

Verso Corp
Form 10-Q
May 15, 2015

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
For the quarterly period ended March 31, 2015

or

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

VERSO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	001-34056	75-3217389
(State of Incorporation 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)

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	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Verso Paper Holdings LLC	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

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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 Yes No
Verso Paper Holdings LLC Yes No

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

Verso Corporation
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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

Verso Corporation Yes No
Verso Paper Holdings LLC Yes No

As of April 30, 2015, Verso Corporation had 81,861,082 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-Q is a combined quarterly report being filed separately by two registrants: Verso Corporation and Verso Paper Holdings LLC.

Entity Names and Organization

Within our organization, Verso Corporation, formerly named Verso Paper Corp., 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., a Delaware corporation, which is an indirect, wholly owned subsidiary of Verso pursuant to the Merger Agreement (see below); the term “NewPage Corp” refers to NewPage Corporation, a Delaware 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.

On January 3, 2014, Verso, Verso Merger Sub Inc., a Delaware corporation and 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). As the NewPage acquisition was consummated in the current reporting period, the unaudited condensed consolidated financial statements for the quarter ended March 31, 2015, include the impact of NewPage’s operations on our business.

Forward-Looking Statements

In this quarterly report, all statements that are not purely historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements may be identified by the words “believe,” “expect,” “anticipate,” “project,” “plan,” “estimate,” “intend,” and other similar expressions. 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. For a discussion of such risks and uncertainties, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this quarterly report and to Verso’s and Verso Holdings’ other filings with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statement made in this quarterly report to reflect subsequent events or circumstances or actual outcomes.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	VERSO		VERSO HOLDINGS	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
ASSETS				
Current assets:				
Cash and cash equivalents	\$14	\$6	\$14	\$6
Accounts receivable, net	280	88	280	88
Inventories	536	110	536	110
Assets held for sale	—	61	—	61
Prepaid expenses and other assets	30	11	30	11
Total current assets	860	276	860	276
Property, plant, and equipment, net	2,053	531	2,053	531
Intangibles and other assets, net	114	71	138	94
Total assets	\$3,027	\$878	\$3,051	\$901
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	\$206	\$63	\$206	\$63
Accrued liabilities	243	205	243	206
Current maturities of long-term debt	13	30	13	30
Liabilities related to assets held for sale	—	2	—	2
Total current liabilities	462	300	462	301
Long-term debt	2,787	1,297	2,810	1,320
Other liabilities	588	65	585	60
Total liabilities	3,837	1,662	3,857	1,681
Commitments and contingencies (Note 13)	—	—	—	—
Equity:				
Preferred stock -- par value \$0.01 (20,000,000 shares authorized, no shares issued)	—	—	n/a	n/a
Common stock -- par value \$0.01 (250,000,000 shares authorized with 81,758,451 shares issued and 81,549,723 outstanding on March 31, 2015, and with 53,434,698 shares issued and 53,336,634 outstanding on December 31, 2014)	1	1	n/a	n/a
Treasury stock -- at cost (208,728 shares on March 31, 2015 and 98,064 shares on December 31, 2014)	(1)	)—	n/a	n/a
Paid-in-capital	319	222	330	234
Retained deficit	(1,102)	) (980)	) (1,109)	) (987)
Accumulated other comprehensive loss	(27)	) (27)	) (27)	) (27)
Total deficit	(810)	) (784)	) (806)	) (780)
Total liabilities and equity	\$3,027	\$878	\$3,051	\$901

See notes to unaudited condensed consolidated financial statements.

VERSO CORPORATION
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
(Dollars in millions, except per share amounts)	2015	2014
Net sales	\$806	\$299
Costs and expenses:		
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	728	302
Depreciation, amortization, and depletion	57	26
Selling, general, and administrative expenses	55	18
Restructuring charges	22	—
Total operating expenses	862	346
Operating loss	(56)	(47)
Interest expense	66	34
Other loss, net	—	10
Loss before income taxes	(122)	(91)
Net loss	\$(122)	\$(91)
Loss per common share:		
Basic	\$(1.53)	\$(1.70)
Diluted	(1.53)	(1.70)
Weighted average common shares outstanding (in thousands)		
Basic	79,670	53,188
Diluted	79,670	53,188

See notes to unaudited condensed consolidated financial statements.

