Verso Corp
Form 10-Q
November 16, 2015

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

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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 (State of Incorporation or Organization)	001-34056 (Commission File Number)	75-3217389 (IRS Employer Identification Number)

VERSO PAPER HOLDINGS LLC
(Exact name of registrant as specified in its charter)

Delaware (State of Incorporation or Organization)	333-142283 (Commission File Number)	56-2597634 (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	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 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 Exchange Act).

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

As of October 31, 2015, Verso Corporation had 81,877,254 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., 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.

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). As such, the Unaudited Condensed Consolidated Financial Statements for the three-month and nine-month periods ended September 30, 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 the risks and uncertainties affecting us and our business, please refer to the risks and uncertainties identified in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this quarterly report as well as those discussed in 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

	VERSO		VERSO HOLDINGS	
(Dollars in millions)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
ASSETS				
Current assets:				
Cash and cash equivalents	$10	$6	$10	$6
Accounts receivable, net	257	88	257	88
Inventories	540	110	540	110
Assets held for sale	—	61	—	61
Prepaid expenses and other assets	34	11	34	11
Total current assets	841	276	841	276
Property, plant, and equipment, net	1,931	531	1,931	531
Intangibles and other assets, net	129	71	145	94
Total assets	$2,901	$878	$2,917	$901
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	$170	$63	$170	$63
Accrued liabilities	239	205	232	206
Current maturities of long-term debt	72	30	72	30
Liabilities related to assets held for sale	—	2	—	2
Total current liabilities	481	300	474	301
Long-term debt	2,838	1,297	2,861	1,320
Other liabilities	560	65	556	60
Total liabilities	3,879	1,662	3,891	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 82,115,543 shares issued and 81,877,254 outstanding on September 30, 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 (238,289 shares on September 30, 2015 and 98,064 shares on December 31, 2014)	(1)	—	n/a	n/a
Paid-in-capital	320	222	331	234
Retained deficit	(1,273)	(980)	(1,280)	(987)
Accumulated other comprehensive loss	(25)	(27)	(25)	(27)
Total deficit	(978)	(784)	(974)	(780)
Total liabilities and equity	$2,901	$878	$2,917	$901

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions, except per share amounts)	2015	2014	2015	2014
Net sales	$782	$350	$2,366	$970
Costs and expenses:				
Cost of products sold (exclusive of depreciation, amortization and depletion)	677	295	2,062	873
Depreciation, amortization and depletion (exclusive of accelerated depreciation included in restructuring charges)	60	23	181	74
Selling, general and administrative expenses	33	18	134	53
Restructuring charges	55	—	83	—
Total operating expenses	825	336	2,460	1,000
Operating (loss) income	(43)	14	(94)	(30)
Interest expense	68	37	201	107
Other loss, net	—	14	—	33
Loss before income taxes	(111)	(37)	(295)	(170)
Income tax benefit	—	(1)	(2)	(1)
Net loss	$(111)	$(36)	$(293)	$(169)
Loss per common share:				
Basic	$(1.36)	$(0.67)	$(3.61)	$(3.17)
Diluted	(1.36)	(0.67)	(3.61)	(3.17)
Weighted average common shares outstanding (in thousands)				
Basic	81,842	53,328	81,099	53,280
Diluted	81,842	53,328	81,099	53,280

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2015	2014	2015	2014
Net loss	$(111)	$(36)	$(293)	$(169)
Other comprehensive income:				
Defined benefit pension plan amortization of net loss and prior service cost	1	1	2	1
Other comprehensive income	1	1	2	1
Comprehensive loss	$(110)	$(35)	$(291)	$(168)

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO PAPER HOLDINGS LLC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2015	2014	2015	2014
Net sales	$782	$350	$2,366	$970
Costs and expenses:				
Cost of products sold (exclusive of depreciation, amortization, and depletion)	677	295	2,062	873
Depreciation, amortization and depletion (exclusive of accelerated depreciation included in restructuring charges)	60	23	181	74
Selling, general and administrative expenses	33	18	134	53
Restructuring charges	55	—	83	—
Total operating expenses	825	336	2,460	1,000
Operating (loss) income	(43)	14	(94)	(30)
Interest income	—	—	(1)	(1)
Interest expense	68	37	202	108
Other loss, net	—	14	—	33
Loss before income taxes	$(111)	$(37)	$(295)	$(170)
Income tax benefit	—	—	(2)	—
Net loss	$(111)	$(37)	$(293)	$(170)

