Verso Corp
Form 10-K
April 14, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K
(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

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)

Verso Paper Holdings LLC
(Exact name of registrant as specified in its charter)

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

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

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

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

Verso Corporation	None
Verso Paper Holdings LLC	None

Securities registered pursuant to Section 12(g) of the Act:

Verso Corporation	None
Verso Paper Holdings LLC	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Verso Corporation	o Yes þ No
Verso Paper Holdings LLC	o Yes þ 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.

Verso Corporation	o Yes þ No
Verso Paper Holdings LLC	þ Yes o 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.

Verso Corporation	þ Yes o No
Verso Paper Holdings LLC	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).

Verso Corporation	þ Yes o No
Verso Paper Holdings LLC	þ Yes o No

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

Verso Corporation	þ
Verso Paper Holdings LLC	þ

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

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

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

Verso Corporation	o Yes þ No
Verso Paper Holdings LLC	o Yes þ No

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 (June 30, 2015), was approximately $29,689,658. 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 the Registrant or any such person that such individuals or entities are or were, in fact, affiliates of Verso Corporation.

As of March 15, 2016, Verso Corporation had 81,857,483 outstanding shares of common stock, par value $0.01 per share, and Verso Paper Holdings LLC had one outstanding limited liability company interest.

This Form 10-K is a combined annual report being filed separately by two registrants: Verso Corporation and Verso Paper Holdings LLC.

DOCUMENTS INCORPORATED BY REFERENCE:

The information required by Part III is incorporated by reference from an amendment to this Annual Report on Form 10-K to be filed within 120 days after December 31, 2015.

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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 includ 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." 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 are 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 paper 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, February 2016 and RISI Paper Trader: A Monthly Monitor of the North American Graphic Paper Market, December 2015.

PART I

Item 1. Business

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 “we,” “us,” and “our” refer collectively to Verso and Verso Holdings. Other than Verso’s common stock transactions, Verso Finance’s debt obligation and related financing costs and interest expense, Verso Holdings’ loan to Verso Finance, and the debt obligation of Verso Holdings’ consolidated variable interest entity to Verso Finance, the assets, liabilities, income, expenses and cash flows presented for all periods represent those of Verso Holdings in all material respects. Unless otherwise noted, the information provided pertains to both Verso and Verso Holdings.

Background

On January 3, 2014, Verso, Verso Merger Sub Inc., an indirect, wholly owned subsidiary of Verso, or “Merger Sub,” and NewPage entered into an Agreement and Plan of Merger, or the “Merger Agreement,” pursuant to which the parties agreed to merge Merger Sub with and into NewPage on the terms and subject to the conditions set forth in the Merger Agreement, with NewPage surviving the merger as an indirect, wholly owned subsidiary of Verso. On January 7, 2015, Verso consummated the acquisition of NewPage through the merger of Merger Sub with and into NewPage, or the “NewPage acquisition,” pursuant to the Merger Agreement. As a result of the merger of Merger Sub with and into NewPage, Merger Sub’s separate corporate existence ceased and NewPage continued as the surviving corporation and an indirect, wholly owned subsidiary of Verso (see Note 4).

On January 26, 2016, Verso announced that Verso and substantially all of its direct and indirect subsidiaries, including Verso Holdings, or collectively referred to herein as 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. Our board of directors authorized the filing of the Chapter 11 cases to facilitate a debt restructuring necessary to strengthen the company’s balance sheet and to position Verso for long-term success. On March 26, 2016, the Debtors filed a proposed joint plan of reorganization with the Bankruptcy Court, or the “Plan.” In addition to approval by the Bankruptcy Court, the Plan is subject to certain conditions that must be satisfied prior to its implementation. Although we believe that the Plan will satisfy all requirements for confirmation under the Bankruptcy Code, there can be no assurance that the Plan will be approved by the Bankruptcy Court or that the conditions precedent to its implementation will be satisfied or when, if ever, such confirmation and satisfaction will occur (see “Chapter 11 Bankruptcy Proceedings and Plan of Reorganization” below and Note 23).

Our principal executive offices are located at 6775 Lenox Center Court, Suite 400, Memphis, Tennessee 38115-4436. Our telephone number is (901) 369-4100. Our website address is www.versoco.com. Information on or accessible through our website is not considered part of this annual report.

Overview

We are the leading North American producer of coated papers, which are used primarily in 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 inkjet and digital paper, supercalendered papers, and uncoated freesheet. We also produce and sell market kraft pulp, which is used to manufacture printing and writing paper grades and tissue products.

We own fourteen paper machines at eight mills strategically located in Kentucky, Maine, Maryland, Michigan, Minnesota, and Wisconsin, as of December 31, 2015. The mills have an aggregate annual production capacity of approximately 3,440,000 tons of paper, including coated papers and specialty papers, and 290,000 tons of kraft pulp.

We sell and market our products to approximately 300 customers which comprise approximately 1,700 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 our ten largest coated paper customers average more than 20 years. We reach our end-users through several distribution channels, including direct sales, commercial printers, paper merchants, and brokers.

Chapter 11 Bankruptcy Proceedings and Plan of Reorganization

Filing of Voluntary Petitions in Chapter 11

On January 26, 2016, or the "Petition Date," 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, the "Bankruptcy Court," and the filings therein, the "Chapter 11 Filings." The chapter 11 cases, or the "Chapter 11 Cases," have been consolidated for procedural purposes only and are being administered jointly under the caption "In re: Verso Corporation, et al.," Case No. 16-10163. During the pendency of the Chapter 11 Cases, we will continue to manage our properties and operate our businesses as a "debtor in possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. We expect to continue to operate in the normal course of business during the reorganization process. Unless otherwise authorized by the Bankruptcy Court, the Bankruptcy Code prohibits us from making payments to creditors on account of pre-petition claims. Vendors are, however, being paid for goods furnished and services provided after the Petition Date in the ordinary course of business. However, operating in bankruptcy imposes significant risks on our businesses and we cannot predict whether or when we will successfully emerge from bankruptcy.

DIP Financing

In connection with the Chapter 11 Filings, Verso Finance, Verso Holdings and certain of its subsidiaries entered into an asset-based credit facility in an aggregate principal amount of up to $100 million, or the "Verso DIP Facility," and NewPage Corp and certain of its subsidiaries entered into an asset-based credit facility in an aggregate principal amount of up to $325 million, or the "NewPage DIP ABL Facility," and a term loan credit facility in an aggregate principal amount of $350 million, or the "NewPage Term Loan DIP Facility," together with the NewPage DIP ABL Facility, the "NewPage DIP Facilities," and, the NewPage DIP Facilities together with the Verso DIP Facility, the "DIP Facilities." The NewPage Term Loan DIP Facility consists of $175 million of new money term loans and $175 million of "rolled up" loans refinancing loans outstanding under the existing term loan facility of NewPage Corp. outstanding on the Petition Date (i.e., such loans were deemed to become loans under the NewPage Term Loan DIP Facility). On January 28, 2016, up to $550 million in loans under the DIP Facilities became available for borrowing following the entry of an order by the Bankruptcy Court approving the DIP Facilities on an interim basis on January 27, 2016. The Bankruptcy Court entered orders approving the DIP Facilities on a final basis on March 2, 2016. On March 7, 2016, NewPage Corp. borrowed the remaining approximately $55.4 million of new money loans available under the NewPage Term Loan DIP Facility, which it intends to use for general corporate purposes. Further information on the terms of the DIP Facilities is included below under "Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources–DIP Facilities."

