HEALTHWAYS, INC
Form SC 13G/A
February 12, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

Amendment No. 3*

Healthways, Inc.

(Name of Issuer)

Common Stock

(Title of Class of Securities)

422245100

(CUSIP Number)

December 31, 2009

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)

[ ] Rule 13d-1(c)

[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 422245100 13G

1. **NAME OF REPORTING PERSON** (S.S. or I.R.S. Identification No. of Above Person)

Ivy Investment Management Company Tax ID No. 03-0481447

2. **CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP**:

(a) [ ]

(b) [ ]

3. **SEC USE ONLY**

4. **CITIZENSHIP OR PLACE OF ORGANIZATION**: Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5.	**SOLE VOTING POWER**	249,819 (See Item 4)
6.	**SHARED VOTING POWER**	0
7.	**SOLE DISPOSITIVE POWER**	249,819 (See Item 4)
8.	**SHARED DISPOSITIVE POWER**	0

9. **AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON**: 249,819 (See Item 4)

10. **CHECK IF THE AGGREGATE AMOUNT IN ROW 9 EXCLUDES CERTAIN SHARES**: [ ]

11. **PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9**: 0.8

12. **TYPE OF PERSON REPORTING**: IA

CUSIP No. 422245100 13G

1. NAME OF REPORTING PERSON (S.S. or I.R.S. Identification No. of Above Person)

Waddell & Reed Investment Management Company Tax ID No. 48-1106973

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:

(a) [ ]

(b) [ ]

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION: Kansas

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5.	**SOLE VOTING POWER**	1,798,749 (See Item 4)
6.	**SHARED VOTING POWER**	0
7.	**SOLE DISPOSITIVE POWER**	1,798,749 (See Item 4)
8.	**SHARED DISPOSITIVE POWER**	0

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 1,798,749 (See Item 4)

10. **CHECK IF THE AGGREGATE AMOUNT IN ROW 9 EXCLUDES CERTAIN SHARES**: [ ]

11. **PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9**: 5.3

12. **TYPE OF PERSON REPORTING**: IA

CUSIP No. 422245100 13G

1. **NAME OF REPORTING PERSON** (S.S. or I.R.S. Identification No. of Above Person)

Waddell & Reed, Inc. Tax ID No. 43-1235675

2. **CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP**:

(a) [ ]

(b) [ ]

3. **SEC USE ONLY**

4. **CITIZENSHIP OR PLACE OF ORGANIZATION**: Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5.	**SOLE VOTING POWER**	1,798,749 (See Item 4)
6.	**SHARED VOTING POWER**	0
7.	**SOLE DISPOSITIVE POWER**	1,798,749 (See Item 4)
8.	**SHARED DISPOSITIVE POWER**	0

9. **AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON**: 1,798,749 (See Item 4)

10. **CHECK IF THE AGGREGATE AMOUNT IN ROW 9 EXCLUDES CERTAIN SHARES**: [ ]

11. **PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9**: 5.3

12. **TYPE OF PERSON REPORTING**: BD

CUSIP No. 422245100 13G

1. **NAME OF REPORTING PERSON** (S.S. or I.R.S. Identification No. of Above Person)

Waddell & Reed Financial Services, Inc. Tax ID No. 43-1414157

2. **CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP**:

(a) [ ]

(b) [ ]

3. **SEC USE ONLY**

4. **CITIZENSHIP OR PLACE OF ORGANIZATION**: Missouri

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5.	**SOLE VOTING POWER**	1,798,749 (See Item 4)
6.	**SHARED VOTING POWER**	0
7.	**SOLE DISPOSITIVE POWER**	1,798,749 (See Item 4)
8.	**SHARED DISPOSITIVE POWER**	0

9. **AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON**: 1,798,749 (See Item 4)

10. **CHECK IF THE AGGREGATE AMOUNT IN ROW 9 EXCLUDES CERTAIN SHARES**: [ ]

11. **PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9**: 5.3

12. **TYPE OF PERSON REPORTING**: HC

CUSIP No. 422245100 13G

1. **NAME OF REPORTING PERSON** (S.S. or I.R.S. Identification No. of Above Person)

Waddell & Reed Financial, Inc. Tax ID No. 51-0261715

2. **CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP**:

(a) [ ]

(b) [ ]

