RAYONIER ADVANCED MATERIALS INC.
Form 10-Q
August 05, 2014
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended June 28, 2014

OR

o 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
RAYONIER ADVANCED MATERIALS INC.
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 o NO x*

* The registrant became subject to such requirements on June 13, 2014, and has filed all reports required since that date.

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 x NO o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

The registrant had 42,614,653 shares of common stock, $.01 par value per share, outstanding as of July 25, 2014,

Table of Contents

TABLE OF CONTENTS

Table of Contents

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 28, 2014	June 30, 2013	June 28, 2014	June 30, 2013
NET SALES	$212,531	$254,189	$456,031	$539,353
COST OF SALES	160,217	169,838	348,936	357,694
GROSS MARGIN	52,314	84,351	107,095	181,659
Selling and general expenses	9,010	9,141	17,237	18,750
Other operating expense	37,094	3,564	40,284	3,906
OPERATING INCOME	6,210	71,646	49,574	159,003
Interest expense	(3,225)	—	(3,225)	—
Interest and miscellaneous income (expense), net	(5)	—	(4)	—
INCOME BEFORE INCOME TAXES	2,980	71,646	46,345	159,003
Income tax benefit (expense)	1,581	(22,648)	(10,836)	(30,002)
NET INCOME	$4,561	$48,998	$35,509	$129,001
EARNINGS PER SHARE OF COMMON STOCK (Note 10)				
Basic earnings per share	$0.11	$1.16	$0.84	$3.06
Diluted earnings per share	$0.11	$1.16	$0.84	$3.06
COMPREHENSIVE (LOSS) INCOME:				
NET INCOME	$4,561	$48,998	$35,509	$129,001
OTHER COMPREHENSIVE (LOSS) INCOME				
Net (loss) gain from pension and postretirement plans, net of income tax benefit (expense) of $3,756, ($782), $3,279 and ($1,564)	(6,535)	1,360	(5,705)	2,720
Total other comprehensive (loss) income	(6,535)	1,360	(5,705)	2,720
COMPREHENSIVE (LOSS) INCOME	$(1,974)	$50,358	$29,804	$131,721

See Notes to Condensed Consolidated Financial Statements.

RAYONIER ADVANCED MATERIALS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands)

	June 28, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$19,633	$—
Accounts receivable, less allowance for doubtful accounts of $151 and $140	66,050	71,097
Inventory	121,705	128,706
Deferred tax assets	6,110	22,532
Prepaid and other current assets	51,349	23,720
Total current assets	264,847	246,055
TOTAL PROPERTY, PLANT AND EQUIPMENT, GROSS	1,991,335	1,955,953
LESS — ACCUMULATED DEPRECIATION	(1,133,696)	(1,109,665)
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	857,639	846,288
OTHER ASSETS	102,541	27,923
TOTAL ASSETS	$1,225,027	$1,120,266
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$67,069	$54,198
Current maturities of long-term debt	8,400	—
Accrued taxes	3,445	1,867
Accrued payroll and benefits	15,699	10,814
Accrued interest	3,134	—
Accrued customer incentives	12,235	7,728
Other current liabilities	11,181	5,239
Current liabilities for disposed operations (Note 14)	7,406	—
Total current liabilities	128,569	79,846
LONG-TERM DEBT	940,527	—
NON-CURRENT LIABILITIES FOR DISPOSED OPERATIONS (Note 14)	84,853	—
PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 9)	102,633	21,793
DEFERRED INCOME TAXES	—	49,224
OTHER NON-CURRENT LIABILITIES	7,268	1,102
COMMITMENTS AND CONTINGENCIES (Notes 8 and 12)		
STOCKHOLDERS' (DEFICIT) EQUITY		
Preferred stock, 10,000,000 shares authorized at $.01 par value, 0 shares issued and outstanding in 2014 and in 2013	—	—
Common stock, 140,000,000 shares authorized at $.01 par value, 42,176,565 shares issued and outstanding in 2014 and 0 in 2013	422	—
Additional paid-in capital	53,274	—
Accumulated (deficit) earnings	(11,696)	1,415,894
Transfers to Rayonier, net	—	(407,894)
Accumulated other comprehensive loss	(80,823)	(39,699)
TOTAL STOCKHOLDERS' (DEFICIT) EQUITY	(38,823)	968,301
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY	$1,225,027	$1,120,266

See Notes to Condensed Consolidated Financial Statements.

