-in-possession revolving credit facilities | — | (275) | — |
| Proceeds from debtor-in-possession term loan | — | 175 | — |
| Repayment of debtor-in-possession term loan | | (175) | |
| Debt issuance costs for debtor-in-possession | — | (22) | — |
| Borrowings on Exit ABL Facility | — | 120 | 26 |
| Payments on Exit ABL Facility | — | — | (30) |
| Proceeds from Exit Term Loan Facility | — | 220 | — |
| Payments on Exit Term Loan Facility | — | — | (4) |
| Debt issuance costs for Exit Credit Facilities | — | (8) | (1) |
| Original issue discount on Exit Term Loan Facility | — | (22) | |
| Net cash provided by (used in) financing activities | 161 | (11) | (9) |
| Change in cash and cash equivalents | 4 | 43 | (40) |
| Cash and cash equivalents at beginning of period | 6 | 4 | 47 |
| Cash and cash equivalents at end of period | $10 | $ 47 | $ 7 |
| Noncash investing and financing activities: | | | |
| Notes issued for NewPage acquisition | $663 | $ — | $ — |
| Stock issued for NewPage acquisition | 46 | — | — |
| Stock issued for convertible warrants | 50 | — | — |
| Conversion of accrued interest to long-term debt | 19 | — | — |
| Reduction in debt for debt modification | (15) | (1) | — |
| Increase in debt from paid in kind (PIK) interest | 5 | 9 | — |
| Issuance of Successor common stock and warrants | — | 675 | — |
| Cancellation of debt | — | (2,324) | — |

See notes to Unaudited Condensed Consolidated Financial Statements.

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VERSO CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation — On January 26, 2016, Verso announced that the Debtors filed voluntary petitions for relief under the Bankruptcy Code. On June 23, 2016, the Bankruptcy Court entered an order, confirming the Plan. On July 15, 2016, the Plan became effective pursuant to its terms and the Debtors emerged from their Chapter 11 Cases (see Note 2).

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

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

Predecessor Planned Major Maintenance Costs — Costs for planned major maintenance shutdowns were deferred and then expensed ratably over the period until the next major planned shutdown. Routine maintenance costs were expensed as incurred.

Successor Maintenance Costs — Costs for all repair and maintenance activities are expensed in the month that the related activity is performed under the direct expense method of accounting. The incremental costs expensed in Cost of products sold in the accompanying Unaudited Condensed Consolidated Statement of Operations for the period from July 15, 2016 to September 30, 2016 (Successor) related to planned major maintenance outages is approximately $20 million.

Successor Cost of products sold/ Selling, general and administrative expenses — Certain centralized costs attributable to manufacturing overhead recorded in Selling, general, and administrative expenses of the Predecessor are recorded to Cost of products sold of the Successor. The amount recorded to Cost of products sold, related to these costs, in the accompanying Unaudited Condensed Consolidated Statement of Operations for the period from July 15, 2016 to September 30, 2016 (Successor) is approximately $7 million.

This report contains the Unaudited Condensed Consolidated Financial Statements of Verso as of September 30, 2016 (Successor), for the three-month and nine-month periods ended September 30, 2015 (Predecessor), for the period from

July 1, 2016 to July 14, 2016 (Predecessor), for the period from January 1, 2016 to July 14, 2016 (Predecessor), and for the period from July 15, 2016 to September 30, 2016 (Successor). The December 31, 2015 (Predecessor), Unaudited Condensed Consolidated Balance Sheet data was derived from audited financial statements, but it does not include all disclosures required annually by accounting principles generally accepted in the United States of America, or "GAAP." In the opinion of Management, the accompanying Unaudited Condensed Consolidated Financial Statements include all adjustments that are necessary for the fair presentation of Verso's respective financial conditions, results of operations, and cash flows for the interim periods presented. Except as disclosed in the notes to the Unaudited Condensed Consolidated Financial Statements, such adjustments are of a normal, recurring nature. Variable interest entities for which Verso is the primary beneficiary are consolidated (see Note 11). Intercompany balances and transactions are eliminated in consolidation. The results of operations and cash flows for the interim periods presented may not necessarily be indicative of full-year results. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and notes thereto of Verso contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

2. BANKRUPTCY RELATED DISCLOSURES

Chapter 11 Filing

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

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

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

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

Plan of Reorganization and Emergence from Chapter 11

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

Key components of the Plan include:

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

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

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

Holders of first-lien secured debt issued by Verso Holdings, including lenders under Verso Holdings' revolving credit facilities and the holders of Verso Holdings' 11.75% senior secured notes due 2019 (issued in 2012 and 2015), received 17,195,319 shares of Class A Common Stock or 50% of Verso's equity and Plan Warrants to purchase 1,810,035 shares of Class A Common Stock at an initial exercise price of $27.86.

