

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

**FORM 10-Q**

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2021 OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**001-34056**  
(Commission File Number)



**VERSO CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of Incorporation  
or Organization)

**75-3217389**  
(IRS Employer  
Identification Number)

**8540 Gander Creek Drive**  
**Miamisburg, Ohio 45342**  
(Address, including zip code, of principal executive offices)  
**(877) 855-7243**  
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value \$0.01 per share	VRS	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act:

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

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

As of October 29, 2021, Verso Corporation had 29,062,302 shares of Class A common stock, par value \$0.01 per share, outstanding.

## Entity Names and Organization

In this report, the term “Verso,” “the Company,” “we,” “us,” and “our” refer to Verso Corporation, which is the ultimate parent entity and the issuer of Class A common stock listed on the New York Stock Exchange, and its consolidated subsidiaries. Verso is the sole member of Verso Holding LLC, which is the sole member of Verso Paper Holding LLC. As used in this report, the term “Verso Holding” refers to Verso Holding LLC, and the term “Verso Paper” refers to Verso Paper Holding LLC.

## Forward-Looking Statements

In this quarterly report, all statements that are not purely historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or “Securities Act,” and Section 21E of the Securities Exchange Act of 1934, as amended, or “Exchange Act.” Forward-looking statements may be identified by the words “believe,” “expect,” “anticipate,” “project,” “plan,” “estimate,” “intend” and other similar expressions. They include, for example, statements relating to the unsolicited proposal from Atlas Holdings LLC; our business and operating outlook, including our plans with respect to our Wisconsin Rapids Mill; the continued impact of the COVID-19 pandemic; 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 adverse impact of idling production, shutting down machines or facilities, restructuring our operations and selling non-core assets; the unsolicited proposal from Atlas Holdings LLC regarding a potential transaction to acquire all of the outstanding shares of our common stock; uncertainties as to whether an agreement relating to a potential transaction with Atlas Holdings LLC or an alternative thereto will be negotiated and executed; uncertainties as to whether a potential transaction with Atlas Holdings LLC or an alternative thereto will be completed; changes in the costs of raw materials and purchased energy; security breaches and other disruption to our information technology infrastructure; uncertainties regarding the impact, duration and severity of the COVID-19 pandemic and measures intended to reduce its spread, and the impact of COVID-19 on economic conditions, including with respect to labor market conditions, economic activity, consumer behavior, supply chain shortages and disruptions and inflationary pressure; the long-term structural decline and general softening of demand facing the paper industry; adverse developments in general business and economic conditions; developments in alternative media, which are expected to continue to adversely affect the demand for some of our key products, and the effectiveness of our responses to these developments; intense competition in the paper manufacturing industry; our limited ability to control the pricing of our products or pass through increases in our costs to our customers; our business being less diversified because of the Pixelle Sale (as defined below), the sale of our Duluth Mill, the closure of our Luke Mill and permanent shut down of the No. 14 paper machine and certain other long-lived assets at our Wisconsin Rapids Mill; our dependence on a small number of customers for a significant portion of our business; our ability to compete with respect to certain specialty paper products for a period of two years after the closing of the Pixelle Sale (as defined below); any failure to comply with environmental or other laws or regulations; legal proceedings or disputes; any labor disputes; and the potential risks and uncertainties described in Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2020, Part II, Item 1A, “Risk Factors” of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2021 and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this Quarterly Report on Form 10-Q as such disclosures may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission, including subsequent annual reports on Form 10-K and quarterly reports on Form 10-Q. We assume no obligation to update any forward-looking statement made in this Quarterly Report to reflect subsequent events or circumstances or actual outcomes.

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**VERSO CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in millions, except per share amounts)	December 31, 2020	September 30, 2021
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 137	\$ 166
Accounts receivable, net	83	112
Inventories	224	141
Assets held for sale	17	6
Prepaid expenses and other assets	5	8
Total current assets	466	433
Property, plant and equipment, net	613	513
Deferred tax assets	122	151
Intangibles and other assets, net	44	37
<b>Total assets</b>	<b>\$ 1,245</b>	<b>\$ 1,134</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 80	\$ 115
Accrued and other liabilities	92	84
Current maturities of long-term debt and finance leases	1	2
Total current liabilities	173	201
Long-term debt and finance leases	4	3
Pension benefit obligation	350	308
Other long-term liabilities	34	39
Total liabilities	561	551
Commitments and contingencies (Note 11)		
<b>Equity:</b>		
Preferred stock -- par value \$0.01 (50,000,000 shares authorized, no shares issued)	—	—
Common stock -- par value \$0.01 (210,000,000 Class A shares authorized with 35,877,533 shares issued and 33,133,649 outstanding on December 31, 2020 and 33,260,987 shares issued and 29,062,302 outstanding on September 30, 2021; 40,000,000 Class B shares authorized with no shares issued and outstanding on December 31, 2020 and September 30, 2021)	—	—
Treasury stock -- at cost (2,743,884 shares on December 31, 2020 and 4,198,685 shares on September 30, 2021)	(39)	(62)
Paid-in-capital	705	652
Retained deficit	(42)	(67)
Accumulated other comprehensive income	60	60
Total equity	684	583
<b>Total liabilities and equity</b>	<b>\$ 1,245</b>	<b>\$ 1,134</b>

See notes to Unaudited Condensed Consolidated Financial Statements.

**VERSO CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
<b>Net sales</b>	\$ 306	\$ 339	\$ 1,045	\$ 950
<b>Costs and expenses:</b>				
Cost of products sold (exclusive of depreciation and amortization)	309	274	1,007	810
Depreciation and amortization	21	18	66	137
Selling, general and administrative expenses	19	19	62	54
Restructuring charges	(2)	—	4	17
Other operating (income) expense	3	(7)	(84)	(5)
<b>Operating income (loss)</b>	(44)	35	(10)	(63)
Interest expense	1	—	1	1
Other (income) expense	(5)	(6)	(14)	(19)
<b>Income (loss) before income taxes</b>	(40)	41	3	(45)
Income tax expense (benefit)	(9)	(17)	14	(29)
<b>Net income (loss)</b>	\$ (31)	\$ 58	\$ (11)	\$ (16)
<b>Income (loss) per common share:</b>				
Basic	\$ (0.92)	\$ 1.98	\$ (0.33)	\$ (0.53)
Diluted	(0.92)	1.96	(0.33)	(0.53)
<b>Weighted average common shares outstanding (in thousands)</b>				
Basic	33,675	29,334	34,440	31,476
Diluted	33,675	29,605	34,440	31,476

See notes to Unaudited Condensed Consolidated Financial Statements.

**VERSO CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
<b>Net income (loss)</b>	\$ (31)	\$ 58	\$ (11)	\$ (16)
<b>Other comprehensive income (loss), net of tax</b>				
Defined benefit pension plan:				
Pension liability adjustment, net	(119)	—	(119)	—
<b>Other comprehensive income (loss), net of tax</b>	(119)	—	(119)	—
<b>Comprehensive income (loss)</b>	\$ (150)	\$ 58	\$ (130)	\$ (16)

See notes to Unaudited Condensed Consolidated Financial Statements.

VERSO CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in millions, shares in thousands)	Class A		Treasury Shares	Treasury Stock	Paid-in-Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Common Shares	Common Stock						
<b>Balance - June 30, 2020</b>	35,766	\$ —	2,097	\$ (32)	\$ 702	\$ 189	\$ 122	\$ 981
Net income (loss)	—	—	—	—	—	(31)	—	(31)
Treasury shares	—	—	6	—	—	—	—	—
Other comprehensive income (loss), net	—	—	—	—	—	—	(119)	(119)
Common stock issued for restricted stock	24	—	—	—	—	—	—	—
Dividends and dividend equivalents declared	—	—	—	—	2	(107)	—	(105)
Equity award expense	—	—	—	—	1	—	—	1
<b>Balance - September 30, 2020</b>	<b>35,790</b>	<b>\$ —</b>	<b>2,103</b>	<b>\$ (32)</b>	<b>\$ 705</b>	<b>\$ 51</b>	<b>\$ 3</b>	<b>\$ 727</b>
<b>Balance - June 30, 2021</b>	33,207	\$ —	3,588	\$ (50)	\$ 651	\$ (122)	\$ 60	\$ 539
Net income (loss)	—	—	—	—	—	58	—	58
Treasury shares	—	—	611	(12)	—	—	—	(12)
Common stock issued for restricted stock	54	—	—	—	—	—	—	—
Dividends and dividend equivalents declared	—	—	—	—	—	(3)	—	(3)
Equity award expense	—	—	—	—	1	—	—	1
<b>Balance - September 30, 2021</b>	<b>33,261</b>	<b>\$ —</b>	<b>4,199</b>	<b>\$ (62)</b>	<b>\$ 652</b>	<b>\$ (67)</b>	<b>\$ 60</b>	<b>\$ 583</b>
<b>Balance - December 31, 2019</b>	34,949	\$ —	245	\$ (5)	\$ 698	\$ 172	\$ 122	\$ 987
Net income (loss)	—	—	—	—	—	(11)	—	(11)
Other comprehensive income (loss), net	—	—	—	—	—	—	(119)	(119)
Treasury shares	—	—	1,858	(27)	—	—	—	(27)
Common stock issued for restricted stock	841	—	—	—	—	—	—	—
Dividends and dividend equivalents declared	—	—	—	—	2	(110)	—	(108)
Equity award expense	—	—	—	—	5	—	—	5
<b>Balance - September 30, 2020</b>	<b>35,790</b>	<b>\$ —</b>	<b>2,103</b>	<b>\$ (32)</b>	<b>\$ 705</b>	<b>\$ 51</b>	<b>\$ 3</b>	<b>\$ 727</b>
<b>Balance - December 31, 2020</b>	35,878	\$ —	2,744	\$ (39)	\$ 705	\$ (42)	\$ 60	\$ 684
Net income (loss)	—	—	—	—	—	(16)	—	(16)
Treasury shares	—	—	1,455	(23)	—	—	—	(23)
Common stock issued for restricted stock	423	—	—	—	—	—	—	—
Dividends and dividend equivalents declared	—	—	—	—	—	(9)	—	(9)
Repurchase of common stock	(3,040)	—	—	—	(56)	—	—	(56)
Equity award expense	—	—	—	—	3	—	—	3
<b>Balance - September 30, 2021</b>	<b>33,261</b>	<b>\$ —</b>	<b>4,199</b>	<b>\$ (62)</b>	<b>\$ 652</b>	<b>\$ (67)</b>	<b>\$ 60</b>	<b>\$ 583</b>

See notes to Unaudited Condensed Consolidated Financial Statements.