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO PAPER HOLDINGS LLC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2015	2014	2015	2014
Net loss	$(111)	$(37)	$(293)	$(170)
Other comprehensive income:				
Defined benefit pension plan amortization of net loss and prior service cost	1	1	2	1
Other comprehensive income	1	1	2	1
Comprehensive loss	$(110)	$(36)	$(291)	$(169)

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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	—	—	—	—	—	(169)	—	(169)
Other comprehensive income	—	—	—	—	—	—	1	1
Treasury shares acquired	—	—	(24)	—	—	—	—	—
Stock option exercise	34	—	—	—	—	—	—	—
Common stock issued for restricted stock, net	146	—	—	—	—	—	—	—
Equity award expense	—	—	—	—	1	—	—	1
Balance - September 30, 2014	53,427	$1	(98)	$—	$ 221	$(796)	$(10)	$(584)
Balance - December 31, 2014	53,435	$1	(98)	$—	$ 222	$(980)	$(27)	$(784)
Net loss	—	—	—	—	—	(293)	—	(293)
Other comprehensive income	—	—	—	—	—	—	2	2
Treasury shares acquired	—	—	(140)	(1)	—	—	—	(1)
Stock option exercise	14	—	—	—	—	—	—	—
Common stock issued for restricted stock, net	357	—	—	—	—	—	—	—
Stock issued for NewPage acquisition	13,607	—	—	—	46	—	—	46
Stock issued for convertible warrants	14,702	—	—	—	50	—	—	50
Equity award expense	—	—	—	—	2	—	—	2
Balance - September 30, 2015	82,115	$1	(238)	$(1)	$ 320	$(1,273)	$(25)	$(978)

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO PAPER HOLDINGS LLC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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)
Contribution from parent	1	—	—	1
Net loss	—	(170)	—	(170)
Other comprehensive income	—	—	1	1
Equity award expense	1	—	—	1
Balance - September 30, 2014	$233	$(801)	$(10)	$(578)
Balance - December 31, 2014	$234	$(987)	$(27)	$(780)
Contribution from parent	95	—	—	95
Net loss	—	(293)	—	(293)
Other comprehensive income	—	—	2	2
Equity award expense	2	—	—	2
Balance - September 30, 2015	$331	$(1,280)	$(25)	$(974)

See notes to Unaudited Condensed Consolidated Financial Statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	VERSO		VERSO HOLDINGS	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2015	2014	2015	2014
Net cash used in operating activities	$(284)	$(68)	$(284)	$(69)
Cash Flows From Investing Activities:				
Proceeds from sale of assets	51	—	51	—
Transfers from restricted cash, net	1	1	1	1
Capital expenditures	(48)	(34)	(48)	(34)
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	127	(28)	127	(28)
Cash Flows From Financing Activities:				
Borrowings on revolving credit facilities	673	340	673	340
Payments on revolving credit facilities	(512)	(228)	(512)	(228)
Debt issuance costs	—	(2)	—	(2)
Repayment of long-term debt	—	(13)	—	(13)
Contribution from parent	—	—	—	1
Net cash provided by financing activities	161	97	161	98
Change in cash and cash equivalents	4	1	4	1
Cash and cash equivalents at beginning of period	6	11	6	11
Cash and cash equivalents at end of period	$10	$12	$10	$12
Noncash 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	—	19	—
Reductions in long-term debt for debt modification	(15)	(1)	(15)	(1)
Increase in long-term debt from paid in kind (PIK) interest	5	—	5	—

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO CORPORATION AND VERSO PAPER HOLDINGS LLC

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014, AND FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014

1. BACKGROUND AND BASIS OF PRESENTATION

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., an indirect, wholly owned subsidiary of Verso; the term "NewPage Corp" refers to NewPage Corporation, 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 "Verso," "we," "us," and "our" refer collectively to Verso Corporation 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.