Proposed Plan of Reorganization

On March 26, 2016, we filed a proposed joint plan of reorganization with the Bankruptcy Court together with a disclosure statement in respect of the Plan, or the "Disclosure Statement." A plan of reorganization sets forth, among other things, the treatment of claims against and equity interests in the debtor. The consummation of a plan of reorganization is the principal objective of a Chapter 11 reorganization case.

The terms of the Plan, which are subject in all respects to the specific terms and definitions set forth in the Plan, include, but are not limited to, the elimination of much of our outstanding indebtedness and the issuance of 100% of Verso's equity (subject to dilution by warrants issued to certain creditors described below, or the "Plan Warrants" and equity issued to our employees under a potential management incentive plan) to our existing creditors in exchange for elimination of such indebtedness. Specifically, 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), will receive 50% of Verso's equity (plus the Plan Warrants), and lenders under the NewPage Corp. senior secured term loan and the $175.0 million of "rolled up" term loans under the NewPage Term Loan DIP Facility, collectively, will receive 47% of Verso's equity. Holders of Verso Holdings' other funded debt will receive the remaining 3% of Verso's equity. The Plan also provides for the payment in full in cash of claims under the Verso DIP Facility, claims under the NewPage DIP ABL Facility, claims relating to the $175.0 million of new money term loans under the NewPage Term Loan DIP Facility, and claims entitled to administrative expense or priority status under the Bankruptcy Code (in each case, except to the extent that holders of such claims agree to less favorable treatment). Holders of general unsecured claims will receive their pro rata of $3 million in cash (except with respect to general unsecured claims against entities that have only de minimis assets, which will receive no distributions under the Plan). In addition, the shared services agreement between Verso, NewPage and NewPage Corp. will be terminated under the terms of the Plan.

The Plan also provides that we will enter into an asset-based loan facility, or the “Exit ABL Facility,” and a term loan facility, or the “Exit Term Loan Facility,” upon our emergence from the Chapter 11 process. We refer to the two facilities collectively as the “Exit Credit Agreements.” The Exit Credit Agreements will provide exit financing in an amount sufficient to repay in full all amounts outstanding under the Verso DIP Facility, NewPage DIP ABL Facility, and the $175 million of new money term loans under the NewPage Term Loan DIP Facility. We have not negotiated the Exit Credit Agreements yet and have not yet received any binding commitments with respect to the financing contemplated thereby. Therefore, we can provide no assurances that we will be able to enter into the Exit Credit Agreements.

Restructuring Support Agreement

In connection with the Chapter 11 Cases, on January 26, 2016, we entered into a Restructuring Support Agreement, or “RSA,” with creditors holding at least a majority in principal amount of substantially all tranches of our funded debt. The RSA contemplates the implementation of a restructuring through a conversion of approximately $2.4 billion of our outstanding debt into equity (as provided in the Plan).

The RSA contains milestones for the progress of the Chapter 11 Cases which include the dates by which we are required to, among other things: (a) file certain motions and documents, including a plan reflecting the terms of the restructuring contemplated by the RSA and related disclosure statement, with the Bankruptcy Court; (b) obtain certain orders of the Bankruptcy Court; and (c) consummate our emergence from bankruptcy. Among other dates set forth in the RSA, the RSA contemplates that the Plan will be confirmed by the Bankruptcy Court by July 4, 2016 and that we will emerge from bankruptcy no later than 30 days after the Bankruptcy Court has entered the confirmation order. In accordance with the terms of the RSA, we initially filed the Plan on March 26, 2016. We believe the Plan is consistent with the terms and conditions of the RSA. There can be no assurance, however, that the Plan will be approved by all requisite holders of claims or interests or confirmed by the Bankruptcy Court or that all conditions precedent to the implementation of the Plan will be satisfied.

The parties to the RSA may terminate the agreement under certain limited circumstances. We may terminate the Restructuring Support Agreement due to:

- its respective board of directors, in good faith after consultation with outside financial advisors and outside legal counsel determining that proceeding with the Plan would be inconsistent with its fiduciary duties;
- the failure to achieve any of the milestones;
- a material breach of the RSA by the creditors party thereto; or
- certain actions by the Bankruptcy Court, including preventing the consummation of the Plan, dismissing the Chapter 11 Cases, and converting the Chapter 11 Cases into a case under chapter 7 of the Bankruptcy Code.

The creditors party to the RSA have similar termination rights that may, as a general matter, be exercised by a supermajority of each of the creditors party to the RSA holding Verso Holdings’ debt and the creditors party to the RSA holding NewPage debt.

Additionally, the creditors party to the RSA may terminate the RSA upon any acceleration, termination, maturity or refinancing of the Verso DIP Facility or either of the NewPage DIP Facilities or if certain uses of proceeds as required under the Bankruptcy Court orders regarding such facilities are not completed within specified times.

The implementation of the terms of the RSA through the Plan is subject to approval by the Bankruptcy Court and entry into the Exit Credit Agreements, among other conditions. Accordingly, no assurance can be given that the transactions described therein will be consummated.

Industry

Based on 2015 sales, the size of the global coated paper industry is estimated to be approximately $36 billion, or 41 million tons of coated paper shipments, including approximately $6 billion, or 7 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.”

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 groundwood containing grades. Coated groundwood grades are the preferred grades for catalogs and magazines, while coated freesheet is more commonly used in commercial print applications.

Products

We manufacture two main grades of paper: coated groundwood paper and coated freesheet paper. These paper grades are differentiated primarily by their respective brightness, weight, print quality, bulk, opacity, and strength. We also produce and sell Northern Bleached Hardwood Kraft, or “NBHK,” pulp. See notes to the consolidated financial statements for further information on our segments.

As a result of our scale and technological capabilities, we are able to offer our customers a broad product offering, from ultra-lightweight coated groundwood to heavyweight coated freesheet. Our customers have the opportunity to sole-source all of their coated paper needs from us while optimizing their choice of paper products. As our customers’ preferences change, they can switch paper grades to meet their desired balance between cost and performance attributes while maintaining their relationship with us.

Coated groundwood paper. Coated groundwood paper includes 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, such as catalogs and magazines. In addition to mechanical pulp, coated groundwood paper typically includes a kraft pulp component to improve brightness and print quality.

Coated freesheet paper. Coated freesheet paper is 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 kraft pulp results in a bright, heavier-weight paper with excellent print qualities, which is well-suited for high-end commercial applications and premium magazines. Coated freesheet contains primarily kraft pulp, with less than 10% mechanical pulp in its composition.

Pulp. We produce and sell NBHK pulp. NBHK pulp is produced through the chemical kraft process using hardwoods. Hardwoods typically have shorter length fibers than softwoods and are used to smooth paper. Kraft describes pulp produced using a chemical process, whereby wood 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. Kraft pulp is used in applications where brighter and whiter paper is required.

Other products. We also offer recycled paper to help meet specific customer requirements. Additionally, 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 product offerings also include ultra-lightweight uncoated printing papers and ultra-lightweight coated and uncoated flexible packaging papers.