**VERSO CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Nine Months Ended  
September 30,

(Dollars in millions)	2020	2021
<b>Cash Flows From Operating Activities:</b>		
Net income (loss)	\$ (11)	\$ (16)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	66	137
Noncash restructuring charges	—	8
Net periodic pension cost (income)	(12)	(17)
Pension plan contributions	(47)	(25)
Amortization of debt issuance cost	—	1
Equity award expense	5	3
Gain on Sale of Androscoggin/Stevens Point Mills	(88)	—
Loss on Sale of Duluth Mill	—	3
(Gain) loss on sale or disposal of assets	3	—
Gain on insurance recoveries	—	(6)
Deferred taxes	14	(29)
Changes in assets and liabilities:		
Accounts receivable, net	9	(29)
Inventories	(10)	79
Prepaid expenses and other assets	—	(3)
Accounts payable	(46)	27
Accrued and other liabilities	(12)	—
<b>Net cash provided by (used in) operating activities</b>	<b>(129)</b>	<b>133</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sale of assets	1	1
Capital expenditures	(43)	(38)
Net proceeds from Sale of Androscoggin/Stevens Point Mills	338	—
Net proceeds from Sale of Duluth Mill	—	6
Proceeds from insurance recoveries	—	6
Recognition of deposits and net proceeds from sale of Luke Mill equipment	—	10
<b>Net cash provided by (used in) investing activities</b>	<b>296</b>	<b>(15)</b>
<b>Cash Flows From Financing Activities:</b>		
Borrowings on ABL Facility	36	—
Payments on ABL Facility	(36)	—
Principal payment on financing lease obligation	(1)	(1)
Repurchase of common stock	—	(56)
Acquisition of treasury stock	(27)	(23)
Dividends paid to stockholders	(108)	(9)
<b>Net cash provided by (used in) financing activities</b>	<b>(136)</b>	<b>(89)</b>
Change in Cash and cash equivalents and restricted cash	31	29
Cash and cash equivalents and restricted cash at beginning of period	44	139
<b>Cash and cash equivalents and restricted cash at end of period</b>	<b>\$ 75</b>	<b>\$ 168</b>
<b>Supplemental cash flow disclosures:</b>		
Total interest paid	\$ —	\$ 1
Total income taxes paid	—	—
<b>Noncash investing and financing activities:</b>		
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ —	\$ 1
Right-of-use assets obtained in exchange for new capitalized operating lease liabilities	7	1
Net right-of-use assets re-measurement	—	4

See notes to Unaudited Condensed Consolidated Financial Statements.

**1. SUMMARY OF BUSINESS AND BASIS OF PRESENTATION**

**Nature of Business** — Verso is a producer of graphic paper, specialty paper, packaging paper and Northern Bleached Hardwood Kraft, or “NBHK,” pulp. These products are used primarily in media, marketing applications and commercial printing applications. Uses include catalogs, magazines, high-end advertising brochures, direct-mail advertising, and specialty applications, such as labeling and other special applications. NBHK pulp is used to manufacture printing, writing and specialty paper grades, tissue and other products. Verso operates in the pulp and paper market segments primarily in North America (see Note 12).

**Sale of Androscoggin Mill and Stevens Point Mill** — On November 11, 2019, Verso and Verso Paper entered into a membership interest purchase agreement, or the “Purchase Agreement,” with Pixelle Specialty Solution LLC, or “Pixelle,” whereby Verso and Verso Paper agreed to sell to Pixelle, or the “Pixelle Sale,” or “Sale of Androscoggin/Stevens Point Mills,” all of the outstanding membership interests in Verso Androscoggin, LLC an indirect wholly owned subsidiary of Verso and the entity that, as of the closing date of the Pixelle Sale, held all the assets primarily related to Verso’s Androscoggin Mill located in Jay, Maine, and Stevens Point Mill, located in Stevens Point, Wisconsin. The transaction was approved by Verso’s stockholders on January 31, 2020 and closed on February 10, 2020 (see Note 5).

**Duluth Mill and Wisconsin Rapids Mill** — On June 9, 2020, Verso announced plans to indefinitely idle its mills in Duluth, Minnesota and Wisconsin Rapids, Wisconsin, while exploring viable and sustainable alternatives for both mills including restarting, selling or permanently closing one or both mills. Verso’s decision to reduce its production capacity was driven by the accelerated decline in graphic paper demand, primarily resulting from the COVID-19 pandemic. The production capacity of the Duluth Mill was approximately 270,000 tons of supercalendered/packaging paper and the production capacity of the Wisconsin Rapids Mill is approximately 540,000 tons of coated and packaging paper. Verso idled production at the Duluth Mill on July 1, 2020 and at the Wisconsin Rapids Mill on July 27, 2020. On December 31, 2020, Verso decided to permanently shut down the Duluth Mill, which was subsequently sold on May 13, 2021 (see Note 5). On February 8, 2021, Verso decided to permanently shut down the No. 14 paper machine and certain other long-lived assets at the Wisconsin Rapids Mill (see Note 10). Verso continues to operate the facility at the Wisconsin Rapids Mill to convert paper produced at the Quinnesec and Escanaba mills to sheets for the commercial print market.

**COVID-19 Pandemic** — The COVID-19 Pandemic has impacted Verso’s operations and financial results since the first quarter of 2020 and continues to have an impact on the Company. Verso serves as an essential manufacturing business and, as a result, its mills have continued to be operational during the pandemic in order to meet the ongoing needs of its customers, including those in other essential business sectors, which provide food, medical and hygiene products needed in a global health crisis. However, the guidelines and orders enacted by federal, state and local governments impacted demand from retailers, political campaigns, and sports and entertainment events, driving reduced purchases of printed materials and substantially impacting Verso’s graphic paper business.

There continues to be significant uncertainties associated with the COVID-19 Pandemic, including with respect to the resurgence of new variants of the virus; or if the vaccines introduced to combat the virus are not effective or public acceptance of such vaccines is not widespread; and the impact of COVID-19 on economic conditions, including with respect to labor market conditions, economic activity, consumer behavior, supply chain shortages and disruptions and inflationary pressure; all of which could have a material impact on the Company’s business, financial position, results of operations and cash flows.

While Verso cannot reasonably estimate the full impact of COVID-19 on the business, financial position, results of operations and cash flows, the Company has seen its sales, volume and prices continue to recover during the third quarter of 2021.

**Basis of Presentation** — This report contains the Unaudited Condensed Consolidated Financial Statements of Verso as of December 31, 2020 and September 30, 2021 and for the three and nine months ended September 30, 2020 and 2021. The December 31, 2020 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 Verso’s opinion, the Unaudited Condensed Consolidated Financial Statements include all adjustments that are necessary for the fair presentation of Verso’s respective financial condition, 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. 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. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Verso contained in its Annual Report on Form 10-K for the year ended December 31, 2020.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

### Accounting Guidance Adopted in 2021

**Accounting Standards Codification Topic 740, Income Taxes.** In December 2019, the Financial Accounting Standards Board issued Accounting Standards Update 2019-12, *Simplifying the Accounting for Income Taxes*, which removes certain exceptions for investments, intraperiod allocations and interim calculations, and adds guidance to reduce the complexity in accounting for income taxes. Verso adopted this guidance on January 1, 2021, and the effect on the Unaudited Condensed Consolidated Financial Statements was not material.

## 3. REVENUE RECOGNITION

The following table presents revenue disaggregated by product included on the Unaudited Condensed Consolidated Statements of Operations:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Paper	\$ 260	\$ 296	\$ 900	\$ 835
Packaging	14	8	56	21
Pulp	32	35	89	94
Total Net sales	\$ 306	\$ 339	\$ 1,045	\$ 950

The following table presents revenue disaggregated by sales channel included on the Unaudited Condensed Consolidated Statements of Operations:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
End-users and Converters	\$ 95	\$ 104	\$ 375	\$ 290
Brokers and Merchants	150	174	477	502
Printers	61	61	193	158
Total Net sales	\$ 306	\$ 339	\$ 1,045	\$ 950

## 4. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

**Restricted Cash** — As of December 31, 2020 and September 30, 2021, \$2 million of restricted cash was included in Intangibles and other assets, net on the Unaudited Condensed Consolidated Balance Sheets primarily 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. As of both September 30, 2020 and 2021, Cash and cash equivalents and restricted cash on the Unaudited Condensed Consolidated Statements of Cash Flows includes restricted cash of \$2 million.

**Inventories** — The following table summarizes inventories by major category:

(Dollars in millions)	December 31, 2020	September 30, 2021
Raw materials	\$ 45	\$ 34
Work-in-process	31	19
Finished goods	125	71
Replacement parts and other supplies	23	17
Inventories	\$ 224	\$ 141

**Property, plant and equipment** — Depreciation expense for the three and nine months ended September 30, 2020 was \$20 million and \$62 million, respectively. Depreciation expense for three and nine months ended September 30, 2021 was \$17 million and \$134 million, respectively. Depreciation expense for the nine months ended September 30, 2021 includes \$84 million in accelerated depreciation associated with the permanent shutdown of the No. 14 paper machine and certain other long-lived assets at the Wisconsin Rapids Mill (see Note 10). Property, plant and equipment as of September 30, 2020 and 2021 include \$2 million and \$11 million, respectively, of capital expenditures that were unpaid and included in Accounts payable and Accrued and other liabilities on the Unaudited Condensed Consolidated Balance Sheets.

**Income Taxes** — Income tax benefit for the three months ended September 30, 2020 was \$9 million and income tax expense for the nine months ended September 30, 2020 was \$14 million. Income tax benefit for the three and nine months ended September 30, 2021 was \$17 million and \$29 million, respectively. During the three and nine months ended September 30, 2020, Verso recognized \$1 million and \$8 million, respectively, of additional valuation allowance against state tax credits. During the three months ended September 30, 2021, Verso reduced the valuation allowance against state tax credits by \$2 million. During the nine months ended September 30, 2021, the net additional valuation allowance against state tax credits was \$2 million.

The Company's income tax provision for interim periods is determined through the use of an estimated annual effective tax rate applied to year-to-date ordinary income/loss plus or minus the tax effects of discrete items. The Company's estimated annual effective tax rate benefit is higher than statutory rates primarily due to the effect of forecasted pretax book income and permanent items impacting the forecasted rate such as portions of executive compensation and other expenses that are not fully deductible for tax.

