

RAYONIER ADVANCED MATERIALS INC.

Form 10-Q

August 02, 2016

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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 25, 2016

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 43,263,279 shares of common stock, \$.01 par value per share, outstanding as of July 27, 2016.

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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 25, 2016 | June 27, 2015 | June 25, 2016 | June 27, 2015 | | |
| Net Sales | \$213,589 | \$220,892 | \$431,318 | \$442,240 | | |
| Cost of Sales | 164,786 | 175,871 | 342,277 | 360,347 | | |
| Gross Margin | 48,803 | 45,021 | 89,041 | 81,893 | | |
| Selling, general and administrative expenses | 9,256 | 9,771 | 16,634 | 22,067 | | |
| Other operating expense, net (Note 7) | 978 | 26,665 | 1,918 | 27,295 | | |
| Operating Income | 38,569 | 8,585 | 70,489 | 32,531 | | |
| Interest expense | 8,267 | 9,299 | 16,938 | 18,623 | | |
| Interest income and miscellaneous expense, net | (115) | (50) | (116) | (78) | | |
| Gain on debt extinguishment | — | — | 8,844 | — | | |
| Income Before Income Taxes | 30,417 | (664) | 62,511 | 13,986 | | |
| Income tax expense (benefit) (Note 8) | 11,077 | (352) | 22,278 | 3,778 | | |
| Net Income | \$19,340 | \$(312) | \$40,233 | \$10,208 | | |
| Earnings Per Share of Common Stock (Note 6) | | | | | | |
| Basic earnings per share | \$0.46 | \$(0.01) | \$0.95 | \$0.24 | | |
| Diluted earnings per share | \$0.46 | \$(0.01) | \$0.95 | \$0.24 | | |
| Dividends Declared Per Share | \$0.07 | \$0.07 | \$0.14 | \$0.14 | | |
| Comprehensive Income: | | | | | | |
| Net Income | | | \$19,340 | \$(312) | \$40,233 | \$10,208 |
| Other Comprehensive Income (Note 5) | | | | | | |
| Amortization of pension and postretirement plans, net of income tax expense of (\$1,071), (\$1,348), (\$2,173), and (\$2,646) | | | 1,990 | 2,396 | 3,907 | 4,704 |
| Total other comprehensive income | | | 1,990 | 2,396 | 3,907 | 4,704 |
| Comprehensive Income | | | \$21,330 | \$2,084 | \$44,140 | \$14,912 |

See Notes to Condensed Consolidated Financial Statements.

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

| | June 25, 2016 | December 31, 2015 |
|--|------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 166,021 | \$ 101,303 |
| Accounts receivable, less allowance for doubtful accounts of \$151 and \$151 | 32,412 | 68,892 |
| Inventory (Note 2) | 106,282 | 125,409 |
| Prepaid and other current assets | 42,883 | 32,149 |
| Total current assets | 347,598 | 327,753 |
| Property, Plant and Equipment, Gross | 2,044,733 | 2,026,807 |
| Less — Accumulated Depreciation | (1,237,924) | (1,222,969) |
| Property, Plant and Equipment, Net | 806,809 | 803,838 |
| Deferred Tax Assets | 72,762 | 97,420 |
| Other Assets | 48,176 | 49,601 |
| Total Assets | \$ 1,275,345 | \$ 1,278,612 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Accounts payable | \$ 57,626 | \$ 44,992 |
| Accrued customer incentives and prepayments | 36,168 | 34,685 |
| Accrued payroll and benefits | 14,381 | 20,743 |
| Current maturities of long-term debt (Note 3) | 7,949 | 7,938 |
| Accrued income and other taxes | 3,246 | 5 |
| Other current liabilities | 10,822 | 11,047 |
| Dividends payable | 2,958 | — |
| Current liabilities for disposed operations (Note 9) | 12,829 | 12,034 |
| Total current liabilities | 145,979 | 131,444 |
| Long-Term Debt (Note 3) | 795,146 | 850,116 |
| Non-Current Liabilities for Disposed Operations (Note 9) | 142,446 | 145,350 |
| Pension and Other Postretirement Benefits | 160,727 | 162,084 |
| Other Non-Current Liabilities | 7,265 | 6,757 |
| Commitments and Contingencies | | |
| Stockholders' Equity (Deficit) | | |
| Preferred stock, 10,000,000 shares authorized at \$0.01 par value, 0 issued and outstanding as of June 25, 2016 and December 31, 2015 | — | — |
| Common stock, 140,000,000 shares authorized at \$0.01 par value, 43,343,875 and 42,872,435 issued and outstanding, as of June 25, 2016 and December 31, 2015, respectively | 433 | 429 |
| Additional paid-in capital | 73,195 | 70,213 |
| Retained earnings | 55,867 | 21,839 |
| Accumulated other comprehensive loss | (105,713) | (109,620) |
| Total Stockholders' Equity (Deficit) | 23,782 | (17,139) |
| Total Liabilities and Stockholders' Equity (Deficit) | \$ 1,275,345 | \$ 1,278,612 |