3. **SEC USE ONLY**

4. **CITIZENSHIP OR PLACE OF ORGANIZATION**: Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5.	**SOLE VOTING POWER**	2,048,568 (See Item 4)
6.	**SHARED VOTING POWER**	0
7.	**SOLE DISPOSITIVE POWER**	2,048,568 (See Item 4)
8.	**SHARED DISPOSITIVE POWER**	0

9. **AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON**: 2,048,568 (See Item 4)

10. **CHECK IF THE AGGREGATE AMOUNT IN ROW 9 EXCLUDES CERTAIN SHARES**: [ ]

11. **PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9**: 6.1

12. **TYPE OF PERSON REPORTING**: HC

Item 1(a): Name of Issuer: Healthways, Inc.

Item 1(b): Address of Issuer s Principal Executive Offices:

701 Cool Springs Boulevard

Franklin, TN 37067

Item 2(a): Name of Person Filing:

(i) Waddell & Reed Financial, Inc.

(ii) Waddell & Reed Financial Services, Inc.

(iii) Waddell & Reed, Inc.

(iv) Waddell & Reed Investment Management Company

(v) Ivy Investment Management Company

Item 2(b): Address of Principal Business Office:

(i)-(v): 6300 Lamar Avenue

Overland Park, KS 66202

Item 2(c): Citizenship:

(i), (iii) and (v): Delaware

(ii): Missouri

(iv): Kansas

Item 2(d): Title of Class of Securities: Common Stock

Item 2(e): CUSIP Number: 422245100

Item 3: The reporting person is:

(i)	Waddell & Reed Financial, Inc., a parent holding company in accordance with Reg. 240.13d-1(b)(1)(ii)(G);
(ii)	Waddell & Reed Financial Services, Inc., a parent holding company in accordance with Reg. 240.13d-1(b)(1)(ii)(G);
(iii)	Waddell & Reed, Inc., a broker-dealer registered under section 15 of the Act (15 U.S.C. 78o); and
(iv)	Waddell & Reed Investment Management Company, an investment advisor in accordance with Reg. 240.13d-1(b)(1)(ii)(E).
(v)	Ivy Investment Management Company, an investment advisor in accordance with Reg. 240.13d-1(b)(1)(ii)(E).

Item 4: Ownership

The securities reported on herein are beneficially owned by one or more open-end investment companies or other managed accounts which are advised or sub-advised by Ivy Investment Management Company (IICO), an investment advisory subsidiary of Waddell & Reed Financial, Inc. (WDR) or Waddell & Reed Investment Management Company (WRIMCO), an investment advisory subsidiary of Waddell & Reed, Inc. (WRI). WRI is a broker-dealer and underwriting subsidiary of Waddell & Reed Financial Services, Inc., a parent holding company (WRFSI). In turn, WRFSI is a subsidiary of WDR, a publicly traded company. The investment advisory contracts grant IICO and WRIMCO all investment and/or voting power over securities owned by such advisory clients. The investment sub-advisory contracts grant IICO and WRIMCO investment power over securities owned by such sub-advisory clients and, in most cases, voting power. Any investment restriction of a sub-advisory contract does not restrict investment discretion or power in a material manner. Therefore, IICO and/or WRIMCO may be deemed the beneficial owner of the securities covered by this statement under Rule 13d-3 of the Securities Exchange Act of 1934 (the 1934 Act).

IICO, WRIMCO, WRI, WRFSI and WDR are of the view that they are not acting as a group for purposes of Section 13(d) under the 1934 Act. Indirect beneficial ownership is attributed to the respective parent companies solely because of the parent companies control relationship to WRIMCO and IICO.

(a) Amount beneficially owned: 2,048,568

(b) Percent of class: 6.1

(c) Number of shares as to which the person has:

(i) Sole voting power to vote or to direct the vote:

WDR: 2,048,568 (indirect)

WRFSI: 1,798,749 (indirect)

WRI: 1,798,749 (indirect)

WRIMCO: 1,798,749 (direct)

IICO: 249,819 (direct)

(ii) Shared power to vote or to direct the vote: 0

(iii) Sole power to dispose or to direct the disposition of:

WDR: 2,048,568 (indirect)

WRFSI: 1,798,749 (indirect)

WRI: 1,798,749 (indirect)

WRIMCO: 1,798,749 (direct)

IICO: 249,819 (direct)

(iv) Shared power to dispose or to direct the disposition of: 0

Item 5: Ownership of Five Percent or Less of a Class:

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than 5 percent of the class of securities, check the following: [ ]

Item 6: Ownership of More than Five Percent on Behalf of Another Person:

The clients of IICO and WRIMCO, including investment companies registered under the Investment Company Act of 1940 and other managed accounts, have the right to receive dividends from, as well as the proceeds from the sale of, such securities.