**Related Party Transactions** — Net sales for the three and nine months ended September 30, 2021, include sales to a related party of \$18 million and \$51 million, respectively. Accounts receivable as of December 31, 2020 and September 30, 2021, include \$4 million and \$6 million, respectively, associated with this related party.

## **5. DISPOSITIONS**

### **Sale of Androscoggin Mill and Stevens Point Mill**

On February 10, 2020, Verso completed the Pixelle Sale, selling all of the outstanding membership interests in Verso Androscoggin, LLC, an indirect wholly owned subsidiary of Verso and the entity that, as of the closing date of the Pixelle Sale, held all the assets primarily related to Verso's Androscoggin Mill located in Jay, Maine and Verso's Stevens Point Mill, located in Stevens Point, Wisconsin. The Pixelle Sale did not qualify as a discontinued operation. As consideration for the Pixelle Sale, Verso received \$352 million in cash, which reflected certain adjustments related to Verso's estimates of cash, indebtedness and working capital of Verso Androscoggin, LLC and Pixelle assumed \$37 million of Verso's unfunded pension liabilities, which reflected certain adjustments in connection with the completed transfer of the unfunded pension liabilities during the year ended December 31, 2020.

During the nine months ended September 30, 2020, Verso received \$338 million in net cash proceeds from the Pixelle Sale, consisting of \$344 million in cash reduced by \$6 million in selling costs and recognized an \$88 million gain on the sale. In connection with the Pixelle Sale, Verso provided certain transition services to Pixelle and recognized \$2 million and \$5 million for these services during the three and nine months ended September 30, 2020, respectively, on the Unaudited Condensed Consolidated Statements of Operations. During the three months ended September 30, 2020, \$1 million of these transition services was recognized as a reduction of Cost of products sold and \$1 million was recognized as a reduction of Selling, general and administrative expenses. During the nine months ended September 30, 2020, \$2 million of these transition services was recognized as a reduction Cost of products sold and \$3 million was recognized as a reduction of Selling, general and administrative expenses. These transition services were completed in October 2020.

## **Luke Mill Equipment and Other Asset Sales**

On August 1, 2020, Verso entered into an equipment purchase agreement with Halkali Kagit Karton Sanayi ve Tic. A.S., or the “Purchaser,” a company organized under the laws of Turkey, whereby Verso agreed to sell, and the Purchaser agreed to purchase, certain equipment at Verso’s Luke Mill, primarily including two paper machines. The purchase price was \$11 million in cash due at various milestones. As of September 30, 2021, Verso has received \$11 million in non-refundable deposits associated with this sale which includes \$1 million in the first quarter of 2021, \$1 million in the second quarter of 2021 and the final payment of \$1 million in the third quarter of 2021. Management determined that the control over the use of the acquired assets had transferred to the Purchaser and correspondingly recognized the sale of the two paper machines and related assets in June 2021. Verso is exploring options for disposal of the remaining assets of the Luke Mill. As of December 31, 2020 and September 30, 2021, Verso classified \$17 million and \$6 million, respectively, in Assets held for sale on the Unaudited Condensed Consolidated Balance Sheets.

## **Sale of Duluth Mill**

On May 13, 2021, Verso Minnesota Wisconsin LLC, an indirect wholly owned subsidiary of Verso, entered into an asset purchase agreement with ST Paper 1, LLC and sold all of the assets primarily related to Verso’s Duluth Mill located in Duluth, Minnesota for \$7 million in cash, less costs to sell of \$1 million. The sale, including related selling costs, resulted in a loss of \$3 million, which is included in Other operating (income) expense on the Unaudited Condensed Consolidated Statement of Operations for the nine months ended September 30, 2021.

## **6. DEBT**

As of December 31, 2020 and September 30, 2021, Verso Paper had no outstanding borrowings on its ABL Facility (as defined below).

### **ABL Facility**

Verso Paper is the borrower under a \$200 million asset-based revolving credit facility, or the “ABL Facility.” From February 6, 2019 until May 10, 2021, the ABL Facility provided for revolving commitments of \$350 million, with a \$100 million sublimit for letters of credit and a \$35 million sublimit for swingline loans. During this time, Verso Paper could request one or more incremental revolving commitments in an aggregate principal amount up to the greater of (i) \$75 million or (ii) the excess of the borrowing base over the revolving facility commitments of \$350 million; however, the lenders were not obligated to increase the revolving commitments upon any such request. On May 10, 2021, Verso Paper entered into a third amendment to the ABL Facility, or the “Third ABL Amendment.” As a result of the Third ABL Amendment, the ABL Facility provides for revolving commitments of \$200 million, with a \$75 million sublimit for letters of credit and a \$20 million sublimit for swingline loans. The amount of borrowings and letters of credit available to Verso Paper pursuant to the ABL Facility is limited to the lesser of \$200 million or an amount determined pursuant to a borrowing base (\$141 million as of September 30, 2021). As of September 30, 2021, there were no borrowings outstanding under the ABL Facility, with \$21 million issued in letters of credit and \$120 million available for future borrowings. Availability under the ABL Facility is subject to customary borrowing conditions. The ABL Facility will mature on February 6, 2024.

Outstanding borrowings under the ABL Facility bear interest at an annual rate equal to, at the option of Verso Paper, either (i) a customary London interbank offered rate plus an applicable margin ranging from 1.25% to 1.75% or (ii) the Federal Funds Rate plus an applicable margin ranging from 0.25% to 0.75%, determined based upon the average excess availability under the ABL Facility. Verso Paper is also required to pay a commitment fee for the unused portion of the ABL Facility of 0.25% per year, based upon the average revolver usage under the ABL Facility. The ABL Facility provides for determination of a benchmark replacement interest rate when LIBOR is no longer available, subject to the terms, and upon the satisfaction of conditions, specified therein.

All obligations under the ABL Facility are unconditionally guaranteed by Verso Holding and certain of the subsidiaries of Verso Paper. The ABL Facility is secured by a first-priority lien on certain assets of Verso Paper, Verso Holding and the other guarantor subsidiaries, including accounts receivable, inventory, certain deposit accounts, securities accounts and commodities accounts.

The ABL Facility contains financial covenants requiring Verso, among other things, to maintain a minimum fixed charge coverage ratio if availability were to drop below prescribed thresholds. The ABL Facility also requires that certain payment

conditions, as defined therein, are met in order for Verso to incur debt or liens, pay cash dividends, repurchase equity interest, prepay indebtedness, sell or dispose of assets and make investments in or merge with another company.

## 7. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Net income (loss) available to common stockholders (in millions)	\$ (31)	\$ 58	\$ (11)	\$ (16)
Weighted average common shares outstanding - basic (in thousands)	33,675	29,334	34,440	31,476
Dilutive shares from stock awards (in thousands)	—	271	—	—
Weighted average common shares outstanding - diluted (in thousands)	33,675	29,605	34,440	31,476
Basic income (loss) per share	\$ (0.92)	\$ 1.98	\$ (0.33)	\$ (0.53)
Diluted income (loss) per share	\$ (0.92)	\$ 1.96	\$ (0.33)	\$ (0.53)

As a result of the net loss from continuing operations for the three and nine months ended September 30, 2020 and the nine months ended September 30, 2021, 0.9 million restricted stock units as of September 30, 2020 and 0.8 million restricted stock units as of September 30, 2021 were excluded from the calculations of diluted earnings per share for such periods as their inclusion would be anti-dilutive. As of September 30, 2020 and 2021, Verso had 1.8 million warrants outstanding at an adjusted exercise price per share of \$21.67 and \$20.66, respectively (see Note 9). As a result of the exercise price of the warrants exceeding the average market price of Verso's common stock during the three and nine months ended September 30, 2020 and 2021, 2.3 million and 2.4 million shares, respectively, were excluded from the calculations of diluted earnings per share as their inclusion would be anti-dilutive.

## 8. RETIREMENT BENEFITS

The following table summarizes the components of net periodic pension cost (income) for the periods presented:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Service cost	\$ 1	\$ —	\$ 2	\$ 1
Interest cost	12	10	35	29
Expected return on plan assets	(17)	(16)	(50)	(47)
Settlement	1	—	1	—
Net periodic pension cost (income)	\$ (3)	\$ (6)	\$ (12)	\$ (17)

Verso makes contributions to its pension plan that are sufficient to fund actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act. Contributions to the pension plan during the three and nine months ended September 30, 2020 were \$29 million and \$47 million, respectively. Contributions to the pension plan during the three and nine months ended September 30, 2021 were \$9 million and \$25 million, respectively. On March 11, 2021, the government signed into law the American Rescue Plan Act of 2021, or "ARPA." The ARPA provides for pension funding relief that reduced Verso's 2021 required cash contributions to its pension plan to \$25 million from \$46 million. Verso is not required to make any contributions to the pension plan in the remainder of 2021.

## 9. EQUITY

### Equity Awards

During the nine months ended September 30, 2021, Verso granted 0.3 million time-based restricted stock units and 0.2 million performance-based restricted stock units to its executives and certain senior managers. The performance-based restricted stock unit awards granted vest on the performance determination date following the end of the performance period, as measured using

an adjusted EBITDAP (earnings before interest, taxes, depreciation, amortization and pension expense/income) metric and a return on invested capital metric over a 3-year period ending December 31, 2023. The vesting criteria of the performance-based restricted stock unit awards meet the definition of a performance condition for accounting purposes. The number of shares which will ultimately vest at the vesting date ranges from 0% to 200% of the number of performance-based restricted stock units granted based on performance during the 3-year cumulative performance period. The compensation expense associated with these performance awards is currently estimated at 100%.

On March 5, 2021, Verso modified certain outstanding restricted stock unit awards as part of a retention arrangement for its former Chief Financial Officer who retired on June 30, 2021. As modified, his performance-based restricted stock units will remain outstanding and may vest on a pro-rata basis based on Verso's achievement of established targets. In addition, the next tranche of his time-based restricted stock units vested at June 30, 2021. The foregoing changes were considered a modification and resulted in a revaluation of his 2019 and 2020 performance-based restricted stock units to a fair value of \$0.67 and \$8.66, respectively, and a revaluation of each of his 2018, 2019 and 2020 time-based restricted stock units that vested as a result of the modification to a fair value of \$13.32.

