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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 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 September 27, 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 1-7685**

# AVERY DENNISON CORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **95-1492269** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**207 Goode Avenue**
**Glendale, California** **91203**
(Address of Principal Executive Offices) (Zip Code)

Registrant s telephone number, including area code: (626) 304-2000

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 x No o

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 (§232.405 of this chapter) 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. (Check one):

x Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company
(Do not check if a 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 o No x

Number of shares of $1 par value common stock outstanding as of October 25, 2014: 91,101,052

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**AVERY DENNISON CORPORATION**

**FISCAL THIRD QUARTER 2014 QUARTERLY REPORT ON FORM 10-Q**

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## SAFE HARBOR STATEMENT

The matters discussed in this Quarterly Report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, contain estimates, assumptions, projections and/or expectations regarding future events, which may or may not occur. Words such as aim, anticipate, assume, believe, continue, could, esti expect, foresee, guidance, intend, may, might, objective, plan, potential, project, seek, shall, should, target, will, other expressions that refer to future events and trends, identify forward-looking statements. These forward-looking statements, and financial or other business targets, are subject to certain risks and uncertainties, which could cause our actual results to differ materially from the expected results, performance or achievements expressed or implied by such forward-looking statements.

Certain risks and uncertainties are discussed in more detail under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013 and include, but are not limited to, risks and uncertainties relating to the following: fluctuations in demand affecting sales to customers; the financial condition and inventory strategies of customers; changes in customer order patterns; worldwide and local economic conditions; fluctuations in cost and availability of raw materials; our ability to generate sustained productivity improvement; our ability to achieve and sustain targeted cost reductions; impact of competitive products and pricing; loss of significant contracts or customers; collection of receivables from customers; selling prices; business mix shift; changes in tax laws and regulations, and uncertainties associated with interpretations of such laws and regulations; outcome of tax audits; timely development and market acceptance of new products, including sustainable or sustainably-sourced products; investment in development activities and new production facilities; fluctuations in currency exchange rates and other risks associated with foreign operations; integration of acquisitions and completion of potential dispositions; amounts of future dividends and share repurchases; customer and supplier concentrations; successful implementation of new manufacturing technologies and installation of manufacturing equipment; disruptions in information technology systems; successful installation of new or upgraded information technology systems; data security breaches; volatility of financial markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; our ability to obtain adequate financing arrangements and maintain access to capital; fluctuations in interest and tax rates; fluctuations in pension, insurance, and employee benefit costs; impact of legal and regulatory proceedings, including with respect to environmental, health and safety; changes in governmental laws and regulations; changes in political conditions; impact of epidemiological events on the economy and our customers and suppliers; acts of war, terrorism, and natural disasters; and other factors.

We believe that the most significant risk factors that could affect our financial performance in the near-term include: (1) the impact of economic conditions on underlying demand for our products; (2) competitors actions, including pricing, expansion in key markets, and product offerings; and (3) the degree to which higher costs can be offset with productivity measures and/or passed on to customers through selling price increases, without a significant loss of volume.

Our forward-looking statements are made only as of the date hereof. We assume no duty to update these forward-looking statements to reflect new, changed or unanticipated events or circumstances, other than as may be required by law.

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Avery Dennison Corporation

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(*Unaudited*)**

| (Dollars in millions) | September 27, 2014 | December 28, 2013 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 195.6 | $ 351.6 |
| Trade accounts receivable, less allowances of $31.4 and $31.6 at September 27, 2014 and December 28, 2013, respectively | 1,087.6 | 1,016.5 |
| Inventories, net | 547.2 | 494.1 |
| Current deferred and refundable income taxes | 105.6 | 103.4 |
| Assets held for sale | .9 | 1.3 |
| Other current assets | 132.9 | 124.9 |
| Total current assets | 2,069.8 | 2,091.8 |
| Property, plant and equipment | 2,689.1 | 2,700.8 |
| Accumulated depreciation | (1,805.0) | (1,778.3) |
| Property, plant and equipment, net | 884.1 | 922.5 |
| Goodwill | 742.0 | 751.1 |
| Other intangibles resulting from business acquisitions, net | 73.9 | 96.0 |
| Non-current deferred income taxes | 238.8 | 263.4 |
| Other assets | 484.9 | 485.8 |
| | $ 4,493.5 | $ 4,610.6 |
| **Liabilities and Shareholders Equity** | | |
| Current liabilities: | | |
| Short-term borrowings and current portion of long-term debt and capital leases | $ 167.1 | $ 76.9 |
| Accounts payable | 867.0 | 889.5 |
| Current deferred and payable income taxes | 44.8 | 49.3 |
| Other current liabilities | 554.0 | 538.4 |
| Total current liabilities | 1,632.9 | 1,554.1 |
| Long-term debt and capital leases | 945.1 | 950.6 |
| Long-term retirement benefits and other liabilities | 467.8 | 476.4 |
| Non-current deferred and payable income taxes | 140.9 | 137.3 |
| Commitments and contingencies (see Note 15) | | |
| Shareholders equity: | | |
| Common stock, $1 par value per share, authorized 400,000,000 shares at September 27, 2014 and December 28, 2013; issued 124,126,624 shares at September 27, 2014 and December 28, 2013; outstanding 92,391,023 shares and 96,178,411 shares at September 27, 2014 and December 28, 2013, respectively | 124.1 | 124.1 |
| Capital in excess of par value | 818.6 | 812.3 |