Item 7: Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company:

See Attached Exhibit 2.

Item 8: Identification and Classification of Members of the Group:

Not Applicable.

Item 9: Notice of Dissolution of Group:

Not Applicable.

Item 10: Certification:

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: February 12, 2010

Waddell & Reed Financial, Inc.

By: /s/ Wendy J. Hills
Name: Wendy J. Hills
Title: Vice President

Waddell & Reed Financial Services, Inc.

By: /s/ Wendy J. Hills
Name: Wendy J. Hills
Title: Attorney-In-Fact

Waddell & Reed, Inc.

By: /s/ Wendy J. Hills
Name: Wendy J. Hills
Title: Attorney-In-Fact

Waddell & Reed Investment Management Company

By: /s/ Wendy J. Hills
Name: Wendy J. Hills
Title: Attorney-In-Fact

Ivy Investment Management Company

By: /s/ Wendy J. Hills
Name: Wendy J. Hills
Title: Attorney-In-Fact

EXHIBIT INDEX

Exhibit No.	Description
1	Joint Filing Agreement
2	Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company
3	Power of Attorney

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pt;">
Six Months

Ended

Ended
(Dollars in millions)
June 30, 2017

June 30, 2018
Beginning balance of reserve
$
3

$
2

Severance and benefit costs
1

—

Severance and benefit payments

(3
)

—

Other costs
1

—

Payments on other costs
(1
)

—

Ending balance of reserve
$
1

$
2

Androscoggin/Wickliffe Capacity Reductions — During 2015, Verso announced production capacity reductions at our Androscoggin Mill in Jay, Maine, and our Wickliffe Mill in Wickliffe, Kentucky. Together, these actions reduced our annual production capacity by approximately 430,000 tons of coated paper and approximately 130,000 tons of dried market pulp.

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The following table details the charges incurred related primarily to the Androscoggin/Wickliffe capacity reductions as included in Restructuring charges on our Unaudited Condensed Consolidated Statements of Operations:

(Dollars in millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended June 30, 2018	Cumulative Incurred
Severance and benefit costs	$ —	$ —	$ —	$ —	$ 5
Write-off of purchase obligations and commitments	1	—	1	—	3
Other costs	—	1	1	2	8
Total restructuring costs	$ 1	$ 1	$ 2	$ 2	$ 16

The following table details the changes in our restructuring reserve liabilities related to the Androscoggin/Wickliffe capacity reductions which are included in Accrued liabilities on our Unaudited Condensed Consolidated Balance Sheets:

(Dollars in millions)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2018
Beginning balance of reserve	$ 6	$ 1
Severance and benefit payments	(1)	—
Purchase obligations	1	—
Payments on purchase obligations	(1)	—
Other costs	1	2
Payments on other costs	(1)	(2)
Ending balance of reserve	$ 5	$ 1

In connection with the temporary idling of the No. 3 paper machine at our Androscoggin Mill in the fourth quarter of 2016, we recognized $6 million of accelerated depreciation during the three months ended March 31, 2017, which is included in Depreciation and amortization in our Unaudited Condensed Consolidated Statement of Operations.

10. COMMITMENTS AND CONTINGENCIES

Represented Employees — Approximately 70% of our hourly workforce is represented by unions. All represented employees were covered by the Master Labor Agreement 2012–2016, dated as of December 21, 2012, covering wages and benefits; certain represented mills also had local agreements covering general work rules, until the expiration of the Master Labor Agreement in December 2016. The parties are engaged in collective bargaining at the Luke Mill, Escanaba Mill, Wisconsin Rapids Mill and Stevens Point Mill and continue to work under the terms and conditions of their expired agreements.

General Litigation — We are involved from time to time in legal proceedings incidental to the conduct of our business. We do not believe that any liability that may result from these proceedings will have a material, adverse effect on our Unaudited Condensed Consolidated Financial Statements.

