

RAYONIER ADVANCED MATERIALS INC.

Form 10-Q

August 06, 2015

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 27, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-36285

Incorporated in the State of Delaware

I.R.S. Employer Identification No. 46-4559529

1301 RIVERPLACE BOULEVARD, SUITE 2300

JACKSONVILLE, FL 32207

(Principal Executive Office)

Telephone Number: (904) 357-4600

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

YES  NO

The registrant had 42,884,443 shares of common stock, \$.01 par value per share, outstanding as of July 31, 2015.

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## Part I. Financial Information

## Item 1. Financial Statements

## Rayonier Advanced Materials Inc.

## Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net Sales	\$220,892	\$212,531	\$442,240	\$456,031
Cost of Sales	175,871	160,217	360,347	348,936
Gross Margin	45,021	52,314	81,893	107,095
Selling and general expenses	9,771	9,010	22,067	17,237
Other operating expense, net (Note 8)	26,665	37,094	27,295	40,284
Operating Income	8,585	6,210	32,531	49,574
Interest expense	9,299	3,225	18,623	3,225
Interest and miscellaneous expense (income), net	(50	) 5	(78	) 4
Income (Loss) Before Income Taxes	(664	) 2,980	13,986	46,345
Income tax expense (benefit) (Note 9)	(352	) (1,581	) 3,778	10,836
Net Income (Loss)	\$(312	) \$4,561	\$10,208	\$35,509
Earnings Per Share of Common Stock (Note 7)				
Basic earnings per share	\$(0.01	) \$0.11	\$0.24	\$0.84
Diluted earnings per share	\$(0.01	) \$0.11	\$0.24	\$0.84
Dividends Declared Per Share	\$0.07	\$—	\$0.14	\$—
Comprehensive Income (Loss):				
Net Income (Loss)	\$(312	) \$4,561	\$10,208	\$35,509
Other Comprehensive Income (Loss)				
Amortization of pension and postretirement plans, net of income tax (expense) benefit of (\$1,348), \$3,756, (\$2,646) and \$3,279	2,396	(6,535	) 4,704	(5,705
Total other comprehensive income (loss)	2,396	(6,535	) 4,704	(5,705
Comprehensive Income (Loss)	\$2,084	\$(1,974	) \$14,912	\$29,804

See Notes to Condensed Consolidated Financial Statements.

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Rayonier Advanced Materials Inc.  
Condensed Consolidated Balance Sheets  
(Unaudited)  
(Dollars in thousands)

	June 27, 2015	December 31, 2014	
Assets			
Current Assets			
Cash and cash equivalents	\$73,348	\$65,977	
Accounts receivable, less allowance for doubtful accounts of \$151 and \$151	43,449	69,263	
Inventory (Note 2)	124,794	140,209	
Deferred tax assets	8,555	8,275	
Prepaid and other current assets	58,514	36,267	
Total current assets	308,660	319,991	
Property, Plant and Equipment, Gross	2,011,939	2,010,644	
Less — Accumulated Depreciation	(1,198,800)	(1,167,269)	)
Property, Plant and Equipment, Net	813,139	843,375	
Deferred Tax Assets	79,179	78,547	
Other Assets	60,006	61,967	
Total Assets	\$1,260,984	\$1,303,880	
Liabilities and Stockholders' Deficit			
Current Liabilities			
Accounts payable	\$61,713	\$64,697	
Current maturities of long-term debt (Note 3)	8,225	8,400	
Accrued income and other taxes	3,200	4,643	
Accrued payroll and benefits	14,517	23,124	
Accrued interest	2,718	2,684	
Accrued customer incentives	11,243	12,743	
Other current liabilities	6,557	7,913	
Dividends payable	2,954	—	
Current liabilities for disposed operations (Note 5)	8,899	7,241	
Total current liabilities	120,026	131,445	
Long-Term Debt (Note 3)	899,603	936,416	
Non-Current Liabilities for Disposed Operations (Note 5)	145,061	149,488	
Pension and Other Postretirement Benefits (Note 11)	139,629	141,338	
Other Non-Current Liabilities	7,769	7,605	
Commitments and Contingencies			
Stockholders' Deficit			
Preferred stock, 10,000,000 shares authorized at \$0.01 par value, 0 issued and outstanding as of June 27, 2015 and December 31, 2014	—	—	
Common stock, 140,000,000 shares authorized at \$0.01 par value, 42,884,871 and 42,616,319 issued and outstanding, as of June 27, 2015 and December 31, 2014, respectively		426	
Additional paid-in capital	64,442	62,082	
Accumulated deficit	(17,235)	(21,476)	)
Accumulated other comprehensive loss	(98,740)	(103,444)	)
Total Stockholders' Deficit	(51,104)	(62,412)	)
Total Liabilities and Stockholders' Deficit	\$1,260,984	\$1,303,880	

See Notes to Condensed Consolidated Financial Statements.

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Rayonier Advanced Materials Inc.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)  
(Dollars in thousands)

	Six Months Ended	
	June 27, 2015	June 28, 2014
Operating Activities		
Net income	\$ 10,208	\$ 35,509
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	42,442	38,182
Stock-based incentive compensation expense	5,061	3,562
Amortization of capitalized debt costs	1,213	90
Deferred income taxes	(6,103	) 5,110
Increase in liabilities for disposed operations	49	18,419
Impairment charge	28,462	—
Amortization of losses and prior service costs from pension and postretirement plans	7,351	2,550
Loss from sale/disposal of property, plant and equipment	647	717
Other	111	—
Changes in operating assets and liabilities:		
Receivables	25,814	5,811
Inventories	15,415	7,002
Accounts payable	(2,179	) 3,043
Accrued liabilities	(12,932	) 7,960
All other operating activities	(23,982	) (24,936
Expenditures for disposed operations	(2,818	) —
Cash Provided by Operating Activities	88,759	103,019
Investing Activities		
Capital expenditures	(41,343	) (50,720
Purchase of timber deeds	—	(12,677
Other	—	(482
Cash Used for Investing Activities	(41,343	) (63,879
Financing Activities		
Issuance of debt	—	950,000
Repayment of debt	(37,100	) —
Dividends paid	(2,953	) —
Proceeds from the issuance of common stock	8	—
Debt issuance costs	—	(12,928
Net payments to Rayonier	—	(956,579
Cash Used for Financing Activities	(40,045	) (19,507
Cash and Cash Equivalents		
Change in cash and cash equivalents	7,371	19,633
Balance, beginning of year	65,977	—
Balance, end of period	\$ 73,348	\$ 19,633
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period:		
Interest	\$ 19,017	\$ —

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Income taxes	\$13,099	\$—
Non-cash investing and financing activities:		
Capital assets purchased on account	\$15,831	\$9,722
Accrued debt issuance costs	\$—	\$1,877

See Notes to Condensed Consolidated Financial Statements.