| | | |
|---|---|---|
| Retained earnings | 2,096.2 | 2,009.1 |
| Treasury stock at cost, 31,735,601 shares and 27,948,213 shares at September 27, 2014 and December 28, 2013, respectively | (1,378.5) | (1,172.2) |
| Accumulated other comprehensive loss | (353.6) | (281.1) |
| Total shareholders equity | 1,306.8 | 1,492.2 |
| | $ 4,493.5 | $ 4,610.6 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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Avery Dennison Corporation

**CONSOLIDATED STATEMENTS OF INCOME**

**(*Unaudited*)**

| (In millions, except per share amounts) | Three Months Ended September 27, 2014 | Three Months Ended September 28, 2013 | Nine Months Ended September 27, 2014 | Nine Months Ended September 28, 2013 |
|---|---|---|---|---|
| Net sales | $ 1,559.6 | $ 1,504.9 | $ 4,725.5 | $ 4,556.1 |
| Cost of products sold | 1,158.9 | 1,102.7 | 3,489.4 | 3,334.7 |
| Gross profit | 400.7 | 402.2 | 1,236.1 | 1,221.4 |
| Marketing, general and administrative expense | 276.3 | 285.7 | 870.0 | 880.1 |
| Interest expense | 15.4 | 16.0 | 46.4 | 43.0 |
| Other expense, net | 7.8 | 25.7 | 53.6 | 32.9 |
| Income from continuing operations before taxes | 101.2 | 74.8 | 266.1 | 265.4 |
| Provision for income taxes | 36.2 | 12.8 | 85.1 | 65.8 |
| Income from continuing operations | 65.0 | 62.0 | 181.0 | 199.6 |
| Loss from discontinued operations, net of tax | (.7) | (15.5) | (3.0) | (26.5) |
| Net income | $ 64.3 | $ 46.5 | $ 178.0 | $ 173.1 |
| Per share amounts: | | | | |
| Net income (loss) per common share: | | | | |
| Continuing operations | $ .70 | $ .63 | $ 1.91 | $ 2.01 |
| Discontinued operations | (.01) | (.16) | (.03) | (.26) |
| Net income per common share | $ .69 | $ .47 | $ 1.88 | $ 1.75 |
| Net income (loss) per common share, assuming dilution: | | | | |
| Continuing operations | $ .68 | $ .62 | $ 1.87 | $ 1.98 |
| Discontinued operations | | (.15) | (.03) | (.26) |
| Net income per common share, assuming dilution | $ .68 | $ .47 | $ 1.84 | $ 1.72 |
| Dividends per common share | $ .35 | $ .29 | $ .99 | $ .85 |
| Average shares outstanding: | | | | |
| Common shares | 93.3 | 97.9 | 94.7 | 99.1 |
| Common shares, assuming dilution | 95.2 | 99.6 | 96.6 | 100.7 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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Avery Dennison Corporation

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

***(Unaudited)***

| (In millions) | Three Months Ended September 27, 2014 | Three Months Ended September 28, 2013 | Nine Months Ended September 27, 2014 | Nine Months Ended September 28, 2013 |
|---|---|---|---|---|
| Net income | $ 64.3 | $ 46.5 | $ 178.0 | $ 173.1 |
| Other comprehensive (loss) income, before tax: | | | | |
| Foreign currency translation | (79.5) | 45.4 | (83.5) | (11.1) |
| Pension and other postretirement benefits | 5.7 | 84.4 | 16.6 | 97.3 |
| Cash flow hedges | .5 | (1.9) | (.1) | (0.4) |
| Other comprehensive (loss) income, before tax | (73.3) | 127.9 | (67.0) | 85.8 |
| Income tax expense related to components of other comprehensive (loss) income | 1.7 | 30.5 | 5.5 | 35.4 |
| Other comprehensive (loss) income, net of tax | (75.0) | 97.4 | (72.5) | 50.4 |
| Total comprehensive (loss) income, net of tax | $ (10.7) | $ 143.9 | $ 105.5 | $ 223.5 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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Avery Dennison Corporation