Manufacturing

We own fourteen paper machines at eight mills strategically located in Kentucky, Maine, Maryland, Michigan, Minnesota, and Wisconsin. We believe our coated paper mills are among the most efficient and lowest cost coated paper mills based on the cash cost of delivery to Chicago, Illinois. We attribute our manufacturing efficiency, in part, to the significant historical investments made in our mills. Our mills have a combined annual production capacity of

3,440,000 tons of paper, including coated papers and specialty papers, and 290,000 tons of kraft pulp. Our facilities are strategically located within close proximity to major publication printing customers, which affords us the ability to more quickly and cost-effectively deliver our products. The facilities also benefit from convenient and cost-effective access to northern softwood fiber, which is required for the production of lightweight and ultra-lightweight coated papers.

The following table sets forth the locations of our mills, the products they produce and other key operating information:

Mill/Location	Product/Paper Grades	Paper Machines	Production Capacity (in tons)
Duluth, Minnesota	Supercalendered paper	1	270,000
Escanaba, Michigan	Coated, specialty and uncoated paper	3	760,000
Jay (Androscoggin), Maine	Coated, specialty and uncoated paper	3	450,000
Luke, Maryland	Coated paper	2	500,000
Quinnesec, Michigan	Coated Freesheet	1	425,000
	Pulp		290,000
Stevens Point, Wisconsin	Specialty paper	2	190,000
Wickliffe, Kentucky (Idled)	Coated, specialty and uncoated paper	1 (Idled)	285,000
Wisconsin Rapids, Wisconsin	Coated paper	2	560,000

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 receives a uniform layer of coating that makes the paper smooth and provides uniform ink absorption. After coating, the paper goes through a calendering process that provides a smooth finish by ironing the sheet between multiple soft nips that consist of alternating hard (steel) and soft (cotton or synthetic) rolls. At the dry end, the paper is wound onto spools to form a machine reel and then rewound and split into smaller rolls on a winder. Finally, the paper is wrapped, labeled, and shipped.

Catalog and magazine publishers with longer print runs tend to purchase paper in roll form for use in web printing, a process of printing from a reel of paper as opposed to individual sheets of paper, in order to minimize costs. In contrast, commercial printers typically buy large quantities of sheeted paper in order to satisfy the short-run printing requirements of their customers. For this reason, we have pursued a deliberate strategy of configuring our manufacturing facilities to produce all web-based papers which are shipped in roll form and have developed relationships with third-party converters to address any sheeted paper needs of our key customers.

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. 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. One of our facilities, the Quinnesec mill, has achieved re-certification as an Occupational Safety and Health Administration Star facility for the fifth time under the Michigan Voluntary Protection Program, or “MVPP.” The MVPP Star award is the state’s highest recognition for workplace safety programs and performance.

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

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. In 2015, we produced approximately 53% of our energy needs for our paper mills from sources such as waste wood, waste water, hydroelectric facilities, liquid biomass from our pulping process, and internal energy cogeneration facilities. Our external energy purchases vary across each of our mills and include fuel oil, natural gas, coal, and electricity. Our overall energy expenditures are mitigated by our internal energy production capacity and ability to switch between certain energy sources. We also utilize derivative contracts 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 sales channels. These include selling directly to end-users, through brokers, merchants, and printers. We sell and market products to approximately 300 customers, which comprise approximately 1,700 end-user accounts.

Sales to End-Users. In 2015, we sold approximately 33% of our paper products directly to end-users, most of which are catalog and magazine publishers. These customers are typically large, sophisticated buyers who have the scale, resources, and expertise to procure paper directly from manufacturers. 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 2015, our total sales to brokers and merchants represented approximately 50% of our total 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 segments 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 catalog or magazine publishers.

Sales to Printers. In 2015, our total sales to printers represented approximately 17% of our total sales. The majority of our 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, 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 semiannual price adjustments based on market price movements.

Customers

We participate in the printing papers, specialty papers, and pulp markets and have developed long-standing relationships with many premier customers in these areas. Several of these relationships span more than 20 years. Our largest customer, Veritiv Corporation, accounted for approximately 20% of our net sales in 2015. Our key customers in the printing papers arena include Condé Nast Publications, National Geographic Society, Restoration Hardware, Inc., Quad/Graphics, Inc., RR Donnelley & Sons Company, and Clifford Paper, Inc. Our key customers in the specialty papers market include Avery Dennison, Fort Dearborn, and American Packaging.

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 Influence®, Velocity®, Liberty®, and Advocate®. 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, 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;
- breadth of product offerings;
- timeliness of product delivery; and
- customer service.

Foreign competition in North America is also 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 ultra-lightweight coated groundwood offerings to heavier-weight coated freesheet products), we are focused on producing coated groundwood and coated freesheet in roll form. This strategy is driven by our alignment with catalog and magazine end-users which tend to purchase paper in roll form for use in long runs of web printing in order to minimize costs. As of December 31, 2015, our principal competitors include Resolute Forest Products, UPM-Kymmene Corporation, and Sappi Limited, all of which have North American operations. UPM and Sappi are headquartered overseas and also have overseas manufacturing facilities.

Employees

As of December 31, 2015, we had approximately 5,200 employees. Approximately 68% 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, Chauffuers, 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 are covered by the Master Labor Agreement 2012–2016,
dated as of December 21, 2012, covering wages and benefits; certain represented mills also have local agreements covering general work rules. We have not experienced any work stoppages during the past several years. We believe that we have good relations 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 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, and analogous state and local laws. Our operations also are subject to two regional regimes designed to address climate change, the Regional Greenhouse Gas Initiative in the northeastern United States and the Midwestern Greenhouse Gas Reduction Accord, and in the future we may be subject to additional federal, state, regional, local, or supranational legislation related to climate change and greenhouse gas controls. Among our activities subject to environmental regulation are the emissions of air pollutants, discharges of wastewater and stormwater, operation of dams, storage, treatment, and disposal of materials and waste, and remediation of soil, surface water and ground water contamination. Many environmental laws and regulations provide for substantial fines or penalties and criminal sanctions for any failure to comply. In addition, failure to comply with these laws and regulations could result in the interruption of our operations and, in some cases, facility shutdowns.

Certain of these environmental laws, such as CERCLA and analogous 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 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 wastes attributable to an entity or its predecessors were disposed. Under these 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 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 or another location where we have disposed of, or arranged for the disposal of, wastes. 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.

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 $3 million in 2015, zero in 2014, and $1 million in 2013, and we anticipate that environmental compliance will continue to require increased capital expenditures and operating expenses over time as environmental laws or regulations, or interpretations thereof, change or the nature of our operations require us to make significant additional capital expenditures.

Permits are required for the operation of our mills and related facilities. The permits are subject to renewal, 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.

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 Securities and Exchange Commission, or “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.

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 also could 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 Chapter 11 Filings

Our voluntary petitions for relief under Chapter 11 and our ability to successfully emerge as a stronger, leaner company is subject to a number of risks and uncertainties.

On January 26, 2016, Verso and substantially all of its direct and indirect subsidiaries, collectively referred to as the "Debtors," filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Chapter 11 proceedings are being jointly administered under the caption In re Verso Corporation, et al., Case No. 16-10163. We will continue to operate our business as "debtors-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.