This report contains the Unaudited Condensed Consolidated Financial Statements of Verso and Verso Holdings as of September 30, 2015, and for the three-month and nine-month periods ended September 30, 2015 and 2014. The December 31, 2014, Unaudited Condensed Consolidated Balance Sheet data was derived from audited financial statements but it does not include all disclosures required annually by accounting principles generally accepted in the United States of America, or "GAAP." In the opinion of Management, the accompanying Unaudited Condensed Consolidated Financial Statements include all adjustments that are necessary for the fair presentation of Verso's and Verso Holdings' respective financial conditions, results of operations, and cash flows for the interim periods presented. Except as disclosed in the notes to the Unaudited Condensed Consolidated Financial Statements, such adjustments are of a normal, recurring nature. Variable interest entities for which Verso or Verso Holdings is the primary beneficiary are consolidated. Intercompany balances and transactions are eliminated in consolidation. The results of operations and cash flows for the interim periods presented may not necessarily be indicative of full-year results. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and notes thereto of Verso and Verso Holdings contained in their respective Annual Reports on Form 10-K for the year ended December 31, 2014.

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 previously announced 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 such, the Unaudited Condensed Consolidated Financial Statements for the three-month and nine-month periods ended September 30, 2015, include the results of operations of NewPage beginning January 7, 2015. We have also elected to change our reporting increment from thousands to millions.

We operate in the following two market segments: paper and pulp (see Note 14). Our core business platform is as a producer of coated freesheet and coated groundwood papers. Our products are used primarily in media and marketing applications, including catalogs, magazines, and commercial printing applications such as high-end advertising brochures, annual reports, and direct-mail advertising.

We have historically relied primarily upon cash flow from operations and borrowings under our revolving credit facilities to fund our operations, capital expenditures and debt service requirements. Our recent financial results have included several years of operating losses and cash flows used in operations. We are highly leveraged, with $2,806 million (see Note 6) in borrowings outstanding under our existing financing arrangements as of September 30, 2015, including the NewPage Corp revolving credit facility, the “NewPage ABL Facility,” and floating rate senior secured term loan, the “NewPage Term Loan Facility.” Also as of September 30, 2015, we had $8 million available for future borrowings under the Verso Holdings r evolving credit facilities and $54 million available for future borrowings under the NewPage ABL Facility (see Note 6). Our indebtedness results in us dedicating a substantial portion of our cash flows from operations to payments for our debt service, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, research and development efforts, and other corporate purposes. In addition, our indebtedness increases our vulnerability to adverse economic and industry conditions and places us at a competitive disadvantage compared to competitors that have less debt.

We have certain significant cash use requirements over the next twelve months outside of operations, including debt service requirements (see Note 6), integration costs associated with the NewPage acquisition (see Note 4), and restructuring costs related to both the NewPage acquisition and the recently announced production capacity reductions at our Androscoggin and Wickliffe mills (see Note 11). Our projected fixed debt service payments over the next twelve months through September 30, 2016, based on our current borrowings and floating interest rates at September 30, 2015, and without taking into account repayments related to our revolving credit facilities, are approximately $352 million, of which approximately $72 million is principal (approximately $3 million in the fourth quarter of 2015 and approximately $9 million, $9 million and $50 million in the first, second and third quarters of 2016, respectively) and approximately $280 million is interest (approximately $20 million in the fourth quarter of 2015 and approximately $120 million, $20 million and $120 million in the first, second and third quarters of 2016, respectively). Our debt arrangements also contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. 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 we are unable to repay our indebtedness when due or declared due, our lenders also will have the right to proceed against the collateral securing the indebtedness.