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 25, 2016 | June 27, 2015 |
| Operating Activities | | |
| Net income | \$40,233 | \$10,208 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 41,503 | 42,442 |
| Stock-based incentive compensation expense | 3,082 | 5,061 |
| Amortization of capitalized debt costs and debt discount | 956 | 1,213 |
| Deferred income taxes | 22,418 | (6,103) |
| Increase in liabilities for disposed operations | 2,637 | 49 |
| Impairment charge | — | 28,462 |
| Gain on debt extinguishment | (8,844) | — |
| Amortization of losses and prior service costs from pension and postretirement plans | 6,080 | 7,351 |
| Loss from sale/disposal of property, plant and equipment | 491 | 647 |
| Other | (1,287) | 111 |
| Changes in operating assets and liabilities: | | |
| Receivables | 34,337 | 25,814 |
| Inventories | 19,128 | 15,415 |
| Accounts payable | 7,647 | (2,179) |
| Accrued liabilities | (2,156) | (12,932) |
| All other operating activities | (10,666) | (23,982) |
| Expenditures for disposed operations | (4,746) | (2,818) |
| Cash Provided by Operating Activities | 150,813 | 88,759 |
| Investing Activities | | |
| Capital expenditures | (38,422) | (41,343) |
| Other | 2,143 | — |
| Cash Used for Investing Activities | (36,279) | (41,343) |
| Financing Activities | | |
| Repayment/repurchase of debt | (46,831) | (37,100) |
| Dividends paid | (2,955) | (2,953) |
| Proceeds from the issuance of common stock | — | 8 |
| Common stock repurchased | (30) | — |
| Cash Used for Financing Activities | (49,816) | (40,045) |
| Cash and Cash Equivalents | | |
| Change in cash and cash equivalents | 64,718 | 7,371 |
| Balance, beginning of year | 101,303 | 65,977 |
| Balance, end of period | \$166,021 | \$73,348 |
| Supplemental Disclosures of Cash Flows Information | | |
| Cash paid (received) during the period: | | |
| Interest | \$17,924 | \$19,017 |
| Income taxes | \$2,341 | \$13,099 |
| Non-cash investing and financing activities: | | |

| | | |
|-------------------------------------|----------|----------|
| Capital assets purchased on account | \$21,708 | \$15,831 |
|-------------------------------------|----------|----------|

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. (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, 2015, as filed with the SEC.

New or Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, Compensation - Stock Compensation. The update simplifies several areas of accounting for share based payments. The guidance also includes the acceptable or required transition methods for each of the various amendments included in the new standard. It is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The update requires entities to recognize assets and liabilities that arise from finance and operating leases and to classify those finance and operating lease payments in the financing or operating sections, respectively, of the statement of cash flows. It is effective for fiscal years beginning after December 15, 2018 with early adoption permitted with a modified retrospective approach. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The update requires inventory to be measured at the lower of cost or net realizable value. It is to be adopted prospectively and effective for fiscal years beginning after December 15, 2016 with early adoption permitted. The update is not expected to have a material impact on the Company’s financial statements as current inventory valuation practices already approximate the lower of cost or net realizable value.

In April 2015, the FASB issued 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 adopted as of March 26, 2016. The effect of this accounting change on prior periods was a reclassification of debt issuance costs as of December 31, 2015 of \$9.6 million and \$0.3 million to “Long-term debt” from “Other assets” and “Prepaid and other current assets,” respectively.

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. Subsequently, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations, ASU No. 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, ASU No. 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients. These standards provided implementation guidance for the identified issues. These standards 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 2, 2016, the date these financial statements were available to be issued. Three subsequent events warranting disclosure were identified. On July 22, 2016, the Company declared a third quarter 2016 cash dividend of \$0.07 per share of common stock. The dividend is payable on September 30, 2016 to stockholders of record on September 16, 2016. On July 25,

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2016, the Company made \$20 million in principal debt repayments on the Term A-1 Loan Facility. On July 27, 2016, the Company made a voluntary contribution of \$10 million to its pension plan.

2. Inventory

As of June 25, 2016 and December 31, 2015, the Company's inventory included the following:

| | June 25, 2016 | December 31, 2015 |
|--|------------------|----------------------|
| Finished goods | \$85,167 | \$ 103,866 |
| Work-in-progress | 4,476 | 2,344 |
| Raw materials | 14,179 | 16,593 |
| Manufacturing and maintenance supplies | 2,460 | 2,606 |
| Total inventory | \$106,282 | \$ 125,409 |

3. Debt

As of June 25, 2016 and December 31, 2015, the Company's debt consisted of the following:

| | June 25, 2016 | December 31, 2015 |
|---|------------------|----------------------|
| Revolving Credit Facility of \$250 million, \$236 million available after taking into account outstanding letters of credit, bearing interest at LIBOR plus 1.50% at June 25, 2016 | \$— | \$ — |
| Term A-1 Loan Facility borrowings maturing through June 2019 bearing interest at LIBOR plus 1.5%, interest rate of 1.95% at June 25, 2016 | 53,200 | 55,950 |
| Term A-2 Loan Facility borrowings maturing through June 2021 bearing interest at LIBOR plus 1.08% (after consideration of 0.67% patronage benefit), interest rate of 1.53% at June 25, 2016 | 252,750 | 262,750 |
| Senior Notes due 2024 at a fixed interest rate of 5.50% | 506,412 | 550,000 |
| Total principal payments due | 812,362 | 868,700 |
| Less: original issue discount and debt issuance costs | (9,267) | (10,646) |
| Total debt | 803,095 | 858,054 |
| Less: Current maturities of long-term debt | (7,949) | (7,938) |
| Long-term debt | \$795,146 | \$ 850,116 |

During the first six months of 2016, the Company made \$12.8 million in principal debt repayments on the Term Loan Facilities. During the first quarter of 2016, the Company repurchased in the open market \$43.6 million of its senior notes due 2024 and retired them for \$34.1 million plus accrued and unpaid interest. In connection with the retirement of these Senior Notes, the Company recorded a gain in other income of approximately \$8.8 million, which includes the write-off of \$0.7 million of unamortized debt issuance costs in the first quarter of 2016.

