



Defendant purchased 5,000 shares of Verso stock and 200 out-of-the-money Verso call options on the basis of the material, nonpublic information Friend 1 had told Defendant about his work for Verso.

2. On the morning of January 6, 2014, Verso and NewPage publicly announced that they had entered into a definitive agreement under which Verso would acquire NewPage in a \$1.4 billion transaction. Immediately after this announcement, the price of Verso stock surged on heavy trading and closed at \$3.21 per share, a 393% gain over the prior trading day's closing price. Over the next two days, Defendant sold most of his Verso stock and options, ultimately realizing total illicit profits of more than \$30,000.

3. By engaging in the conduct alleged in this Complaint, Defendant violated the antifraud provisions of Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [*15 U.S.C. §§78j(b) and 78n(e)*], and Rule 10b-5 thereunder [*17 C.F.R. § 240.10b-5*]. The Commission seeks in this action a permanent injunction, disgorgement with prejudgment interest, and a civil penalty.

#### **JURISDICTION AND VENUE**

4. The Commission brings this action under Sections 21(d) and 21A of the Exchange Act [*15 U.S.C. §§ 78u(d) and 78u-1*].

5. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e), 21A, and 27 of the Exchange Act [*15 U.S.C. §§ 78u(d), 78u(e), 78u-1, and 78aa*]. Defendant, directly or indirectly, made use of the means or instrumentalities of interstate commerce, or the mails, or the facilities of a national securities exchange in connection with the transactions, acts, practices, and courses of business alleged in this Complaint.

6. Venue is proper in this district under Section 27 of the Exchange Act [*15 U.S.C. § 78aa*] because Defendant resides in and because one or more acts or transactions constituting the violation occurred within this district.

#### **THE DEFENDANT**

7. **Defendant Christopher Ludwig**, age 43, currently resides in, and at all times relevant to this Complaint has resided in, Alexandria, Virginia.

#### **RELEVANT ENTITIES**

8. **Verso Corporation (f/k/a Verso Paper Corporation)** (“Verso”) is a Delaware corporation headquartered in Memphis, Tennessee. Verso produces coated papers used in media and marketing applications. It has been an SEC-reporting company since 2008, and is quoted on the New York Stock Exchange under the symbol VRS.

9. **NewPage Holdings Inc.** (“NewPage”) was a private Delaware corporation headquartered in Miamisburg, Ohio. NewPage produced specialty papers used in commercial printing until it was acquired by Verso in the transaction discussed in this Complaint.

10. **Advisory Firm 1** is an advisory firm located in Washington, DC that specializes in advising its clients on interactions with a particular government agency (“Government Agency”). Advisory Firm 1’s clients often must interact with Government Agency in connection with contemplated business transactions such as mergers or acquisitions.

#### **TRADING TERMINOLOGY**

11. An option contract gives the purchaser the right to buy or sell 100 shares of the underlying stock before a specified deadline, known as the expiration date, for a predetermined price per share, known as the strike price.

12. A call option gives an investor the right, but not the obligation, to buy stock. Therefore, a call option generally will increase in value as the value of the underlying stock

increases. Unlike stock, which retains some value even if the price falls, a call option loses all value once it expires. A call option with a strike price that is greater than the stock's market price is referred to as being "out-of-the-money" because there is little to no value in the right to buy a stock at a price greater than its current market price.

13. A purchase of call options with expiration dates in the near future is an expression of confidence that the underlying stock price will increase quickly.

## STATEMENT OF FACTS

### Verso Prepares to Acquire NewPage

14. Verso and NewPage, two leading North American producers of specialty papers, began discussing a potential business combination on July 2, 2013.

15. Verso engaged Advisory Firm 1 on November 16, 2013, to advise Verso on its interactions with Government Agency in light of the proposed business combination with NewPage. Advisory Firm 1 executed a confidentiality agreement with Verso in connection with this engagement.

16. The confidentiality agreement stated that Advisory Firm 1 and its representatives would keep confidential all information relating to Verso, NewPage, and a potential business combination between them. The confidentiality agreement further stated:

[Advisory Firm 1] acknowledges that it is aware, and will advise its Representatives, that any person who possesses material, nonpublic information concerning [Verso] or NewPage is prohibited from . . . communicating any such information to any other person or entity under circumstances in which it is reasonably foreseeable that such person or entity is likely to purchase or sell any securities of [Verso]...

17. At all times relevant to this Complaint, Friend 1 was a principal of Advisory Firm 1 and worked specifically on its engagement for Verso. Friend 1 learned of Verso's proposed

business combination with NewPage on or around November 7, 2013, and from that date through the public announcement on January 6, 2014, worked continuously on the transaction.

18. Verso and NewPage initially expected to sign and announce an acquisition agreement on Thursday, December 19, 2013.

19. As a principal of Advisory Firm 1, Friend 1 was bound by the confidentiality agreement in place between Verso and Advisory Firm 1.

**Friend 1 Tips Defendant and Defendant Buys Verso Securities**

20. Friend 1 and Defendant met in 1991 while in college together where they were fraternity brothers. They have remained friends since college and stay in touch via email, phone calls, text messages, and social gatherings. They have met one another's families, attended one another's weddings, and have mutual friends with whom they sometimes socialize jointly. During the time period relevant to this Complaint, Friend 1 and Defendant discussed family, work, the sale of Friend 1's family business, and the remodel of Friend 1's home.