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared assuming that we will continue as a going concern. However, based on our liquidity position as of September 30, 2015, and our projections of operating results and cash flows for the remainder of 2015 and 2016, we anticipate that we will not have sufficient resources to fund our most significant future cash obligations and, therefore, we believe that there is substantial doubt about our ability to continue as a going concern for the next twelve months. In addition, based on our recent operating performance, the ability of NewPage Corp to comply with the Total Net Leverage Ratio covenant in the NewPage Term Loan Facility over the next twelve months is particularly vulnerable to declines in our operating performance compared to our projections. As of September 30, 2015, a decrease of $2 million of Adjusted EBITDA would have resulted in noncompliance with the Total Net Leverage Ratio covenant, and it is reasonably possible that NewPage Corp will not comply with the quarterly Total Net Leverage Ratio covenant at the end of upcoming quarters. The calculation of Adjusted EBITDA that is used in calculating the Total Net Leverage Ratio includes adjustments, such as pro forma adjustments for management's projections of expected savings from our profitability program. In the event that NewPage Corp is unable to comply with the Total Net Leverage Ratio covenant in a future quarter, Verso Holdings has the option to make capital contributions for the amount of the shortfall without triggering an event of default. However, Verso Holdings may not have sufficient liquidity to fund any such capital contribution. A breach of the Total Net Leverage Ratio covenant, if a sufficient capital contribution could not be made to cure the breach, would represent an event of default under the NewPage Term Loan Facility and would trigger cross-default provisions of our other credit facilities. In addition, our lenders would have the right to make any loans then outstanding immediately due and payable, which would trigger cross-default provisions under our indentures, and would no longer be obligated to extend further credit to us.

As a result of our cash flow and liquidity concerns, we have begun evaluating potential alternatives for the restructuring of our balance sheet. We have engaged PJT Partners L.P. to provide us with restructuring and transactional services and O'Melveny & Myers LLP to provide us with restructuring legal advice and assistance. We have begun discussions with certain of our creditor constituencies to explore potential restructuring alternatives. We also are exploring opportunities to raise funds through potential sales of certain of our mills and related facilities, which may include the Stevens Point, Androscoggin and Duluth mills, our recently idled Wickliffe mill, and the hydroelectric generation facilities associated with our Androscoggin mill. Our potential restructuring could occur in a consensual, out-of-court manner or through a court-supervised Chapter 11 bankruptcy proceeding. While we intend to actively pursue a potential restructuring and potential asset sales, there can be no assurance that any of these activities will occur on terms acceptable to us or at all. In addition to the strategic alternatives, our future projected operating results also are highly dependent on the successful integration of NewPage, the borrowing availability of the combined company, the synergies and operational cost reduction and earnings enhancement initiatives expected to be achieved, and general market conditions. The synergies and operational cost reductions are targeted in the areas of personnel expenses, raw material costs and manufacturing efficiencies. We have established plans within each of these areas to meet these targets. If the integration of NewPage into our business is not completed as expected, the synergies and other benefits that we expect to achieve could be materially and adversely affected, and these situations could result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the NewPage acquisition.

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should we be unable to continue as a going concern.

2. RECENT ACCOUNTING DEVELOPMENTS

ASC Topic 205, Presentation of Financial Statements and ASC Topic 360, Property, Plant, and Equipment. In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. This guidance should be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date, which is fiscal years beginning on or after December 15, 2014, and interim periods within those annual periods. The adoption of this amendment in the first quarter of 2015 did not have a material impact on the presentation of our Unaudited Condensed Consolidated Financial Statements.

ASC Topic 606, Revenue from Contracts with Customers. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This guidance will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance was effective for periods beginning after December 15, 2016 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption; however, in August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which defers the effective date by one year making the guidance effective for annual reporting periods beginning after December 15, 2017. We are evaluating the impact of adopting this new accounting standard on our Unaudited Condensed Consolidated Financial Statements.

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

ASC Topic 810, Consolidation. In February 2015, the FASB issued ASU 2015-02, Consolidation, which amends the requirements for consolidation and significantly changes the consolidation analysis required. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those years. We are evaluating the provisions of this guidance.