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Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

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

| | |
|--------------------------|-----------|
| Remaining 2016 | \$4,200 |
| 2017 | 9,775 |
| 2018 | 11,150 |
| 2019 | 38,225 |
| 2020 | 2,900 |
| Thereafter | 746,112 |
| Total principal payments | \$812,362 |

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 25, 2016 and December 31, 2015, using market information and what management believes to be appropriate valuation methodologies:

| | June 25, 2016 | | December 31, 2015 | | | |
|--------------------------------------|-----------------|------------|-------------------|------------|-----------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | | |
| Asset (liability) | | Level 1 | Level 2 | Level 1 | Level 2 | |
| Cash and cash equivalents | \$166,021 | \$166,021 | \$ — | \$101,303 | \$101,303 | \$ — |
| Current maturities of long-term debt | (7,949) | — | (8,400) | (7,938) | — | (8,400) |
| Fixed-rate long-term debt | (498,979) | — | (427,918) | (541,423) | — | (435,171) |
| Variable-rate long-term debt | (296,167) | — | (297,550) | (308,693) | — | (310,300) |

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.

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Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

5. Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss was comprised of the following:

| | Six Months Ended | |
|---|------------------|------------------|
| | June 25, 2016 | June 27, 2015 |
| Unrecognized components of employee benefit plans, net of tax | | |
| Balance, beginning of period | \$(109,620) | \$(103,444) |
| Defined benefit pension and post-retirement plans (a) | | |
| Amortization of losses | 5,769 | 7,054 |
| Amortization of prior service costs | 388 | 383 |
| Amortization of negative plan amendment | (77 |) (87 |
| Tax benefit | (2,173 |) (2,646 |
| Total reclassifications for the period, net of tax | 3,907 | 4,704 |
| Balance, end of period | \$(105,713) | \$(98,740) |

(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.

6. 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 25, 2016 | June 27, 2015 | June 25, 2016 | June 27, 2015 |
| Net income | \$ 19,340 | \$ (312) | \$ 40,233 | \$ 10,208 |
| Shares used for determining basic earnings per share of common stock | 42,229,476 | 42,192,913 | 42,217,952 | 42,189,598 |
| Dilutive effect of: | | | | |
| Stock options | — | — | — | 2,770 |
| Performance and restricted shares | 250,545 | — | 159,837 | 108,754 |
| Shares used for determining diluted earnings per share of common stock | 42,480,021 | 42,192,913 | 42,377,789 | 42,301,122 |
| Basic earnings per share (not in\$ thousands) | 0.46 | \$ (0.01) | \$ 0.95 | \$ 0.24 |
| Diluted earnings per share (not in\$ thousands) | \$ 0.46 | \$ (0.01) | \$ 0.95 | \$ 0.24 |

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

| | Three Months | | Six Months | |
|--------------------|---------------|---------------|---------------|---------------|
| | Ended | | Ended | |
| | June 25, 2016 | June 27, 2015 | June 25, 2016 | June 27, 2015 |
| Stock options | 415,009 | 457,350 | 415,782 | 392,645 |
| Restricted stock | 13,788 | 397,171 | 93,908 | 219,463 |
| Performance shares | 77,819 | 357,659 | 80,454 | 142,166 |
| Total | 506,616 | 1,212,180 | 590,144 | 754,274 |

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Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

7. Other Operating Expense, Net

Other operating expense, net was comprised of the following:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 25, 2016 | June 27, 2015 | June 25, 2016 | June 27, 2015 |
| Non-cash impairment charge | \$— | \$28,462 | \$— | \$28,462 |
| Loss (gain) on sale or disposal of property, plant and equipment | 255 | (102) | 491 | 280 |
| One-time separation and legal costs | — | (802) | — | (802) |
| Environmental reserve adjustment | 891 | — | 2,637 | — |
| Insurance settlement | — | (1,000) | — | (1,000) |
| Miscellaneous expense (income) | (168) | 107 | (1,210) | 355 |
| Total | \$978 | \$26,665 | \$1,918 | \$27,295 |

8. Income Taxes

The Company's effective tax rate for the second quarter 2016 was 36.4 percent compared to 53.0 percent for the second quarter 2015. The prior year period reflects the increased impact of the benefit of domestic manufacturing tax deduction and state tax credits as a result of lower pre-tax income. The impact of the manufacturing deduction 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. It is lower in periods that include expenses that reduce taxable income but do not currently reduce pre-tax income.

The Company's effective tax rate for the six months ended June 25, 2016 and June 27, 2015 was 35.6 percent and 27.0 percent, respectively. For both the quarter and year-to-date periods, the effective tax rate differs from the federal statutory rate primarily due to state taxes and nondeductible expenses. The year-to-date effective tax rate is also impacted by state tax credits.