Verso recognized equity award expense of \$1 million and \$5 million for the three and nine months ended September 30, 2020, respectively, and \$1 million and \$3 million for the three and nine months ended September 30, 2021, respectively. As of September 30, 2021, there was approximately \$6 million of unrecognized compensation cost related to the 0.8 million non-vested restricted stock units, which is expected to be recognized over the weighted average period of 2.0 years.

#### *Time-based Restricted Stock Units*

Changes to non-vested time-based restricted stock units for the nine months ended September 30, 2021 were as follows:

Shares (in thousands)	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2020	421	\$ 9.95
Granted <sup>(1)</sup>	269	13.85
Vested	(265)	9.53
Forfeited	(73)	11.85
Non-vested at September 30, 2021 <sup>(2)</sup>	352	13.36

<sup>(1)</sup> Includes 7 thousand dividend equivalent units on certain time-based restricted stock unit awards for dividends related to the stock units granted but not yet vested at the time cash dividends were paid.

<sup>(2)</sup> Includes the modified value of the time-based restricted stock units associated with the retention agreement for the former Chief Financial Officer.

#### *Performance-based Restricted Stock Units*

Changes to non-vested performance-based restricted stock units for the nine months ended September 30, 2021 were as follows:

Shares (in thousands)	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2020	424	\$ 12.21
Granted <sup>(1)</sup>	214	12.88
Incremental shares vested <sup>(2)</sup>	10	—
Vested	(143)	12.85
Forfeited	(77)	10.59
Non-vested at September 30, 2021 <sup>(3)</sup>	428	11.30

<sup>(1)</sup> Includes 8 thousand dividend equivalent units on certain performance-based restricted stock unit awards for dividends related to the stock units granted but not yet vested at the time cash dividends were paid.

<sup>(2)</sup> Incremental shares are a result of performance at 113% of the target level of shares subject to the performance-based restricted stock units.

<sup>(3)</sup> Includes the modified value of the performance-based restricted stock units associated with the retention agreement for the former Chief Financial Officer.

## Share Repurchase Authorization and Dividends

On February 26, 2020, Verso's Board of Directors authorized up to \$250 million of net proceeds from the Pixelle Sale to be used to repurchase outstanding shares of Verso common stock. In conjunction with the declaration of the special cash dividend of \$3.00 per share, or \$101 million, on August 5, 2020, Verso's Board of Directors reduced Verso's total share repurchase authorization from \$250 million to \$150 million. During the nine months ended September 30, 2020, Verso purchased under its share repurchase authorization approximately 1.6 million of its common stock through open market purchases and 10b5-1 programs at a weighted average cost of \$14.14 per share. During the nine months ended September 30, 2021, Verso purchased under its share repurchase authorization (i) approximately 1.3 million shares of its common stock through open market purchases and 10b5-1 programs at a weighted average cost of \$15.97 per share and (ii) approximately 3.0 million shares at a purchase price of \$18.10 per share through the modified Dutch auction tender offer discussed below. As of September 30, 2021, \$45 million of the \$150 million share repurchase authorization remained.

On May 13, 2021, Verso commenced a modified Dutch auction tender offer to purchase for cash shares of its common stock for an aggregate purchase price of not more than \$55 million and at a price per share of common stock of not less than \$16.00 and not more than \$18.30 per share. The tender offer expired on June 10, 2021. Through the tender offer, Verso accepted for purchase approximately 3.0 million shares of its common stock at a purchase price of \$18.10 per share for an aggregate purchase price of approximately \$56 million, including fees and expenses. The shares of common stock purchased through the tender offer were immediately retired. The excess purchase price over par value was recorded as a reduction to Paid-in capital on the Unaudited Condensed Consolidated Balance Sheet during the second quarter of 2021.

On February 5, 2021, Verso's Board of Directors declared a quarterly cash dividend of \$0.10 per share of Verso's common stock, which was paid on March 29, 2021, to stockholders of record on March 18, 2021. On May 7, 2021, Verso's Board of Directors declared a quarterly cash dividend of \$0.10 per share of Verso's common stock, which was paid on June 29, 2021, to stockholders of record on June 17, 2021. On August 6, 2021, Verso's Board of Directors declared a quarterly cash dividend of \$0.10 per share of Verso's common stock, which was paid on September 28, 2021, to stockholders of record on September 17, 2021. On November 4, 2021, Verso's Board of Directors declared a quarterly cash dividend of \$0.10 per share of Verso's common stock, payable on December 29, 2021, to stockholders of record on December 17, 2021. Verso commenced paying quarterly dividends in the second quarter of 2020.

## Warrants

On July 15, 2016, warrants to purchase up to an aggregate of 1.8 million shares of Class A common stock were issued to holders of first-lien secured debt at an initial exercise price of \$27.86 per share and a seven-year term, subject to customary anti-dilution adjustments. As a result of Verso's various share repurchases, including the modified Dutch auction tender offer, and dividend payments since the issuance of the warrants, as of September 30, 2021, the number of shares of Verso common stock issuable upon exercise of each warrant increased to 1.35 shares of common stock, for an aggregate of approximately 2.4 million shares of common stock, and the warrant exercise price was reduced to \$20.66 per share. If all warrants were exercised, Verso would issue 2.4 million shares of Class A common stock and receive \$50 million in proceeds. The warrants expire on July 15, 2023. As of September 30, 2021, no warrants have been exercised.

## 10. RESTRUCTURING CHARGES

**Wisconsin Rapids Mill** - On February 8, 2021, Verso decided to permanently shut down the No. 14 paper machine and certain other long-lived assets at its paper mill in Wisconsin Rapids, Wisconsin, while continuing to explore viable and sustainable alternatives with the remaining assets, including its converting operation, No. 16 paper machine and other remaining long-lived assets. This decision was made in response to the continued accelerated decline in printing and writing paper demand. The decision to permanently shut down the No. 14 paper machine and certain other long-lived assets, which have been idle since July 2020, permanently reduced Verso's total annual production capacity by approximately 185,000 tons of coated paper.

In connection with the permanent shutdown of the No. 14 paper machine at the Wisconsin Rapids Mill, Verso recognized \$84 million of accelerated depreciation which is included in Depreciation and amortization on the Unaudited Condensed Consolidated Statement of Operations for the nine months ended September 30, 2021.

The following table details the charges incurred related to the shutdown of No. 14 paper machine and certain other long-lived assets as included in Restructuring charges on the Unaudited Condensed Consolidated Statements of Operations:

(Dollars in millions)	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021	Cumulative Incurred
Property, plant and equipment, net	\$ —	\$ 5	\$ 5
Write-off of spare parts and inventory	—	3	3
<b>Total restructuring costs</b>	<b>\$ —</b>	<b>\$ 8</b>	<b>\$ 8</b>

**Duluth Mill** — On December 31, 2020, Verso decided to permanently shut down the paper mill in Duluth, Minnesota while continuing with efforts to sell the mill. Management’s decision to permanently shut down the Duluth Mill was made in response to the continued accelerated decline in printing and writing paper demand resulting from the COVID-19 pandemic. The closure of the Duluth Mill, which had been idle since July 2020, reduced Verso’s total annual production capacity by approximately 270,000 tons of supercalendered/packaging paper. In May 2021, Verso completed the sale of the Duluth Mill (see Note 5).

The following table details the charges incurred related to the Duluth Mill closure as included in Restructuring charges on the Unaudited Condensed Consolidated Statements of Operations:

(Dollars in millions)	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021	Cumulative Incurred
Property, plant and equipment, net	\$ —	\$ —	\$ 3
Severance and benefit costs	—	—	1
Write-off of spare parts and inventory	—	—	2
Write-off of purchase obligations and commitments	—	7	8
Other costs	—	2	2
<b>Total restructuring costs</b>	<b>\$ —</b>	<b>\$ 9</b>	<b>\$ 16</b>

The following table details the changes in the restructuring reserve liabilities related to the permanent shutdown of the Duluth Mill which are included in Accrued and other liabilities on the Unaudited Condensed Consolidated Balance Sheet:

(Dollars in millions)	Nine Months Ended September 30, 2021
Beginning balance of reserve	\$ 2
Severance and benefit payments	(1)
Purchase obligations	7
Other costs	2
Payments on other costs	(2)
<b>Ending balance of reserve</b>	<b>\$ 8</b>

**Closure of Luke Mill** — On April 30, 2019, Verso announced that it would permanently shut down its paper mill in Luke, Maryland in response to the continuing decline in customer demand for the grades of coated freesheet paper produced at the Luke Mill, along with rising input costs, a significant influx of imports and rising compliance costs and infrastructure challenges associated with environmental regulation. Verso completed the shutdown and closure of the Luke Mill in June 2019, which reduced Verso’s coated freesheet production capacity by approximately 450,000 tons and eliminated approximately 675 positions.

The following table details the charges incurred related to the Luke Mill closure as included in Restructuring charges on the Unaudited Condensed Consolidated Statements of Operations:

(Dollars in millions)	Three Months Ended		Nine Months Ended		Cumulative Incurred
	September 30,		September 30,		
	2020	2021	2020	2021	
Property, plant and equipment, net	\$ —	\$ —	\$ —	\$ —	\$ 10
Severance and benefit costs	—	—	(1)	—	18
Write-off of spare parts and inventory	—	—	—	—	9
Write-off of purchase obligations and commitments	—	—	—	—	1
Other costs <sup>(1)</sup>	(2)	—	5	—	19
<b>Total restructuring costs</b>	<b>\$ (2)</b>	<b>\$ —</b>	<b>\$ 4</b>	<b>\$ —</b>	<b>\$ 57</b>

<sup>(1)</sup> Other costs primarily relate to activities associated with the shutdown of property, plant and equipment, such as draining, cleaning, dismantling, securing and disposing of such assets. Other costs for the nine months ended September 30, 2020 includes \$4 million for the final cleaning and shutdown of various storage tanks.

## 11. COMMITMENTS AND CONTINGENCIES

**General Litigation** — Verso is involved from time to time in legal proceedings incidental to the conduct of its business. While any proceeding or litigation has the element of uncertainty, Verso believes that the outcome of any of these lawsuits or claims that are pending or threatened or all of them combined (other than those that cannot be assessed due to their preliminary nature) will not have a material effect on the Unaudited Condensed Consolidated Financial Statements.