ASC Topic 835, Interest. In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. This ASU changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This guidance is effective for periods beginning after December 15, 2015 with early adoption permitted. As of September 30, 2015, $19 million of net debt issuance costs were included in Intangibles and other assets, net in our Unaudited Condensed Consolidated Balance Sheet. Under the new guidance, the net debt issuance costs would reduce both our total other noncurrent assets and long-term debt. In August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. This ASU clarifies the treatment of debt issuance costs from line-of-credit arrangements after the adoption of ASU 2015-03. It states that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We do not expect the adoption of ASU 2015-15 to have a material impact on our Unaudited Condensed Consolidated Financial Statements.

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

ASC Topic 815, Derivatives and Hedging. In August 2015, the FASB issued ASU 2015-13, Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets. This ASU allows the application of the normal purchases and normal sales scope exception to energy purchases or sales in nodal energy markets. According to ASU 2015-13, the use of locational marginal pricing by an independent system operator to determine a transmission charge or credit in a nodal energy market would not constitute a net settlement of a forward contract for the purchase or sale of electricity, even when legal title to the electricity is conveyed to the independent system operator during transmission. The guidance is effective upon issuance and must be applied prospectively. The adoption of ASU 2015-13 did not have a material impact on our Unaudited Condensed Consolidated Financial Statements.

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

Other new accounting pronouncements issued but not effective until after September 30, 2015, are not expected to have a significant effect on our Unaudited Condensed Consolidated Financial Statements.

3. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

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

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

	VERSO			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss available to common shareholders (in millions)	$(111)	$(36)	$(293)	$(169)
Weighted average common shares outstanding (in thousands)	81,348	52,787	80,666	52,749
Weighted average restricted shares (in thousands)	494	541	433	531
Weighted average common shares outstanding - basic	81,842	53,328	81,099	53,280
Dilutive shares from stock options	—	—	—	—
Weighted average common shares outstanding - diluted	81,842	53,328	81,099	53,280
Basic loss per share	$(1.36)	$(0.67)	$(3.61)	$(3.17)
Diluted loss per share	$(1.36)	$(0.67)	$(3.61)	$(3.17)

In accordance with ASC Topic 260, Earnings Per Share, unvested restricted stock awards issued by Verso contain nonforfeitable rights to dividends and qualify as participating securities. No dividends have been declared or paid in 2015 or 2014.

For the three-month and nine-month periods ended September 30, 2015, respectively, 8,776,854 and 7,794,513 weighted average potentially dilutive shares from stock options with weighted average exercise prices per share of $2.17 and $2.37, respectively, were excluded from the diluted earnings per share calculation due to the antidilutive effect such shares would have on net loss per common share.

For the three-month and nine-month periods ended September 30, 2014, respectively, 4,969,881 and 4,787,402 weighted average potentially dilutive shares from stock options with weighted average exercise prices per share of $2.45 and $2.43, respectively, were excluded from the diluted earnings per share calculation due to the antidilutive effect such shares would have on net loss per common share.

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

Replacement parts and other supplies are stated using the average cost method and are reflected in Inventories and Intangibles and other assets, net, respectively, on the accompanying Unaudited Condensed Consolidated Balance Sheets (see Note 5).

The following table summarizes inventories by major category:

(Dollars in millions)	September 30, 2015	December 31, 2014
Raw materials	$114	$19
Work-in-process	67	9
Finished goods	279	62
Replacement parts and other supplies	80	20
Inventories	$540	$110

Asset Retirement Obligations — In accordance with ASC Topic 410, Asset Retirement and Environmental Obligations, a liability and an asset are recorded equal to the present value of the estimated costs associated with the retirement of long-lived assets where a legal or contractual obligation exists. The liability is accreted over time and the asset is depreciated over its useful life. Our asset retirement obligations under this standard relate primarily to closure and post-closure costs for landfills. Revisions to the liability could occur due to changes in the estimated costs or timing of closure or possible new federal or state regulations affecting the closure. The increase in the liability for the nine months ended September 30, 2015 was primarily attributable to the assumption of the asset retirement obligation liabilities associated with landfills acquired in connection with the NewPage acquisition.

On September 30, 2015 and December 31, 2014, we had $1 million of restricted cash included in Intangibles and other assets, net in the accompanying Unaudited Condensed Consolidated Balance Sheets related to asset retirement obligations in the state of Michigan. These cash deposits are required by the state and may only be used for the future closure of a landfill.