9. Liabilities for Disposed Operations

An analysis of the liabilities for disposed operations for the six months ended June 25, 2016 is as follows:

| | |
|-------------------------------------|-----------|
| Balance, December 31, 2015 | \$157,384 |
| Expenditures charged to liabilities | (4,746) |
| Increase to liabilities | 2,637 |
| Balance, June 25, 2016 | 155,275 |
| Less: Current portion | (12,829) |
| Non-current portion | \$142,446 |

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 and non-governmental parties; and changes in accounting rules or interpretations. Based on information available as of June 25, 2016, the Company estimates this exposure could range up to approximately \$65 million, although no assurances can be given that this amount will not be exceeded given the factors described

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Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

above. These potential additional costs are attributable to several 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.

10. Incentive Stock Plans

The Company's total stock based compensation cost, for the six months ended June 25, 2016 and June 27, 2015 was \$3.1 million and \$5.1 million, respectively.

The Company also made new grants of restricted and performance shares to certain employees during the first quarter of 2016. The 2016 restricted share awards vest over three or four years, depending on the specifics of the grant. The 2016 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 six months ended June 25, 2016:

| | Stock Options | | Restricted Stock | | Performance-Based Stock Units | | 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, 2015 | 441,615 | \$ 31.67 | 384,383 | \$ 28.41 | 211,460 | \$ 17.51 | 141,698 | \$ 40.76 |
| Granted | — | — | 579,359 | 7.86 | 607,310 | 7.76 | — | — |
| Forfeited | (587) | 36.55 | (87,476) | 13.56 | (75,360) | 9.69 | (8,464) | 37.43 |
| Exercised or settled | — | — | (59,327) | 17.34 | — | — | — | — |
| Expired or cancelled | (26,895) | 29.11 | — | — | — | — | — | — |
| Outstanding at June 25, 2016 | 414,133 | \$ 31.83 | 816,939 | \$ 16.19 | 743,410 | \$ 10.03 | 133,234 | \$ 40.98 |

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:

| | Pension | | Postretirement | |
|---|---------------|---------------|----------------|---------------|
| | Three Months | | Three Months | |
| | Ended | | Ended | |
| Components of Net Periodic Benefit Cost | June 25, 2016 | June 27, 2015 | June 25, 2016 | June 27, 2015 |
| Service cost | \$1,306 | \$1,494 | \$202 | \$298 |
| Interest cost | 3,979 | 3,807 | 218 | 229 |
| Expected return on plan assets | (5,830) | (5,809) | — | — |
| Amortization of prior service cost | 191 | 188 | 4 | 4 |
| Amortization of losses | 2,835 | 3,358 | 70 | 211 |
| Amortization of negative plan amendment | — | — | (39) | (17) |
| Total net periodic benefit cost | \$2,481 | \$3,038 | \$455 | \$725 |

| | Pension | | Postretirement | |
|---|---------------|---------------|----------------|---------------|
| | Six Months | | Six Months | |
| | Ended | | Ended | |
| Components of Net Periodic Benefit Cost | June 25, 2016 | June 27, 2015 | June 25, 2016 | June 27, 2015 |
| Service cost | \$2,612 | \$2,988 | \$404 | \$503 |
| Interest cost | 7,958 | 7,614 | 436 | 459 |
| Expected return on plan assets | (11,660) | (11,617) | — | — |
| Amortization of prior service cost | 381 | 375 | 7 | 8 |
| Amortization of losses | 5,671 | 6,717 | 98 | 338 |
| Amortization of negative plan amendment | — | — | (77) | (87) |
| Total net periodic benefit cost | \$4,962 | \$6,077 | \$868 | \$1,221 |

The Company does not have any mandatory pension contribution requirements in 2016.

12. Contingencies

The Company is engaged in various legal and regulatory actions and proceedings, and has been named as a defendant in various litigation arising in the ordinary course of its business. While the Company has procured reasonable and customary insurance covering risks normally occurring in connection with its businesses, the Company 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. While there can be no assurance, the ultimate outcome of these proceedings, either individually or in the aggregate, is 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 25, 2016, the following financial guarantees were outstanding:

| | Maximum Potential Payment |
|-------------------------------|---------------------------------|
| Standby letters of credit (a) | \$ 14,216 |
| Surety bonds (b) | 56,201 |
| Total financial commitments | \$ 70,417 |

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 2016 and will be renewed as required.

(b) The Company 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 2016 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 2015 Annual Report on Form 10-K and information contained in our subsequent Forms 10-Q, 8-K and other reports to the U.S. Securities and Exchange Commission (the “SEC”).

Note About Non-GAAP Financial Measures

This document contains certain non-GAAP financial measures, including Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) and adjusted free cash flows and adjusted net debt. These non-GAAP measures are reconciled to each of their respective most directly comparable GAAP financial measures in Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations.

We believe these non-GAAP measures provide useful information to our board of directors, management and investors regarding certain trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare our performance to that of prior periods for trend analyses, purposes of determining management incentive compensation and budgeting, forecasting and planning purposes.

We do not consider these non-GAAP measures an alternative to financial measures determined in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). The principal limitations of these non-GAAP financial measures are that they may exclude significant expenses and income items that are required by GAAP to be recognized in our consolidated financial statements. In addition, they reflect the exercise of management’s judgment about which expenses and income items are excluded or included in determining these non-GAAP financial measures. In order to compensate for these limitations, management provides reconciliations of the non-GAAP financial measures we use to their most directly comparable GAAP measures. Non-GAAP financial measures should not be relied upon, in whole or part, in evaluating the financial condition, results of operations or future prospects of the Company.