Settlement Agreement — On March 20, 2018, we entered into a settlement agreement, or “the Settlement Agreement,” with Canadian producers of supercalendered paper, Port Hawkesbury Paper Limited Partnership and certain related entities, collectively, “Port Hawkesbury” and Irving Paper Limited, or “Irving”. In accordance with the terms of the Settlement Agreement, we filed with the U.S. Department of Commerce, or “Commerce,” a written request for a “no interest” changed circumstances review by Commerce of the final countervailing duty order, or the “CVD Order,” issued by Commerce on December 10, 2015, imposing tariffs on supercalendered paper imported into the United States from Canada since August 3, 2015, such request is referred to as the “Changed Circumstances Request”. We included in our Changed Circumstances Request, among other things, a request that Commerce revoke the CVD Order retroactively to August 3, 2015, which, if granted, would result in refunds to Canadian producers of supercalendered paper of all countervailing duties collected on supercalendered paper imported into the United States from such producers under the CVD Order.

On July 5, 2018, Commerce granted our request and revoked the countervailing duties retroactively to August 3, 2015, the date the tariffs were originally imposed, which will result in a refund to Canadian producers of supercalendered paper of the countervailing duties previously collected on supercalendered paper imported into the United States from such producers. Pursuant to the Settlement Agreement, Irving and Port Hawkesbury agreed to pay us a percentage of the duties refunded to such parties over time. Assuming all funds are received by the Canadian producers, we expect to receive total settlement payments of up to $42 million before the end of 2018.

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

Overview

We are the leading North American producer of coated papers, which are used primarily in commercial print, magazines, catalogs, high-end advertising brochures and annual reports, among other media and marketing publications. We produce a wide range of products, ranging from coated freesheet and coated groundwood, to specialty papers, to inkjet and digital paper, supercalendered papers and uncoated freesheet. We also produce and sell market kraft pulp, which is used to manufacture printing and writing paper grades and tissue products.

Headquartered in Miamisburg, Ohio, Verso operates seven mills located in Maine, Maryland, Michigan, Minnesota and Wisconsin with a total annual production capacity of approximately 2,870,000 tons of paper.

Upgrade/Restart Paper Machine at Androscoggin Mill

During the first quarter of 2018, Verso announced plans to upgrade the shuttered No. 3 paper machine and pulp line at its Androscoggin Mill in Jay, Maine, enabling this equipment to restart for the manufacture of packaging products, which began production in July 2018. This project created approximately 120 full-time jobs at the Androscoggin Mill and will increase annual paper production capacity by approximately 200,000 tons. The estimated total capital cost of the project is $19 million, $4 million of which will come from a Maine Technology Asset Fund 2.0 challenge grant administered by the Maine Technology Institute. Funds from the grant become available as certain milestones in the project are reached. Capital expenditures incurred for the six months ended June 30, 2018, included $11 million related to the upgrade of the No. 3 paper machine and pulp line, with the remaining $8 million of capital expenditures expected to be incurred in the second half of 2018.

Settlement Agreement

On March 20, 2018, we entered into the Settlement Agreement with Canadian producers of supercalendered paper, Port Hawkesbury and Irving. In accordance with the terms of the Settlement Agreement, we filed with Commerce the Changed Circumstances Request for a “no interest” changed circumstances review by Commerce of the final CVD Order issued by Commerce on December 10, 2015, imposing tariffs on supercalendered paper imported into the United States from Canada since August 3, 2015. We included in our Changed Circumstances Request, among other things, a request that Commerce revoke the CVD Order retroactively to August 3, 2015, which, if granted, would result in refunds to Canadian producers of supercalendered paper of all countervailing duties collected on supercalendered paper imported into the United States from such producers under the CVD Order.

On July 5, 2018, Commerce granted our request and revoked the countervailing duties retroactively to August 3, 2015, the date the tariffs were originally imposed, which will result in a refund to Canadian producers of supercalendered paper of the countervailing duties previously collected on supercalendered paper imported into the United States from such producers. Pursuant to the Settlement Agreement, Irving and Port Hawkesbury agreed to pay us a percentage of the duties refunded to such parties over time. Assuming all funds are received by the Canadian producers, we expect

to receive total settlement payments of up to $42 million before the end of 2018.