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

	Nine Months Ended September 30,	
(Dollars in millions)	2015	2014
Asset retirement obligations, January 1	$8	$13
Accretion expense	1	—
Liabilities assumed	9	—
Settlement of existing liabilities	(2)	—
Adjustments to existing liabilities	—	(3)
Asset retirement obligations, September 30	16	10
Less: Current portion	—	—
Non-current portion of asset retirement obligations, September 30	$16	$10

In addition to the above obligations, we may be required to remove certain materials from our facilities or to remediate them in accordance with current regulations that govern the handling of certain hazardous or potentially hazardous materials. At this time, any such obligations have an indeterminate settlement date, and we believe that adequate information does not exist to reasonably estimate any such potential obligations. Accordingly, we will record a liability for such remediation when sufficient information becomes available to estimate the obligation.

Property, Plant, and Equipment — Property, plant, and equipment is stated at cost, net of accumulated depreciation. Interest is capitalized on projects meeting certain criteria and is included in the cost of the assets. The capitalized interest is depreciated over the same useful lives as the related assets. Expenditures for major repairs and improvements are capitalized, whereas normal repairs and maintenance are expensed as incurred.

Interest costs capitalized for the three months ended September 30, 2015 and 2014 were immaterial. For the nine months ended September 30, 2015 and 2014, interest costs capitalized were $1 million and $2 million, respectively.

Depreciation is computed using the straight-line method over the assets' estimated useful lives. Depreciation expense was $59 million and $179 million for the three-month and nine-month periods ended September 30, 2015, respectively, compared to $22 million and $73 million for the three-month and nine-month periods ended September 30, 2014, respectively.

4. ACQUISITIONS AND DISPOSITIONS

NewPage Acquisition - On January 3, 2014, Verso, Merger Sub, and NewPage entered into a 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. Verso has incurred transaction and integration costs related to the NewPage acquisition during the three-month and nine-month periods ended September 30, 2015 of $7 million and $21 million, respectively, which are included in Selling, general and administrative expenses in the accompanying Unaudited Condensed Consolidated Statements of Operations. For the three-month and nine-month periods ended September 30, 2014, Verso incurred transaction costs of $14 million and $33 million, respectively, related to the NewPage acquisition which were included in Other loss, net in the accompanying Unaudited Condensed Consolidated Statements of Operations.

On January 7, 2015, Verso consummated the NewPage acquisition pursuant to the Merger Agreement. As a result of the merger, NewPage became a direct, wholly owned subsidiary of Verso Holdings. The NewPage acquisition provides Verso with assets in a complementary geographic area, a broader portfolio of products, and strategic flexibility to reduce operating costs and enhance our financial condition.

As consideration for the NewPage acquisition, Verso issued (a) $650 million aggregate principal amount of New First Lien Notes and (b) 13,607,693 shares of Verso common stock in exchange for all the outstanding shares of common stock of NewPage. Also, as of the date that NewPage became an indirect wholly owned subsidiary of Verso, NewPage had an existing $750 million NewPage Term Loan Facility (see Note 6) and $350 million NewPage ABL Facility (see Note 6), of which $734 million and $100 million, respectively, were outstanding. As a condition of allowing the acquisition to proceed, the Antitrust Division of the U.S. Department of Justice entered into a settlement with Verso and NewPage that required NewPage to divest its paper mills in Biron, Wisconsin, and Rumford, Maine, which occurred prior to the acquisition of NewPage.