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Rayonier Advanced Materials Inc.  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)  
(Dollar amounts in thousands unless otherwise stated)

1. Basis of Presentation and New Accounting Pronouncements

Basis of Presentation

The unaudited condensed consolidated financial statements and notes thereto of Rayonier Advanced Materials Inc. (“Rayonier Advanced Materials” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, these financial statements and notes reflect all adjustments (all of which are normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC.

On June 27, 2014, the Company was separated from its former parent, Rayonier Inc. (“Rayonier”) through the distribution to its stockholders of 42,176,565 shares of common stock (the “Separation”). For periods prior to the Separation, the financial information presented consists of the performance fibers segment of Rayonier and an allocable portion of its corporate costs (together, the “performance fibers business”). These financial statements have been presented as if the Company and performance fibers business had been combined for all prior periods presented. All intercompany transactions are eliminated. The statements of income for periods prior to June 27, 2014 include allocations of certain costs from Rayonier related to the operations of the Company. These corporate administrative costs were charged to the Company based on employee headcount and payroll costs. The combined statements of income also include expense allocations for certain corporate functions historically performed by Rayonier and not allocated to its operating segments. These allocations were based on revenues and specific identification of time and/or activities associated with the Company. Management believes the methodologies employed for the allocation of costs were reasonable in relation to the historical reporting of Rayonier, but may not necessarily be indicative of costs had the Company operated on a stand-alone basis during the periods prior to the Separation, nor what the costs may be in the future. The results of operations for periods prior to June 27, 2014 are not necessarily indicative or predictive of the results to be expected for the post-spin Company.

New or Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The update requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. It is effective for fiscal years beginning after December 15, 2015 with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements. As of June 27, 2015, approximately \$12 million in debt issuance costs are capitalized in “Other Assets.”

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, a comprehensive new revenue recognition standard. This standard will supersede virtually all current revenue recognition guidance. The core principle is that a company will recognize revenue when it transfers goods or services to customers for an amount that reflects consideration to which the company expects to be entitled to in exchange for those goods or services. This standard will be effective for the Company’s first quarter 2018 Form 10-Q filing with full or modified retrospective adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Subsequent Events

Events and transactions subsequent to the balance sheet date have been evaluated for potential recognition and disclosure through August 6, 2015, the date these financial statements were available to be issued. One subsequent event warranting disclosure was identified. On July 17, 2015, the Company declared a third quarter 2015 cash

dividend of \$0.07 per share of common stock. The dividend is payable on September 30, 2015 to stockholders of record on September 16, 2015.

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Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 2. Inventory

As of June 27, 2015 and December 31, 2014, the Company's inventory included the following:

	June 27, 2015	December 31, 2014
Finished goods	\$ 103,243	\$ 120,221
Work-in-progress	5,059	2,418
Raw materials	13,947	14,670
Manufacturing and maintenance supplies	2,545	2,900
Total inventory	\$ 124,794	\$ 140,209

## 3. Debt

The Company's debt consisted of the following:

	June 27, 2015	December 31, 2014
Term A-1 Loan Facility borrowings maturing through 2019 at a variable interest rate of 1.69% (a)	\$ 71,379	\$ 106,973
Term A-2 Loan Facility borrowings maturing through 2021 at a variable interest rate of 1.27% (b)	286,449	287,843
Senior Notes due 2024 at a fixed interest rate of 5.50%	550,000	550,000
Total debt	907,828	944,816
Less: Current maturities of long-term debt	(8,225	) (8,400
Long-term debt	\$ 899,603	\$ 936,416

(a) The Term A-1 Loan includes an unamortized issue discount of approximately \$0.2 million at June 27, 2015. The face amount of the liability is \$71.6 million.

(b) The Term A-2 Loan includes an unamortized issue discount of approximately \$0.7 million at June 27, 2015. The face amount of the liability is \$287.1 million.

During the first six months of 2015, the Company made \$37.1 million in principal debt repayments on the Term Loan Facilities. There were no other significant changes to the Company's outstanding debt as reported in Note 6 — Debt of the Company's 2014 Annual Report on Form 10-K.

Principal payments due during the next five years and thereafter are as follows:

Remaining 2015	\$ 4,200
2016	8,400
2017	9,775
2018	11,150
2019	51,125
Thereafter	824,050
Total principal payments	\$ 908,700

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Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 4. Fair Value Measurements

The following table presents the carrying amount, estimated fair values and categorization under the fair value hierarchy for financial instruments held by the Company at June 27, 2015 and December 31, 2014, using market information and what management believes to be appropriate valuation methodologies:

	June 27, 2015		December 31, 2014			
	Carrying Amount	Fair Value		Carrying Amount	Fair Value	
Asset (liability)		Level 1	Level 2		Level 1	Level 2
Cash and cash equivalents	\$73,348	\$73,348	\$—	\$65,977	\$65,977	\$—
Current maturities of long-term debt	(8,225 )	—	(8,400 )	(8,400 )	—	(8,400 )
Fixed-rate long-term debt	(550,000 )	—	(493,625 )	(550,000 )	—	(453,063 )
Variable-rate long-term debt	(349,603 )	—	(350,300 )	(386,416 )	—	(387,400 )

The Company uses the following methods and assumptions in estimating the fair value of its financial instruments:

Cash and cash equivalents — The carrying amount is equal to fair market value.

Debt — The fair value of fixed rate debt is based upon quoted market prices for debt with similar terms and maturities.

The variable rate debt adjusts with changes in the market rate, therefore the carrying value approximates fair value.

## 5. Liabilities for Disposed Operations

An analysis of the liabilities for disposed operations follows:

	June 27, 2015
Balance, beginning of period	\$156,729
Expenditures charged to liabilities	(2,818 )
Increase to liabilities	49
Balance, end of period	153,960
Less: Current portion	(8,899 )
Non-current portion	\$145,061

In addition to the estimated liabilities, the Company is subject to the risk of reasonably possible additional liabilities in excess of the established reserves due to potential changes in circumstances and future events, including, without limitation, changes to current laws and regulations; changes in governmental agency personnel, direction, philosophy and/or enforcement policies; developments in remediation technologies; increases in the cost of remediation, operation, maintenance and monitoring of its disposed operations sites; changes in the volume, nature or extent of contamination to be remediated or monitoring to be undertaken; the outcome of negotiations with governmental agencies or non-governmental parties; and changes in accounting rules or interpretations. Based on information available as of June 27, 2015, the Company estimates this exposure could range up to approximately \$64 million, although no assurances can be given that this amount will not be exceeded given the factors described above. These potential additional costs are attributable to several of the above sites and other applicable liabilities. Further, this estimate excludes reasonably possible liabilities which are not currently estimable primarily due to the factors discussed above.