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 risk factors contained in Item 1A — Risk Factors, in our Annual Report on Form 10-K and in our Quarterly Reports on Form 10-Q, 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 U.S. Securities and Exchange Commission (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.

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Our primary products consist of the following:

Cellulose specialties products are primarily used in dissolving chemical applications that require a highly purified form of cellulose. We concentrate on producing the purest, most technologically-demanding forms of cellulose specialties products, such as cellulose acetate and high-purity cellulose ethers, and are 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 indices or based on publicly available spot market prices.

Industry Update and Outlook

For 2016, we expect cellulose specialties prices to decline 6 to 7 percent and cellulose specialties sales volumes to decline 4 to 5 percent compared to 2015. Based on contractual commitments for the majority of our acetate volume, 2017 acetate pricing is expected to be approximately 2 percent below 2016. Negotiations for all cellulose specialties grades for 2017 currently uncommitted volumes will continue during the second half of 2016, consistent with past practices, which may impact 2017 prices and/or volumes.

Our cellulose specialties business faced market pressure over the past few years due to suppressed demand, excess capacity and the improved cost position of foreign competitors as a result of weak global currencies relative to the U. S. dollar. Going forward, we expect acetate demand to remain relatively flat and destocking of Chinese tow inventories to continue to impact the market through 2016. In certain other cellulose specialties markets including ethers, tire cord and engine filtration, we have seen signs of improving demand. In our commodity markets for the back half of 2016, we expect the viscose markets to strengthen moderately, while the absorbent material markets are expected to start feeling some pressure from incremental capacity.

In response to these market pressures, we began a three-year Transformation Initiative to significantly improve our cost structure and enhance cash flows. The Transformation Initiative is targeting cost savings of \$75 to \$90 million over the three-year period from 2016 through 2018. As a result of solid traction on our 2016 Transformation Initiative, as well as beneficial raw material prices, we are raising our 2016 guidance. We expect 2016 net income of \$51 to \$57 million and are raising pro forma EBITDA guidance to \$195 to \$205 million from \$185 to \$200 million. We expect 2016 operating cash flows of \$190 to \$195 million and are raising adjusted free cash flows guidance to \$100 to \$105 million from \$85 to \$95 million. Capital expenditures are expected to be \$90 million, including a portion of capital for the lignin joint venture.

We remain dedicated to improving cash flows, reducing debt and investing in our business. We generated significant cash flows during the first half of the year. Cash flows in the second half of the year are expected to be materially lower as a result of higher capital expenditures; the execution of our Fernandina plant's planned extended maintenance outage beginning in September; a \$10 million voluntary contribution to our pension plan; and the timing of certain cash flows related to working capital, including the collection of receivables due to timing of year-end shipments. The Transformation Initiative will continue to be a key focus of our efforts over the next couple of years. The progress we have made on this initiative allows us to also explore opportunities to grow and diversify our business. This growth will come from accelerating our research and development efforts, investing in our current business and targeting other attractive, complementary areas in which to invest.

Reconciliation of Guided Non-GAAP measures

Pro forma EBITDA guidance for 2016 of \$195 to \$205 million represents expected 2016 net income of \$51 to \$57 million excluding approximately \$9 million of pro forma adjustments related to the gain on debt extinguishment as well as estimated income tax expense, interest expense, net, and depreciation and amortization of approximately \$28 million - \$32 million, \$35 million and \$90 million, respectively.

Adjusted Free Cash Flows Guidance for 2016 of \$100 to \$105 million represents expected 2016 operating cash flows of \$190 to \$195 million excluding capital expenditures of \$90 million.

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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. 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 2015 Annual Report on Form 10-K.

Results of Operations

| Financial Information (in millions) | Three Months Ended | | Six Months Ended | | |
|--|--------------------|---------------|------------------|---------------|---|
| | June 25, 2016 | June 27, 2015 | June 25, 2016 | June 27, 2015 | |
| Net Sales | | | | | |
| Cellulose specialties | \$175 | \$183 | \$340 | \$362 | |
| Commodity products and other | 39 | 38 | 91 | 80 | |
| Total Net Sales | 214 | 221 | 431 | 442 | |
| Cost of Sales | 165 | 176 | 342 | 360 | |
| Gross Margin | 49 | 45 | 89 | 82 | |
| Selling, general and administrative expenses | 9 | 10 | 17 | 22 | |
| Other operating expense, net | 1 | 27 | 2 | 27 | |
| Operating Income | 39 | 8 | 70 | 33 | |
| Interest expense and other, net | 9 | 9 | 17 | 19 | |
| Gain on debt extinguishment | — | — | 9 | — | |
| Income Before Income Taxes | 30 | (1) | 62 | 14 | |
| Income Tax Expense | 11 | (1) | 22 | 4 | |
| Net Income | \$19 | \$— | \$40 | \$10 | |
| Other Data | | | | | |
| Sales Prices (\$ per metric ton) | | | | | |
| Cellulose specialties | \$1,548 | \$1,638 | \$1,551 | \$1,653 | |
| Commodity products | 668 | 666 | 675 | 676 | |
| Sales Volumes (thousands of metric tons) | | | | | |
| Cellulose specialties | 113 | 111 | 219 | 219 | |
| Commodity products | 55 | 55 | 130 | 113 | |
| Gross Margin % | 22.9 | % 20.4 | % 20.6 | % 18.6 | % |
| Operating Margin % | 18.2 | % 3.6 | % 16.2 | % 7.5 | % |
| Effective Tax Rate % | 36.4 | % 53.0 | % 35.6 | % 27.0 | % |