- Lenders under the NewPage Corp senior secured term loan and the $175 million of “rolled up” term loans under the NewPage DIP Term Loan Facility, collectively, received 15,139,745 shares of Class A Common Stock and 1,023,859 shares of Class B Common Stock or 47% of Verso’s equity.
- Holders of Verso Holdings’ senior debt received 980,133 shares of Class A Common Stock or 2.85% of Verso’s equity.
- Holders of Verso Holdings’ subordinated (unsecured) debt received 51,587 shares of Class A Common Stock or 0.15% of Verso’s equity.
- The satisfaction in full of general unsecured claims in an aggregate settlement totaling a fixed $3 million in cash (except with respect to general unsecured claims against Debtors that have only de minimis assets, which have received no distributions under the Plan).
- All shares of Verso’s common stock issued and outstanding immediately prior to the Effective Date were cancelled and discharged.
- The shared services agreement between Verso, NewPage and NewPage Corp was terminated.
- The prior employee incentive plans and other employment agreements were terminated and any awards issued under them were no longer honored, and a new performance incentive plan was adopted by Verso. See “Performance Incentive Plan” below.
- Termination of the Management and Transaction Fee Agreement dated as of August 1, 2006 among Verso Paper LLC, Verso Paper Investments LP, Apollo Management V, L.P., and Apollo Management VI, L.P., and all rights and remedies thereunder were terminated, extinguished, waived and released.
- Employee retirement contracts and collective bargaining agreements were honored by the Company upon emergence.

Exit Credit Facilities
On the Effective Date, pursuant to the terms of the Plan, Verso Holdings entered into a $375 million asset-based revolving credit facility, or the “Exit ABL Facility,” and a senior secured term loan agreement that provides for term loan commitments of $220 million with available loan proceeds of $198 million, or the “ Exit Term Loan Facility,” collectively termed the “Exit Credit Facilities” (See Note 7).

Registration Rights Agreement
On the Effective Date, and in accordance with the Plan, the Company entered into a Registration Rights Agreement with two of the Company’s stockholders, who each owned 7% or more of the Company’s Class A Common Stock and were also holders of senior debt as of the Petition Date. Subsequent to period end, the Registration Right Agreement expired by its terms because neither stockholder notified the Company it had increased its ownership to 10% or more of the Company’s Class A Common Stock on or before October 13, 2016.
Plan Warrants
On the Effective Date, and in accordance with the Plan, warrants to purchase up to an aggregate of 1,810,035 shares of Class A Common Stock, or “Plan Warrants,” were issued to holders of first-lien secured debt holders. Each Plan Warrant has a 7 year term (commencing on the Effective Date) and has an initial exercise price of $27.86 per share of Class A Common Stock. The warrant agreement governing the Plan Warrants, or the Warrant Agreement, contains customary anti-dilution adjustments in the event of any stock split, reverse stock split, reclassification, stock dividend or other distributions. In addition, the Warrant Agreement provides for anti-dilution adjustments in the event of below market stock issuances at less than 95% of the average closing price of the Class A Common Stock for the 10

consecutive trading days immediately prior to the applicable determination date, and for pro rata repurchases of Class A Common Stock.

The fair value of the Plan Warrants was estimated on the Effective Date using the Black-Scholes option pricing model. The weighted average assumptions used included a risk free interest rate of 1%, an expected stock price volatility factor of 37% and a dividend rate of 0%. The aggregate fair value of the Plan Warrants was $10 million on the Effective Date.

Performance Incentive Plan

On the Effective Date, pursuant to the operation of the Plan, the Verso Corporation Performance Incentive Plan became effective. The maximum number of shares of Class A Common Stock that may be issued or transferred pursuant to awards under this plan is 3,620,067. The Compensation Committee of the Board of Directors is the administrator of the Verso Corporation Performance Incentive Plan. There were no stock awards issued on the Effective Date pursuant to the Plan.

Reporting During Bankruptcy

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

Fresh-Start Accounting

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

Reorganization Value

Reorganization value is the value attributed to an entity emerging from bankruptcy, as well as the expected net realizable value of those assets that will be disposed before emergence occurs. This value is viewed as the value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after emergence. Fresh-start accounting requires that the reporting entity allocate the reorganization value to its assets and liabilities in relation to their fair values upon emergence from Chapter 11. The Company's valuation of the reorganized Company dated as of April 27, 2016, which was included in the Disclosure Statement related to the Plan, purported the estimated enterprise value of the Company to be in a range between $1.05 billion and $1.10 billion. The estimated enterprise value, which was approved by the Bankruptcy Court, included the equity value in a range between $675 million and $725 million. As part of determining the reorganization value as of July 15, 2016, the Company estimated the equity value of the Successor Company to be $675 million and the reorganization value to be

approximately $2 billion. As the Company issued 100% of its equity to existing creditors in exchange for the cancellation of all pre-petition indebtedness upon confirmation of the Plan, the distribution of Company's equity in settlement of pre-existing indebtedness was the primary objective of the Plan. Accordingly, Verso's equity value represents the primary assumption utilized by the Company in the determination of reorganization value. The Company believes that an equity value at the low-end of the range of $675 - $725 million was appropriate due to declines in projected operating performance from the submission of the Plan through the Emergence Date.

In order to determine the reorganization value, Verso estimated the enterprise value of the Successor utilizing the discounted cash flow analysis, comparable company analysis, and precedent transaction analysis. The use of each approach provides corroboration for the other approaches.

To estimate the fair value utilizing the discounted cash flow analysis, Verso established an estimate of future cash flows for the period from 2016 to 2025 and discounted the estimated future cash flows to the present value. The expected cash flows for the period 2016 to 2025 were derived from earnings forecasts and assumptions regarding growth and margin projections, as applicable, and expressed as a multiple of EBITDA (defined below). The discount rate of 9.5% was estimated based on an after-tax weighted average cost of capital reflecting the rate of return that would be expected by a market participant.