Subject to the previous paragraph, the Company believes established liabilities are sufficient for probable costs expected to be incurred over the next 20 years with respect to its disposed operations. However, no assurances are given they will be sufficient for the reasons described above, and additional liabilities could have a material adverse effect on the Company's financial position, results of operations and cash flows.



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Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 6. Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss was comprised of the following:

	Six Months Ended	
	June 27, 2015	June 28, 2014
Unrecognized components of employee benefit plans, net of tax	June 27, 2015	June 28, 2014
Balance, beginning of period	\$ (103,444	) \$ (39,699
Amounts reclassified from accumulated other comprehensive loss (a)	4,704	1,620
Other comprehensive loss before reclassifications	—	(7,325
Net other comprehensive income (loss)	4,704	(5,705
Net transfer from Rayonier (b)	—	(35,419
Balance, end of period	\$ (98,740	) \$ (80,823

(a) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 11 — Employee Benefit Plans for additional information.

(b) Prior to the Separation, certain of the Company's employees participated in employee benefit plans sponsored by Rayonier. The Company did not record an asset, liability or accumulated other comprehensive loss to recognize the funded status of the Rayonier plans on the consolidated balance sheet until the Separation.

## 7. Earnings Per Share of Common Stock

The following table provides details of the calculations of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net income (loss)	\$ (312	) \$ 4,561	\$ 10,208	\$ 35,509
Shares used for determining basic earnings per share of common stock (a)	42,192,913	42,176,565	42,189,598	42,176,565
Dilutive effect of:				
Stock options	—	876	2,770	433
Performance and restricted shares	—	1,021	108,754	505
Shares used for determining diluted earnings per share of common stock	42,192,913	42,178,462	42,301,122	42,177,503
Basic earnings per share (not in thousands)	\$ (0.01	) \$ 0.11	\$ 0.24	\$ 0.84
Diluted earnings per share (not in thousands)	\$ (0.01	) \$ 0.11	\$ 0.24	\$ 0.84

(a) On June 27, 2014, 42,176,565 shares of our common stock were distributed to Rayonier shareholders in conjunction with the Separation. For comparative purposes, and to provide a more meaningful calculation of weighted-average shares outstanding, this amount is assumed to be outstanding for the entire quarter and year-to-date periods ending June 28, 2014.

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Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Anti-dilutive shares excluded from the computation of diluted earnings per share:

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Stock options	457,350	—	392,645	—
Restricted stock	397,171	—	219,463	—
Performance shares	357,659	—	142,166	—
Total	1,212,180	—	754,274	—

## 8. Other Operating Expense, Net

Other operating expense, net was comprised of the following:

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Non-cash impairment charge (a)	\$28,462	\$—	\$28,462	\$—
Loss (gain) on sale or disposal of property, plant and equipment	(102	) 185	280	717
Increase to liabilities for disposed operations resulting from separation from Rayonier (b)	—	18,419	—	18,419
One-time separation and legal costs	(802	) 17,914	(802	) 20,680
Insurance settlement	(1,000	) —	(1,000	) —
Miscellaneous expense	107	576	355	468
Total	\$26,665	\$37,094	\$27,295	\$40,284

In light of the persistent imbalance of supply and demand in the cellulose specialties markets, the Company announced a strategic asset realignment at its Jesup, Georgia plant to better align its production assets to current market conditions, improve efficiency and restore commodity production throughput to approach historical levels.

- (a) This realignment resulted in the abandonment of certain long-lived assets, primarily at the Jesup plant. As a result, the abandoned assets were written down to salvage value and a \$28 million pre-tax, non-cash impairment charge was recorded during the second quarter of 2015. The abandonment led management to conduct an impairment analysis on all long-lived assets being held and used on a combined plant level. Based on the impairment analysis performed, management concluded the assets were recoverable.

- (b) The Company is subject to certain legal requirements relating to the provision of annual financial assurance regarding environmental remediation and post closure care at certain disposed sites. To comply with these requirements, the Company purchased surety bonds from an insurer, with the Company's repayment obligations (if the bonds are drawn upon) secured by the issuance of a letter of credit by the Company's revolving credit facility lender. As a result of the Separation and the Company's obligations to procure financial assurance annually for the foreseeable future, the Company recorded a corresponding increase to liabilities for disposed operations. See Note 5 — Liabilities for Disposed Operations and Note 13 — Guarantees for additional information.

## 9. Income Taxes

The Company's effective tax rate for the second quarter 2015 was 53.0 percent compared to (53.3) percent for the second quarter 2014. For the six months ended June 27, 2015 and June 28, 2014 the effective tax rates were 27.0 percent and 23.4 percent, respectively. The 2014 effective tax rates were favorably impacted by the reversal of a tax reserve related to the taxability of the cellulosic biofuel producer credit.





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Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

The effective tax rates also differ from the federal statutory rate of 35.0 percent due to the manufacturing tax deduction and state tax credits. The impact of these deductions and credits on the effective tax rate is greater in periods that include expenses that reduce pre-tax income but are not currently deductible for income tax purposes. The provision for income taxes for periods prior to June 27, 2014, the date of the Separation from Rayonier, has been computed as if the Company were a stand-alone company.

## 10. Incentive Stock Plans

The Company's total stock based compensation cost, including allocated amounts, for the six months ended June 27, 2015 and June 28, 2014 was \$5.1 million and \$3.6 million, respectively.

During the first quarter of 2015, performance shares granted in 2012 were cancelled as the Company did not meet the performance criteria for payout on these shares. The cancellation of these shares resulted in an excess tax deficit of \$2.5 million.

The Company also made new grants of restricted and performance shares to certain employees during the first quarter of 2015. The 2015 restricted shares vest over three to four years. The 2015 performance share awards are measured against an internal return on invested capital target and, depending on performance against the target, the awards will payout between 0 and 200 percent of target. The total number of performance shares earned will be adjusted up or down 25 percent, for certain participants, based on stock price performance relative to a peer group over the term of the plan, which would result in a final payout range of 0 to 250 percent.