Results of Operations

The following tables set 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 quarterly report.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

(Dollars in millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Three Month $ Change
Net sales	$ 585	$ 644	$ 59
Costs and expenses:			
Cost of products sold (exclusive of depreciation and amortization)	574	581	7
Depreciation and amortization	27	28	1
Selling, general and administrative expenses	24	28	4
Restructuring charges	2	1	(1)
Other operating (income) expense	—	2	2
Operating income (loss)	(42)	4	46
Interest expense	10	6	(4)
Other (income) expense	(3)	(3)	—
Income (loss) before income taxes	(49)	1	50
Income tax expense	—	—	—
Net income (loss)	$ (49)	$ 1	$ 50

Net sales. Net sales for the three months ended June 30, 2018 increased by $59 million, or 10%, compared to the three months ended June 30, 2017. This increase was attributable to a 12% increase in average price, from $813 per ton during the three months ended June 30, 2017 to $912 per ton for the same period of the current year, primarily resulting from inflationary pressures, improvement in product mix and better alignment of supply and demand. The increased average pricing and improvement in product mix resulted in a $60 million increase in revenue, driven by price increases across our product lines while volume was up significantly in specialty papers. During the three months ended June 30, 2018, our Stevens Point and Androscoggin Mills ran at capacity producing specialty products as we continue to increase our focus on specialty papers. Improvement in product mix offset a 2% reduction in volume, from 719 thousand tons during the three months ended June 30, 2017 to 706 thousand tons during the same period of the current year which resulted in $1 million of reduced revenue. The overall decrease in volume was driven primarily by a reduction in external pulp sales of 15 thousand tons as a result of a planned outage at our Quinnesec Mill and for other internal needs. While sales volume of specialty papers increased in the three months ended June 30, 2018, it was offset by a reduction in sales volume of other coated papers during that same period.

Cost of sales. Cost of products sold, excluding depreciation and amortization expenses, increased $7 million, or 1%, in the three months ended June 30, 2018, compared to the three months ended June 30, 2017. Our gross margin, excluding depreciation and amortization expenses, was 9.8% for the three months ended June 30, 2018, compared to 1.9% for the three months ended June 30, 2017, reflecting an incremental increase of $52 million in gross margin. Gross margin for the three months ended June 30, 2018 was impacted favorably by higher average pricing and improved product mix, reduced downtime, improved operational performance and reduction of pension costs, partially offset by higher planned major maintenance costs, including a bi-annual outage at our Quinnesec Mill, increased freight expense and inflation on chemicals and purchased pulp.

Selling, general and administrative expenses. Selling, general and administrative expenses for the three months ended June 30, 2018 increased $4 million compared to the same period of the prior year primarily attributable to costs incurred during the three months ended June 30, 2018 associated with the strategic alternatives initiative and an increase in cash incentive expense and non-cash equity award expense, partially offset by cost reduction initiatives implemented across the company. As a percentage of sales, Selling, general and administrative expenses were 4.3%

for the three months ended June 30, 2018 and 4.1% for the three months ended June 30, 2017.

Other operating (income) expense. Other operating (income) expense for the three months ended June 30, 2018 was an expense of $2 million related to fees associated with our 2016 Chapter 11 cases.

Interest expense. Interest expense for the three months ended June 30, 2018 decreased $4 million, or 40%, from the three months ended June 30, 2017 as a result of the reduction in amounts outstanding under the Term Loan Facility.

Other (income) expense. Other (income) expense for the three months ended June 30, 2017 and June 30, 2018 each include income of $3 million associated with the non-operating components of net periodic pension cost (income) in connection with the adoption of ASU 2017-07 (see Note 2 to our Unaudited Condensed Consolidated Financial Statements included elsewhere in this report).

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

(Dollars in millions)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Month $ Change
Net sales	$1,201	$1,283	$ 82
Costs and expenses:			
Cost of products sold (exclusive of depreciation and amortization)	1,136	1,162	26
Depreciation and amortization	60	55	(5)
Selling, general and administrative expenses	57	53	(4)
Restructuring charges	4	2	(2)
Other operating (income) expense	—	2	2
Operating income (loss)	(56)	9	65
Interest expense	19	17	(2)
Other (income) expense	(5)	(7)	(2)
Income (loss) before income taxes	(70)	(1)	69
Income tax expense	—	—	—
Net income (loss)	$(70)	$(1)	$ 69