To estimate the fair value utilizing the comparable company analysis, Verso estimated the value of the company based on a relative comparison with other publicly traded companies with similar operating and financial characteristics. Under this methodology, valuation multiples, derived from the operating data of publicly-traded benchmark companies such as the projected financial measures of revenue and earnings before interest, taxes, depreciation, and amortization, or "EBITDA" were applied to projected operating data of Verso.

To estimate the fair value utilizing the precedent transaction analysis method, Verso determined an estimate of value by examining merger and acquisition transactions involving paper companies. The valuation paid in such acquisitions or implied in such mergers were analyzed as ratios of various financial results. These transaction multiples were calculated based on the purchase price (including any debt assumed) paid to acquire companies that are comparable to Verso.

The fair value of the Plan Warrants was estimated on the Effective Date using the Black-Scholes option pricing model with the following assumptions. The weighted average assumptions used included a risk free interest rate of 1%, an expected stock price volatility factor of 37% and a dividend rate of 0%. The aggregate fair value of the Plan Warrants was determined to be $10 million on the Effective Date therefore the residual common stock value was determined the be $665 million.

The following table reconciles the equity value to the estimated reorganization value as of the Effective Date:

| | |
|---|---|
| Value of Successor Stock | $665 |
| Add: Fair value of Plan Warrants | 10 |
| Equity Value | 675 |
| Add: Fair value of long-term debt | 318 |
| Add: Other non-interest bearing liabilities | 1,013 |
| Less: Debt issuance costs | (8) |
| Reorganization value of Successor assets | $1,998 |

The fair value and carrying value of debt represented $318 million of borrowings under the Exit Credit Facilities on the Effective Date. The fair value of long-term debt was determined based on a market approach utilizing market yields and was estimated to be approximately 94% of the par value, received for ($22 million original issue discount on the Exit Term Loan Facility - See Note 7).

The Company's reorganization value was allocated to its assets and liabilities in conformity with ASC 805. The valuations of the Company's assets and liabilities in connection with fresh-start accounting include the following general valuation methodologies:

- The income approach was used to estimate value based on the present value of future economic benefits that are expected to be produced;
- The market approach was used to estimate the value through the analysis of recent sales of comparable assets or business entities;
- The cost approach was used to provide a systematic framework for estimating the value of tangible assets or intangible assets based on the economic principal of substitution.

The significant assumptions related to the valuation of the Company’s assets are included in the footnotes to the Fresh-Start Balance sheet below. Most valuation inputs, related to inventory, property, plant and equipment, and intangible assets are

considered to be Level 3 inputs as they are based on significant inputs that are not observable in the market. For additional information on Level 1, Level 2, and Level 3 inputs, refer to Note 4.

Reorganization Adjustments

The unaudited consolidated financial information gives effect to the following Reorganization Adjustments, the Plan and the implementation of the transactions contemplated by the Plan . These adjustments give effect to the terms of the Plan and certain underlying assumptions, which include, but are not limited to, the following:

- Borrowing of $318 million from the Exit Credit Facilities;
- Issuance of 34,390,643 shares of stock or 100% of Verso's equity and Plan Warrants to purchase an aggregate of 1,810,035 shares of Class A Common Stock in exchange for the cancellation of all of our pre-petition indebtedness existing as of the Petition Date totaling $2.6 billion;
- Payment for the satisfaction of general unsecured claims in aggregate settlement totaling $3 million; and
- Repayment of $279 million of liabilities under the Debtor-in-Possession credit facilities.

Fresh-Start Balance Sheet

The following fresh-start balance sheet as of the Effective Date, July 15, 2016, illustrates the financial effects on the Company of the implementation of the Plan and the adoption of fresh-start reporting. This fresh-start balance sheet reflects the effect of the completion of the transactions included in the Plan, including the issuance of successor equity and the settlement of old indebtedness.

Reorganization adjustments, shown in column 2 of the following schedule, represent amounts recorded on the Effective Date for the implementation of the Plan, including the settlement of liabilities subject to comprise and related payments, the issuance of new shares of common stock and new warrants, repayment of the DIP facility and cancellation of Predecessor common stock.

Fresh-start adjustments, as shown in column 3 of the following schedule, represent amounts recorded on the Effective Date as a result of the adoption of fresh-start accounting, which resulted in Verso becoming a new entity for financial reporting purposes. The Company's assets and liabilities have been recorded at fair value as of the fresh-start reporting date or Effective Date.