The following table summarizes the activity on the Company's incentive stock awards for the period ended June 27, 2015:

	Stock Options		Restricted Stock		Performance Shares		Performance-Based Restricted Stock	
	Options	Weighted Average Exercise Price	Awards	Weighted Average Grant Date Fair Value	Awards	Weighted Average Grant Date Fair Value	Awards	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2014	466,015	\$31.73	145,085	\$41.66	47,977	\$42.27	143,369	\$40.52
Granted	—	—	265,551	21.43	214,403	17.51	—	—
Forfeited	(5,430 )	38.41	(265 )	22.54	(113 )	18.56	—	—
Exercised or settled	(460 )	17.34	(13,200 )	38.43	—	—	—	—
Expired or cancelled	(2,775 )	26.33	—	—	(47,977 )	42.27	—	—
Outstanding at June 27, 2015	457,350	\$31.69	397,171	\$28.95	214,290	\$17.51	143,369	\$40.52

On March 23, 2015, the Company converted the \$4.0 million fixed value retention award granted to the Chief Executive Officer in connection with the Company's separation from Rayonier from a stock settled award to a cash settled award. As such, the award will have no dilutive effect on the Company's stock. All other significant terms remain unchanged.

## 11. Employee Benefit Plans

The Company has a qualified non-contributory defined benefit pension plan covering a significant majority of its employees and an unfunded plan that provides benefits in excess of amounts allowable in the qualified plans under current tax law. Both the qualified plan and the unfunded excess plan are closed to new participants. Employee benefit plan liabilities are calculated using actuarial estimates and management assumptions. These estimates are based on

historical information, along with certain assumptions about future events. Changes in assumptions, as well as changes in actual experience, could cause the estimates to change.

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Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

The net pension and postretirement benefit costs that have been recorded are shown in the following tables:

Components of Net Periodic Benefit Cost	Pension		Postretirement	
	Three Months Ended		Three Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Service cost	\$1,494	\$526	\$298	\$157
Interest cost	3,807	1,854	229	153
Expected return on plan assets	(5,809 )	(3,151 )	—	—
Amortization of prior service cost	188	277	4	4
Amortization of losses	3,358	972	211	122
Amortization of negative plan amendment	—	—	(17 )	(134 )
Total net periodic benefit cost	\$3,038	\$478	\$725	\$302
Components of Net Periodic Benefit Cost	Pension		Postretirement	
	Six Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Service cost	\$2,988	\$1,079	\$503	\$314
Interest cost	7,614	3,803	459	306
Expected return on plan assets	(11,617 )	(6,465 )	—	—
Amortization of prior service cost	375	569	8	8
Amortization of losses	6,717	1,997	338	244
Amortization of negative plan amendment	—	—	(87 )	(268 )
Total net periodic benefit cost	\$6,077	\$983	\$1,221	\$604

The Company does not have any mandatory pension contribution requirements and does not expect to make any discretionary contributions in 2015.

## 12. Contingencies

The Company is engaged in various legal and regulatory actions and proceedings, and has been named as a defendant in various lawsuits and claims arising in the normal course of business. While the Company has procured reasonable and customary insurance covering risks normally occurring in connection with its businesses, it has in certain cases retained some risk through the operation of self-insurance, primarily in the areas of workers' compensation, property insurance and general liability. These other lawsuits and claims, either individually or in the aggregate, are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

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Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

13. Guarantees

The Company provides financial guarantees as required by creditors, insurance programs and various governmental agencies. As of June 27, 2015, the following financial guarantees were outstanding:

Financial Commitments	Maximum Potential Payment
Standby letters of credit (a)	\$15,158
Surety bonds (b)	57,151
Total financial commitments	\$72,309

The letters of credit primarily provide credit support for surety bonds issued to comply with financial assurance (a) requirements relating to environmental remediation of disposed sites. The letters of credit will expire during 2015 and 2016 and will be renewed as required.

(b) Rayonier Advanced Materials purchases surety bonds primarily to comply with financial assurance requirements relating to environmental remediation and post closure care and to provide collateral for the Company's workers' compensation program. These surety bonds expire at various dates between 2015 and 2019. They are expected to be renewed annually as required.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

When we refer to "we," "us," "our" or "the Company," we mean Rayonier Advanced Materials Inc. and its consolidated subsidiaries. References herein to "Notes to Financial Statements" refer to the Notes to the Condensed Consolidated Financial Statements of Rayonier Advanced Materials Inc. included in Item 1 of this Report.

The Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors which may affect future results. Our MD&A should be read in conjunction with our 2014 Annual Report on Form 10-K and information contained in our subsequent Form 10-Q's, 8-K's and other reports to the U.S. Securities and Exchange Commission (the "SEC").

Note About Forward-Looking Statements

Certain statements in this document regarding anticipated financial, business, legal or other outcomes, including business and market conditions, outlook and other similar statements relating to Rayonier Advanced Materials' future events, developments or financial or operational performance or results, are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements are identified by the use of words such as "may," "will," "should," "expect," "estimate," "believe," "intend," "anticipate" and other similar language. However, the absence of these or similar words or expressions does not mean a statement is not forward-looking. While we believe these forward-looking statements are reasonable when made, forward-looking statements are not guarantees of future performance or events and undue reliance should not be placed on these statements. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance these expectations will be attained and it is possible actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks and uncertainties. The factors contained in Item 1A — Risk Factors in our Annual Report on Form 10-K, among others, could cause actual results or events to differ materially from the Company's historical experience and those expressed in forward-looking statements made in this document.

Forward-looking statements are only as of the date they are made, and the Company undertakes no duty to update its forward-looking statements except as required by law. You are advised, however, to review any further disclosures we have made or may make in our filings and other submissions to the SEC, including those on Forms 10-Q, 10-K, 8-K and other reports.

Business

Rayonier Advanced Materials is a leading manufacturer of high-value cellulose products with production facilities in Jesup, Georgia and Fernandina Beach, Florida. These products are sold throughout the world for use in various industrial applications and to produce a wide variety of products, including cigarette filters, foods, pharmaceuticals, textiles and electronics.

The Company's primary products consist of the following:

Cellulose specialties are primarily used in dissolving chemical applications that require a highly purified form of cellulose. The Company concentrates on producing the purest, most technologically-demanding forms of cellulose specialties products, such as cellulose acetate and high purity cellulose ethers, and is a leading supplier of these products. Typically, product pricing is set annually in the fourth quarter for the following year based on discussions with customers and the terms of contractual arrangements. The manufacture and sale of cellulose specialties products are the primary driver of the Company's profitability.