2

Table of Contents

RAYONIER ADVANCED MATERIALS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Six Months Ended	
	June 28, 2014	June 30, 2013
OPERATING ACTIVITIES		
Net income	$35,509	$129,001
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	38,182	28,802
Stock-based incentive compensation expense	3,562	3,465
Amortization of capitalized debt costs	90	—
Deferred income taxes	5,110	(55,207)
Increase in liabilities for disposed operations	18,419	—
Amortization of losses from pension and postretirement plans	2,550	4,199
Loss from sale/disposal of property, plant and equipment	717	982
Other	—	23
Changes in operating assets and liabilities:		
Receivables	5,811	(11,415)
Inventories	7,002	31,309
Accounts payable	3,043	15,432
Accrued liabilities	7,960	1,938
All other operating activities	(24,936)	(32,353)
CASH PROVIDED BY OPERATING ACTIVITIES	103,019	116,176
INVESTING ACTIVITIES		
Capital expenditures	(50,720)	(70,182)
Purchase of Timber Deeds	(12,677)	—
Jesup plant cellulose specialties expansion	—	(100,185)
Other	(482)	18,862
CASH USED FOR INVESTING ACTIVITIES	(63,879)	(151,505)
FINANCING ACTIVITIES		
Issuance of debt	950,000	—
Debt issuance costs	(12,928)	—
Net payments (to) from Rayonier	(956,579)	35,329
CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	(19,507)	35,329
CASH AND CASH EQUIVALENTS		
Change in cash and cash equivalents	19,633	—
Balance, beginning of year	—	—
Balance, end of period	$19,633	$—
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period:		
Interest	$—	$—
Income taxes	$—	$—
Non-cash investing and financing activities:		
Capital assets purchased on account	$9,722	$57,667
Accrued debt issuance costs	$1,877	$—

See Notes to Condensed Consolidated Financial Statements.

3

Table of Contents

RAYONIER ADVANCED MATERIALS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

1. SEPARATION AND BASIS OF PRESENTATION

The Separation

On May 27, 2014, the board of directors of Rayonier Inc. ("Rayonier") approved the separation of its performance fibers segment from Rayonier to form an independent, publicly traded corporation named Rayonier Advanced Materials Inc. ("Rayonier Advanced Materials" or "the Company"). Subsequently, the Company entered into a separation and distribution agreement with Rayonier (the "Separation Agreement"), whereby Rayonier agreed to distribute 100% of the outstanding common stock of the Company to Rayonier shareholders in a tax-free distribution (the "Distribution"). As a condition to the Distribution, Rayonier received a private letter ruling from the Internal Revenue Service to the effect that, based on certain facts, assumptions, representations and undertakings set forth in the ruling, for U.S. federal income tax purposes, the Distribution of the Company's stock was not taxable to Rayonier or U.S. holders of Rayonier common shares, except in respect to cash received in lieu of fractional share interests. A registration statement on Form 10 (the "Form 10"), as amended through the time of its effectiveness, was filed by the Company with the U.S. Securities and Exchange Commission (the "SEC") and was declared effective on June 13, 2014.

The Distribution was made on June 27, 2014 to Rayonier shareholders of record as of the close of business on June 18, 2014. Holders of Rayonier common stock received one share of the Company's common stock for every three Rayonier common shares held on the record date. This resulted in the Company distributing 42,176,565 shares of the Company's common stock to Rayonier shareholders after the market closed on June 27, 2014. In addition, the Company made special cash distributions to Rayonier in an aggregate amount of $906.2 million and, as between Rayonier and the Company, assumed certain liabilities associated with pension, other post-retirement employee benefits and environmental remediation. After consideration of the cash retained by the Company at the date of Distribution, as well as cash flow impacts for the six months ending June 28, 2014, the net distribution to Rayonier was $956.6 million.

Following the Distribution, Rayonier retained no equity ownership interest in the Company, and each company now has independent public ownership, boards of directors and management.

Separation Costs

The Company expects to incur up to $19.4 million of separation costs consisting mostly of professional service fees within the finance, legal, and information system functions. For the six months ended June 28, 2014, the Company recorded separation costs of $16.7 million within other operating expenses.