In November 2019, the state of West Virginia asserted in an administrative enforcement action that three above-ground storage tanks at Verso's Luke Mill leaked and that Verso had failed to take certain actions to prevent and report the release of pollutants into the North Branch of the Potomac River. In March 2020, the Potomac Riverkeeper Network ("PRKN") filed a federal lawsuit against Verso alleging the improper handling, storage and disposal of wastes generated at the Luke Mill. In May 2020, Maryland joined the PRKN lawsuit and in July 2020, Maryland obtained dismissal of a lawsuit that it previously had filed with respect to the same facts. The Luke Mill sits on the border of West Virginia and Maryland, and it was closed in June 2019.

On April 1, 2021, a consent decree was approved and entered by the court in the federal lawsuit, setting forth the terms agreed by Verso with the PRKN and the Maryland Department of the Environment ("the Department"), to settle the claims by PRKN and the state of Maryland. Pursuant to the consent decree, Verso has agreed to pay an aggregate of \$1 million in penalties and fees to the Department and PRKN. Verso has also agreed to reimburse the Department for any future response and oversight costs at the Luke Mill up to a maximum of \$25,000 for the first year after the effective date of the consent decree and \$20,000 per year thereafter until termination of monitoring oversight under the consent decree. In addition to the penalties and fees paid pursuant to the consent decree, Verso also agreed to continue its ongoing remedial activities at the Luke Mill and to monitor the site for at least three years after completion of its remedial efforts.

On September 1, 2021, a consent decree was approved and entered by the circuit court of Mineral County, West Virginia, setting forth the terms agreed by Verso with the West Virginia Department of Environmental Protection ("the Department of Environmental Protection"), to settle the claims by the Department of Environmental Protection. Pursuant to the consent decree, Verso has agreed to pay an aggregate of \$650,000 in penalties to the Department of Environmental Protection. In addition to the penalties paid pursuant to the consent decree, Verso also agreed to maintain compliance at the Luke Mill, implement and continue certain remediation actions and abide by certain reporting requirements.

As a result of the consent decree approval on April 1, 2021 with respect to the lawsuit filed by PRKN, Verso revised its estimates of costs related to the ongoing environmental remediation and monitoring efforts and recorded \$5 million in Cost of products sold on the Unaudited Condensed Consolidated Statement of Operations in the first quarter of 2021. As of September 30, 2021, \$7 million of environmental remediation costs are included on the Unaudited Condensed Consolidated Balance Sheet, including \$2 million in Accrued and other liabilities and \$5 million in Other long-term liabilities. As of December 31, 2020, \$5 million of environmental remediation costs, which included the cost related to the consent decrees mentioned above, are included in Accrued and other liabilities on the Unaudited Condensed Consolidated Balance Sheet.

In connection with the closure of former idled mills, claims were asserted against Verso relating to certain contractual obligations. Verso recognized zero and \$6 million for the three and nine months ended September 30, 2021, respectively, included in Restructuring charges on the Consolidated Statements of Operations, associated with contractual obligations. Verso does not believe the claims are reasonable and will continue to defend its position and does not believe any additional charges will be material.

## 12. INFORMATION BY INDUSTRY SEGMENT

We have two operating segments, paper and pulp. We previously determined that the operating income (loss) of the pulp segment was immaterial for disclosure purposes. However, as the price for pulp/ton has increased in 2021, we have determined that the pulp segment is material for disclosure purposes as of September 30, 2021. Our paper products are used primarily in media, marketing applications and commercial printing applications. Uses include catalogs, magazines, high-end advertising brochures, direct-mail advertising, and specialty applications, such as labeling and other special applications. Our NBHK pulp is used to manufacture printing, writing and specialty paper grades, tissue and other products. Our assets are utilized across operating segments in an integrated mill system and are not identified by operating segment or reviewed by management on an operating segment basis. We operate primarily in one geographic segment, North America.

The following table summarizes the operating segment data:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
<b>Net sales<sup>(1)</sup></b>				
Paper	\$ 274	\$ 304	\$ 956	\$ 856
Pulp	\$ 32	\$ 35	\$ 89	\$ 94
Total Net sales	\$ 306	\$ 339	\$ 1,045	\$ 950
<b>Gross margin (exclusive of depreciation and amortization)</b>				
Paper	\$ (6)	\$ 49	\$ 36	\$ 109
Pulp	\$ 3	\$ 16	\$ 2	\$ 31
Total Gross margin	\$ (3)	\$ 65	\$ 38	\$ 140

(1) Intersegment sales from the pulp segment to the paper segment of \$3 million and \$7 million are eliminated from Net sales above for the three and nine months ended September 30, 2020, respectively. Intersegment sales from the pulp segment to the paper segment of \$12 million and \$17 million are eliminated from the Net sales above for the three and nine months ended September 30, 2021, respectively.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis contains forward-looking statements within the meaning of the federal securities laws, and should be read in conjunction with the disclosures we make concerning risks and other factors that may affect our business and operating results. See "Forward-Looking Statements" preceding Part I, Item 1 in this Quarterly Report on Form 10-Q.*

### Overview

We are a leading North American producer of coated paper, shipped in both roll and sheet formats, which is used primarily in printing applications to produce high-end advertising brochures, catalogs and magazines among other media and marketing publications as well as specialty and packaging applications. We also produce and sell NBHK pulp, which is used to manufacture printing and writing paper grades and tissue products.

We operate three paper machines at our mill in Escanaba, Michigan and one paper machine and one NBHK pulp machine at our mill in Quinnesec, Michigan. The mills have an aggregate annual production capacity of approximately 1,400,000 tons of paper and NBHK pulp. We also operate a sheeting facility at our Wisconsin Rapids Mill to convert paper produced at our Michigan mills to sheets for the commercial print market.

### 2021 Developments

#### *Receipt of Unsolicited Acquisition Proposal from Atlas Holdings LLC*

On July 14, 2021, we issued a press release confirming receipt of an unsolicited, non-binding proposal from Atlas Holdings LLC, or "Atlas," regarding a potential transaction to acquire all outstanding shares of our common stock for \$20.00 per share in cash.

On September 21, 2021, we announced that we entered into a confidentiality agreement with Atlas and communicated to Atlas that the previously disclosed \$20.00 per share all-cash offer to acquire Verso was insufficient and that we would only consider a potential transaction if the offer meaningfully increased. Verso and Atlas agreed to exchange additional information under the terms of the confidentiality agreement to facilitate ongoing discussions regarding a potential transaction with Atlas on mutually acceptable terms.

There can be no assurance that any negotiations between Verso and Atlas will take place following the exchange of additional information, and if such negotiations do take place, there can be no assurance that any transaction with Atlas (or any other party) will occur or be consummated.

#### *Return of Proceeds to Stockholders*

In February 2020, we announced our intention to utilize no less than \$225 million and up to \$282 million of the net cash proceeds from the Pixelle Sale for the benefit of our stockholders. As of September 30, 2021, we have returned \$225 million to our stockholders through a combination of share repurchases and special and quarterly cash dividends, including the modified Dutch auction tender offer in May 2021.

#### *Modified Dutch Auction Tender Offer*

On May 13, 2021, we commenced a modified Dutch auction tender offer to purchase for cash shares of our common stock for an aggregate purchase price of not more than \$55 million and at a price per share of common stock of not less than \$16.00 and not more than \$18.30 per share. The tender offer expired on June 10, 2021. Through the tender offer, we accepted for purchase approximately 3.0 million shares of our common stock at a purchase price of \$18.10 per share for an aggregate purchase price of approximately \$56 million, including fees and expenses. The shares of common stock purchased through the tender offer were immediately retired.

#### *Sale of Duluth Mill*

On May 13, 2021, Verso Minnesota Wisconsin LLC, an indirect wholly owned subsidiary of Verso, entered into an asset purchase agreement with ST Paper 1, LLC and sold all of the assets primarily related to our Duluth Mill located in Duluth, Minnesota for \$7 million in cash less costs to sell of \$1 million. The sale, including related sale costs, resulted in a loss of \$3 million included in Other operating (income) expense on the Unaudited Condensed Consolidated Statement of Operations for the nine months ended September 30, 2021.

#### *Wisconsin Rapids Mill*

On February 8, 2021, we decided to permanently shut down the No. 14 paper machine and certain other long-lived assets at our paper mill in Wisconsin Rapids, Wisconsin, while continuing to explore viable and sustainable alternatives with the remaining assets, including our converting operations, No. 16 paper machine and other remaining long-lived assets. This decision permanently reduced our total annual production capacity by 185,000 tons of coated paper. In the first quarter of 2021, we recognized \$84 million of accelerated depreciation which is included in Depreciation and amortization on the Unaudited Condensed Consolidated Statement of Operations for the nine months ended September 30, 2021. In addition, we recognized \$8 million in charges associated with the write-off of property, plant and equipment and spare parts and inventory which is included in Restructuring charges on the Unaudited Condensed Consolidated Statement of Operations for the nine months ended September 30, 2021.

#### *Luke Mill*

On August 1, 2020, we entered into an equipment purchase agreement with Halkali Kagit Karton Sanayi ve Tic. A.S., a company organized under the laws of Turkey, whereby we agreed to sell, and the buyer agreed to purchase, certain equipment at our Luke Mill, primarily including two paper machines. The purchase price was \$11 million in cash due at various milestones. As of September 30, 2021, we have received the \$11 million purchase price including the final payment of \$1 million in the third quarter of 2021. We have determined that the control over the use of the acquired assets transferred to the purchaser in June 2021 and correspondingly recognized the sale of the two paper machines and related assets in June 2021.

We continue to evaluate options for sale of the remaining assets of our Luke Mill.

### *Changes to Executive Officers*

On January 27, 2021, the Board of Directors appointed Randy J. Nebel as Verso's President and Chief Executive Officer, prior to which he served as our interim President and Chief Executive Officer since September 30, 2020.

On March 5, 2021, Allen J. Campbell, our Senior Vice President and Chief Financial Officer, informed us of his intent to retire, and he subsequently retired on June 30, 2021.

On April 5, 2021, Matthew M. Archambeau notified Verso of his decision to resign as Verso's Senior Vice President of Manufacturing and Energy. His resignation was effective on April 5, 2021.

On May 6, 2021, the Board of Directors of Verso appointed Kevin M. Kuznicki as Senior Vice President, General Counsel and Secretary.

On June 4, 2021, the Board of Directors appointed Brian D. Cullen to serve as Verso's Senior Vice President and Chief Financial Officer, effective June 16, 2021.