| | Predecessor | Reorganization Adjustments | | Fresh-Start Adjustments | | Successor |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Current assets: | | | | | | — |
| Cash and cash equivalents | $ 27 | $ 20 | (a) | $ — | | $ 47 |
| Accounts receivable, net | 201 | — | | (2) | | 199 |
| Inventories | 503 | — | | (14) | (l) | 489 |
| Prepaid expenses and other assets | 27 | (1) | | — | | 26 |
| Total current assets | 758 | 19 | | (16) | | 761 |
| Property, plant, and equipment, net | 1,660 | — | | (490) | (m) | 1,170 |
| Intangibles and other assets, net | 97 | — | | (30) | (n) | 67 |
| Total assets | $ 2,515 | $ 19 | | $ (536) | | $ 1,998 |
| | | | | | | |
| LIABILITIES AND EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $ 103 | $ 35 | (b) | $ — | | $ 138 |
| Accrued liabilities | 140 | 8 | (c) | 2 | | 150 |
| Current maturities of long-term debt | 461 | (443) | (d) | — | | 18 |
| Total current liabilities | 704 | (400) | | 2 | | 306 |
| Long-term debt | — | 292 | (e) | — | | 292 |
| Other liabilities | 597 | 5 | (f) | 123 | (o) | 725 |
| Liabilities subject to compromise | 2,535 | (2,535) | (g) | — | | — |
| Total liabilities | 3,836 | (2,638) | | 125 | | 1,323 |
| Commitment and contingencies | | | | | | |
| Equity: | | | | | | |
| Predecessor preferred stock | — | — | | — | | — |
| Successor preferred stock | — | — | | — | | — |
| Predecessor common stock | 1 | (1) | (h) | — | | — |
| Successor common stock | — | — | (i) | — | | — |
| Treasury stock | (1) | 1 | (h) | — | | — |
| Predecessor Additional paid-in capital | 322 | (322) | (h) | — | | — |
| Successor Additional paid-in-capital | — | 665 | (i) | — | | 665 |
| Warrants | — | 10 | (j) | — | | 10 |
| Retained (deficit) earnings | (1,541) | 2,304 | (k) | (763) | (p) | — |
| Accumulated other comprehensive loss | (102) | — | | 102 | (p) | — |
| Total (deficit) equity | (1,321) | 2,657 | | (661) | | 675 |
| Total liabilities and equity | $ 2,515 | $ 19 | | $ (536) | | $ 1,998 |

Reorganization Adjustments

(a) Reflects payments and receipts recorded as of the Effective Date as follows:

| | |
|---|---|
| Sources: | |
| Amount borrowed under the Exit Credit Facilities | $340 |
| Less discount on Exit Term Loan Facility | (22) |
| Total Sources | 318 |
| Uses: | |
| Repayment of DIP facility (principal and interest) | (279) |
| Payment of deferred financing costs on exit financing | (8) |
| Payment of professional fees | (8) |
| Aggregate settlement of unsecured claims | (3) |
| Total uses | (298) |
| Net source | $20 |

(b) Represents recognition of accounts payable related to the cure of defaults for assumed executory contracts and leases.

(c) Represents recognition of accrued liabilities for success-based professional fees upon the Company's emergence from its Chapter 11 Cases.

(d) Represents the short-term portion of borrowing pursuant to the Exit Term Loan Facility net of the payment of the principal balance of the NewPage DIP Facilities and settlement of the NewPage DIP Roll Up Loan:

| | |
|---|---|
| Short-term portion of Exit Term Loan | $18 |
| Payment of the NewPage DIP Facilities | (278) |
| Settlement of NewPage DIP Roll Up Loans | (183) |
| | $(443) |

(e) Represents the long-term portion of the Exit Term Loan Facility and Exit ABL Facility net of debt issuance costs as follows:

| | |
|---|---|
| Exit ABL Facility Borrowing | $120 |
| Exit Term Loan Facility Borrowing | 220 |
| Debt Discount | (22) |
| Debt issuance costs | (8) |
| Less: Current Portion | (18) |
| Long-term Debt | $292 |

(f) Primarily represents the reinstatement of certain pre-petition liabilities from liabilities subject to compromise, or "LSTC."

(g) LSTC under the Plan of Reorganization reflected the Company's estimate of pre-petition liabilities and other expected allowed claims to be addressed by the Chapter 11 Cases. Debt amounts excluded related unamortized deferred financing costs, discounts/premiums, and deferred gains which were written off to Reorganization items, net, in the accompanying Unaudited Condensed Consolidated Statement of Operations prior to our emergence from bankruptcy. Amounts classified to LSTC did not include pre-petition liabilities that were fully collateralized by letters of credit or cash deposits. Borrowing under the NewPage DIP Roll-Up Notes represented borrowing during the pendency of the Company's bankruptcy and were settled in exchange for stock as described above. Both the LSTC and NewPage DIP Roll-Up Notes were resolved and satisfied as of the Effective Date.

This entry records the settlement of LSTC and the NewPage DIP Roll Up Loans:

| | |
|---|---|
| Settlement of LSTC debt | $(2,324) |
| Settlement of LSTC accrued interest | (126) |
| Settlement of LSTC accounts payable and accrued liabilities | (85) |
| Settlement of LSTC | (2,535) |
| Settlement of NewPage DIP Roll-Up Loans (principal and interest) | (184) |
| Reinstatement of certain liabilities from LSTC | 39 |
| Cash paid for the satisfaction of unsecured claims in aggregate settlement | 3 |
| Issuance of New Common Stock | 665 |
| Issuance of Plan Warrants | 10 |
| Net gain on settlement of LSTC and DIP Roll-Up Loans | $(2,002) |

(h) Reflects the cancellation of Predecessor equity

(i) Reflects the issuance of 34,390,643 shares common stock, or 100% of the Company's equity (subject to dilution by Plan Warrants issued to certain creditors and equity that may be issued to our employees under the management incentive plan) to existing creditors for the cancellation of indebtedness.

(j) Reflects the issuance of Plan Warrants to purchase up to 1,810,035 shares of Class A Common Stock at an initial exercise price of $27.86 issued to holder of first-lien secured debt holders in exchange for the cancellation of indebtedness.