VERSO CORPORATION
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
(Dollars in millions)	2015	2014
Net loss	\$(122)	\$(91)
Other comprehensive income:		
Defined benefit pension plan amortization of net loss and prior service cost	—	—
Other comprehensive income	—	—
Comprehensive loss	\$(122)	\$(91)

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER HOLDINGS LLC
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)	Three Months Ended March 31,	
	2015	2014
Net sales	\$806	\$299
Costs and expenses:		
Cost of products sold - (exclusive of depreciation, amortization, and depletion)	728	302
Depreciation, amortization, and depletion	57	26
Selling, general, and administrative expenses	55	18
Restructuring charges	22	—
Total operating expenses	862	346
Operating loss	(56)	)(47)
Interest expense	66	34
Other loss, net	—	10
Net loss	\$(122)	)(91)

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER HOLDINGS LLC
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)	Three Months Ended March 31,	
	2015	2014
Net loss	\$(122)	)(91)
Other comprehensive income:		
Defined benefit pension plan amortization of net loss and prior service cost	—	—
Other comprehensive income	—	—
Comprehensive loss	\$(122)	)(91)

See notes to unaudited condensed consolidated financial statements.

VERSO CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(Dollars in millions, shares in thousands)	Common Shares	Common Stock	Treasury Shares	Treasury Stock	Paid-in-Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
Balance - December 31, 2013	53,247	\$1	(74)	\$—	\$ 220	\$(627)	\$(11)	\$(417)
Net loss	—	—	—	—	—	(91)	—	(91)
Other comprehensive income	—	—	—	—	—	—	—	—
Treasury shares acquired	—	—	(24)	—	—	—	—	—
Common stock issued for restricted stock, net	25	—	—	—	—	—	—	—
Equity award expense	—	—	—	—	—	—	—	—
Balance - March 31, 2014	53,272	\$1	(98)	\$—	\$ 220	\$(718)	\$(11)	\$(508)
Balance - December 31, 2014	53,435	\$1	(98)	\$—	\$ 222	\$(980)	\$(27)	\$(784)
Net loss	—	—	—	—	—	(122)	—	(122)
Other comprehensive income	—	—	—	—	—	—	—	—
Treasury shares acquired	—	—	(111)	(1)	—	—	—	(1)
Stock option exercise	14	—	—	—	—	—	—	—
Stock issued for NewPage acquisition	13,607	—	—	—	46	—	—	46
Stock issued for convertible warrants	14,702	—	—	—	50	—	—	50
Equity award expense	—	—	—	—	1	—	—	1
Balance - March 31, 2015	81,758	\$1	(209)	\$(1)	\$ 319	\$(1,102)	\$(27)	\$(810)

See notes to unaudited condensed consolidated financial statements.

VERSO PAPER HOLDINGS LLC

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(Dollars in millions)	Paid-in-Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Member's Equity (Deficit)
Balance - December 31, 2013	\$231	\$(631)	\$(11)	\$(411)
Net loss	—	(91)	—	(91)
Other comprehensive income	—	—	—	—
Equity award expense	—	—	—	—
Balance - March 31, 2014	\$231	\$(722)	\$(11)	\$(502)
Balance - December 31, 2014	\$234	\$(987)	\$(27)	\$(780)
Contribution from parent	95	—	—	95
Net loss	—	(122)	—	(122)
Other comprehensive income	—	—	—	—
Equity award expense	1	—	—	1
Balance - March 31, 2015	\$330	\$(1,109)	\$(27)	\$(806)

See notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	VERSO		VERSO HOLDINGS		
	Three Months Ended March 31,		Three Months Ended March 31,		
	2015	2014	2015	2014	
Net cash used in operating activities	\$(204	) \$(96	) \$(204	) \$(96)
Cash Flows From Investing Activities:					
Proceeds from sale of assets	51	—	51	—	
Transfers from (to) restricted cash, net	2	2	2	2	
Capital expenditures	(9	) (16	) (9	) (16)
Acquisition, net of cash acquired	128	—	128	—	
Acquisition of investment securities	(5	) —	(5) —	
Other investing activities	—	5	—	5	
Net cash provided by (used in) investing activities	167	(9	) 167	(9)
Cash Flows From Financing Activities:					
Borrowings on revolving credit facilities	317	135	317	135	
Payments on revolving credit facilities	(272	) (37	) (272	) (37)
Net cash provided by financing activities	45	98	45	98	
Change in cash and cash equivalents	8	(7	) 8	(7)
Cash and cash equivalents at beginning of period	6	11	6	11	
Cash and cash equivalents at end of period	\$14	\$4	\$14	\$4	
Non-cash investing and financing activities:					
Notes issued for NewPage acquisition	\$663	\$—	\$663	\$—	
Stock issued for NewPage acquisition	46	—	46	—	
Stock issued for convertible warrants	50	—	50	—	
Conversion of accrued interest to long-term debt	19				