Basis of Presentation

The unaudited condensed consolidated financial statements and notes thereto of 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 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 Audited Combined Financial Statements for the year ended December 31, 2013, which is included in our Form 10. The results of operations for the three and six months ended June 28, 2014, are not necessarily indicative of the results to be expected for the full year.

Prior to the Distribution, the Company's results of operations, financial position and cash flows consisted 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 performance fibers business had been combined for all periods presented. All intercompany transactions are eliminated. Historically, financial statements

have not been prepared for the performance fibers business and the accompanying financial statements for the Company had been derived from the historical accounting records of Rayonier.
The statements of income for periods prior to the Distribution 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 be indicative of costs had the Company operated on a stand-alone basis during the periods prior to the Distribution, nor what the costs may be in the future.

Fiscal Year

Prior to the Distribution, the Company’s period-end date was the last day of the calendar quarter. For interim reporting purposes, the Company has changed to a fiscal reporting calendar. The fiscal year will end the last day of the calendar year on December 31, 2014. As the effect to prior period results was not material, prior period results have not been revised.

New or Recently Adopted Accounting Pronouncements

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The standard requires a disposal of a component of an entity to be reported in discontinued operations if it represents a strategic shift with a major affect on an entity’s operations and financial results. It also removes requirements related to the evaluation of the component’s effect on ongoing operations and the entity’s continuing involvement with the component. Additional disclosures about discontinued operations are also required under this standard. ASU No. 2014-08 is required to be applied prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning December 15, 2014. Early adoption is permitted for disposals (or classifications as held for sale) that have not been previously reported. The Company does not expect that the adoption of this standard will have a material impact on the condensed consolidated financial statements.

In May 2014, the FASB and International Accounting Standards Board (“IASB”) jointly issued 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 in 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 2017 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

The Company evaluated events and transactions that occurred after the balance sheet date but before financial statements were issued, and two subsequent events were identified that warranted disclosure. See Note 13 - Incentive Stock Plans and Note 15 - Debt for additional information.

2. RELATED PARTY TRANSACTIONS

As discussed in Note 1 — Separation and Basis of Presentation, for periods prior to the Distribution, the Consolidated Statements of Income and Comprehensive Income include expense allocations for certain corporate functions historically performed by Rayonier and not allocated to its operating segments, including general corporate expenses related to executive oversight, accounting, treasury, tax, legal, human resources and information technology. Net charges from Rayonier for these services, reflected in selling and general expenses in the Condensed Consolidated Statements of Income and Comprehensive Income were \$4.5 million and \$4.6 million for the three months ended June 28, 2014, and June 30, 2013, respectively, and \$8.0 million and \$9.0 million for the six months ended June 28, 2014 and June 30, 2013, respectively.

For periods prior to the Distribution, the Consolidated Statements of Income and Comprehensive Income also include allocations of certain costs from Rayonier related to the operations of the Company including: medical costs for active salaried and retired employees, worker’s compensation, general liability and property insurance, salaried payroll costs, equity based compensation and a pro-rata share of direct corporate administration expense for accounting, human resource services and information system maintenance. Net charges from Rayonier for these costs, reflected in the Condensed Consolidated Statements of Income and Comprehensive Income were $13.2 million and $12.6 million for the three months ended June 28, 2014 and June 30, 2013, respectively, and $27.3 million and $25.7 million for the six months ended June 28, 2014 and June 30, 2013, respectively.

Table of Contents

RAYONIER ADVANCED MATERIALS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

3. INCOME TAXES

The Company's effective tax rate for the second quarter and the first six months of 2014 was (53.3 percent) and 23.4 percent, compared with 31.6 percent and 18.9 percent for the corresponding periods of 2013. The effective tax rate differs from the federal statutory rate of 35 percent primarily due to the reversal of a tax reserve related to the taxability of the cellulosic biofuel producer credit ("CBPC") for 2014 and the alternative fuel mixture credit ("AFMC") for the CBPC exchange for 2013. The provision for income taxes for periods prior to the Distribution has been computed as if we were a stand-alone company.