Net sales. Net sales for the six months ended June 30, 2018, increased by $82 million, or 7%, compared to the six months ended June 30, 2017. This increase was attributable to a 9% increase in average price, from $821 per ton during the six months ended June 30, 2017 to $898 per ton for the same period of the current year, primarily resulting from inflationary pressures, improvement in product mix and better alignment of supply and demand. The increased average pricing and improvement in product mix resulted in a $98 million increase in revenue, driven by price increases across our product lines while volume was up significantly in specialty papers, partially offset by a 2% decrease in overall sales volume, from 1,462 thousand tons during the six months ended June 30, 2017 to 1,428 thousand tons during the same period of the current year, which resulted in $16 million of reduced revenue. The overall decrease in volume was driven primarily by a reduction in external pulp sales of 30 thousand tons as a result of a planned outage at our Quinnesec Mill and for other internal needs. While sales volume of specialty papers increased in the six months ended June 30, 2018, it was offset by a reduction in sales volume of other coated papers during that same period.

Cost of sales. Cost of products sold, excluding depreciation and amortization expenses, increased $26 million, or 2%, in the six months ended June 30, 2018, compared to the six months ended June 30, 2017. Our gross margin, excluding depreciation and amortization expenses, was 9.4% for the six months ended June 30, 2018, compared to 5.4% for the six months ended June 30, 2017, reflecting an incremental increase of $56 million in gross margin. Gross margin for the six months ended June 30, 2018 was impacted favorably by higher average pricing and improved product mix, reduced downtime, improved operational performance, reduction of pension costs, favorable wood costs and lower corporate overhead costs, partially offset by lower sales volume, higher planned major maintenance costs, including bi-annual outages at our Quinnesec and Luke Mills, increased freight expense and inflation on chemicals, energy and purchased pulp.

Depreciation and amortization. Depreciation and amortization expenses for the six months ended June 30, 2018 decreased $5 million from the six months ended June 30, 2017. The reduction in depreciation and amortization is attributable to the capacity reductions at our Androscoggin Mill, in which $6 million of accelerated depreciation was recognized in the first quarter of 2017 in connection with the temporary idling of the No. 3 paper machine.

Selling, general and administrative expenses. Selling, general and administrative expenses for the six months ended June 30, 2018 decreased $4 million, or 7%, compared to the same period of the prior year, primarily attributable to cost reduction initiatives implemented across the Company, partially offset by higher costs associated with the strategic alternatives initiative and non-cash equity award expense. As a percentage of sales, Selling, general and administrative expenses were 4.1% for the six months ended June 30, 2018 and 4.7% for the six months ended June 30, 2017.

Other operating (income) expense. Other operating (income) expense for the six months ended June 30, 2018 was an expense of $2 million related to fees associated with our 2016 Chapter 11 cases.

Interest expense. Interest expense for the six months ended June 30, 2018 decreased $2 million, or 11%, compared to the six months ended June 30, 2017. This decrease is primarily attributable to the reduction in amounts outstanding under the Term Loan Facility, partially offset by a $4 million increase in amortization of debt issuance cost and discount associated with the Term Loan Facility as a result of the $21 million voluntary principal payment and $21 million excess cash flow payment made during the six months ended June 30, 2018.

Other (income) expense. Other (income) expense for the six months ended June 30, 2017 and June 30, 2018 includes income of $5 million and $7 million, respectively, associated with the non-operating components of net periodic pension cost (income) in connection with the adoption of ASU 2017-07 (see Note 2 to our Unaudited Condensed Consolidated Financial Statements included elsewhere in this report).

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 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) or cash flows from operating activities, 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 June 30, 2017	Three Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended June 30, 2018
Net income (loss)	$ (49)	$ 1	$ (70)	$ (1)
Income tax expense	—	—	—	—
Interest expense	10	6	19	17
Depreciation and amortization	27	28	60	55
EBITDA	$ (12)	$ 35	$ 9	$ 71
Adjustments to EBITDA:				
Restructuring charges (1)	2	1	4	2
Non-cash equity award compensation (2)	1	3	1	4
Androscoggin PM No. 3 startup costs (3)	—	7	—	7
Post-reorganization costs (4)	—	2	—	2
Strategic initiatives costs (5)	—	3	—	5
Other severance costs (6)	5	—	5	—
Other items, net (7)	—	—	3	1
Adjusted EBITDA	$ (4)	$ 51	$ 22	$ 92