On March 26, 2016, we filed the Plan with the Bankruptcy Court. In addition to approval by the Bankruptcy Court, the Plan is subject to certain conditions that must be satisfied prior to its implementation. Although we believe that the Plan will satisfy all requirements for confirmation under the Bankruptcy Code, there can be no assurance that the Plan will be approved by the Bankruptcy Court or that the conditions precedent to its implementation will be satisfied or when, if ever, such confirmation and satisfaction will occur. Failure to obtain such confirmation or to satisfy such conditions to implementation may result in lengthier bankruptcy proceedings as we attempt to negotiate and implement an alternative plan of reorganization.

The timing of our emergence from bankruptcy and the terms of our emergence may affect our relationship with our creditors, customers, suppliers and employees and have a significant impact on our businesses, financial condition and results of operations. Our ability to continue to operate in bankruptcy and to emerge from bankruptcy will depend on various factors, including:

- our ability to comply with and operate under the terms of any cash management orders entered by the Bankruptcy Court from time to time, which subject us to restrictions on transferring cash and other assets;
- our ability to maintain adequate cash on hand and to generate cash from operations throughout the Chapter 11 proceedings;
- our ability to fund emergence and to fund our operations after emergence from the bankruptcy process on reasonable terms;
- our ability to retain key employees during the pendency of our bankruptcy proceedings;
- our ability to maintain good customer and supplier relationships in light of developments in our bankruptcy proceedings and the terms of our emergence and our ability to manage contracts that are critical to our operations; and
- risks associated with third party motions in Chapter 11 proceedings, which may interfere with the Plan.

Our businesses, financial condition and results of operations could be negatively impacted by the loss of customers and suppliers.

Difficulties of providing services while attempting to reorganize our businesses in bankruptcy may make it more difficult to maintain and promote our services and attract customers to our services and to keep our suppliers. As a result of the Chapter 11 proceedings, we may experience collection issues with otherwise valid receivables of certain customers. Adverse resolution of these disagreements may impact our revenues and other costs of services, both prospectively and retroactively. It is too soon for us to predict with any certainty the ultimate impact of these disagreements. Our suppliers, vendors and services providers may require stricter terms and conditions. The loss of any of our customers or suppliers during the pendency of the Chapter 11 Cases could have an adverse effect on our businesses, financial condition and results of operations. In addition, we may experience other adverse effects, including, without limitation, a loss of confidence by current and prospective suppliers. Any failure to timely obtain suitable supplies at competitive prices could materially adversely affect our businesses, financial condition and results of operations.

As a result of the Chapter 11 proceedings, we may not be able to retain key personnel or recruit additional qualified personnel, which could materially affect our business and require the incurrence of substantial additional costs to recruit replacement personnel.
We are highly dependent on the continuing efforts of our senior management team and other key personnel. As a result of the Chapter 11 proceedings, current and prospective employees could experience uncertainty about their future roles. This uncertainty may adversely affect our ability to attract and retain key management, sales, marketing and technical 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.
The Chapter 11 proceedings limit the flexibility of our management team in running our business.
While we operate our businesses as debtor-in-possession under supervision by the Bankruptcy Court, we are required to obtain the approval of the Bankruptcy Court, and in some cases certain lenders, prior to engaging in activities or transactions outside the ordinary course of business. Bankruptcy Court approval of non-ordinary course activities entails preparation and filing of appropriate motions with the Bankruptcy Court, negotiation with the various creditors' committees and other parties-in-interest and one or more hearings. The creditors' committees and other parties-in-interest may be heard at any Bankruptcy Court hearing and may raise objections with respect to these motions. This process delays major transactions and limits our ability to respond quickly to opportunities and events in the marketplace. Furthermore, in the event the Bankruptcy Court does not approve a proposed activity or transaction, we would be prevented from engaging in activities and transactions that we believe are beneficial to us.
Failure to obtain confirmation of the Plan may result in liquidation or an alternative plan on less favorable terms to holders of claims against us.
If the Plan is not confirmed or consummated, there can be no assurance that the Chapter 11 Cases will continue rather than be converted to chapter 7 liquidation cases, or that any alternative plan of reorganization would be on terms as favorable to holders of claims against us as the terms of the Plan. Certain parties in interest may file objections to the Plan in an effort to persuade the Bankruptcy Court that the Plan has not satisfied the confirmation requirements under sections 1129(a) and (b) of the Bankruptcy Code. Even if (a) no objections are filed, (b) all impaired classes of claims accept or are deemed to have accepted the Plan or (c) with respect to any class that rejects or is deemed to reject the Plan, the requirements for "cramdown" under section 1129(b) of the Bankruptcy Code are met, the Bankruptcy Court, which can exercise substantial discretion, may determine that the Plan does not meet the requirements for confirmation under sections 1129(a) and (b) of the Bankruptcy Code. Section 1129(a) of the Bankruptcy Code requires, among other things, (a) a demonstration that the confirmation of the Plan will not be followed by liquidation or need for further financial reorganization, except as contemplated by the Plan, and (b) that the value of distributions to parties entitled to vote on the Plan who vote to reject the Plan not be less than the value of distributions such creditors would receive if our assets were liquidated under chapter 7 of the Bankruptcy Code. Although we believe that the Plan will meet the requirements for confirmation, there can be no assurance that the Bankruptcy Court will reach the same conclusion. If the Bankruptcy Court determines that the Plan violates section 1129 of the Bankruptcy Code in any manner, including, among other things, the cramdown requirements under section 1129(b) of the Bankruptcy Code, we have reserved the right to amend the Plan in such a manner so as to satisfy the requirements of section 1129 of the Bankruptcy Code.
If a liquidation or protracted reorganization were to occur, the distributions to holders of claims may be materially reduced. In a liquidation under chapter 7, holders of claims could receive substantially less because of the inability in a liquidation to realize the greater going-concern value of our assets. Administrative expenses of a liquidation or a protracted reorganization could also cause a substantial erosion of the value of our business. Substantial additional claims against us may also arise by reason of a protracted reorganization or liquidation, including from the rejection or other breach of previously assumed unexpired leases and other executory contracts, thereby further reducing distributions to holders of claims against us.
In addition, even if our cases are not converted to cases under chapter 7 of the Bankruptcy Code, if we are unable to timely confirm and consummate the Plan, we may be forced to operate in bankruptcy for an extended period of time while we try to formulate a different plan of reorganization. Such a scenario could jeopardize our relationships with

key vendors and suppliers, customers and employees, which, in turn, would have an adverse effect on our operations. A material deterioration in our operations likely would diminish recoveries under any subsequent chapter 11 plan.