Accounting consideration for the NewPage acquisition is as follows:

(Dollars in millions)	
13,607,693 shares of Verso common stock valued at January 7, 2015 closing price	$46
$650 million face value New First Lien Notes valued at January 7, 2015 closing price	663
Accounting consideration	$709

The preliminary allocation of the purchase price to the fair values of assets acquired and liabilities assumed in the NewPage acquisition includes necessary adjustments to reflect the estimated fair values of NewPage's assets and liabilities at the completion of the NewPage acquisition. The preliminary allocation of the purchase price is as follows:

(Dollars in millions)	
Cash	$128
Current assets, excluding cash	577
Property, plant, and equipment	1,570
Other long-term assets	43
Current liabilities	(276)
Current portion of long-term debt	(3)
Noncurrent pension and other post-retirement benefit obligations	(474)
Other long-term liabilities	(56)
Long-term debt	(800)
Net assets acquired	$709

The allocation of the purchase price above is considered preliminary and is based on valuation information, estimates and assumptions available on September 30, 2015. Verso is still in the process of verifying data and finalizing information related to the valuation of intangible assets, fixed assets, and pension obligations and expects to finalize these matters within the fourth quarter of 2015 as final asset and liability valuations are completed. The valuations reflected herein consist of physical appraisals, discounted cash flow analyses, or other appropriate valuation techniques to determine the fair value of the assets acquired and liabilities assumed. We did not identify a material amount of goodwill as a result of the preliminary purchase price allocation. Although management believes that the preliminary purchase price allocation herein is reasonable, there can be no assurance that finalization of such purchase price allocation will not result in material changes from the preliminary purchase price allocation.

The operating results of NewPage are included in Verso's financial statements from January 7, 2015 through September 30, 2015. The determination of net sales and net loss attributable to the acquired operations during this period and included in Verso's Unaudited Condensed Consolidated Statements of Operations was not practicable as the operations are integrated with the consolidated operations.

The following unaudited pro forma financial information presents results as if the NewPage acquisition and the related financing, further described in Note 6, occurred on January 1, 2014. The historical consolidated financial information of Verso and NewPage has been adjusted in the pro forma information to give effect to pro forma events that are directly attributable to the transactions and factually supportable. As NewPage's divestiture of its paper mills in Biron, Wisconsin, and Rumford, Maine, occurred prior to the acquisition of NewPage, their historical results have been excluded from the pro forma results below.

The unaudited pro forma results do not reflect events that have occurred or may occur after the transactions, including the costs of any integration activities or benefits that may result from realization of future cost savings from operating efficiencies, or any revenue, tax, or other synergies expected to result from the NewPage acquisition. Accordingly, the unaudited pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on the assumed date, nor is it necessarily an indication of future operating results.

In addition, the NewPage acquisition did not result in a taxable transaction and Verso has net operating loss carryforwards and a related full valuation allowance that are expected to offset any deferred tax impact of the NewPage acquisition. Further, as the sale of the Bucksport mill was not directly attributable to the NewPage acquisition, no pro forma adjustments for the Bucksport sale have been made.

(Unaudited)	Pro Forma Nine Months Ended September 30,	
(Dollars in millions, except per share data)	2015	2014
Revenues	$2,399	$2,731
Net loss	(265)	(318)
Earnings per share - basic and diluted	$(3.24)	$(3.90)
Weighted-average common shares outstanding - basic and diluted (in thousands)	81,720	81,496

Sale of Bucksport Mill - On January 29, 2015, two Verso subsidiaries consummated a sale of their equity interests in two other Verso subsidiaries that owned the Bucksport mill and related assets to AIM Development (USA) LLC, an indirect, wholly owned subsidiary of American Iron & Metal Company Inc., or “AIM.”

5. INTANGIBLES AND OTHER ASSETS

The following table summarizes intangibles and other assets:

	VERSO		VERSO HOLDINGS	
(Dollars in millions)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Amortizable intangible assets:				
Customer relationships, net of accumulated amortization of $10 million on September 30, 2015, and $9 million on December 31, 2014	$33	$4	$33	$4
Unamortizable intangible assets:				
Trademarks	10	10	10	10
Other assets:				
Financing costs, net of accumulated amortization of $23 million on September 30, 2015, and $19 million on December 31, 2014	19	23	19	23
Deferred major repair	35	21	35	21
Replacement parts, net	6	3	6	3
Loan to affiliate	—	—	23	23
Restricted cash	3	3	3	3
Other	23	7	16	7
Total other assets	$86	$57	$102	$80
Intangibles and other assets, net	$129	$71	$145	