4. INVENTORY

As of June 28, 2014 and December 31, 2013, the Company's inventory included the following:

	June 28, 2014	December 31, 2013
Finished goods	$98,988	$105,398
Work in progress	3,814	3,555
Raw materials	16,359	17,420
Manufacturing and maintenance supplies	2,544	2,333
Total inventory	$121,705	$128,706

5. STOCKHOLDERS' (DEFICIT) EQUITY

An analysis of stockholders' (deficit) equity for the six months ended June 28, 2014 and the year ended December 31, 2013 is shown below (share amounts not in thousands):

	Common Stock						
	Shares	Par Value	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Transfers (to) from Rayonier, net	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' (Deficit) Equity
Balance, December 31, 2012	—	$—	$—	$1,196,127	$(406,753)	$(64,670)	$724,704
Net income	—	—	—	219,767	—	—	219,767
Net gain from pension and postretirement plans	—	—	—	—	—	24,971	24,971
Net transfers to Rayonier	—	—	—	—	(1,141)	—	(1,141)
Balance, December 31, 2013	—	$—	$—	1,415,894	(407,894)	(39,699)	$968,301
Net income	—	—	—	35,509	—	—	35,509
Net loss from pension and postretirement plans	—	—	—	—	—	(5,705)	(5,705)
Net transfers to Rayonier	—	—	—	—	(1,001,509)	(35,419)	(1,036,928)
Reclassification to additional paid-in capital at distribution date	—	—	53,696	(1,463,099)	1,409,403	—	—

Issuance of common stock at the separation	42,176,565	422	(422)	—	—	—	—
Balance, June 28, 2014	42,176,565	$422	$53,274	$(11,696)	$—	$(80,823)	$(38,823)

6

Table of Contents

RAYONIER ADVANCED MATERIALS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

Net Parent Company Investment

The following is a reconciliation of the amounts presented as "Net transfers to Rayonier" in the above table and the amounts presented as "Net payments (to) from Rayonier" on the Condensed Consolidated Statements of Cash Flows.

	Six Months Ended	
	June 28, 2014	June 30, 2013
Allocation of costs from Rayonier (a)	$(35,279)	$(34,638)
Cash receipts received by Rayonier on Company's behalf	472,780	541,552
Cash disbursements made by Rayonier on Company's behalf	(484,318)	(468,120)
Net distribution to Rayonier on separation	(906,200)	—
Net liabilities from transfer of assets and liabilities with Rayonier (b)	(83,911)	—
Net transfers (to) from Rayonier	(1,036,928)	38,794
Non-cash adjustments:		
Stock-based compensation	(3,562)	(3,465)
Net liabilities from transfer of assets and liabilities with Rayonier (b)	83,911	—
Net payments (to) from Rayonier per the Condensed Consolidated Statements of Cash Flows	$(956,579)	$35,329

(a) Included in the costs allocated to the Company from Rayonier are expense allocations for certain corporate functions historically performed by Rayonier and not allocated to its operating segments. See Note 2— Related Party Transactions to the Consolidated Financial Statements.

(b) In accordance with the Separation Agreement, certain assets and liabilities were transferred to the Company that were not included in the historical financial statements for periods prior to the Distribution. These non-cash capital contributions included:

- $73.9 million of disposed operations liabilities (See Note 14 - Liabilities for Disposed Operations for additional information)
- $73.8 million of employee benefit plan liabilities (See Note 9 - Employee Benefit Plans for additional information)
- $67.4 million of deferred tax assets (primarily associated with the liabilities above)
- $3.6 million of other liabilities, net

6. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated Other Comprehensive Loss was comprised of the following:

	June 28, 2014	June 30, 2013
Unrecognized components of employee benefit plans, net of tax		
Balance, beginning of period	$(39,699)	$(64,670)
Amounts reclassified from accumulated other comprehensive loss (a)	1,620	2,720
Other comprehensive loss before reclassifications	(7,325)	—
Net other comprehensive (loss) income	(5,705)	2,720
Net transfer from Rayonier (b)	(35,419)	—
Balance, end of period	$(80,823)	$(61,950)

(a) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 9 — Employee Benefit Plans for additional information.

(b) Prior to the Distribution, 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 Distribution. See Note 5 — Stockholders' Equity for additional information.