### *COVID-19 Pandemic*

The COVID-19 Pandemic has impacted our operations and financial results since the first quarter of 2020 and continues to have an impact on us. We serve as an essential manufacturing business and, as a result, we have continued to be operational during the pandemic in order to meet the ongoing needs of our customers, including those in other essential business sectors, which provide food, medical and hygiene products needed in a global health crisis. However, the guidelines and orders enacted by federal, state and local governments impacted demand from retailers, political campaigns, and sports and entertainment events, driving reduced purchases of printed materials and substantially impacting our graphic paper business.

There continues to be significant uncertainties associated with the COVID-19 Pandemic, including with respect to the resurgence of new variants of the virus; or if the vaccines introduced to combat the virus are not effective or public acceptance of such vaccines is not widespread; and the impact of COVID-19 on economic conditions, including with respect to labor market conditions, economic activity, consumer behavior, supply chain shortages and disruptions and inflationary pressure; all of which could have a material impact on our business, financial position, results of operations and cash flows.

While we cannot reasonably estimate the full impact of COVID-19 on our business, financial position, results of operations and cash flows, we have seen our sales, volume and prices continue to recover during the third quarter of 2021.

### **Results of Operations**

The following table sets forth the historical results of operations of Verso for the periods indicated below. The following discussion of our financial condition and results of operations should be read in conjunction with our Unaudited Condensed Consolidated Financial Statements and notes thereto included elsewhere in this report.

### Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

(Dollars in millions)	Three Months Ended		Three Months \$ Change
	September 30,		
	2020	2021	
<b>Net sales</b>	\$ 306	\$ 339	\$ 33
<b>Costs and expenses:</b>			
Cost of products sold (exclusive of depreciation and amortization)	309	274	(35)
Depreciation and amortization	21	18	(3)
Selling, general and administrative expenses	19	19	—
Restructuring charges	(2)	—	2
Other operating (income) expense	3	(7)	(10)
<b>Operating income (loss)</b>	(44)	35	79
Interest expense	1	—	(1)
Other (income) expense	(5)	(6)	(1)
<b>Income (loss) before income taxes</b>	(40)	41	81
Income tax expense (benefit)	(9)	(17)	(8)
<b>Net income (loss)</b>	\$ (31)	\$ 58	\$ 89

*Net sales.* Net sales for the three months ended September 30, 2021 increased \$33 million, or 11%, compared to the three months ended September 30, 2020, driven by favorable price/mix of \$47 million, partially offset by \$14 million, or 5%, largely attributable to our sold Duluth and idled Wisconsin Rapids mills. Total company sales volume was down from 382 thousand tons during the three months ended September 30, 2020, to 358 thousand tons during the same period of the current year, primarily attributable to our sold Duluth and idled Wisconsin Rapids mills.

*Operating income (loss).* Operating income was \$35 million for the three months ended September 30, 2021, an increase of \$79 million when compared to an operating loss of \$44 million for the three months ended September 30, 2020.

Our operating results for the three months ended September 30, 2021 were positively impacted by:

- Favorable price/mix of \$47 million driven by price increase realization across all grades, including pulp
- Improved operating income of \$11 million resulting from the conversion to our current two mill system
- Lower depreciation expense of \$3 million
- Lower net operating expenses of \$29 million driven primarily by \$22 million lower closed/idled mill spend, lower wood costs, improved performance and cost reduction initiatives across our mill system
- Higher other operating income of \$10 million, driven primarily by \$6 million in insurance recoveries during the third quarter of 2021 associated with a 2019 insurance claim at our Quinnesec Mill and \$3 million loss on sale or disposal of assets in 2020

Our operating results for the three months ended September 30, 2021 were negatively impacted by:

- Inflationary cost increases of \$19 million driven by purchased pulp, latex, energy and freight
- Favorable Restructuring charge adjustments of \$2 million in the third quarter of 2020 for activities associated with the closure of our Luke Mill in 2019

*Other (income) expense.* Other income for the three months ended September 30, 2021 and 2020 includes income of \$6 million and \$5 million, respectively, associated with the non-operating components of net periodic pension cost (income).

*Income tax expense (benefit).* Income tax benefit of \$17 million for the three months ended September 30, 2021 reflects estimated net tax benefit for the period, including \$2 million of tax benefit from the release of valuation allowance against state tax credits. Income tax benefit of \$9 million for the three months ended September 30, 2020 primarily reflects our estimated tax benefit for the period, partially offset by \$1 million of valuation allowance recognized against state tax credits. The three months ended September 30, 2020 includes \$7 million of income tax expense related to the year ended December 31, 2019. This resulted from recording an adjustment for the federal tax effect on deferred tax assets for state net operating losses and state tax credits established in 2019 without a federal tax effect.

## Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

(Dollars in millions)	Nine Months Ended September 30,		Nine Months \$ Change
	2020	2021	
<b>Net sales</b>	\$ 1,045	\$ 950	\$ (95)
<b>Costs and expenses:</b>			
Cost of products sold (exclusive of depreciation and amortization)	1,007	810	(197)
Depreciation and amortization	66	137	71
Selling, general and administrative expenses	62	54	(8)
Restructuring charges	4	17	13
Other operating (income) expense	(84)	(5)	79
<b>Operating income (loss)</b>	(10)	(63)	(53)
Interest expense	1	1	—
Other (income) expense	(14)	(19)	(5)
<b>Income (loss) before income taxes</b>	3	(45)	(48)
Income tax expense (benefit)	14	(29)	(43)
<b>Net income (loss)</b>	\$ (11)	\$ (16)	\$ (5)

*Net sales.* Net sales for the nine months ended September 30, 2021 decreased \$95 million, or 9%, compared to the nine months ended September 30, 2020, attributable to favorable price/mix of \$72 million, which was more than offset by a decrease of \$167 million, or 16%, primarily related to our sold Duluth, Androscoggin and Stevens Point mills and idled Wisconsin Rapids mill. Total company sales volume was down from 1,282 thousand tons during the nine months ended September 30, 2020, to 1,066 thousand tons during the same period of the current year, primarily attributable to our sold Duluth, Androscoggin and Stevens Point mills and idled Wisconsin Rapids mill.

*Operating income (loss).* Operating loss was \$63 million for the nine months ended September 30, 2021, a decrease of \$53 million when compared to operating loss of \$10 million for the nine months ended September 30, 2020.

Our operating results for the nine months ended September 30, 2021 were positively impacted by:

- Favorable price/mix of \$72 million driven by price increase realization across all grades, including pulp
- Improved operating income of \$22 million resulting from the conversion to our current two mill system
- Lower net operating expenses of \$37 million driven primarily by lower closed/idled mill spend, improved performance and cost reduction initiatives across our mill system
- Lower planned major maintenance costs of \$7 million driven by reduced scope
- Lower Selling, general and administrative expenses of \$8 million driven primarily by cost reduction initiatives in connection with the sale of our Androscoggin and Stevens Point mills in February 2020, non-recurring costs associated with the proxy solicitation contest in the first quarter of 2020, and lower equity compensation expense and severance costs, partially offset by an increase in incentive expense

Our operating results for the nine months ended September 30, 2021 were negatively impacted by:

- Lower sales volume resulting in a decrease of \$4 million in net operating income
- Inflationary costs of \$32 million driven by purchased pulp, latex, energy and freight
- Higher depreciation expense of \$71 million due primarily to \$84 million in accelerated depreciation associated with the permanent shutdown of No. 14 paper machine and certain other long-lived assets at our Wisconsin Rapids Mill in February 2021
- Higher Restructuring charges of \$13 million primarily associated with the permanent shutdown of our Duluth Mill in December 2020 and the No. 14 paper machine and certain other long-lived assets at our Wisconsin Rapids Mill in February 2021, partially offset by restructuring costs associated with the closure of our Luke Mill in June 2019
- Lower other operating income of \$79 million, primarily as a result of the \$88 million gain on the sale of our Androscoggin and Stevens Point mills in February 2020, partially offset by \$6 million in insurance recoveries during the third quarter of 2021, associated with a 2019 insurance claim at our Quinnesec Mill and \$3 million loss on sale or disposal of assets in 2020

*Other (income) expense.* Other income for the nine months ended September 30, 2021 and 2020 includes income of \$18 million and \$15 million, respectively, associated with the non-operating components of net periodic pension cost (income).

*Income tax expense (benefit).* Income tax benefit of \$29 million for the nine months ended September 30, 2021 reflects estimated tax benefit for the period, partially offset by \$2 million of additional valuation allowance recognized against state tax credits. Income tax expense of \$14 million for the nine months ended September 30, 2020 primarily reflects estimated taxes for the period and \$8 million of additional valuation allowance recognized against state tax credits. The nine months ended September 30, 2020 includes \$7 million of income tax expense related to the year ended December 31, 2019. This resulted from recording an adjustment for the federal tax effect on deferred tax assets for state net operating losses and state tax credits established in 2019 without a federal tax effect.

### **Reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA**

EBITDA consists of earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA reflects adjustments to EBITDA to eliminate the impact of certain items that we do not consider to be indicative of our ongoing performance. We use EBITDA and Adjusted EBITDA as a way of evaluating our performance relative to that of our peers and to assess compliance with our credit facilities. We believe that EBITDA and Adjusted EBITDA are non-GAAP operating performance measures commonly used in our industry that provide investors and analysts with measures of ongoing operating results, unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies.

We believe that the supplemental adjustments applied in calculating Adjusted EBITDA are reasonable and appropriate to provide additional information to investors.

Because EBITDA and Adjusted EBITDA are not measurements determined in accordance with GAAP and are susceptible to varying calculations, EBITDA and Adjusted EBITDA, as presented, may not be comparable to similarly titled measures of other companies. You should consider our EBITDA and Adjusted EBITDA in addition to, and not as a substitute for, or superior to, our operating or net income (loss), which are determined in accordance with GAAP.