We may be unable to maintain compliance with the financial maintenance or other covenants in our DIP Facilities, which could result in an event of default under the credit agreements governing the DIP Facilities that, if not cured or waived, would have a material adverse effect on our business, financial condition and results of operations.
The DIP Facilities provide for specific milestones that we must achieve by specific target dates and financial maintenance and restrictive covenants.
Each of the DIP Facilities contains certain milestone requirements relating to confirmation of an acceptable plan of reorganization. There can be no assurance that we will be able to satisfy such milestones. Should we fail to satisfy the milestones in any of the DIP Facilities, such failure could have significant adverse consequences for us. Specifically, in the event that we fail to satisfy the near-term milestones in the NewPage Term Loan DIP Facility, which require, among other things, that the Plan be confirmed no later than July 4, 2016 and that the effective date of the Plan occur no later than 30 days thereafter, the lenders under that facility would have the ability to direct the NewPage Debtors (as defined in the RSA) to commence a sale process with respect to one, or substantially all, of their mills. In the event that such lenders were to exercise such sale direction rights, the informal committee of holders of Verso Holdings' first lien debt would have the right (in consultation with the holders of other claims against Verso Holdings) to direct a sale of substantially all of the assets of the Verso Debtors (as defined in the RSA). If the lenders under the NewPage Term Loan DIP Facility and the informal committee of holders of Verso Holdings' first lien debt were to exercise their sale direction rights, it is likely that the Plan would not be confirmed, and recoveries ultimately realized by creditors of the Verso Debtors and NewPage Debtors from such sale processes could be materially less than the recoveries provided in the Plan.
We are also required to comply with a minimum EBITDA covenant tested monthly, beginning March 31, 2016, and, for the Verso DIP Facility, a minimum availability covenant tested at the close of each business day of $5 million until July 28, 2016, $7.5 million from July 28, 2016 to January 28, 2017 and $10 million thereafter, and for the NewPage DIP ABL Facility, a minimum availability covenant at any time of $15 million until January 28, 2017, increasing to $20 million thereafter. If we breach any such covenants and such breach is not cured or waived, the lenders under such credit facilities:

- would not be required to lend any additional amounts to us;
- could elect to declare all borrowings outstanding under such DIP Facility, together with accrued and unpaid interest and fees, due and payable and could demand cash collateral for all letters of credit issued thereunder; and/or
- could apply all of our available cash that is subject to the cash sweep mechanism of such DIP Facility to repay these borrowings;

any or all of which would have a material adverse effect on our business, financial condition and results of operations.
Pursuit of litigation by the parties in interest, including litigation over our Shared Services Agreement, could disrupt the confirmation of the Plan and could have material adverse effects on our businesses and financial condition.
Certain of our creditors have the right to send us a notice requesting that Verso and NewPage commence an adversary proceeding or contested matter before the Bankruptcy Court to obtain a judgment concerning the amount due, under applicable law, from the NewPage Debtors to the Verso Debtors (or vice versa) on account of the services provided under the Shared Services Agreement since the Petition Date. In addition, beginning on July 24, 2016, either Verso or NewPage may commence litigation regarding the assumption or rejection of the Shared Services Agreement, including but not limited to moving to assume or reject the Shared Services Agreement and/or moving to compel the other party to assume or reject the Shared Services Agreement by a date certain. Such litigation could be costly and impede the Debtors' progress toward confirmation of the Plan (which, in turn, could cause the Debtors to fail to satisfy the applicable milestones under the DIP Credit Agreements or the Restructuring Support Agreement).
In addition, the allocation of equity contained in the Plan is premised on certain assumptions regarding the Verso Debtors' and NewPage Debtors' respective entitlements under the Shared Services Agreement. There can be no assurance that any determination by the Bankruptcy Court as to the Verso Debtors' and NewPage Debtors' entitlements under the Shared Services Agreement would be consistent with those assumptions, and to the extent such determination were not consistent with such assumptions, the Debtors' ability to obtain confirmation of the Plan would be jeopardized.

There can also be no assurance that any parties in interest will not pursue any other litigation strategies to enforce claims against the Debtors. Litigation is by its nature uncertain and there can be no assurance of the ultimate resolution of such claims. Any litigation may be expensive, lengthy, and disruptive to our normal business operations and the Plan confirmation process, and a resolution of any such strategies that is unfavorable to us could have a material adverse effect on the Plan confirmation process or our respective businesses, results of operations, financial condition, liquidity or cash flow.

Termination of our exclusive right to file a chapter 11 plan and the exclusive right to solicit acceptances could result in competing plans of reorganization, which could have less favorable terms or result in significant litigation and expenses.

We currently have the exclusive right to file a chapter 11 plan through and including May 25, 2016, and the exclusive right to solicit acceptances of any such plan through July 25, 2016. Such deadlines may be extended from time to time "for cause" (as permitted by section 1121(d) of the Bankruptcy Code) with the approval of the Bankruptcy Court. However, it is also possible that (a) parties in interest could seek to shorten or terminate such exclusive plan filing and solicitation periods "for cause" (as permitted by section 1121(d) of the Bankruptcy Code)) or (b) that such periods could expire without extension.

If our exclusive plan filing and solicitation periods expire or are terminated, other parties in interest will be permitted to file alternative plans of reorganization. There can be no assurances that recoveries under any such alternative plan would be as favorable to creditors as the Plan. In addition, the proposal of competing plans of reorganization may entail significant litigation and significantly increase the expenses of administration of the Debtors' cases, which could deplete creditor recoveries under any plan.

If conditions to the Plan are not satisfied or waived, the Plan may fail to be confirmed.

The Plan provides for certain conditions that must be satisfied (or waived) prior to its effective date, including the condition that we will have access to funding under certain credit facilities upon exit from the Chapter 11 process, and that we will have received all authorizations, consents, and regulatory approvals necessary to implement the Plan. Certain of the conditions are outside of our control.

In the event that such conditions are not satisfied (or waived) prior to the effective date of the Plan, there can be no assurance that the Chapter 11 Cases would not be converted to chapter 7 liquidation cases or that any new chapter 11 plan would be as favorable to holders of claims against the Debtors as the current Plan.

If the RSA is terminated, our ability to confirm and consummate the Plan could be materially and adversely affected.

The RSA contains a number of termination events, upon the occurrence of which certain parties to the RSA may terminate the agreement. If the RSA is terminated, each of the parties thereto will be released from their obligations in accordance with the terms of the RSA. Such termination may result in the loss of support for the Plan by the parties to the RSA, which could adversely affect our ability to confirm and consummate the Plan. If the Plan is not consummated, there can be no assurance that the Chapter 11 Cases would not be converted to chapter 7 liquidation cases or that any new Plan would be as favorable to holders of claims against the Debtors as the current Plan.

As noted above, under certain scenarios, the Chapter 11 Cases could be converted to a case under chapter 7 of the Bankruptcy Code, which could result in liquidation of our assets.

If no plan can be confirmed, or if the Bankruptcy Court otherwise finds that it would be in the best interest of our creditors, any of the Chapter 11 Cases may be converted to a case under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be appointed or elected to liquidate assets for distribution in accordance with the priorities established by the Bankruptcy Code. A liquidation under chapter 7 could result in no distributions being made to unsecured creditors and smaller distributions being made to our secured lenders than those provided for in the Plan because of (a) the likelihood that the assets would have to be sold or otherwise disposed of in a disorderly fashion over a short period of time, rather than our businesses being reorganized as a going concern; (b) additional administrative expenses involved in the appointment of a trustee; and (c) additional expenses and claims, some of which would be entitled to priority, which would be generated during the liquidation, and from the rejection of leases and other executory contracts in connection with a cessation of our operations.

Trading in our securities during the Chapter 11 proceedings is highly speculative and poses substantial risks. It is probable that our common stock will be canceled and that holders of common stock will not receive any distribution with respect to, or be able to recover any portion of, their investments.