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(*Unaudited*)**

| (In millions) | Nine Months Ended September 27, 2014 | Nine Months Ended September 28, 2013 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 178.0 | $ 173.1 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 99.0 | 104.9 |
| Amortization | 49.5 | 50.8 |
| Provision for doubtful accounts and sales returns | 14.8 | 14.1 |
| Loss (gain) on sale of businesses | 3.0 | (52.2) |
| Indefinite-lived intangible asset impairment charge | 3.0 | |
| Net losses (gains) from asset impairments and sales/disposals of assets | 3.3 | (5.6) |
| Stock-based compensation | 22.1 | 25.4 |
| Other non-cash expense and loss | 32.1 | 40.2 |
| Other non-cash income and gain | | (12.9) |
| Changes in assets and liabilities and other adjustments | (204.6) | (242.1) |
| Net cash provided by operating activities | 200.2 | 95.7 |
| **Investing Activities** | | |
| Purchases of property, plant and equipment | (100.8) | (79.1) |
| Purchases of software and other deferred charges | (22.0) | (34.6) |
| Proceeds from sales of property, plant and equipment | 4.1 | 30.8 |
| Sales of investments, net | | .6 |
| Proceeds from sale of businesses, net of cash provided | | 484.0 |
| Other | | .8 |
| Net cash (used in) provided by investing activities | (118.7) | 402.5 |
| **Financing Activities** | | |
| Net increase (decrease) in borrowings (maturities of 90 days or less) | 86.3 | (398.3) |
| Additional borrowings (maturities longer than 90 days) | | 250.0 |
| Payments of debt (maturities longer than 90 days) | (1.1) | (1.4) |
| Dividends paid | (93.4) | (84.1) |
| Share repurchases | (247.3) | (223.8) |
| Proceeds from exercises of stock options, net | 22.6 | 40.2 |
| Other | (2.4) | (8.7) |
| Net cash used in financing activities | (235.3) | (426.1) |
| Effect of foreign currency translation on cash balances | (2.2) | 2.1 |
| (Decrease) increase in cash and cash equivalents | (156.0) | 74.2 |
| Cash and cash equivalents, beginning of year | 351.6 | 235.4 |
| Cash and cash equivalents, end of period | $ 195.6 | $ 309.6 |

See Notes to Unaudited Condensed Consolidated Financial Statements

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. General

The unaudited Condensed Consolidated Financial Statements and notes in this Quarterly Report on Form 10-Q are presented as permitted by Article 10 of Regulation S-X and do not contain certain information included in the audited Consolidated Financial Statements and notes thereto in our 2013 Annual Report on Form 10-K, which should be read in conjunction with this Quarterly Report on Form 10-Q. The accompanying unaudited Condensed Consolidated Financial Statements include normal recurring adjustments necessary for a fair statement of our interim results.

***Fiscal Period***

The third quarters of 2014 and 2013 consisted of thirteen-week periods ending September 27, 2014 and September 28, 2013, respectively. The nine months ended September 27, 2014 and September 28, 2013 consisted of thirty-nine-week periods. The interim results of operations are not necessarily indicative of future results.

***Financial Presentation***

As discussed further in Note 2, Discontinued Operations, Assets Held for Sale and Sale of Assets, we have classified the operating results of our former Office and Consumer Products ( OCP ) and Designed and Engineered Solutions ( DES ) businesses, together with certain costs associated with their divestiture, as discontinued operations in the unaudited Consolidated Statements of Income for all periods presented. Unless otherwise noted, the results of discontinued operations have been excluded from the notes to our unaudited Condensed Consolidated Financial Statements.

In the first quarter of 2014, we began reporting Vancive Medical Technologies as a reportable segment. This business was previously reported within a category entitled other specialty converting businesses and was the only business that comprised that category in the prior periods presented. Vancive Medical Technologies manufactures an array of pressure-sensitive adhesive products for surgical, wound care, ostomy, and electromedical applications. See Note 16, Segment Information, for more information.

### Note 2. Discontinued Operations, Assets Held for Sale and Sale of Assets

***Discontinued Operations***

In July 2013, we completed the sale of our former OCP and DES businesses and entered into an amendment to the purchase agreement, which, among other things, increased the target net working capital amount and amended provisions related to employee matters and indemnification.

We continue to be subject to certain indemnification provisions under the terms of the purchase agreement. In addition, the tax liability associated with the sale is subject to completion of tax return filings in the jurisdictions in which our former OCP and DES businesses operated.