7

(Dollar amounts in thousands unless otherwise stated)

Table of Contents

7. OTHER OPERATING EXPENSE, NET

Other operating expense, net was comprised of the following:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 30, 2013	June 28, 2014	June 30, 2013
Loss on sale or disposal of property, plant and equipment	$185	$553	$717	$982
One-time separation and legal costs	17,914	3,000	20,680	3,000
Increase to liabilities for disposed operations resulting from separation from Rayonier (a)	18,419	—	18,419	—
Miscellaneous expense (income)	576	11	468	(76)
Total	$37,094	$3,564	$40,284	$3,906

(a) As a result of the Distribution, the Company is subject to certain legal requirements relating to the provision of annual financial assurance regarding environmental remediation 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 its obligations to procure financial assurance annually for the foreseeable future, the Company recorded a corresponding increase to liabilities for disposed operations. See Note 12 — Guarantees and Note 14 — Liabilities for Disposed Operations for additional information.

8. CONTINGENCIES

The Company is engaged in various legal actions, including certain proceedings relating to environmental matters, and has been named as a defendant in various other 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 flow.

Table of Contents
RAYONIER ADVANCED MATERIALS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

9. EMPLOYEE BENEFIT PLANS

The Company has three qualified non-contributory defined benefit pension plans 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. All qualified plans 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.

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

	Pension		Postretirement	
	Three Months Ended		Three Months Ended	
	June 28, 2014	June 30, 2013	June 28, 2014	June 30, 2013
Components of Net Periodic Benefit Cost				
Service cost	$526	$697	$157	$227
Interest cost	1,854	1,725	153	195
Expected return on plan assets	(3,151)	(3,129)	—	—
Amortization of prior service cost	277	323	4	(10)
Amortization of losses	972	1,624	122	188
Amortization of negative plan amendment	—	—	(134)	17
Net periodic benefit cost	$478	$1,240	$302	$617

	Pension		Postretirement	
	Six Months Ended		Six Months Ended	
	June 28, 2014	June 30, 2013	June 28, 2014	June 30, 2013
Components of Net Periodic Benefit Cost				
Service cost	$1,079	$1,394	$314	$454
Interest cost	3,803	3,450	306	390
Expected return on plan assets	(6,465)	(6,258)	—	—
Amortization of prior service cost	569	646	8	(20)
Amortization of losses	1,997	3,248	244	376
Amortization of negative plan amendment	—	—	(268)	34
Net periodic benefit cost	$983	$2,480	$604	$1,234

In 2014, the Company has no mandatory pension contribution requirements and does not expect to make any discretionary contributions.

Shared Pension and Postretirement Plans

Prior to the Distribution, Rayonier provided defined benefit pension and postretirement health and life insurance benefits to certain Company employees. As such, these liabilities were not reflected in the Company's combined balance sheets prior to the Distribution. On June 27 in connection with the Distribution, these liabilities, totaling $73.8 million, were transferred from Rayonier to the Company and are reflected in the Balance Sheet as of June 28. Additional Distribution-related adjustments to stockholders equity could be recognized in the future as the split of the pension post-retirement plans are finalized.

For the three and six months ended June 28, 2014, the Company recorded pension and postretirement plan expense related to the shared plans of $1.5 million and $3.0 million, respectively. For the three and six months ended June 30, 2013, the Company recorded pension and postretirement plan expense related to the shared plans of $2.5 million and $5.0 million, respectively.

(Dollar amounts in thousands unless otherwise stated)

10. EARNINGS PER SHARE OF COMMON STOCK

On June 27, 2014, 42,176,565 shares of our common stock were distributed to Rayonier shareholders in conjunction with the Distribution. For comparative purposes, and to provide a more meaningful calculation of weighted-average shares outstanding, we have assumed this amount to be outstanding as of the beginning of each period prior to the Distribution presented in the calculation of weighted-average shares. Prior to separation, there were no dilutive shares since the Company had no outstanding equity awards.