The following table reconciles Net income (loss) to EBITDA and Adjusted EBITDA for the periods presented:

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2021	2020	2021
<b>Net income (loss)</b>	\$ (31)	\$ 58	\$ (11)	\$ (16)
Income tax expense (benefit)	(9)	(17)	14	(29)
Interest expense	1	—	1	1
Depreciation and amortization	21	18	66	137
<b>EBITDA</b>	\$ (18)	\$ 59	\$ 70	\$ 93
Adjustments to EBITDA:				
Restructuring charges <sup>(1)</sup>	(2)	—	4	17
Luke Mill post-closure costs <sup>(2)</sup>	3	(1)	9	7
Noncash equity award compensation <sup>(3)</sup>	1	1	5	3
Gain on Sale of the Androscoggin/Stevens Point Mills <sup>(4)</sup>	—	—	(88)	—
Loss on Sale of Duluth Mill <sup>(5)</sup>	—	—	—	3
Duluth and Wisconsin Rapids mills idle/post-closure costs <sup>(6)</sup>	17	3	17	17
(Gain) loss on sale or disposal of assets <sup>(7)</sup>	3	—	3	—
Stockholders proxy solicitation costs <sup>(8)</sup>	—	—	4	—
Other severance costs <sup>(9)</sup>	8	2	13	4
Other items, net <sup>(10)</sup>	—	3	1	5
<b>Adjusted EBITDA</b>	\$ 12	\$ 67	\$ 38	\$ 149

<sup>(1)</sup> For 2020, charges are associated with the closure of our Luke Mill in June 2019. For 2021, charges are primarily associated with the permanent shutdown of our Duluth Mill in December 2020 and of the No. 14 paper machine and certain other long-lived assets at our Wisconsin Rapids Mill in February 2021.

<sup>(2)</sup> Costs recorded after the permanent shutdown of our Luke Mill that are not associated with product sales or restructuring activities, including \$5 million in March 2021 associated with the approval of a consent decree on April 1, 2021 relating to the ongoing environmental remediation and monitoring efforts.

<sup>(3)</sup> Amortization of noncash incentive compensation.

<sup>(4)</sup> Gain on the sale of outstanding membership interests in Verso Androscoggin, LLC in February 2020, which included our Androscoggin Mill and Stevens Point Mill.

<sup>(5)</sup> Loss on the sale of our Duluth Mill in May 2021.

<sup>(6)</sup> Idle/post-closure costs associated with our Duluth and Wisconsin Rapids mills that are not associated with product sales or restructuring activities.

<sup>(7)</sup> Realized (gain) loss on the sale or disposal of assets.

<sup>(8)</sup> Costs incurred in connection with the stockholders proxy solicitation contest.

<sup>(9)</sup> Severance and related benefit costs not associated with restructuring activities.

<sup>(10)</sup> For 2020, other miscellaneous adjustments. For 2021, professional fees and other charges associated with strategic initiatives, including activities in connection with the unsolicited acquisition proposal from Atlas, and other miscellaneous adjustments.

## Liquidity and Capital Resources

Our principal cash requirements include ongoing operating costs for working capital needs, capital expenditures for maintenance and strategic investments in our mills and pension contributions. We believe our cash and cash equivalents at September 30, 2021, future cash generated from operations and, to the extent necessary, the availability under our ABL Facility, will be sufficient to meet these needs for at least the next twelve months.

As of September 30, 2021, we had cash and cash equivalents of \$166 million while the outstanding balance of our ABL Facility was zero, with \$21 million issued in letters of credit and \$120 million available for future borrowings.

On February 26, 2020, our Board of Directors authorized up to \$250 million of net proceeds from the Pixelle Sale to be used to repurchase outstanding shares of our common stock. In conjunction with the declaration of the special cash dividend of \$3.00 per share, or \$101 million, on August 5, 2020, our Board of Directors reduced the total amount of the share repurchase authorization from \$250 million to \$150 million. During the nine months ended September 30, 2020 and 2021, we purchased approximately 1.6 million and 1.3 million shares, respectively, of our common stock through open market purchases and

10b5-1 programs under the share repurchase authorization at weighted average costs of \$14.14 and \$15.97 per share, respectively.

On May 13, 2021, we commenced a modified Dutch auction tender offer to purchase for cash shares of our common stock for an aggregate purchase price of not more than \$55 million. The tender offer expired on June 10, 2021. Through the tender offer, we accepted for payment approximately 3.0 million shares at a purchase price of \$18.10 per share for an aggregate purchase price of approximately \$56 million, including fees and expenses. The shares purchased through the tender offer were immediately retired.

As of September 30, 2021, \$45 million of the \$150 million share repurchase authorization remained.

Our Board of Directors has approved quarterly dividends since the second quarter of 2020. Our Board of Directors has declared the following dividends in 2021:

Quarter	Date Declared	Date of Record	Date Paid	Amount
1st	February 5	March 18	March 29	\$0.10
2nd	May 7	June 17	June 29	\$0.10
3rd	August 6	September 17	September 28	\$0.10
4th	November 4	December 17	December 29	\$0.10

We make contributions to our pension plan that are sufficient to fund actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act. We made contributions to our pension plan of \$47 million during the nine months ended September 30, 2020 and \$25 million during the nine months ended September 30, 2021. On March 11, 2021, the government signed into law the American Rescue Plan Act of 2021, or “ARPA.” The ARPA provides for pension funding relief which reduced our 2021 required cash contribution to our pension plan to \$25 million from \$46 million. We are not required to make any contributions to the pension plan in the remainder of 2021.

Our cash flows from operating, investing and financing activities, as reflected on the Unaudited Condensed Consolidated Statements of Cash Flows, are summarized in the following table:

(Dollars in millions)	Nine Months Ended	
	September 30, 2020	September 30, 2021
Net cash provided by (used in):		
Operating activities	\$ (129)	\$ 133
Investing activities	296	(15)
Financing activities	(136)	(89)
Change in Cash and cash equivalents and restricted cash	\$ 31	\$ 29

## ***Operating Activities***

Our operating cash flow requirements are primarily for salaries and benefits, the purchase of raw materials including wood fiber, wood pulp, chemicals and energy, and other expenses such as maintenance and warehousing costs. For the nine months ended September 30, 2021, net cash provided by operating activities of \$133 million primarily reflects adjustments for noncash charges associated with the permanent shutdown of the No. 14 paper machine and certain other long-lived assets, including \$84 million in accelerated depreciation and \$8 million in other noncash restructuring charges, regular depreciation and amortization of \$53 million and net cash provided from working capital related changes of \$74 million, partially offset by a net loss of \$16 million, \$17 million of noncash pension income, \$25 million of pension plan contributions and deferred taxes of \$29 million. The net cash provided from working capital related changes during the nine months ended September 30, 2021 was primarily attributable to decreases in inventory levels, partially offset by increases in accounts receivable and accounts payable. For the nine months ended September 30, 2020, net cash used in operating activities of \$129 million primarily reflects a net loss of \$11 million, a noncash gain of \$88 million on the Sale of the Androscoggin/Stevens Point Mills, \$12 million of noncash pension income, \$47 million of pension plan contributions and net cash used for working capital related changes of \$59 million, partially offset by noncash depreciation and amortization of \$66 million, deferred taxes of \$14 million and equity award expense of \$5 million. The net cash used for working capital related changes during the nine months ended September 30, 2020 was primarily attributable to increases in inventory levels and payments that reduced our accounts payable and accrued liabilities.

## ***Investing Activities***

For the nine months ended September 30, 2021, net cash used in investing activities of \$15 million consisted of cash paid for capital expenditures of \$38 million, of which \$3 million related to capital expenditures incurred in 2020 and paid in 2021, primarily offset by net proceeds from the Sale of Duluth Mill of \$6 million, proceeds from insurance recoveries of \$6 million, recognition of deposits and net proceeds from the sale of our Luke Mill equipment of \$10 million and proceeds from sale of other assets of \$1 million. For the nine months ended September 30, 2020, net cash provided by investing activities of \$296 million consisted of \$338 million in proceeds from the Sale of the Androscoggin/Stevens Point Mills, partially offset by cash paid for capital expenditures of \$43 million, of which \$15 million related to capital expenditures incurred in 2019 and paid in 2020.

## ***Financing Activities***

For the nine months ended September 30, 2021, net cash used in financing activities of \$89 million primarily reflects \$56 million in repurchases of our common stock, \$9 million in cash dividends paid to stockholders and \$23 million for the acquisition of treasury stock, consisting of \$21 million of share repurchases and \$2 million associated with the vesting of restricted stock units. For the nine months ended September 30, 2020, net cash used in financing activities of \$136 million primarily reflects \$108 million in cash dividends paid to stockholders and \$27 million for the acquisition of treasury stock, consisting of \$23 million of share repurchases and \$4 million associated with the vesting of restricted stock units.

## **ABL Facility**

Verso Paper maintains an asset-based revolving credit facility, or, as amended from time to time, our “ABL Facility.” On May 10, 2021, Verso Paper entered into the Third Amendment to the ABL Facility, or the “Third ABL Amendment” to the ABL Facility. As a result of the Third ABL Amendment, the ABL Facility provides for revolving commitments of \$200 million, with a \$75 million sublimit for letters of credit and a \$20 million sublimit for swingline loans. The amount of borrowings and letters of credit available to Verso Paper pursuant to our ABL Facility is limited to the lesser of \$200 million or an amount determined pursuant to a borrowing base (\$141 million as of September 30, 2021). As of September 30, 2021, there were no borrowings outstanding under our ABL Facility, \$21 million issued in letters of credit and \$120 million available for future borrowings. Verso Paper may request one or more incremental revolving commitments in an aggregate principal amount up to the greater of (i) \$75 million or (ii) the excess of the borrowing base over the revolving facility commitments of \$200 million; however, the lenders are not obligated to increase the revolving commitments upon any such request. Availability under our ABL Facility is subject to customary borrowing conditions. Our ABL Facility will mature on February 6, 2024.

Outstanding borrowings under our ABL Facility bear interest at an annual rate equal to, at the option of Verso Paper, either (i) a customary London interbank offered rate plus an applicable margin ranging from 1.25% to 1.75% or (ii) the Federal Funds Rate plus an applicable margin ranging from 0.25% to 0.75%, determined based upon the average excess availability under our ABL Facility. Verso Paper also is required to pay a commitment fee for the unused portion of our ABL Facility of 0.25% per year, based upon the average revolver usage under our ABL Facility. In addition, pursuant to the Third ABL Amendment, certain modifications were made to the existing ABL Facility in order to, among other things, provide for determination of a

benchmark replacement interest rate when LIBOR is no longer available, subject to the terms, and upon the satisfaction of conditions, specified therein.

All obligations under our ABL Facility are unconditionally guaranteed by Verso Holding and certain of the subsidiaries of Verso Paper. The security interest with respect to our ABL Facility consists of a first-priority lien on certain assets of Verso Paper, Verso Holding and the other guarantor subsidiaries, including accounts receivable, inventory, certain deposit accounts, securities accounts and commodities accounts.

Our ABL Facility contains financial covenants requiring Verso, among other things, to maintain a minimum fixed charge coverage ratio if availability were to drop below prescribed thresholds. As of September 30, 2021, we were above the prescribed thresholds in our ABL Facility. Our ABL Facility also requires that certain payment conditions, as defined therein, are met in order for Verso to incur debt or liens, pay cash dividends, repurchase equity interest, prepay indebtedness, sell or dispose of assets and make investments in or merge with another company.