Commodity products are used for viscose and absorbent materials applications. Commodity viscose is a raw material required for the manufacture of viscose staple fibers which are used in woven applications such as textiles for clothing and other fabrics, and in non-woven applications such as baby wipes, cosmetic and personal wipes, industrial wipes and mattress ticking. Absorbent materials, typically referred to as fluff fibers, are used as an absorbent medium in products such as disposable baby diapers, feminine hygiene products, incontinence pads, convalescent bed pads, industrial towels and wipes and non-woven fabrics. Pricing for commodity products is typically referenced to published indexes or based on publicly available spot market prices.

Cellulose specialties markets are facing a combination of industry oversupply and weaker end-market demand which has led to a decline in the Company's cellulose specialties prices of approximately 14 percent over the last two years and adversely impacted our overall profitability. In response to the persistent imbalance of supply and demand in the cellulose specialties markets,

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we are permanently reducing our cellulose specialties capacity, improving our cost position and shifting our strategy to de-emphasize volume growth in cellulose specialties.

In this regard, the Company announced a strategic asset realignment of its Jesup, Georgia plant to better align its production assets to current market conditions, improve efficiency and restore commodity production throughput to approach historical levels. The Jesup plant has three production lines, A-line, B-line and C-line. The Company will invest \$25 million to realign assets related to its approximately 190,000 ton C-line at the Jesup plant for the permanent production of commodity products, specifically fluff and commodity viscose. Certain assets installed on the C-line during the Company's 2013 cellulose specialties expansion will be repositioned to the A-line to replace less efficient equipment. As a result of these changes, the A-line's cost position will improve and its operational flexibility will increase, allowing it to produce a broader range of products for customers interested in higher value and performance. In addition, the Company's overall cellulose specialties capacity will be reduced by approximately 190,000 tons, or 28 percent, while its annual fluff and viscose production capacity will increase by 11 percent to approximately 245,000 tons annually. These actions are expected to reduce the Company's costs by approximately \$14 million annually, in part driven by a reduction of 43 employees through attrition.

This asset realignment has resulted in the abandonment of certain long-lived assets primarily at the Jesup plant. As a result of this abandonment, certain assets were written down to salvage value and a \$28 million pre-tax, non-cash impairment charge was recorded during the second quarter of 2015. The abandonment led management to conduct an impairment analysis on all the Company's long-lived assets being held and used on a combined plant level. Based on the impairment analysis performed, management concluded the assets were recoverable.

### Basis of Presentation

On June 27, 2014, the Company was separated from its former parent, Rayonier Inc. ("Rayonier") through the distribution to its stockholders of 42,176,565 shares of common stock (the "Separation"). For periods prior to the Separation, the financial information presented consists of the performance fibers segment of Rayonier and an allocable portion of its corporate costs (together, the "performance fibers business"). These financial statements have been presented as if the Company and performance fibers business had been combined for all prior periods presented. All intercompany transactions are eliminated. The statements of income for periods prior to June 27, 2014 include allocations of certain costs from Rayonier related to the operations of the Company. These corporate administrative costs were charged to the Company based on employee headcount and payroll costs. The combined statements of income also include expense allocations for certain corporate functions historically performed by Rayonier and not allocated to its operating segments. These allocations were based on revenues and specific identification of time and/or activities associated with the Company. Management believes the methodologies employed for the allocation of costs were reasonable in relation to the historical reporting of Rayonier, but may not necessarily be indicative of costs had the Company operated on a stand-alone basis during the periods prior to the Separation, nor what the costs may be in the future. The results of operations for periods prior to June 27, 2014 are not necessarily indicative or predictive of the results to be expected for the post-spin Company.

### Critical Accounting Policies and Use of Estimates

The preparation of financial statements requires us to make estimates, assumptions and judgments that affect our assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information we believe are reasonable. Actual results may differ from these estimates. Except as noted below, there have been no changes to our critical accounting policies as disclosed in our 2014 Annual Report on Form 10-K. For a full description of our critical accounting policies, see Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2014 Annual Report on Form 10-K.

#### Depreciation of long-lived assets

Depreciation expense is computed using the units-of-production method for our plant and equipment and the straight-line method on all other property, plant and equipment over the useful economic lives of the assets involved.

The total units of production used to calculate depreciation expense is determined by factoring annual production days, based on normal production conditions, by the economic useful life of the asset involved. On average, the

units-of-production and straight line methodologies accounted for approximately 89 percent and 11 percent of depreciation expense, respectively. The physical life of equipment, however, may be shortened by economic obsolescence caused by environmental regulation, competition or other causes. We depreciate our non-production assets, including office, lab and transportation equipment, using the straight-line depreciation method over 3 to 25 years. Buildings and land improvements are depreciated using the straight-line method over 15 to 35 years and 5 to 30 years,

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respectively. Management believes these depreciation methods are the most appropriate, versus other generally accepted accounting methods, as they most closely match revenues with expenses.

Gains and losses on the retirement of assets are included in operating income. Long-lived assets are reviewed annually for impairment or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets that are held and used is measured by net undiscounted cash flows expected to be generated by the asset. Property, plant and equipment are grouped for purposes of evaluating recoverability at the combined plant level, the lowest level for which independent cash flows are identifiable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

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## Results of Operations

Financial Information (in millions)	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net Sales				
Cellulose specialties	\$183	\$201	\$362	\$407
Commodity products and other	38	12	80	49
Total Net Sales	221	213	442	456
Cost of Sales	176	161	360	349
Gross Margin	45	52	82	107
Selling and general expenses	10	9	22	17
Other operating expense, net	27	37	27	40
Operating Income	8	6	33	50
Interest expense, net	9	3	19	3
Income (Loss) Before Income Taxes	(1	) 3	14	47
Income Tax Expense (Benefit)	(1	) (2	) 4	11
Net Income	\$—	\$5	\$10	\$36

## Other Data

Sales Prices (\$ per metric ton)					
Cellulose specialties	\$1,638	\$1,768	\$1,653	\$1,796	
Commodity products	666	650	676	681	
Sales Volumes (thousands of metric tons)					
Cellulose specialties	111	113	219	227	
Commodity products	55	13	113	63	
Gross Margin %	20.4	% 24.4	% 18.6	% 23.5	%
Operating Margin %	3.6	% 2.8	% 7.5	% 11.0	%
Effective Tax Rate %	53.0	% (53.3	)% 27.0	% 23.4	%
Sales (in millions)		Changes Attributable to:			
Three Months Ended	June 28, 2014	Price	Volume/Mix	June 27, 2015	
Cellulose specialties	\$201	\$(15	) \$(3	) \$183	
Commodity products and other	12	1	25	38	
Total Sales	\$213	\$(14	) \$22	\$221	

For the three months ended June 27, 2015, total sales increased \$8 million, or approximately 4 percent, primarily due to increased commodity product sales volumes reflecting a shorter annual shutdown and increased efficiencies realized in our commodity production in 2015. This was partially offset by lower cellulose specialties prices as a result of the annual price negotiations and lower cellulose specialties volumes due to the timing of sales.