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| Sales (in millions) Three Months Ended | June 27, 2015 | Changes Attributable to: | | June 25, 2016 |
|---|------------------|-----------------------------|------------|------------------|
| | | Price | Volume/Mix | |
| Cellulose specialties | \$ 183 | \$ (10) | \$ 2 | \$ 175 |
| Commodity products and other | 38 | — | 1 | 39 |
| Total Sales | \$ 221 | \$ (10) | \$ 3 | \$ 214 |

For the three months ended June 25, 2016, total sales decreased \$7 million, or approximately three percent, primarily due to lower cellulose specialties prices as a result of our 2016 price negotiations. Cellulose specialties and commodity sales volumes were comparable to the prior year period.

| Sales (in millions) Six Months Ended | June 27, 2015 | Changes Attributable to: | | June 25, 2016 |
|---|---------------------|-----------------------------|------------|---------------------|
| | | Price | Volume/Mix | |
| Cellulose specialties | \$ 362 | \$ (22) | \$ — | \$ 340 |
| Commodity products and other | 80 | — | 11 | 91 |
| Total Sales | \$ 442 | \$ (22) | \$ 11 | \$ 431 |

For the six months ended June 25, 2016, total sales decreased \$11 million, or approximately two percent, as higher commodity products sales volumes reflecting increased manufacturing efficiencies realized in the latter half of 2015 were more than offset by lower cellulose specialties prices as a result of our 2016 price negotiations.

| Operating Income (in millions) | Gross Margin Changes Attributable to (a): | | | | | |
|-----------------------------------|--|---------|---------------------|-------|----------------------|------------------|
| | June 27, 2015 | Price | Volume/Sales Mix | Cost | SG&A and other | June 25, 2016 |
| Operating Income | \$ 8 | \$(10) | \$ 2 | \$ 12 | \$ 27 | \$ 39 |
| Operating Margin | % 3.6 % | (4.4)% | 1.0 % | 6.0 % | 12.0% | 18.2 % |

(a) Computed based on contribution margin.

For the three month period ending June 25, 2016, operating income and margin percentage increased \$31 million, or 14.6 percentage points, versus the prior year comparable period. Price declines, primarily due to lower cellulose specialties prices, were partially offset by increased sales volumes of commodity products. Costs declined \$12 million due to the impact of our cost reduction initiatives and lower chemical, energy and transportation costs. Additionally, first half 2015 costs were higher due to the Fernandina plant annual maintenance outage which is next scheduled to occur in the third quarter of 2016. Selling, general and administrative (“SG&A”) and other expenses decreased \$27 million primarily as a result of the Jesup asset impairment in second quarter 2015.

| Operating Income (in millions) | Gross Margin Changes Attributable to (a): | | | | | |
|-----------------------------------|--|---------|---------------------|-------|----------------------|---------------------|
| | June 27, 2015 | Price | Volume/Sales Mix | Cost | SG&A and other | June 25, 2016 |
| Operating Income | \$ 33 | \$(22) | \$ 4 | \$ 24 | \$ 31 | \$ 70 |
| Operating Margin | % 7.5 % | (4.9)% | 1.0 % | 5.5 % | 7.1 % | 16.2% |

(a) Computed based on contribution margin.

For the six month period ending June 25, 2016, operating income and margin percentage increased \$37 million, or 8.7 percentage points, versus the prior year comparable period. Price declines, primarily due to lower cellulose specialties prices, were partially offset by increased sales volumes of commodity products. Costs declined \$24 million due to the impact of our cost reduction initiatives and lower chemical, energy and transportation costs. Additionally, first half 2015 costs were higher due to the Fernandina plant annual maintenance outage which is next scheduled to occur in the third quarter of 2016. SG&A and other expenses decreased \$31 million primarily as a result of the Jesup asset impairment in second quarter 2015, lower professional fees and stock compensation expense.

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Interest Expense, net and Gain on Debt Extinguishment

During the first quarter of 2016, we repurchased in the open market and retired \$44 million of our 5.5 percent Senior Notes due 2024 for approximately \$34 million. The extinguishment resulted in a gain of about \$9 million. We also wrote-off approximately \$1 million of unamortized debt issuance costs associated with the extinguished debt. Interest expense, net of interest income and other expense, was \$8 million and \$17 million for the quarter and year-to-date 2016 periods respectively. Lower interest expense in 2016 as compared to prior year periods is attributable to lower outstanding debt, including the benefit of the repurchase of our Senior Notes in the first quarter of 2016. See Note 3 — Debt.

Income Tax Expense

Our effective tax rate for the second quarter 2016 was 36.4 percent compared to 53.0 percent for the second quarter 2015. The prior year period reflects the increased impact of the benefit of domestic manufacturing tax deduction and state tax credits as a result of lower pre-tax income. The impact of the manufacturing deduction 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. It is lower in periods that include expenses that reduce taxable income but do not currently reduce pre-tax income.