If Verso Paper were to violate any of the covenants under our ABL Facility and were unable to obtain a waiver, it would be considered a default after the expiration of any applicable grace period. If Verso Paper were in default under our ABL Facility, then the lenders thereunder may exercise remedies in accordance with the terms thereof. In addition, if Verso Paper were in default under our ABL Facility, no additional borrowings under our ABL Facility would be available until the default was waived or cured. Our ABL Facility provides for customary events of default, including a cross-event of default provision with respect to any other existing debt instrument having an aggregate principal amount that exceeds \$25 million.

### **Critical Accounting Policies**

Our accounting policies are fundamental to understanding management's discussion and analysis of financial condition and results of operations. Our Unaudited Condensed Consolidated Financial Statements are prepared in conformity with GAAP and follow general practices within the industry in which we operate. The preparation of the financial statements requires management to make certain judgments and assumptions in determining accounting estimates. Accounting estimates are considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and different estimates reasonably could have been used in the current period, or changes in the accounting estimate are reasonably likely to occur from period to period, that would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations.

For a discussion of our critical accounting policies and estimates, see "Critical Accounting Policies" included in our Annual Report on Form 10-K for the year ended December 31, 2020, under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2020.

### **Recent Accounting Pronouncements**

See Note 2, "Recent Accounting Pronouncements" in the Notes to our Unaudited Condensed Consolidated Financial Statements included elsewhere in this report.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk from fluctuations in our paper prices, interest rates, energy prices and commodity prices for our inputs.

### **Paper Prices**

Our sales, which we report net of rebates, allowances and discounts, are a function of the number of tons of paper that we sell and the price at which we sell our paper. Paper prices historically have been a function of macroeconomic factors that influence supply and demand, and have been substantially more variable than volume and can change significantly over relatively short time periods. Price is also subject to volatility due to fluctuations in foreign exchange rates of the U.S. dollar relative to other currencies, especially the euro, which can lead to lower average sales price realization.

We are primarily focused on serving the following end-user markets: specialty converters, general commercial print, catalogs and magazine publishers. Coated paper demand is primarily driven by advertising and print media usage. Advertising spending and magazine and catalog circulation tend to correlate with gross domestic product in the United States, as they rise with a

strong economy and contract with a weak economy, which impacts media spend which further impacts magazine and catalog subscriptions.

Many of our customers provide us with forecasts, 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, and they typically provide for quarterly or semiannual price adjustments based on market price movements.

We reach our end-users through several channels, including merchants, brokers, printers and direct sales to end-users. We sell our products to approximately 200 customers. During the nine months ended September 30, 2021, our largest two customers, Central National-Gottesman and Veritiv Corporation, together accounted for 27% of our net sales.

### **Interest Rates**

As of September 30, 2021, we had no borrowings outstanding under our ABL Facility. Borrowings under our ABL Facility bear interest at a variable rate based on LIBOR or the Federal Funds Rate, in each case plus an applicable margin (see “Liquidity and Capital Resources - ABL Facility” above for additional information).

An increase in interest rates would increase the costs of our variable rate debt obligations, if we were borrowing under our ABL Facility. While we may enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk. In addition, there is uncertainty around whether LIBOR will continue to exist after 2021. However, for U.S. dollar LIBOR, the relevant date was deferred to June 30, 2023 for certain tenors (including overnight and one, three, six and 12 months), at which time the LIBOR administrator has indicated that it intends to cease publication of U.S. dollar LIBOR. Despite this deferral, the LIBOR administrator has advised that no new contracts using U.S. dollar LIBOR should be entered into after December 31, 2021. In addition, pursuant to the Third ABL Amendment, certain modifications were made to the existing ABL Facility in order to, among other things, provide for determination of a benchmark replacement interest rate when LIBOR is no longer available, subject to the terms, and upon the satisfaction of conditions, specified therein.

### **Commodity Prices**

We are subject to changes in our cost of sales caused by movements in underlying commodity prices. The principal components of our cost of sales are wood fiber, wood pulp, chemicals, energy, labor and maintenance. The cost of commodities, including wood fiber, wood pulp, chemicals and energy, is the most variable component of our cost of sales because prices can fluctuate substantially, sometimes within a relatively short period of time. In addition, our aggregate commodity purchases fluctuate based on the volume of paper that we produce.

*Wood Fiber.* We source our wood fiber from a broad group of timberland and sawmill owners located in the regions around our mills. Our cost to purchase wood is affected directly by the market price of wood in our regional markets and indirectly by the variability of fuel cost for the logging and transportation of timber to our facilities. While we have fiber supply agreements in place that ensure delivery of a substantial portion of our wood requirements, purchases under these agreements are typically at market rates.

*Wood Pulp.* We source bleached wood pulp from market producers to supplement fiber requirements at our mills. The primary pulp procured is Northern Bleached Softwood Kraft, or “NBSK.” We expect weather events and imbalances in supply and demand to create volatility in prices for NBSK from time to time.

*Chemicals.* Chemicals utilized in the manufacturing of coated paper 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 and weather events to periodically create volatility in prices and supply for certain chemicals.

*Energy.* We produce a significant portion of our energy needs for our paper mills from sources such as waste wood, waste heat recovery, liquid biomass from our pulping process and internal energy cogeneration facilities. Our external energy purchases include fuel oil, natural gas, coal and electricity. Our overall energy expenditures are mitigated by our internal energy production capacity and ability to switch between certain energy sources. The use of derivative contracts is also considered as part of our risk management strategy to manage our exposure to market fluctuations in energy prices.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in reports that we file and submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There are inherent limitations to the effectiveness of any disclosure controls and procedures, including the possibility of human error or the circumvention or overriding of the controls and procedures, and even effective disclosure controls and procedures can provide only reasonable assurance of achieving their objectives. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2021. Based upon this evaluation, and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2021.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting during the quarter ended September 30, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

See Note 11 to our Unaudited Condensed Consolidated Financial Statements for information regarding legal proceedings, which information is incorporated by reference in this Item 1.

### **ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors disclosed in "*Part I - Item 1A. Risk Factors*" in our Annual Report on Form 10-K for the year ended December 31, 2020 other than those disclosed in "*Part II - Item 1A. Risk Factors*" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2021.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On February 26, 2020, our Board of Directors authorized up to \$250 million of net proceeds from the Pixelle Sale to be used to repurchase outstanding shares of Verso common stock. In conjunction with the declaration of the special cash dividend of \$3.00 per share on August 5, 2020 (see “Liquidity and Capital Resources” above for more information), our Board of Directors reduced the total amount of the share repurchase authorization from \$250 million to \$150 million. During the three months ended September 30, 2021, we purchased approximately 0.6 million shares of our common stock through open market purchases and 10b5-1 programs under the share repurchase authorization at a weighted average costs of \$19.31 per share. As of September 30, 2021, \$45 million of the \$150 million authorized remained.

The table below discloses the shares of our common stock repurchased during the third quarter of 2021 (dollars in millions, except per share amounts):

	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit) (a)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (b) (in millions)
July 1, 2021 through July 31, 2021	257,433	\$ 19.33	257,433	\$ 51
August 1, 2021 through August 31, 2021	182,179	19.24	182,179	48
September 1, 2021 through September 30, 2021	152,166	19.37	152,166	45
Total	<u>591,778</u>	<u>19.31</u>	<u>591,778</u>	<u>45</u>

<sup>(1)</sup> Does not include 18,728 shares of Verso common stock repurchased during the three months ended September 30, 2021 at an average price of \$17.79 per share to meet participant tax withholding obligations on restricted stock units that vested during the quarter.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

Not applicable.

## ITEM 6. EXHIBITS

The following exhibits are included with this report:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	<a href="#"><u>Amended and Restated Certificate of Incorporation of Verso Corporation, as amended by the Certificate of Amendment, dated February 18, 2020.</u></a> <sup>(1)</sup>
3.2	<a href="#"><u>Amended and Restated Bylaws of Verso Corporation.</u></a> <sup>(2)</sup>
4.1	<a href="#"><u>Form of specimen Class A Common Stock certificate.</u></a> <sup>(3)</sup>
4.2	<a href="#"><u>Form of specimen Class B Common stock certificate.</u></a> <sup>(4)</sup>
4.3	<a href="#"><u>Form of specimen Warrant certificate.</u></a> <sup>(5)</sup>
4.4	<a href="#"><u>Warrant Agreement dated as of July 15, 2016, between Verso Corporation and Computershare Inc. and its wholly owned subsidiary, Computershare Trust Company N.A., collectively, as warrant agent.</u></a> <sup>(6)</sup>
10.1	<a href="#"><u>Form of Employee Restricted Stock Unit Award Agreement - 2021</u></a>
10.2	<a href="#"><u>Form of Employee Performance Stock Unit Award Agreement - 2021</u></a>
31.1	<a href="#"><u>Certification of Principal Executive Officer of Verso Corporation pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.</u></a>
31.2	<a href="#"><u>Certification of Principal Financial Officer of Verso Corporation pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.</u></a>
32.1	<a href="#"><u>Certification of Principal Executive Officer of Verso Corporation pursuant to Rule 13a-14(b) under Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.</u></a> <sup>(7)</sup>
32.2	<a href="#"><u>Certification of Principal Financial Officer of Verso Corporation pursuant to Rule 13a-14(b) under Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.</u></a> <sup>(7)</sup>
101.INS	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

<sup>(1)</sup> Incorporated herein by reference to Exhibit 3.1 to Verso Corporation's Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 1, 2021.

<sup>(2)</sup> Incorporated herein by reference to Exhibit 3.1 to Verso Corporation's Current Report on Form 8-K filed with the SEC on June 26, 2020.

<sup>(3)</sup> Incorporated herein by reference to Exhibit 4.1 to Verso Corporation's Current Report on Form 8-K filed with the SEC on July 19, 2016.

<sup>(4)</sup> Incorporated herein by reference to Exhibit 4.2 to Verso Corporation's Current Report on Form 8-K filed with the SEC on July 19, 2016.

<sup>(5)</sup> Included in Exhibit 4.4.

<sup>(6)</sup> Incorporated herein by reference to Exhibit 10.4 to Verso Corporation's Current Report on Form 8-K filed with the SEC on July 19, 2016.

<sup>(7)</sup> Furnished herewith.