At this time it is not possible to predict the ultimate effect of the Chapter 11 reorganization on our business, various creditors and security holders, or when it may be possible to emerge from Chapter 11. We believe that under any reorganization plan our common stock will be substantially diluted or canceled in its entirety and the holders thereof will not be entitled to receive, and will not receive or retain, any property or interest in property on account of such equity interests. In the event of a cancellation of these equity interests, amounts invested by such holders in our outstanding equity securities will not be recoverable. Consequently, our currently outstanding common stock would have no value. Trading prices for our common stock are very volatile and may bear little or no relationship to the actual recovery, if any, by the holders of such securities in the Chapter 11

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proceedings. Accordingly, we urge that extreme caution be exercised with respect to existing and future investments in our equity securities and any of our other securities.

Adverse publicity in connection with the Chapter 11 Cases or otherwise could negatively affect our businesses.

Adverse publicity or news coverage relating to us, including, but not limited to, publicity or news coverage in connection with the Chapter 11 Cases, may negatively impact our efforts to establish and promote name recognition and a positive image after emergence from the Chapter 11 Cases.

Historical financial information may not be comparable.

As a result of the consummation of the Plan and the transactions contemplated thereby, our financial condition and results of operations from and after the effective date of the Plan may not be comparable to the financial condition or results of operations reflected in our historical financial statements.

Risks Relating to our Business

We may not be able to match our prior level of performance following our restructuring contemplated by the Plan.

Following the restructuring contemplated by the Plan, we may be unable to match our prior performance or meet our target performance expectations. For example, some of our customers may decide to reduce their orders or terminate their relationships with us.

We may not realize the anticipated benefits of the NewPage acquisition and the continued integration of NewPage may require additional costs and divert the attention of our management from operations.

The rationale for the NewPage acquisition was, in large part, predicated on the ability to realize cost savings through the combination of the two companies. Achieving these cost savings is dependent upon a number of factors, many of which are beyond our control. An inability to realize the full extent of, or any of, the anticipated benefits of the NewPage acquisition could have an adverse effect upon our revenues, expenses, operating results and financial condition.

Our continued integration of NewPage may be difficult, unpredictable, and subject to delay because of possible company culture conflicts and different opinions on technical decisions and product roadmaps. We must integrate or, in some cases, replace numerous systems, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance, many of which are dissimilar. Such difficulties associated with integration, among others, could have a material adverse effect on the combined company’s business.

We have also incurred significant costs in connection with the integration of NewPage and expect to continue to incur significant costs with our ongoing integration efforts, including legal, accounting, financial advisory and other costs. The continued integration of Verso’s and NewPage’s operations, products and personnel may also place a significant burden on management and other internal resources. Matters related to the continued integration may require commitments of time and resources that could otherwise have been devoted to other opportunities that might have been beneficial to us. The diversion of management’s attention and any difficulties encountered in the transition and integration process could harm our business, financial conditions and operating results.

The industry in which we operate is highly competitive.

The industry in which we operate is highly competitive. Competition 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 paper 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, some of these 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 plant efficiencies and to achieve high operating rates;
- manufacturing costs per ton;
- customer service and our ability to distribute our products on time; and
- the availability and/or cost of wood fiber, market pulp, chemicals, energy and other raw materials and labor.

We have limited ability to pass through increases in our costs to our customers. Increases in our costs or decreases in demand and prices for printing and writing paper could have a material adverse effect on our business, financial condition, and results of operations.

Our earnings are sensitive to price changes in coated paper. Fluctuations in paper prices (and coated paper 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 paper pricing, have fluctuated since 2000 from a high of $1,100 per ton to a low of $705 per ton. In addition, market prices of grade No. 5, 34 lb. basis weight paper, which is an industry benchmark for coated groundwood paper pricing, have fluctuated between a high of $1,120 per ton to a low of $795 per ton over the same period. Prices are expected to remain low in 2016. Because 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 paper 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.

The paper industry has been facing a long-term structural decline and our profitability has been adversely impacted by such decline.
The coated paper industry faces a long-term, structural decline. From 2012 to 2015, demand for printing and writing paper in the United States fell by roughly 10%. U.S. demand for coated freesheet has declined 4% from 2012 to 2015. Similarly, U.S. demand for coated groundwood has declined 25% from 2012 to 2015. The demand for coated paper is expected to continue to steadily decline in the future, with market volumes in 2016 projected to be 4% below 2015 levels.

Fluctuations in supply and demand for our products could materially adversely affect 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 approximately 4.9% partly due to prolonged decline in demand for coated paper.

North American demand for coated paper products also tends to decline during a weak U.S. economy. Accordingly, general economic conditions and demand for magazines and catalogs may have a material adverse impact on the demand for our products, which may result in a material adverse effect on our business, financial condition and results of operations. Foreign overcapacity also could 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 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 grows, the demand for our paper products likely will decline.
Rising postal costs could weaken demand for our paper products.

A significant portion of paper is used in periodicals, magazines, catalogs, fliers and other promotional mailings. Many of these materials are distributed through the mail. Future increases in the cost of postage could reduce the frequency of mailings, reduce the number of pages in magazine and advertising materials, and/or cause advertisers, catalog and magazine publishers to use alternate methods to distribute their materials. Any of the foregoing could decrease the demand for our products, which could have a material adverse effect on our business, financial condition, and results of operations.
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 approximately 20% of our net sales in 2015. In 2015, our ten largest customers (including Veritiv Corporation) accounted for approximately 57% 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.

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 purchases, a longer collection cycle or an inability to collect accounts receivable.

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, such as the current market, 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 have insufficient liquidity to successfully operate our businesses.
We expect to incur significant costs as a result of the Chapter 11 Cases, and our business is capital intensive. We incur capital expenditures on an ongoing basis to maintain our equipment and comply with environmental laws, as well as to enhance the efficiency of our operations. Our total capital expenditures were $64 million in 2015.

We are currently financing our operations during our reorganization using cash on hand, borrowings under our DIP Facilities, and cash generated by operations which constitutes cash collateral pursuant to, and in accordance with, final cash collateral orders which were agreed to by our secured lenders and approved by the Bankruptcy Court. We may also dispose of certain of our non-core assets in order to obtain additional liquidity. In the event that we are unable to meet the requirements for borrowing under our DIP Facilities or lose our authority to use cash collateral and we do not have sufficient liquidity to fund our operations such that we need to obtain additional financing, there can be no assurance as to our ability to obtain sufficient financing on acceptable terms or at all. The challenges of obtaining financing, if necessary, would be exacerbated by adverse conditions in the general economy and the volatility and tightness in the financial and credit markets. These conditions and our Chapter 11 Cases would make it more difficult for us to obtain financing. If we cannot maintain or upgrade our facilities and equipment as we require or as necessary to ensure environmental compliance, it could have a material adverse effect on our business, 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. We are expected to 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 synergies, productivity enhancements or improvements in costs.

As part of our business strategy, we are in the process of identifying 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 further cost reductions and operating improvements in our mill system, and have targeted additional profitability enhancements in the next twelve months. Any synergies, cost savings or productivity enhancements that we expect to realize from such efforts may differ materially from our estimates. In addition, any synergies, 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.

Our calculation of pro forma Adjusted EBITDA includes adjustments for cost savings expected to be realized from these initiatives. Although our management believes these estimates and assumptions to be reasonable, investors should not place undue reliance upon the calculation of pro forma Adjusted EBITDA given how it is calculated and the possibility that the underlying estimates and assumptions may ultimately not reflect actual results.