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Sales (in millions) Six Months Ended	June 28, 2014	Changes Attributable to:		June 27, 2015
		Price	Volume/Mix	
Cellulose specialties	\$407	\$(31 )	\$(14 )	\$362
Commodity products and other	49	(1 )	32	80
Total Sales	\$456	\$(32 )	\$18	\$442

For the six months ended June 27, 2015, total sales decreased \$14 million, or approximately 3 percent, primarily due to lower cellulose specialties prices as a result of the annual price negotiations and lower cellulose specialties volumes due to the timing of sales. This was partially offset by increased commodity product sales volumes reflecting a shorter annual shutdown and increased efficiencies realized in our commodity production in 2015.

Operating Income (in millions) Three Months Ended	June 28, 2014	Changes Attributable to (a):			June 27, 2015
		Price	Volume/Sales Mix	Cost	
Operating Income	\$6	\$(14 )	\$2	\$14	\$8
Operating Margin %	2.8 %	(6.8 %)	1.3 %	6.3 %	3.6 %

(a) Computed based on contribution margin.

For the three month period ending June 27, 2015, operating income and margin percentage increased \$2 million and 0.8 percentage points versus prior year. The price decline is primarily due to lower cellulose specialties prices as a result of annual price negotiations. Lower cellulose specialties sales volumes were offset by increased commodity sales volumes. Other operating expenses, included in cost, declined \$10 million as lower costs related to the separation from its former parent were partially offset by the non-cash impairment charge related to the strategic asset realignment of its Jesup plant. Additionally, costs declined \$4 million as lower wood, chemical and energy prices, due to cost reduction activities and market conditions, were partially offset by higher costs from labor and depreciation, from a shorter annual shutdown at its Jesup plant, and higher selling and general expenses from being an independent, public company.

Operating Income (in millions) Six Months Ended	June 28, 2014	Changes Attributable to (a):			June 27, 2015
		Price	Volume/Sales Mix	Cost	
Operating Income	\$50	\$(32 )	\$(1 )	\$16	\$33
Operating Margin %	11.0 %	(6.7 %)	(0.4 %)	3.6 %	7.5 %

(a) Computed based on contribution margin.

For the six month period ending June 27, 2015, operating income and margin percentage decreased \$17 million and 3.5 percentage points versus prior year. The decline is primarily due to lower cellulose specialties prices as a result of the annual price negotiations. Lower cellulose specialties sales volumes were partially offset by increased commodity sales volumes. Other operating expenses, included in cost, declined \$13 million as lower costs related to the separation from its former parent were partially offset by the non-cash impairment charge related to the strategic asset realignment of its Jesup plant. Additionally, costs declined \$3 million as lower wood, chemical and energy prices, due to cost reduction activities and market conditions, were partially offset by higher costs from labor and depreciation, from a shorter annual shutdown at its Jesup plant, and higher selling and general expenses from being an independent, public company.

#### Interest Expense and Income Tax Expense (Benefit)

Second quarter and year-to-date interest was \$9 million and \$19 million, respectively, due to debt issued by the Company in the second quarter of 2014. See Note 3 — Debt for additional information.

The Company's effective tax rate for the second quarter 2015 was 53.0 percent compared to (53.3) percent for the second quarter 2014. For the six months ended June 27, 2015 and June 28, 2014 the effective tax rates were 27.0 percent and 23.4 percent, respectively. The 2014 effective tax rates were favorably impacted by the reversal of a tax reserve related to the taxability of the cellulosic biofuel producer credit.



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The effective tax rates also differ from the federal statutory rate of 35.0 percent due to the manufacturing tax deduction and state tax credits. The impact of these deductions and credits on the effective tax rate is greater in periods that include expenses that reduce pre-tax income but are not currently deductible for income tax purposes. See Note 9 — Income Taxes.

**Liquidity and Capital Resources**

Cash flows from operations have historically been our primary source of liquidity and capital resources. We believe our cash flows and availability under our revolving credit facility, as well as our ability to access the capital markets, if necessary or desirable, will be adequate to fund our operations and anticipated long-term funding requirements, including capital expenditures, dividend payments, defined benefit plan contributions and repayment of debt maturities.

Our debt agreements contain various customary covenants. At June 27, 2015, we were in compliance with all covenants. Our debt's non-guarantors had no assets, revenues, covenant EBITDA or liabilities.

A summary of liquidity and capital resources is shown below (in millions of dollars):

	June 27, 2015	December 31, 2014
Cash and cash equivalents (a)	\$73	\$66
Availability under the Revolving Credit Facility (b)	235	222
Total debt (c)	908	945
Stockholders' deficit	(51)	(62)
Total capitalization (total debt plus equity)	857	883
Debt to capital ratio	106	% 107

(a) Cash and cash equivalents consisted of cash, money market deposits, and time deposits with original maturities of 90 days or less.

(b) Availability under the revolving credit facility is reduced by standby letters of credit of approximately \$15 million and \$28 million at June 27, 2015 and December 31, 2014, respectively.

(c) See Note 3 — Debt for additional information.

**Cash Flows (in millions of dollars)**

The following table summarizes our cash flows from operating, investing and financing activities for the six months ended:

	June 27, 2015	June 28, 2014
Cash provided by (used for):		
Operating activities	\$88	\$103
Investing activities	(41)	(64)
Financing activities	(40)	(19)

Cash provided by operating activities decreased \$15 million primarily due to cash interest and tax payments.

Cash used for investing activities decreased \$23 million due to lower capital expenditures.

Cash used for financing activities increased \$21 million due to debt repayments in 2015 partially offset by debt issuance costs in 2014.