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 30, 2013	June 28, 2014	June 30, 2013
Net income	$4,561	$48,998	$35,509	$129,001
Shares used for determining basic and diluted earnings per share of common stock	42,176,565	42,176,565	42,176,565	42,176,565
Dilutive effect of stock based compensation	1,897	—	938	—
Shares used for determining diluted earnings per share of common stock	42,178,462	42,176,565	42,177,503	42,176,565
Basic earnings per share	$0.11	$1.16	$0.84	$3.06
Diluted earnings per share	$0.11	$1.16	$0.84	$3.06

11. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The Accounting Standards Codification established a three-level hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the carrying amount, estimated fair values and categorization under the fair value hierarchy of financial instruments held by the Company at June 28, 2014, using market information and what management believes to be appropriate valuation methodologies under generally accepted accounting principles:

	June 28, 2014		
Asset (liability)	Carrying Amount	Fair Value	
		Level 1	Level 2
Cash and cash equivalents	$19,633	$19,633	$—
Current maturities of long-term debt	(8,400)	—	(8,400)
Long-term debt	(940,527)	—	(949,163)

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.

10

RAYONIER ADVANCED MATERIALS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

12. GUARANTEES

The Company provides financial guarantees as required by creditors, insurance programs, and various governmental agencies. As of June 28, 2014, the following financial guarantees were outstanding:

Financial Commitments	Maximum Potential Payment	Carrying Amount of Liability
Standby letters of credit (a)	$26,211	$—
Surety bonds (b)	53,603	19,472
Total financial commitments	$79,814	$19,472

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

(b) Rayonier Advanced Materials purchases surety bonds primarily to comply with financial assurance legal requirements relating to environmental remediation and to provide collateral for the Company's workers' compensation program. These surety bonds expire during 2015 and are expected to be renewed annually as required. See Note 7 — Other Operating Expense, Net.

13. INCENTIVE STOCK PLANS

The Rayonier Advanced Materials Incentive Stock Plan ("the Stock Plan") provides for up to 5.2 million shares of stock to be granted for incentive stock options, non-qualified stock options, stock appreciation rights, performance shares, restricted stock and restricted stock units, subject to certain limitations. At June 28, 2014, a total of 5.2 million shares were available for future grants under the Stock Plan.

In connection with the separation from Rayonier, incentive stock options, performance shares and restricted stock awards issued to employees and directors under the Rayonier Incentive Stock Plan prior to the Distribution were adjusted or converted, as applicable, into new awards using formulas generally designed to preserve the value of the awards immediately prior to the Distribution.

The Employee Matters Agreement between Rayonier and the Company, which was executed in connection with the Distribution and filed with the Form 10, describes how the Rayonier stock awards will be treated. In summary:

Stock Options: Rayonier stock options were converted into both an adjusted Rayonier stock option and a Company stock option, with adjustments made to the exercise prices and number of shares in order to preserve the aggregate intrinsic value of the original award as measured immediately before and immediately after the Distribution.

Restricted Stock: Holders of Rayonier restricted stock, including Rayonier non-employee directors, retained those awards and also received one share of Company restricted stock for every three shares of Rayonier restricted stock held prior to spin-off.

Performance Share Awards

- Performance share awards granted in 2012 (with a 2012-2014 performance period) will continue to be subject to the same performance criteria as applied immediately prior to the separation, except that total shareholder return at the end of the performance period will be based on the combined stock prices of Rayonier and the Company and any payment with respect to a Rayonier Advanced Materials performance share award will be made in shares of the Company's common stock.
- Performance share awards granted in 2013 (with a 2013-2015 performance period) were canceled as of the distribution date and replaced with time-vested equity awards of the Company that will vest 24 months after the distribution date, generally subject to the holder's continued employment.
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Performance share awards granted in 2014 (with a 2014-2016 performance period) were canceled and replaced with performance-based restricted shares of the Company and will be subject to the achievement of performance criteria that relate to the post-separation business during a performance period ending December 31, 2016.

The adjusted awards resulted in incremental compensation expense of $2.3 million that will be recognized over the next 2.5 years.

Table of Contents

RAYONIER ADVANCED MATERIALS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

Prior to the Distribution, total stock-based compensation cost allocated to the Company was $1.9 million and $1.5 million for the three months ended June 28, 2014 and June 30, 2013, respectively, and $3.6 million and $3.5 million for the six months ended June 28, 2014 and June 30, 2013, respectively. These amounts may not reflect the cost of current or future equity awards nor results that we would have experienced, or expect to experience, as an independent, publicly traded company.

Outstanding Awards

	Stock Options		Restricted Stock		Performance Share Units		Performance-Based Restricted Stock Units	
	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 January 1, 2014	—	$—	—	$—	—	$—	—	$—
Awards granted in connection with spin-off	500,679	31.15	43,485					