(k) Reflects the cumulative impact of the reorganization adjustment discussed above:

| | |
|---|---|
| Gain on settlement of LSTC | $2,002 |
| Professional fees paid at emergence | (8) |
| Success fees accrued at emergence | (12) |
| Net gain on reorganization adjustments | 1,982 |
| Cancellation of Predecessor equity [1] | 322 |
| Net impact to Retained earnings | $2,304 |

(1) Net of recognition of previously unamortized stock compensation cost of the Predecessor.

Fresh-Start Adjustments

(l) An adjustment of $14 million was recorded to decrease the book value of inventories to their estimated fair value as follows:

| | |
|---|---|
| Replacement parts and other supplies | $(52) |
| Work-in-process and finished goods | 38 |
| | $(14) |

- The fair value of work-in-process was determined based on the estimated selling price once completed less costs to complete the manufacturing effort, costs to sell including disposal and holding period costs, and a reasonable profit margin.
- The fair value of finished goods inventory was determined based on the estimated price to sell including disposal and holding period costs and a reasonable profit margin on the selling and disposal.
- The fair value of replacement parts and other supplies was determined based upon the cost approach. This approach considers the amount required to purchase a new asset of equal utility at current market prices, with adjustments in value for functional and economic obsolescence. Functional obsolescence is the loss in value of usefulness of an asset caused by inefficiencies or inadequacies of the asset itself, when compared to a more efficient or less costly replacement parts that a new technology has developed. Economic obsolescence is the loss in value of usefulness of an

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asset due to factors external to the asset such as the cost of materials, related demand for the product, increased competition, and environmental regulations.
(m) Represents the adjustment to reduce the net book value of Property, plant, and equipment, net to fair value. The adjustment to the fair value of Property, plant and equipment, net was attributable to an adjustment of $392 million to machinery and equipment and an adjustment of $98 million to real estate.
The fair value of the machinery and equipment was determined as follows:

- The cost approach was utilized to determine the fair market value of machinery and equipment. This approach considers the amount required to construct or purchase a new asset of equal utility at current market prices, with adjustments in value for functional and economic obsolescence. Functional obsolescence is the loss in value of usefulness of an asset caused by inefficiencies or inadequacies of the property itself, when compared to a more efficient or less costly replacement property that a new technology has developed. Economic obsolescence is the loss in value of usefulness of an asset due to factors external to the asset such as the cost of materials, related demand for the product, increased competition, and environmental regulations.
- The sales approach was also used to determine the fair market value of machinery and equipment. The principal behind this approach is that the value of the asset is equal to the market price of an asset with comparable features such as design, location, size, construction materials, use, capacity, specifications, operational characteristics, technology level, accessories and other features that may impact value or marketability.
- The income approach was also used to determine the fair market value of machinery and equipment. The principal behind this approach is that the value of the asset is equal to the earnings potential of the assets such as the net rental savings attributable to owning the asset.

The adjustment related to real estate fair value was determined as follows:

- The market approach was utilized to determine the fair market value of real estate. This approach considers comparable land sale data and land held for sale. Variances in market conditions at the time of sale, property characteristics, and other relevant factors were considered and analyzed when necessary.
- Land and building improvements were valued utilized using the cost approach which considers the replacement cost of the improvement.

(n) An adjustment of $30 million was recorded to decrease the book value to fair value of Intangible and Other Assets to estimated fair value as follows:

| | |
|---|---|
| Successor Trade Names | $16 |
| Successor Customer Relationships | 26 |
| Write-off of Predecessor intangible and other assets | (72) |
| | $(30) |

See Note 6, Intangibles and Other Assets, for further discussion of the valuation assumptions used to determine the fair value of intangible assets.
(o) Represents an adjustment to the fair value of pension and postretirement obligations totaling $135 million, off-set by the write-off of $8 million of tax liabilities resulting from the Reorganization Adjustments, and other adjustments to asset retirement obligations (See Note 4) and workers’ compensation reserves. Refer to Note 8, Retirement and Other Postretirement Benefits for additional information.

(p) Reflects the cumulative impact of fresh-start adjustments as discussed above and shown in the table below and the elimination of the Predecessor accumulated other comprehensive income:

| | |
|---|---|
| Accounts Receivable, net | $(2 ) |
| Inventory | (14 ) |
| Write down Property, plant and equipment, net | (490 ) |
| Record fair value of Intangibles and Other Assets | (30 ) |
| Accrued Liabilities | (2 ) |
| Other Long-Term Liabilities | 4 |
| Pension | (135 ) |
| Change in deferred taxes | 8 |
| Total loss recorded as a result of Fresh-Start Accounting | (661 ) |
| Elimination of Predecessor accumulated other comprehensive loss | (102 ) |
| Net impact on Retained earnings (deficit) | $(763) |

Contractual Interest

Effective January 26, 2016, we discontinued recording interest expense on outstanding pre-petition debt classified as LSTC. The table below shows contractual interest amounts for debt classified as LSTC calculated in accordance with the respective agreements without giving effect to any penalties as a result of the default on such agreements, which are amounts due under the contractual terms of the outstanding debt. Interest expense reported in the Unaudited Condensed Consolidated Statement of Operations for the periods after the Effective Date does not include $10 million and $123 million, per the table below, in contractual interest on pre-petition debt classified as LSTC, which was stayed by the Bankruptcy Court effective on the Petition Date.