**Performance and Liquidity Indicators**

The discussion below is presented to enhance the reader's understanding of our operating performance, liquidity, ability to generate cash and satisfy rating agency and creditor requirements. This information includes the following measures of financial results: Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA"), Pro Forma EBITDA and Adjusted Free Cash

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Flow. These measures are not defined by U.S. Generally Accepted Accounting Principles (“GAAP”) and the discussion of EBITDA and Adjusted Free Cash Flow is not intended to conflict with or change any of the GAAP disclosures described above. Management considers these measures, in addition to operating income, to be important to estimate the enterprise and stockholder values of the Company, and for making strategic and operating decisions. In addition, analysts, investors and creditors use these measures when analyzing our operating performance, financial condition and cash generating ability. Management uses EBITDA and Pro Forma EBITDA as performance measures and Adjusted Free Cash Flow as a liquidity measure.

EBITDA is defined by SEC rule. Pro Forma EBITDA is defined by the Company as EBITDA before non-cash impairment charges, one-time separation and legal costs, insurance recovery and environmental reserve adjustments.

EBITDA and Pro Forma EBITDA are not necessarily indicative of results that may be generated in future periods.

Below is a reconciliation of Net Income to EBITDA for the respective periods (in millions of dollars):

Net Income to EBITDA Reconciliation	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net Income	\$—	\$5	\$10	\$36
Depreciation and amortization	21	18	42	38
Interest, net	9	3	19	3
Income tax expense	(1	) (2	) 4	11
EBITDA	29	24	75	88
Non-cash impairment charge	28	—	28	—
One-time separation and legal costs	(1	) 36	(1	) 39
Insurance settlement	(1	) —	(1	) —
Pro Forma EBITDA	\$55	\$60	\$101	\$127

EBITDA for the three months ended June 27, 2015 increased from the prior year period primarily due to lower non-cash charges in the current year versus the prior year period. EBITDA for the six months ended June 27, 2015 decreased primarily due to lower operating results offset by lower non-cash charges in the current year versus the prior year period. Pro Forma EBITDA for the three and six months ended June 27, 2015 decreased from the prior year periods due to lower operating results. For more information on the Company’s operating results, see Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations of this Form 10-Q.

Adjusted Free Cash Flow is defined as cash provided by operating activities adjusted for capital expenditures excluding strategic capital. Adjusted Free Cash Flow, as defined by the Company, is a non-GAAP measure of cash generated during a period which is available for dividend distribution, debt reduction, strategic acquisitions and repurchase of the Company’s common stock. Adjusted Free Cash Flow is not necessarily indicative of the Adjusted Free Cash Flow that may be generated in future periods.

Below is a reconciliation of Cash Flow from Operations to Adjusted Free Cash Flow for the respective periods (in millions of dollars):

Cash Flow from Operations to Adjusted Free Cash Flow Reconciliation	Six Months Ended		
	June 27, 2015	June 28, 2014	
Cash flow from operations	\$88	\$103	
Capital expenditures (a)	(41	) (51	)
Adjusted Free Cash Flow	\$47	\$52	
Cash used for investing activities	\$(41	) \$(64	)
Cash used for financing activities	\$(40	) \$(19	)

Capital expenditures exclude strategic capital expenditures which are deemed discretionary by management. There (a) was no strategic capital for the six months ended June 27, 2015. Strategic capital totaled \$13 million for the purchase of timber deeds for the six months ended June 28, 2014.

Adjusted Free Cash Flow decreased slightly over the prior year due to lower operating results offset by lower capital expenditures.



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### Contractual Financial Obligations and Off-Balance Sheet Arrangements

We have no material changes to the Contractual Financial Obligations table as presented in Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2014 Annual Report on Form 10-K. See Note 13 — Guarantees for details on our letters of credit and surety bonds as of June 27, 2015.

### Outlook

In acetate markets, we believe demand will be soft in the near term driven by continued inventory de-stocking and recent public policy changes related to smoking in China. In ethers markets, while there are pockets of growth, the broader category has been pressured by a soft European economy and depressed pricing for cotton based alternatives. Markets for high-strength viscose, engine filtration media and casings remain relatively stable and we expect these trends to continue.

As a result of industry oversupply and weaker end-market demand, we continue to focus on our 2015 initiatives to reduce costs, optimize our assets and grow our business. As previously discussed, we announced a strategic repositioning to better align our assets to current market conditions. Additionally, earlier in the quarter, we entered into a non-binding letter of intent to form a joint venture with Borregaard ASA that would process lignin produced at our Fernandina plant, currently used for energy, into higher-value products. These actions, combined with our cost savings initiatives, will further our ability to compete effectively and position ourselves for near and long-term success.

For 2015, cellulose specialties volumes are expected to be comparable to 2013/2014 levels with prices 7 to 8 percent below 2014 average prices. Our estimated EBITDA is expected to be \$210 to \$225 million. Capital expenditures in 2015 are expected to be approximately \$80 million; of that, \$15 to \$20 million is for the boiler MACT project with the remainder being allocated to maintenance and high-return cost reduction projects. We expect our 2015 effective tax rate to be between 33 and 34 percent.

Our full year 2015 performance is and will be subject to a number of risk variables and uncertainties, including those discussed under Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Note About Forward Looking Statements of this Form 10-Q and Item 1A — Risk Factors of this report on Form 10-Q as well as our Annual Report on Form 10-K.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Market and Other Economic Risks

We are exposed to various market risks, primarily changes in interest rates and commodity prices. Our objective is to minimize the economic impact of these market risks. We may use derivatives in accordance with policies and procedures approved by the Audit Committee of our Board of Directors. Any such derivatives would be managed by a senior executive committee whose responsibilities include initiating, managing and monitoring resulting exposures. We do not enter into financial instruments for trading or speculative purposes. At June 27, 2015, we had no derivatives outstanding.

Cyclical pricing of commodity market paper pulp is one of the factors which influences prices in the absorbent materials and commodity viscose product lines. Our cellulose specialties product prices are based on market supply and demand and are not correlated to commodity paper pulp prices. In addition, a majority of our cellulose specialties products are under long-term volume contracts that extend through 2015 to 2017. The pricing provisions of these contracts are set in the fourth quarter in the year prior to the shipment.

As of June 27, 2015 we had \$350 million of long-term variable rate debt which is subject to interest rate risk. At this borrowing level, a hypothetical one-percentage point increase/decrease in interest rates would result in a corresponding increase/decrease of approximately \$4 million in interest payments and expense over a 12 month period. Our primary interest rate exposure on variable rate debt results from changes in LIBOR.