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, as has been recently experienced, may attract imports, thereby increasing product supply and possibly creating downward pressure on prices. On the other hand, a weaker U.S. dollar might encourage U.S. exports, thereby decreasing product supply and possibly creating upward pressure on prices.
For instance, the recent strong U.S. dollar relative to foreign currencies has resulted in a dramatic increase in imports, particularly from Asia, Europe and Canada. In 2015, for example, coated freesheet imports (net of exports) increased 68% from 2014 levels, and coated groundwood (also referred to as coated mechanical) imports (net of exports) increased 16% from 2014 levels.

As imports rise, we face new levels of competition and increased pressure to lower prices to maintain our market share. Compounding this problem, in light of the strong U.S. dollar and the increase in imports, we have been priced out of foreign markets and forced to reduce exports. During 2015, exports industry wide were approximately 13% lower than 2014.

The decline in our performance from the recent increase in foreign imports and reduction in exports, coupled with the overall decline in demand, has been significant: sales (as adjusted to include the historical NewPage revenues excluding the divested Biron and Rumford mills) dropped approximately 13.5% in 2015 compared to 2014.

Our business may suffer if we do not retain our senior management.

We depend on our senior management. The loss of services of members of our senior management team 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.

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, 2015, approximately 68% of our hourly workforce were 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 are covered by the Master Labor Agreement 2012-2016, dated as of December 21, 2012, covering wages benefits; certain represented mills also have local agreements covering general work rules. 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 good relations with our employees, work stoppages or other labor disturbances may occur in the future. Any of these factors 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 customers and 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 business continuity plans, our information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attacks by hackers or breaches due to employee error or malfeasance, or other disruptions during the process of upgrading or replacing computer software or hardware, power outages, computer viruses, 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. 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. Furthermore, we may experience increases in the cost of our transportation services, including as a result of rising fuel costs and surcharges (primarily in diesel fuel). If we are not able 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 wastes 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, wastes.

A 2007 decision of the U.S. Supreme Court held that greenhouse gases are subject to regulation under the Clean Air Act. The Environmental Protection Agency, or “EPA,” has subsequently issued regulations applicable to us that require monitoring of greenhouse gas emissions. The EPA has also issued regulations that require certain new and modified air emissions sources to control their greenhouse gas emissions, which may have a material effect on our operations. The United States Congress has in the past, and may in the future, consider legislation which would also regulate greenhouse gas emissions. It is possible that we could become subject to federal, state, regional, local, or supranational legislation related to climate change, greenhouse gas emissions, cap-and-trade or other emissions.

On January 31, 2013, the EPA published its “National Emissions Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial and Institutional Boilers and Process Heaters.” The standards, which are technology-based standards that require the use of Maximum Achievable Control Technology or “MACT” for major sources to comply and is referred to as the “Boiler MACT” rule, govern emissions of air toxics from boilers and process heaters at industrial facilities. Certain of our boilers are subject to the new standards, and we may be required to limit our emissions and/or install additional pollution controls.

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.

We could pursue acquisitions, divestitures and other strategic transactions, 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, divestures and other strategic transactions. Such future transactions are part of our general strategic objectives and may occur. 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 on-going 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.

Risks Relating to Our Indebtedness

We will require a significant amount of cash to service our indebtedness under the DIP Facilities, and upon exit of the Chapter 11 process, the Exit Credit Agreements, and make planned capital expenditures. Our ability to generate cash or refinance our indebtedness depends on many factors beyond our control, including general economic conditions.

Our ability to make payments on and to refinance our indebtedness, including payments under the DIP Facilities and Exit Credit Agreements, and to fund planned capital expenditures and research and development efforts will depend on our ability to generate cash flow in the future and our ability to borrow under the NewPage DIP ABL Facility and Exit ABL Facility, to the extent of available borrowings. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control. If adverse regional and national economic conditions persist, worsen, or fail to improve significantly, we could experience decreased revenues from our operations attributable to decreases in wholesale and consumer spending levels and could fail to generate sufficient cash to fund our liquidity needs or fail to satisfy the restrictive covenants and borrowing limitations that we are subject to under our indebtedness.

Based on current and expected level of operations, we believe cash flow from operations, available cash, and available borrowings under the DIP Facilities will be adequate to meet our liquidity needs during the Chapter 11 process.

We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the DIP Facilities or the Exit ABL Facility or otherwise in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.

Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt, and prevent us from meeting our obligations under our indebtedness.

Prior to our bankruptcy filing, we were a highly leveraged company. As of December 31, 2015, the principal amount of Verso's total indebtedness was $2,799 million and the principal amount of Verso Holdings' total indebtedness was $2,822 million (including a $23 million loan from Verso Finance Holdings to Chase NMTC Verso Investment Fund). After our expected emergence from bankruptcy we may continue to have a substantial amount of indebtedness.

A high degree of leverage could have important consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts, and other general corporate purposes;

- increasing our vulnerability to, and limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- exposing us to the risk of increased interest rates as borrowings under our DIP Credit Facilities are subject to variable rates of interest;
- placing us at a competitive disadvantage compared to our competitors that have less debt; and
- limiting our ability to borrow additional funds.

The DIP Credit Facilities contain, and we expect that our Exit Credit Agreements will contain, financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts. If, as or when required, we are unable to repay, refinance or restructure our indebtedness under, or amend or waive the covenants contained in, our DIP Credit Facilities or Exit Credit Agreements, the lenders thereunder would have the right to proceed against the collateral pledged to them to secure the indebtedness.
Restrictive covenants in our DIP Facilities and the Exit Credit Agreement may restrict our ability to pursue our business strategies.

The DIP Credit Facilities limit, and we expect the Exit Credit Agreements will limit, our ability, among other things, to:
- incur additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem our stock;
- prepay, redeem, or repurchase certain of our indebtedness;
- make investments;
- sell assets, including capital stock of restricted subsidiaries;
- enter into agreements restricting certain of our subsidiaries' ability to pay dividends;
- consolidate, merge, sell, or otherwise dispose of all or substantially all of our assets;
- enter into transactions with our affiliates; and
- incur liens.

The DIP Credit Facilities also require, and we expect the Exit Credit Agreements will require, us to comply with certain financial maintenance covenants.
A breach of any of these restrictive covenants could result in a default under the instruments governing our credit agreements. If a default occurs, the holders of these instruments 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 Verso DIP Facility, NewPage DIP ABL Facility, and our Exit 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.

Lenders under the DIP Facilities and Exit Credit Agreements may not fund their commitments.

There can be no assurance that deterioration in the credit markets or overall economy will not affect the ability of our lenders to meet their funding commitments under the DIP Facilities and Exit Credit Agreements. If a lender fails to honor its commitment under the revolving credit facilities, that portion of the credit facilities will be unavailable to the extent that the lender's commitment is not replaced by a new commitment from an alternate lender.
Additionally, our lenders have the ability to transfer their commitments to other institutions, and the risk that committed funds may not be available under distressed market conditions could be exacerbated if consolidation of the commitments under our revolving credit facilities or among its lenders were to occur.