The Company's effective tax rate for the six months ended June 25, 2016 and June 27, 2015 was 35.6 percent and 27.0 percent, respectively. For both the quarter-to date and year-to-date 2016 periods, the effective tax rate differs from the federal statutory rate primarily due to state taxes and nondeductible expenses. The year-to-date effective tax rate is also impacted by state tax credits. See Note 8 — 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.

On May 24, 2016, we announced a second quarter dividend of seven cents per share of common stock payable June 30, 2016, to stockholders of record on June 16, 2016. The declaration and payment of future dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements and other factors the Board of Directors deems relevant. In addition, certain of our debt facilities may restrict the declaration and payment of dividends, depending upon our then current compliance with certain covenants. Our debt agreements contain various customary covenants. At June 25, 2016, 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 25, December 31, | |
|--|-----------------------|--------|
| | 2016 | 2015 |
| Cash and cash equivalents (a) | \$ 166 | \$ 101 |
| Availability under the Revolving Credit Facility (b) | 236 | 236 |
| Total debt (c) | 803 | 858 |
| Stockholders' equity (deficit) | 24 | (17) |
| Total capitalization (total debt plus equity) | 827 | 841 |
| Debt to capital ratio | 97 % | 102 % |

(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 \$14 million at June 25, 2016 and December 31, 2015.

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

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Cash Flows (in millions of dollars)

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

| Cash Provided by (Used for): | June 25, June 27, | |
|------------------------------|-------------------|-------|
| | 2016 | 2015 |
| Operating activities | \$ 151 | \$ 88 |
| Investing activities | (36) | (41) |
| Financing activities | (50) | (40) |

Cash provided by operating activities increased \$63 million primarily due to improved earnings and working capital.

Cash used for investing activities decreased \$5 million primarily due to reduced capitalized expenditures.

Cash used for financing activities increased \$10 million due to the repurchase of senior notes and other debt repayments. See Note 3 — Debt for additional information.

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: EBITDA, pro forma EBITDA and adjusted free cash flows. These measures are not defined by GAAP and the discussion of EBITDA and adjusted free cash flows 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 flows as a liquidity measure.

EBITDA is defined by SEC rule as earnings before interest, taxes, depreciation and amortization. We define pro forma EBITDA as EBITDA before non-cash impairment, one-time separation and legal costs, insurance recovery and gain on debt extinguishment. 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 25, 2016 | June 27, 2015 | June 25, 2016 | June 27, 2015 |
| Net Income | \$ 19 | \$ — | \$ 40 | \$ 10 |
| Depreciation and amortization | 19 | 21 | 42 | 42 |
| Interest, net | 9 | 9 | 17 | 19 |
| Income tax expense | 11 | (1) | 22 | 4 |
| EBITDA | 58 | 29 | 121 | 75 |
| Non-cash impairment charge | — | 28 | — | 28 |
| One-time separation and legal costs | — | (1) | — | (1) |
| Insurance recovery | — | (1) | — | (1) |
| Gain on debt extinguishment | — | — | (9) | — |
| Pro Forma EBITDA | \$ 58 | \$ 55 | \$ 112 | \$ 101 |

EBITDA for the three and six months ended June 25, 2016 increased from the prior year period as lower cellulose specialties prices were more than offset by lower non-cash charges and lower production, selling general and administrative costs in the current year versus the prior year period. Pro Forma EBITDA for the three and six months ended June 25, 2016 increased from the prior year periods due to higher operating results.

We define adjusted free cash flows as cash provided by operating activities adjusted for capital expenditures excluding strategic capital. Adjusted free cash flows is a non-GAAP measure of cash generated during a period which is available for dividend

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distribution, debt reduction, strategic acquisitions and repurchase of our common stock. Adjusted free cash flows is not necessarily indicative of the adjusted free cash flows that may be generated in future periods.

Below is a reconciliation of cash flows from operations to adjusted free cash flows for the respective periods (in millions of dollars):

| Cash Flows from Operations to Adjusted Free Cash Flows Reconciliation | Six Months Ended | |
|---|------------------|---------------|
| | June 25, 2016 | June 27, 2015 |
| Cash provided by operating activities | \$ 151 | \$ 88 |
| Capital expenditures (a) | (38) | (41) |
| Adjusted Free Cash Flows | \$ 113 | \$ 47 |
| Cash used for investing activities | \$(36) | \$(41) |
| Cash used for financing activities | \$(50) | \$(40) |

(a) Capital expenditures exclude strategic capital expenditures which are deemed discretionary by management. There have not been any strategic capital expenditures in 2016 or 2015.

Adjusted free cash flows increased over the prior year due to decreases in working capital, improved earnings, and lower capital expenditures.

Contractual Financial Obligations and Off-Balance Sheet Arrangements

See Note 13 — Guarantees for details on our letters of credit and surety bonds as of June 25, 2016.

The following table includes material updates to our contractual financial obligations table as presented in Management's Discussion and Analysis of Financial Condition and Results of Operations — Contractual Financial Obligations of our 2015 Form 10-K. All items excluded from the table are materially consistent with the Form 10-K presentation.

| Contractual Financial Obligations (in millions) | Total | Payments Due by Period | | | |
|---|--------|------------------------|-----------|-----------|------------|
| | | Remaining 2016 | 2017-2018 | 2019-2020 | Thereafter |
| Long-term debt, including current maturities | \$ 812 | \$ 4 | \$ 21 | \$ 41 | \$ 746 |
| Interest payments on long-term debt (a) | 251 | 17 | 69 | 67 | 98 |

(a) Projected interest payments for variable-rate debt were calculated based on outstanding principal amounts and interest rates as of June 25, 2016.