| (Dollars in millions) | Predecessor July 1, 2016 Through July 14, 2016 | January 26, 2016 Through July 14, 2016 |
|---|---|---|
| Verso Holdings | $ 8 | $ 98 |
| NewPage Corp | 2 | 25 |
| Total contractual interest | $ 10 | $ 123 |

Reorganization items, net

Expenses and income directly associated with the Chapter 11 Cases are reported separately in the Unaudited Condensed Consolidated Statement of Operations as Reorganization items, net as required by ASC 852. Reorganization items, net include adjustments to reflect the carrying value of LSTC at their estimated allowed claim amounts, as such adjustments are determined. The following table presents reorganization items incurred in the the periods after the Effective Date, as reported in the accompanying Unaudited Condensed Consolidated Statement of Operations:

| (Dollars in millions) | Predecessor July 1, 2016 Through July 14, 2016 | January 26, 2016 Through July 14, 2016 |
|---|---|---|
| Net gain on settlement of LSTC and DIP Roll-Up Notes | $(2,002) | $(2,002) |
| Total loss recorded as a result of Fresh-Start Accounting | 661 | 661 |
| Professional fees | 20 | 52 |
| DIP financing cost | — | 22 |
| Write-off of unamortized deferred financing costs, discounts/premiums, and deferred gains[(1)] | — | (81) |
| Contract modifications and rejections, net | 16 | 14 |
| Other | 3 | (4) |
| Total reorganization items, net | $(1,302) | $(1,338) |

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

For the period from January 26, 2016 through July 14, 2016, the cash used in reorganization items included approximately $28 million of professional fees and $22 million of DIP financing costs. For the period from July 15, 2016 through September 30, 2016, cash used in reorganization items included approximately $18 million for professional fees. The cash outflow is included in Net cash provided by operating activities in our Unaudited Condensed Consolidated Statements of Cash Flows for the periods presented.

Pre-Petition Claims

Holders of the substantial majority of pre-petition claims were required to file proofs of claims by the bar date established by the Bankruptcy Court. A bar date is the date by which certain claims against the Debtors must be filed if the claimants wish to receive any distribution in the Chapter 11 Cases. The Bankruptcy Court established a bar date of April 29, 2016 for the substantial majority of claims. The government bar date was July 25, 2016.

As of October 24, 2016, we have received approximately 3,700 filed claims. The filed claims aggregate to approximately $19 billion. We have reconciled the majority of these claims to the amounts listed in our schedules of assets and liabilities. We have also requested the Bankruptcy Court to disallow claims that we believe are duplicative, have been later amended or superseded, are without merit, are overstated, or should be disallowed for other reasons. To the extent claims are reconciled and settled/resolved, we have recorded them at the expected allowed amount. Claims that remain unresolved through the filing of this report have been estimated based upon management's best estimate of the likely claim amounts that the Bankruptcy Court will ultimately allow.

Given the substantial number of claims filed, the claims resolution process will continue even though we have emerged from Chapter 11. Differences between liability amounts recorded by the Debtors as liabilities subject to compromise and claims filed by creditors are investigated, and the Bankruptcy Court will make a final determination of the allowable claim, if needed. Differences between those final allowed claims and the liabilities recorded in the consolidated balance sheets were recognized as reorganization items in our statements of consolidated income (loss) of the Predecessor as they were resolved. The determination of how liabilities will ultimately be resolved cannot be made until a court-approved order related to settlement of specific liabilities becomes effective. Accordingly, the ultimate amount or resolution of such liabilities is not determinable at this time.

The Company satisfied general unsecured claims in an aggregate settlement amount totaling $3 million which was capped by the Plan and fully funded on the date of emergence.

Executory Contracts and Unexpired Leases

Under the Bankruptcy Code, we had the right to assume, assume and assign, or reject certain executory contracts and unexpired leases, subject to the approval of the Bankruptcy Court and other conditions. We and our counter parties had up to 120 days from bankruptcy emergence to accept or reject the terms of executory contracts or unexpired leases. Generally, the assumption of an executory contract or unexpired lease requires a debtor to satisfy pre-petition obligations under contracts, which may include payment of pre-petition liabilities in whole or in part. Rejection of an executory contract or unexpired lease is typically

treated as a breach occurring as of the moment immediately preceding the Chapter 11 filing. Subject to certain exceptions, this rejection relieves the debtor from performing its future obligations under the contract but entitles the counterparty to assert a pre-petition general unsecured claim for damages. Parties to executory contracts or unexpired leases rejected by a debtor may file proofs of claims against that debtor's estate for rejection damages.
Since the Petition Date, we have renegotiated or rejected a limited number of executory contracts and unexpired leases.
There were no material changes to contractual obligations previously included in our 10-K except as generated by our cancellation of debt described above and in Note 7.
Common Stock Privileges
The 33,366,784 shares of Class A Common stock and 1,023,859 shares of Class B Common Stock issued in connection with the cancellation of all of the Company's pre-petition indebtedness are identical and entitle the holders thereof the same rights and privileges, except that the Class B Common Stock is not qualified for listing and trading on the NYSE. One share of Class B Common Stock is convertible into one fully paid and non-assessable share of Class A Common Stock at the option of the holder thereof at any time upon written notice to the Company.