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The fair market value of our long-term fixed interest rate debt is also subject to interest rate risk. However, we intend to hold most of our debt until maturity. The estimated fair value of our fixed-rate debt at June 27, 2015 was \$494 million compared to the \$550 million principal amount. We use quoted market prices to estimate the fair value of our fixed-rate debt. Generally, the fair market value of fixed-rate debt will increase as interest rates fall and decrease as interest rates rise. A hypothetical one-percentage point increase/decrease in prevailing interest rates at June 27, 2015 would result in a corresponding decrease/increase in the fair value of our fixed-rate debt of approximately \$34 million. We may periodically enter into commodity forward contracts to fix some of our fuel oil and natural gas costs. Such forward contracts partially mitigate the risk of a change in margins resulting from an increase or decrease in these energy costs. At June 27, 2015, we had no fuel oil or natural gas forward contracts outstanding.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), are designed with the objective of ensuring that information required to be disclosed in reports filed under the Exchange Act, such as this quarterly report on Form 10-Q, is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Because of the inherent limitations in all control systems, no control evaluation can provide absolute assurance all control exceptions and instances of fraud have been prevented or detected on a timely basis. Even systems determined to be effective can provide only reasonable assurance their objectives are achieved.

Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q, our management, including the Chief Executive Officer and Chief Financial Officer, concluded the design and operation of the disclosure controls and procedures were effective as of June 27, 2015.

During the quarter ended June 27, 2015, based upon the evaluation required by paragraph (d) of SEC Rule 13a-15, there were no changes in our internal control over financial reporting that would materially affect or are reasonably likely to materially affect our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

We are engaged in various legal actions and have been named as a defendant in various other lawsuits and claims arising in the normal course of business. While we have procured reasonable and customary insurance covering risks normally occurring in connection with our businesses, we have in certain cases retained some risk through the operation of self-insurance, primarily in the areas of workers' compensation, property insurance and general liability. In our opinion, these and other lawsuits and claims, either individually or in the aggregate, are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

**Altamaha Riverkeeper Litigation — Jesup Plant.** In November 2013, we received a "sixty day letter" from lawyers representing a non-profit environmental organization, the Altamaha Riverkeeper. In the letter, the Altamaha Riverkeeper threatened to file a citizen suit against us as permitted under the federal Clean Water Act and the Georgia Water Quality Control Act due to what the letter alleges to be ongoing violations of such laws, if we do not correct such violations within 60 days of the date of the letter. The allegations relate to the color and odor of treated effluent discharged into the Altamaha River by our Jesup, Georgia plant.

On March 26, 2014, we were served with a complaint, captioned *Altamaha Riverkeeper, Inc. v. Rayonier Inc. and Rayonier Performance Fibers LLC*, which was filed in the U.S. District Court for the Southern District of Georgia. In the complaint, the Altamaha Riverkeeper alleges, among other things, violations of the federal Clean Water Act and Georgia Water Quality Control Act, negligence and public nuisance, relating to the permitted discharge from the Jesup plant. The plant's treated effluent is discharged pursuant to a permit issued by the Environmental Protection Division of the Georgia Department of Natural Resources (referred to as the "EPD"), as well as the terms of a consent order entered into in 2008 (and later amended) by EPD and us. The complaint seeks, among other things, injunctive relief, monetary damages, and attorneys' fees and expenses. The total amount of monetary relief sought by the plaintiff cannot be determined at this time.

On March 31, 2015, our motion for summary judgment was granted by the court, with respect to the Clean Water Act and Georgia Water Quality Control Act claims. State law claims for public nuisance and negligence were also dismissed, for lack of jurisdiction, without prejudice. The Altamaha Riverkeeper elected not to appeal the court's summary judgment order and, therefore, this lawsuit has been dismissed and is now concluded.

**Stockholder Litigation.** As previously disclosed in a Form 8-K filed by the Company, on May 4, 2015 the Company was served with a lawsuit filed in the U.S. District Court for the Middle District of Florida, captioned *Oklahoma Firefighters Pension and Retirement System vs. Rayonier Advanced Materials Inc., Paul G. Boynton, Frank A. Ruperto and Benson K. Woo*. The case is a purported class action alleging securities laws violations, primarily related to claims that the Company failed to record adequate environmental reserves related to disposed operations which, the plaintiffs allege led to a drop in the Company's stock price between June 30, 2014 and January 28, 2015. The allegations are couched as violations of Section 10(b) of the Exchange Act and SEC Rule 10b-5, and as violations of Section 20(a) of the Exchange Act against the individual defendants. The complaint seeks unspecified monetary damages and other relief. All discovery has been stayed pending the court's ruling on the Company's forthcoming motion to dismiss the amended consolidated complaint.

The Company strongly believes the complaint and its allegations to be baseless and without merit, and will continue to vigorously defend this action. This matter is not expected to have a material adverse effect on the Company's financial position, results of operations and cash flows.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K, other than those noted below. Please refer to Item 1A — Risk Factors in our Form 10-K for a discussion of the other risks to which our business, financial condition, results of operations and cash flows are subject.



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We may not achieve the benefits anticipated from our Jesup plant strategic realignment.

On July 30, 2015, the Company announced a strategic realignment at our Jesup plant to better align our assets to global market dynamics in cellulose specialties and better serve our commodity product customers. Please see Item 2 — Management's Discussion and Analysis — Executive Summary for more information on the Jesup plant's strategic asset realignment. Failure to complete this initiative within the planned cost and timing parameters and achieve the anticipated benefits could adversely affect our financial condition and results of operations. In addition, there can be no assurance the strategic repositioning will positively impact the Company's cellulose specialties pricing and overall profitability.

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Item 6. Exhibits

10.1	Description of Rayonier Advanced Materials Inc. 2015 Performance Share Award Program*	Filed herewith
31.1	Chief Executive Officer’s Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Chief Financial Officer’s Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification of Periodic Financial Reports Under Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101	The following financial information from our Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2015, formatted in Extensible Business Reporting Language (“XBRL”), includes: (i) the Condensed Consolidated Statements of Income and Comprehensive Income for the Three and Six Months Ended June 27, 2015 and June 28, 2014; (ii) the Condensed Consolidated Balance Sheets as of June 27, 2015 and December 31, 2014; (iii) the Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 27, 2015 and June 28, 2014; and (iv) the Notes to Condensed Consolidated Financial Statements	Filed herewith

\*Management contract or compensatory plan.

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Signature

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

Rayonier Advanced Materials Inc.  
(Registrant)

By: /s/ FRANK A. RUPERTO  
Frank A. Ruperto  
Chief Financial Officer and  
Senior Vice President, Finance and Strategy  
(Duly Authorized Officer and Principal Financial Officer)

Date: August 6, 2015