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 25, 2016, 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 impacted by market supply and demand, raw material and processing costs, changes in global currencies and other factors. They are not directly correlated to commodity paper pulp

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prices. In addition, a majority of our cellulose specialties products are under long-term volume contracts that extend through 2016 to 2019. The pricing provisions of these contracts are set in the fourth quarter in the year prior to the shipment.

As of June 25, 2016 we had \$306 million principal amount 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 \$3 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.

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 25, 2016 was \$428 million compared to the \$506 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 25, 2016 would result in a corresponding decrease/increase in the fair value of our fixed-rate debt of approximately \$28 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 25, 2016, 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 25, 2016.

During the quarter ended June 25, 2016, 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

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 ordinary course of its business. While the Company has procured reasonable and customary insurance covering risks normally occurring in connection with its businesses, the Company 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. Unless specifically noted, any possible range of loss associated with the legal proceedings described below is not reasonably estimable at this time. While there can be no assurance, the ultimate outcome of these actions, either individually or in the aggregate, is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows, except as noted below.

Stockholder Litigation

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. An amended consolidated complaint was filed on September 11, 2015 and, subsequently, the case against Mr. Ruperto was voluntarily dismissed by the plaintiffs. The case is a purported class action alleging securities laws violations, primarily related to claims the Company failed to record adequate environmental liabilities related to disposed operations, which the plaintiffs allege led to a decrease 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. The Company filed a motion to dismiss the plaintiffs' amended consolidated complaint in its entirety and, at a hearing on April 20, 2016, the court granted the Company's motion and dismissed the plaintiffs' complaint, but allowed plaintiffs the opportunity to file another amended complaint by a deadline set by the court. The plaintiffs failed to file an amended complaint by the court-imposed deadline and did not appeal the court's April 20 dismissal of the complaint. Pursuant to a stipulation agreed upon by the parties, on July 25, 2016 the court granted final judgment in favor of the Company and all other defendants. No money was paid to the plaintiffs or their counsel in connection with the dismissal of the case and final judgment.

Jesup Plant Permit

On January 27, 2016, the Altamaha Riverkeeper ("ARK") filed a Petition for Hearing in the Office of Administrative Hearings for the State of Georgia, captioned Altamaha Riverkeeper, Inc. v. Environmental Protection Division, Georgia Department of Natural Resources, in which ARK appealed the issuance by EPD to the Company of a new permit for the treatment and discharge of waste water from the Jesup mill, which was to go into effect March 1, 2016. In the petition ARK claims, among other things, that the issuance of the permit by EPD violates provisions of the Clean Water Act and the Georgia Water Quality Control Act, and seeks the permit to be invalidated and remanded to EPD for modifications demanded by ARK. The Company strongly believes the new permit to be compliant with applicable law. On February 16, 2016, the Company moved to legally intervene, as a party-in-interest, in this matter (because EPD, as the permit issuer, is the named defendant) and its petition was granted by the administrative law judge. The trial was held in June and a decision of the administrative law judge is expected later this year. Until resolution of this litigation, the Jesup plant will continue to operate under its existing waste water permit.

SEC Inquiry

On June 21, 2016, the Company received a letter from the staff of the U.S. Securities and Exchange Commission ("SEC") in which it requested the Company voluntarily provide to it documents and correspondence with environmental regulators concerning certain former operations of the Company. These documents were requested following the Company's response to comments from SEC staff regarding certain environmental reserves taken by the Company in the fourth quarter of 2014 and the disclosures made by the Company in connection therewith. The Company is cooperating with the SEC in its request. No enforcement action has been brought by the SEC to date and it is unknown whether any such action will be brought in the future. The Company believes that its reserves and disclosures were appropriate and in compliance with applicable accounting rules and law.

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Item 1A. Risk Factors

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table provides information regarding our purchases of Rayonier Advanced Materials common stock during the quarter ended June 25, 2016:

| Period | Total Number of Shares Purchased (a) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|----------------------|--|---------------------------------------|--|--|
| March 27 to April 30 | 199 | \$ 9.50 | — | — |
| May 1 to May 28 | — | — | — | — |
| May 29 to June 25 | — | — | — | — |
| Total | 199 | — | — | — |

(a) Repurchased to satisfy the minimum tax withholding requirements related to the vesting of restricted stock under the Rayonier Advanced Materials Incentive Stock Plan.

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Item 6. Exhibits

| | | |
|------|---|--|
| 10.1 | Rayonier Advanced Materials Inc. Incentive Stock Plan, as amended effective May 23, 2016* | Incorporated herein by reference to Exhibit C to the Registrant's Proxy Statement filed on April 8, 2016 |
| 10.2 | Rayonier Advanced Materials Inc. Non-Equity Incentive Plan, as amended effective May 23, 2016* | Incorporated herein by reference to Exhibit B to the Registrant's Proxy Statement filed on April 8, 2016 |
| 10.3 | Rayonier Advanced Materials Inc. Executive Severance Pay Plan, as amended effective July 21, 2016* | 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 25, 2016, 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 25, 2016 and June 27, 2015; (ii) the Condensed Consolidated Balance Sheets as of June 25, 2016 and December 31, 2015; (iii) the Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 25, 2016 and June 27, 2015; 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 2, 2016