3. RECENT ACCOUNTING DEVELOPMENTS

Accounting Guidance Adopted in 2016

ASC Topic 323, Investments – Equity Method and Joint Ventures. In March 2016, FASB issued Accounting Standards Update, or "ASU," 2016-07, Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting, changes the requirements for equity method accounting when an investment qualifies for use of the equity method as a result of an increase in the investor's ownership interest in or degree of influence over an investee. The guidance (i) eliminates the need to retroactively apply the equity method of accounting upon qualifying for such treatment, (ii) requires that the cost of acquiring the additional interest in an investee be added to the basis of the previously held interest and (iii) requires that unrealized holding gains or losses for available-for-sale equity securities that qualify for the equity method of accounting be recognized in earnings at the date the investment becomes qualified for use of the equity method of accounting. The Company adopted this guidance on January 1, 2016 on a prospective basis and it did not impact our Unaudited Condensed Consolidated Financial Statements.

ASC Topic 805, Business Combinations. In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. This guidance eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. The acquirer must record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This guidance is effective for fiscal years beginning after December 15, 2015, and early adoption is permitted. The Company adopted this guidance on January 1, 2016 on a prospective basis and it did not impact our Unaudited Condensed Consolidated Financial Statements.

ASC Topic 810, Consolidation. In February 2015, the FASB issued ASU 2015-02, Consolidation, which amends the requirements for consolidation and significantly changes the consolidation analysis required. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those years. The Company adopted this guidance on January 1, 2016 on a prospective basis and it did not impact our Unaudited Condensed Consolidated Financial Statements.

Accounting Guidance Not Yet Adopted

ASC Topic 230, Statement of Cash Flows. In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. This standard provides specific guidance on eight cash flow issues to

reduce the current diversity in practice. These issues are Debt prepayment or debt costs, Settlement of zero-coupon debt, Contingent consideration payments made after a business combination, Proceeds from the settlement of insurance claims, Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, Distributions received from equity method investees, Beneficial interests in securitization transactions, and Separately identifiable cash flows and application of the predominance principle. This standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the timing of adoption and the potential impact of this standard on our Unaudited Condensed Consolidated Financial Statements.

ASC Topic 606, Revenue from Contracts with Customers. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606). The update will improve implementation of Topic 606 by adding clarity to the objective of the collectability criterion, recognition method when the collectability criteria is not met, and the presentation of sales taxes collected from customers. This ASU has the same effective date as ASU 2014-09.

In May 2016, the FASB issued ASU 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815). The update rescinds certain SEC guidance from FASB ASC pursuant to the SEC Staff's Announcements on March 3, 2016. Specifically, the update supersedes SEC observer comments related to revenue and expense recognition for freight services, shipping and handling fees, consideration given by a vendor to a customer, and accounting for gas-balancing arrangements. Additionally the update supersedes SEC observer comments related to determining the host contract related to a hybrid financial instrument. This ASU has the same effective dates as ASU 2014-09 and ASU 2014-16.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606). The update does not change the core guidance in Topic 606. Rather, the amendments in the update clarify the aspects of identifying performance obligations and the licensing implementation guidance within ASU 2014-09 discussed below. Additionally, this ASU improves guidance within Topic 606 related to the implementation of licensing revenue recognition. This ASU has the same effective date as ASU 2014-09.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606). It amends the principal-versus-agent implementation guidance and illustrations in the ASU 2014-09. It clarifies that an entity should determine whether it is a principal or an agent for each specified good or service promised in a contract with a customer. Thus, in a contract involving more than one specified good or service, the entity could be a principal for some specified goods or services and an agent for others. This ASU has the same effective date as the ASU 2014-09.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This guidance will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance was effective for periods beginning after December 15, 2016 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption; however, in August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which defers the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. We are currently evaluating the timing of adoption and the potential impact of this standard on our Unaudited Condensed Consolidated Financial Statements.

ASC Topic 718, Compensation – Stock Compensation. In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. This standard provides for several changes to the accounting for share-based awards. Among other changes, this standard will require recognition of certain income tax effects of awards in net income in the period in which the awards are settled or vested, rather than through additional paid-in capital in the equity section of the balance sheet. The standard also changes the presentation of excess tax benefits and statutory tax withholdings in the statement of cash flows. This standard will be effective for our interim and annual periods beginning January 1, 2017; however, early adoption is permitted. Each of the various provisions within this standard has its own specified transition method; some will be applied prospectively and others will be applied on a retrospective or modified retrospective basis. We are currently evaluating the timing of adoption and the potential impact of this standard on our Unaudited Condensed Consolidated Financial Statements.

ASC Topic 842, Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard will be effective for our interim and annual periods beginning January 1, 2019, and must be applied on a modified retrospective basis to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. We are currently evaluating the timing of adoption and the potential impact of this standard on our Unaudited Condensed Consolidated Financial Statements.

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

ASC Topic 330, Inventory. In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. This ASU provides that entities should measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted. We are currently evaluating the timing of adoption and the potential impact of this standard on our Unaudited Condensed Consolidated Financial Statements.

ASC Topic 205, Presentation of Financial Statements-Going Concern. In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. This guidance is effective for annual periods ending after December 15, 2016, and interim periods thereafter. We are currently evaluating the timing of adoption and the potential impact of this standard on our Unaudited Condensed Consolidated Financial Statements.

Other new accounting pronouncements issued but not effective until after September 30, 2016, are not expected to have a significant effect on our
Unaudited Condensed Consolidated Financial Statements.

4. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

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

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

| | Predecessor | | Successor |
|---|---|---|---|
| | Three Months Ended September 30, 2015 | July 1, 2016 Through July 14, 2016 | July 15, 2016 Through September 30, 2016 |
| Net (loss) income available to common shareholders (in millions) | $(111 ) | 1,299 | $ (40 ) |
| Weighted average common shares outstanding (in thousands) | 81,348 | 81,823 | 34,391 |
| Weighted average restricted shares (in thousands) | 494 | — | — |
| Weighted average common shares outstanding - basic | 81,842 | 81,823 | 34,391 |
| Dilutive shares from stock options | — | — | — |
| Weighted average common shares outstanding - diluted | 81,842 | 81,823 | 34,391 |
| Basic (loss) income per share | $(1.36) | $ 15.88 | $ (1.16 ) |
| Diluted (loss) income per share | $(1.36) | $ 15.88 | $ (1.16 ) |

| | Predecessor | | Successor |
|---|---|---|---|
| | Nine Months Ended September 30, 2015 | January 1, 2016 Through July 14, 2016 | July 15, 2016 Through September 30, 2016 |
| Net (loss) income available to common shareholders (in millions) | $(293 ) | 1,178 | $ (40 ) |
| Weighted average common shares outstanding (in thousands) | 80,666 | 81,847 | 34,391 |
| Weighted average restricted shares (in thousands) | 433 | — | — |
| Weighted average common shares outstanding - basic | 81,099 | 81,847 | 34,391 |
| Dilutive shares from stock options | — | — | — |
| Weighted average common shares outstanding - diluted | 81,099 | 81,847 | 34,391 |
| Basic (loss) income per share | $(3.61) | $ 14.39 | $ (1.16 ) |
| Diluted (loss) income per share | $(3.61) | $ 14.39 | $ (1.16 ) |

In accordance with ASC Topic 260, Earnings Per Share, unvested restricted stock awards issued by Verso contain nonforfeitable rights to dividends and qualify as participating securities. On the Effective Date, all issued and outstanding shares of Verso's old common stock, par value $0.01 per share, including all restricted stock awards and stock options to purchase shares of Verso's old common stock, were canceled and extinguished. See Note 2 for additional information. No dividends have been declared or paid in 2016 or 2015.

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

Replacement parts and other supplies of the Successor are stated using the average cost method and are reflected in Inventories on the accompanying Unaudited Condensed Consolidated Balance Sheets, while replacement parts and other supplies of the Predecessor were reflected in Inventories and Intangibles and other assets, net, on the accompanying Unaudited Condensed Consolidated Balance Sheets (see Note 6).

The following table summarizes inventories by major category:

| (Dollars in millions) | Predecessor December 31, 2015 | Successor September 30, 2016 |
|---|---|---|
| Raw materials | $ 91 | $ 102 |
| Work-in-process | 58 | 60 |
| Finished goods | 256 | 244 |
| Replacement parts and other supplies - current portion | 79 | 23 |
| Inventories | $ 484 | $ 429 |

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

As of December 31, 2015 and September 30, 2016, approximately $1 million of restricted cash was included in Intangibles and other assets, net in the accompanying Unaudited Condensed Consolidated Balance Sheets related to asset retirement obligations in the state of Michigan. These cash deposits are required by the state and may only be used for the future closure of a landfill.

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

| | Predecessor | |
|---|---|---|
| (Dollars in millions) | Nine Months Ended 9/30/2015 | January 1 through July 14, 2016 |
| Asset retirement obligations, beginning balance | $ 8 | $ 16 |
| Accretion expense | 1 | — |
| Liabilities assumed in the NewPage acquisition | 9 | — |
| Settlement of existing liabilities | (2 ) | — |
| Adjustments to existing liabilities | — | (3 ) |
| Asset retirement obligations, ending balance | $ 16 | $ 13 |

The increase in the liability for the period ended September 30, 2015 was primarily attributable to the assumption of the asset retirement obligation liabilities associated with landfills acquired in connection with the NewPage acquisition. The decrease in the liability for the period ended July 14, 2016 was attributable to reassessing the estimated discounted closure costs of certain long-lived assets as we adopted fresh-start accounting as of the Effective Date. There were no material activities in the Successor period from July 15 through September 30, 2016.

In addition to the above obligations, we may be required to remove certain materials from our facilities or to remediate them in accordance with current regulations that govern the handling of certain hazardous or potentially hazardous materials. At this time, any such obligations have an indeterminate settlement date, and we believe that adequate information does not exist to reasonably estimate any such potential obligations. Accordingly, no liability

for such remediation was recorded.

Property, Plant, and Equipment — Property, plant, and equipment is stated at cost, net of accumulated depreciation. Interest is capitalized on projects meeting certain criteria and is included in the cost of the assets. The capitalized interest is depreciated over the same useful lives as the related assets. Depreciation is computed using the straight-line method over the assets' estimated useful lives. In connection with our adoption of fresh start accounting, the net book values of property, plant, and equipment were reduced to their estimated fair values by $490 million (see Note 2).

Interest costs capitalized and depreciation expense for the periods presented are as follows:

| (Dollars in millions) | Predecessor Three Months Ended September 30, 2015 | July 1, 2016 Through July 14, 2016 | Successor July 15, 2016 Through September 30, 2016 |
|---|---|---|---|