(1) Charges are primarily associated with the closure and relocation of the Memphis office headquarters and closure of the Wickliffe Mill.
(2) Amortization of non-cash incentive compensation.
(3) Costs incurred in connection with the upgrade of previously shuttered No. 3 paper machine and pulp line at the Androscoggin Mill.
(4) Fees associated with our 2016 Chapter 11 cases.
(5) Professional fees and other charges associated with strategic alternatives initiative.
(6) Severance and related benefit costs not associated with restructuring activities.
(7) Costs incurred in 2017 in connection with the re-engineering of information systems, costs in 2017 associated with the temporary idling of the No. 3 paper machine at the Androscoggin Mill and miscellaneous other non-recurring adjustments in 2017 and 2018.

Liquidity and Capital Resources

As of June 30, 2018, the outstanding balance of the ABL Facility was $80 million, with $38 million in letters of credit issued, and $209 million available for future borrowings.

During the six months ended June 30, 2018, we elected to make a $21 million voluntary principal prepayment on the Term Loan Facility, from available liquidity including amounts under our ABL Facility, and applied that payment against the final maturity amount due in October 2021. As a result of the excess cash flow requirement under our Term Loan Facility, we were obligated to fund additional principal payments of $7 million and $21 million during the six months ended June 30, 2017 and June 30, 2018, respectively.
On July 18, 2018, we elected to make an additional $46 million voluntary principal prepayment on the Term Loan Facility from available liquidity including amounts under our ABL Facility, and we applied that payment against the final maturity amount and quarterly amortization amounts due in 2021.
Our cash flows from operating, investing and financing activities, as reflected in the Unaudited Condensed Consolidated Statements of Cash Flows, are summarized in the following table:

	Six Months	Six Months

(Dollars in millions)	Ended June 30, 2017	Ended June 30, 2018
Net cash provided by (used in):		
Operating activities	$ 16	$ 75
Investing activities	(21)	(38)
Financing activities	5	(36)
Net change in cash and cash equivalents and restricted cash	$ —	$ 1

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Operating activities. In the first six months of 2018, net cash provided by operating activities of $75 million primarily reflects non-cash depreciation and amortization of $55 million and net cash provided from working capital of $27 million, partially offset by pension plan contributions of $14 million. The net cash provided by working capital is primarily attributable to reductions in finished goods inventory levels and an increase in accounts payable, partially offset by payments that reduced our accrued liabilities. In the first six months of 2017, net cash provided by operating activities of $16 million primarily reflects a net loss of $70 million offset by cash provided from working capital of $30 million, primarily attributable to reductions in inventory levels and non-cash depreciation and amortization of $60 million.

Investing activities. In the first six months of 2018, net cash used in investing activities consisted of $38 million of capital expenditures, $9 million of which related to the upgrade of the shuttered No. 3 paper machine and pulp line at our Androscoggin Mill in Jay, Maine. In the first six months of 2017, net cash used in investing activities consisted of $21 million of capital expenditures.

Financing activities. In the first six months of 2018, net cash used in financing activities of $36 million primarily reflects $51 million of payments on the Term Loan Facility, partially offset by $15 million of net borrowings on our ABL Facility. In the first six months of 2017, net cash provided by financing activities of $5 million consists of $21 million of net borrowings on our ABL Facility, partially offset by $16 million of payments on the Term Loan Facility.

Credit Facilities

On July 15, 2016, VPH entered into a $375 million ABL Facility and a Term Loan Facility that provides for term loan commitments of $220 million with loan proceeds of $198 million after the deduction of the original issue discount of $22 million. The amount of borrowings and letters of credit available to Verso pursuant to the ABL Facility is limited to the lesser of $375 million or an amount determined pursuant to a borrowing base ($327 million as of June 30, 2018). As of June 30, 2018, the outstanding balance of the ABL Facility was $80 million, with $38 million issued in letters of credit and $209 million available for future borrowings, and the weighted-average interest rate on outstanding borrowings was 4.26%. As of June 30, 2018, the term loan's interest rate was 13.13% per annum.

As of June 30, 2018, we were in compliance with the covenants in our Credit Facilities.