21. Friend 1 and Defendant met for drinks at a bar in Washington, DC at approximately 10:00 p.m. ET on Saturday, December 14, 2013. The two men spent several hours together that night visiting bars and socializing. At the time, Friend 1 expected that Verso's acquisition of NewPage would be announced within days.

22. At some time that night, Friend 1 told Defendant that he and his firm were doing work for Verso. Friend 1 then indicated that he should not have told Defendant that and told him not to do anything with the information. From this comment, Defendant understood that it was confidential that Friend 1 was doing work for Verso and that Friend 1 was not supposed to talk about his work for Verso. Defendant confirmed he would not act on the information Friend 1 had told him.

23. From previous discussions with Friend 1, Defendant understood that Friend 1 worked with companies that are often preparing for transactions such as mergers or acquisitions. This knowledge, coupled with Friend 1's warning not to act on the information about his work for Verso, indicated to Defendant that the information about Friend 1's work for Verso was valuable for securities trading purposes.

24. The following night, Sunday, December 15, 2013, at 11:26 p.m. ET, Defendant placed an online order to purchase 5,000 shares of Verso stock and 200 Verso call options with a \$2.50 strike price and a March 22, 2014 expiration date. Verso's stock was trading at \$0.62 per share at the time, making the options purchases a particularly aggressive and speculative bet.

25. Defendant's Verso purchases were anomalous for him and for the market overall. Defendant had never previously traded in Verso securities and knew very little about the company. Nevertheless, Defendant's options purchases represented 100% of the VRS March \$2.50 call series trade volume and 100% of the overall VRS class volume on the day the calls were purchased. Defendant's position was 100% of the total open interest in VRS options the day before the acquisition announcement.

**The Acquisition is Announced and Defendant Sells his Verso Securities**

26. At 9:00 a.m. ET on January 6, 2014, Verso and NewPage jointly announced that they had entered into a definitive agreement under which Verso would acquire NewPage in a transaction valued at \$1.4 billion. Immediately after this public announcement, the price of Verso stock surged on heavy trading ultimately closing at \$3.21 per share, a 393% gain over the prior trading day's closing price.

27. An hour after the acquisition announcement, Defendant entered orders to sell a portion of his Verso shares and call options.

28. A few minutes later, at 10:11 a.m. ET, Friend 1 texted Defendant “Check VRS” to which Defendant responded “Cool.” Friend 1 then texted Defendant “Next time we won’t let ethics stand in the way of profit!!!” Defendant understood this message to be a joking reference to his conversation with Friend 1 the night of December 14, 2013, in which Friend 1 had told Defendant of his confidential work for Verso and that Defendant should not act on that information.

29. By the end of the day on January 7, 2014, Defendant had completed the sale of a total of 4,500 Verso shares and 185 Verso call options. Defendant sold the remaining 15 Verso call options on March 21, 2014, and the remaining 500 Verso shares on April 2, 2014. In total, Defendant profited \$30,616.69, from his sales of the Verso securities he had purchased on December 15, 2013.

### **FIRST CLAIM FOR RELIEF**

#### **Violations of Exchange Act Section 10(b) and Rule 10b-5 Thereunder**

30. The Commission realleges and reincorporates paragraphs 1 through 29 as if fully set forth herein.

31. Defendant knew, or was reckless in not knowing, that the information Friend 1 told him regarding his work for Verso was material, nonpublic information.

32. Defendant also knew, or was reckless in not knowing, that he owed a duty of trust or confidence to Friend 1 when he learned from Friend 1 that Advisory Firm 1 had been retained by Verso and that Friend 1 was working on the engagement.

33. By trading on the material, nonpublic information from Friend 1, Defendant misappropriated confidential information for securities trading purposes, in breach of a duty of trust or confidence he owed to Friend 1.

34. Defendant, by engaging in the conduct described above, directly or indirectly, in connection with the purchase or sale of securities, by use of the means or instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange:

- (a) employed devices, schemes, or artifices to defraud;
- (b) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and/or
- (c) engaged in acts, practices, or courses of business which operate or would operate as a fraud or deceit upon any persons, including purchasers or sellers of the securities.

35. By engaging in the foregoing conduct, Defendant violated, and unless enjoined will continue to violate, Section 10(b) of the Exchange Act [*15 U.S.C. §78j(b)*] and Rule 10b-5 thereunder [*17 C.F.R. §240.10b-5*].

**RELIEF REQUESTED**

WHEREFORE, the Commission respectfully requests that the Court enter a judgment:

- A. finding that Defendant violated the antifraud provisions of the federal securities laws as alleged herein;
- B. permanently enjoining Defendant from violating Section 10(b) of the Exchange Act [*15 U.S.C. § 78j(b)*] and Rule 10b-5 thereunder [*17 C.F.R. § 240.10b-5*];
- C. ordering Defendant to disgorge, with prejudgment interest, all illicit trading profits or other ill-gotten gains resulting from the conduct alleged in this Complaint;
- D. ordering Defendant to pay a civil monetary penalty under Section 21A of the Exchange Act [*15 U.S.C. § 78u-1*]; and

E. ordering such other relief as this Court may deem just and proper.

Dated: March 23, 2017

Respectfully submitted,

/s/  
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