Risks Relating to Verso's Common Stock

Our common stock was delisted from the New York Stock Exchange and is not expected to be listed on any other national securities exchange during our Chapter 11 process.

Our common stock was suspended at the opening of business on September 21, 2015 and was removed from listing on the New York Stock Exchange, or "NYSE." We will not be able to re-list our common stock on a national securities exchange during our Chapter 11 process, although our common stock has been trading in the over-the-counter, or the "OTC," market. The trading of our common stock in the OTC market rather than NYSE may negatively impact the trading price of our common stock and the levels of liquidity available to our stockholders. In addition, securities that trade in the OTC market are not eligible for margin loans and our common stock is subject to the provisions of Rule 15g-9 of the Securities Exchange Act of 1934, as amended, or the “Exchange Act,” commonly referred to as the “penny stock rule.”

Our common stock is currently traded in the OTC Pink Sheets, which involves additional risks compared to being listed on a national securities exchange.

Securities traded in the OTC market generally have significantly less liquidity than securities traded on a national securities exchange due to factors such as the reduced number of investors that will consider investing in the securities, the reduced number of market makers in the securities, and the reduced number of securities analysts that follow such securities. As a result, holders of shares of our common stock may find it difficult to resell their shares at prices quoted in the market or at all.

Furthermore, because of the limited market and generally low volume of trading in our common stock that could occur, the share price of our common stock could be more likely to be affected by broad market fluctuations, general market conditions, fluctuations in our operating results, changes in the markets perception of our business, and announcements made by us, our competitors, parties with whom we have business relationships or third parties with interests in the Chapter 11 proceedings.

Because our common stock trades on the OTC market, in some cases, we may be subject to additional compliance requirements under applicable state laws in the issuance of our securities. The lack of liquidity in our common stock may also make it difficult for us to issue additional securities for financing or other purposes, or to otherwise arrange for any financing we may need in the future.

In addition, we expect our common stock will be canceled as part of the terms of the Plan and that holders of common stock will not receive any distribution with respect to, or be able to recover any portion of, their investments. Accordingly, we urge that extreme caution be exercised with respect to existing and future investments in our common stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Headquartered in Memphis, Tennessee, with a business center in Miamisburg, Ohio, we own fourteen paper machines at eight mills strategically located in Kentucky, Maine, Maryland, Michigan, Minnesota and Wisconsin with a total annual paper production capacity of approximately 3.4 million tons.

Our headquarters and material facilities as of December 31, 2015, are shown in the following table:

Location	Use	Owned/Leased
Memphis, Tennessee	corporate headquarters	leased
Miamisburg, Ohio	sales, distribution, and customer service	leased
Jay (Androscoggin), Maine	paper mill/kraft pulp mill	owned
Duluth, Minnesota	paper mill	owned
Escanaba, Michigan	paper mill	owned
Luke, Maryland	paper mill, warehouse and converting	owned
Quinnesec, Michigan	paper mill/kraft pulp mill	owned
Stevens Point, Wisconsin	paper mill	owned
Wickliffe, Kentucky (Idled)	paper mill (Idled)	owned (Idled)
Wisconsin Rapids, Wisconsin	paper mill, warehouse and converting	owned

Item 3. Legal Proceedings

On the Petition Date, we filed voluntary petitions for Chapter 11 relief under the Bankruptcy Code in the Bankruptcy Court in order to consummate a balance sheet restructuring. The cases are being jointly administered. We continue to operate our businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. As of the Petition Date, all pending litigation wherein we are named as a defendant is generally stayed by operation of federal bankruptcy law, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, also subject to certain exceptions, to recover on pre-petition claims against us. At this time, it is not possible to predict the outcome of the Chapter 11 Cases or its effect on our business. See “Business–Chapter 11 Bankruptcy Proceedings and Plan of Reorganization” for more information.

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

Item 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

Through September 21, 2015, our common stock was traded on the New York Stock Exchange, or the "NYSE," under the symbol "VRS." From September 22, 2015, to January 26, 2016, our stock was traded in the over-the-counter market under the symbol "VRSZ," and transactions in our common stock were reported on the OTCQB electronic quotation platform operated by the OTC Markets Group. The following table sets forth the high and low sales prices per share of our common stock, as reported by the NYSE and the OTCQB, for the indicated periods:

	High	Low
2015		
First quarter	$3.58	$1.72
Second quarter	1.79	0.65
Third quarter	0.74	0.03
Fourth quarter	0.16	0.01
2014		
First quarter	$5.55	$0.62
Second quarter	3.24	1.60
Third quarter	3.82	2.10
Fourth quarter	3.75	2.18

On January 26, 2016, Verso and several of its subsidiaries filed voluntary petitions to reorganize under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court for the District of Delaware. As a result of the bankruptcy filing, the trading symbol for our common stock was changed to "VRSZQ," and since then transactions in our common stock have been reported on the OTC Pink electronic quotation platform operated by the OTC Markets Group.

Holders

As of March 15, 2016, there were 153 stockholders of record of our common stock.

Dividends

We have not declared or paid any cash dividends on shares of our common stock during the years ended December 31, 2015 and 2014. 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. Our ability to pay dividends on our common stock is limited by the covenants in our DIP Facilities, and may be further restricted by the terms of any of our future debt or preferred securities.

Equity Compensation Plan Information

The table below sets forth information regarding the number of shares of common stock to be issued upon the exercise of the outstanding stock options granted under our equity compensation plans and the shares of common stock remaining available for future issuance under our equity compensation plans as of December 31, 2015.

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	8,616,625	$2.52	771,740
Equity compensation plans not approved by security holders	—	—	—
Total	8,616,625	$2.52	771,740

Stock Repurchases under 2008 Incentive Award Plan

Participants in our 2008 Incentive Award Plan, or the “Plan,” may elect to surrender to us restricted shares of our common stock issued to them pursuant to awards granted under the Plan to satisfy the applicable federal, state, local, and foreign tax withholding obligations that arise upon the vesting of their shares of restricted stock under the Plan. Shares of restricted stock surrendered to us to meet tax withholding obligations are deemed to be repurchased pursuant to the Plan. There were no shares of restricted stock repurchased to meet participants’ tax withholding obligations during the fourth quarter of 2015.

Item 6. Selected Financial Data

The following tables present our selected financial data as of and for the periods presented for Verso and Verso Holdings. The following information is only a summary and 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.

The selected historical financial data for Verso as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011, have been derived from the Consolidated Financial Statements of Verso. The selected historical financial data for Verso Holdings as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011, have been derived from the Consolidated Financial Statements of Verso Holdings. The Consolidated Financial Statements of Verso and Verso Holdings as of December 31, 2015, and 2014, and for the years ended December 31, 2015, 2014, and 2013, are included elsewhere in this annual report.

	VERSO				
	Year Ended December 31,				
(Dollars in millions except per share amounts)	2015	2014	2013	2012	2011
Statement of Operations Data:					
Net sales	$3,122	$1,297	$1,389	$1,475	$1,723
Costs and expenses:					
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	2,727	1,176	1,179	1,273	1,460
Depreciation, amortization, and depletion	308	91	105	118	125
Selling, general, and administrative expenses	187	70	74	74	78
Goodwill impairment	—	—	—	—	19
Restructuring charges	54	135	1	103	25
Other operating loss (income)[1]	1	—	(4)	(61)	—