We believe our current cash, cash equivalents and cash generated from operations as well as our Credit Facilities will be sufficient to meet our working capital, debt and capital expenditure needs for at least the next twelve months. In addition, we expect to receive payments of up to $42 million before the end of 2018 in connection with the Settlement Agreement.

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, 2017, 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, 2017.

Recent Accounting Pronouncements

See Note 2, “Recent Accounting Pronouncements” in the Notes to our Unaudited Condensed Consolidated Financial Statements.

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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. Price has historically been substantially more variable than volume and can change significantly over relatively short time periods. Prices are 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 segments: specialty converters, general commercial print, catalogs and magazines. 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 of their paper needs, which allows us to plan our production runs in advance, optimizing production over our integrated mill system and thereby reducing costs and increasing overall efficiency. Generally, our sales agreements do not extend beyond the calendar year, and they typically provide for semiannual price adjustments based on market price movements.

We reach our end-users through several channels, including printers, brokers, paper merchants and direct sales to end-users. We sell and market our products to approximately 300 customers. During the six months ended June 30, 2018, our largest customer, Veritiv Corporation, accounted for approximately 20% of our total net sales.

Interest Rates

Our ABL Facility and Term Loan Facility each bear interest at a variable rate based on LIBOR or a customary base rate, in each case plus an applicable margin. Our Term Loan Facility has a LIBOR floor of 1%. Assuming the principal amount outstanding under the ABL Facility remains unchanged as of June 30, 2018, and the Term Loan Facility interest remains at or above the LIBOR floor, a 100-basis point increase in quoted interest rates on our outstanding floating-rate debt as of June 30, 2018, would cause an estimated increase in interest expense of approximately $2 million per year. While we may enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

Commodity Prices

We are subject to changes in our cost of sales caused by movements underlying commodity prices. The principal components of our cost of sales are chemicals, wood, energy, labor, maintenance and depreciation and amortization. Costs for commodities, including chemicals, wood and energy, are the most variable component of our cost of sales because their 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 costs to purchase wood are affected directly by market costs of wood in our regional markets and indirectly by the effect of higher fuel costs on logging and transportation of timber to our facilities. While we have fiber supply agreements in place that ensure a substantial portion of our wood requirements, purchases under these agreements are typically at market rates.

Chemicals. Chemicals utilized in the manufacturing of coated papers include latex, clay, starch, calcium carbonate, caustic soda, sodium chlorate and titanium dioxide. We purchase these chemicals from a variety of suppliers and are not dependent on any single supplier to satisfy our chemical needs. Occasionally imbalances in supply and demand create volatility in prices for certain chemicals.

Energy. We continue to produce a significant portion of our energy needs for our paper mills from sources such as waste wood, hydroelectric facilities, liquid biomass from our pulping process and internal energy cogeneration facilities. Our external energy purchases vary across each of our mills and include fuel oil, natural gas, coal and electricity. Our overall energy expenditures are mitigated by our internal energy production capacity and ability to switch between certain energy sources. The use of derivative contracts is also a consideration 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 our 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 our disclosure controls and procedures as of June 30, 2018. 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 June 30, 2018.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended June 30, 2018, 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

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

ITEM 1A. RISK FACTORS

For a detailed discussion of risk factors affecting us, see "Part I – Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

There were no repurchases of equity securities by Verso in the second quarter of 2018.

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:

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation of Verso Corporation.[1]
3.2	Amended and Restated Bylaws of Verso Corporation.[2]
4.1	Form of specimen Class A Common Stock certificate.[3]
4.2	Form of specimen Class B Common Stock certificate.[4]
4.3	Form of specimen Warrant certificate.[5]
31.1	Certification of Principal Executive Officer of Verso Corporation pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.
31.2	Certification of Principal Financial Officer of Verso Corporation pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.
32.1	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.[6]
32.2	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.[6]
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

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(1) Incorporated herein by reference to Exhibit 3.1 to Verso Corporation's Registration Statement on Form 8-A filed with the SEC on July 15, 2016.

(2) Incorporated herein by reference to Exhibit 3.2 to Verso Corporation's Registration Statement on Form 8-A filed with the SEC on July 15, 2016.

(3) 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.

(4) 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.

(5) 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.

(6) Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 7, 2018

VERSO CORPORATION

By: /s/ B. Christopher DiSantis
B. Christopher DiSantis
President, Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ Allen J. Campbell
Allen J. Campbell
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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