The results of these discontinued operations and loss on sale were as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In millions) | **September 27, 2014** | **September 28, 2013** | **September 27, 2014** | **September 28, 2013** |
| Net sales | $ | $ | $ | $ 380.5 |
| Income (loss) before taxes, including divestiture-related and restructuring costs | $ | $ 4.1 | $ | $ (10.6) |
| Provision for (benefit from) income taxes | | (2.9) | | .8 |
| Income (loss) from discontinued operations, net of tax before loss on sale | | 1.2 | | (9.8) |
| (Loss) gain on sale before taxes | (.4) | 52.2 | (3.0) | 52.2 |
| Tax provision on sale | (.3) | (68.9) | | (68.9) |
| Loss from discontinued operations, net of tax | $ (.7) | $ (15.5) | $ (3.0) | $ (26.5) |

During the nine months ended September 27, 2014, loss from discontinued operations, net of tax, included costs related to the resolution of certain post-closing adjustments, including completion of the final purchase price allocation in the third quarter of 2014.

During the nine months ended September 28, 2013, loss from discontinued operations, net of tax, included a net gain on curtailment and settlement associated with certain U.S. pension plans. Refer to Note 6, Pension and Other Postretirement Benefits, for further information. The income tax provision included in the net loss on sale in both the third quarter and first nine months of 2013 reflects tax versus book basis differences, primarily associated with goodwill.

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Net sales from continuing operations to discontinued operations were $.8 million and $44.8 million for the three and nine months ended September 28, 2013, respectively. These sales have been included in Net sales in the unaudited Consolidated Statements of Income.

*Assets Held for Sale and Sale of Assets*

We classified certain properties and equipment that we are in the process of selling as held for sale in the unaudited Condensed Consolidated Balance Sheets at September 27, 2014 and December 28, 2013.

In September 2014, we sold properties in Framingham, Massachusetts used primarily as the former headquarters of our Retail Branding and Information Solutions business for $3.3 million, recognizing a pre-tax gain of $1.9 million. In April 2013, we sold the property and equipment of our former corporate headquarters in Pasadena, California for approximately $20 million, recognizing a pre-tax gain of $10.9 million. These gains were recorded in Other expense, net in the unaudited Consolidated Statements of Income.

**Note 3. Inventories**

Net inventories consisted of:

| (In millions) | September 27, 2014 | December 28, 2013 |
|---|---|---|
| Raw materials | $ 214.6 | $ 196.3 |
| Work-in-progress | 163.9 | 149.0 |
| Finished goods | 168.7 | 148.8 |
| Inventories, net | $ 547.2 | $ 494.1 |

**Note 4. Goodwill and Other Intangibles Resulting from Business Acquisitions**

***Goodwill***

Changes in the net carrying amount of goodwill for the nine months ended September 27, 2014, by reportable segment, were as follows:

| (In millions) | Pressure-sensitive Materials | Retail Branding and Information Solutions | Total |
|---|---|---|---|
| **Goodwill as of December 28, 2013** | $ 334.4 | $ 416.7 | $ 751.1 |

| | | | |
|---|---|---|---|
| Acquisition adjustments(1) | .4 | 6.9 | 7.3 |
| Translation adjustments | (13.2) | (3.2) | (16.4) |
| **Goodwill as of September 27, 2014** | $ 321.6 | $ 420.4 | $ 742.0 |

(1) Acquisition adjustments related to deferred taxes from previous acquisitions. See Note 11, Taxes Based on Income, for more information.

The carrying amounts of goodwill at September 27, 2014 and December 28, 2013 were net of accumulated impairment losses of $820 million, which were reported in our Retail Branding and Information Solutions segment.

There was no goodwill associated with our Vancive Medical Technologies reportable segment.

***Indefinite-Lived Intangible Assets***

In the third quarter of 2014, we determined that there was a need to conduct an interim impairment test of our indefinite-lived intangible assets. The factors considered included a shortfall in 2014 full-year projected revenue and a change to 2015 projected revenue associated with these assets. The interim impairment test indicated that the fair value of our indefinite-lived intangible assets was less than its carrying value, which resulted in a non-cash asset impairment charge of $3 million in our Retail Branding and Information Solutions segment. This charge was recorded in Other expense, net in the unaudited Consolidated Statements of Income.

The carrying value of indefinite-lived intangible assets resulting from business acquisitions, consisting of trademarks, was $7.9 million and $10.9 million at September 27, 2014 and December 28, 2013, respectively.

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***Finite-Lived Intangible Assets***

The following table sets forth our finite-lived intangible assets resulting from business acquisitions at September 27, 2014 and December 28, 2013, which continue to be amortized:

| | September 27, 2014 | | | December 28, 2013 | | |
|---|---|---|---|---|---|---|
| (In millions) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | $ 232.0 | $ 178.1 | $ 53.9 | $ 234.1 | $ 164.6 | $ 69.5 |
| Patents and other acquired technology | 49.0 | 41.6 | 7.4 | 48.9 | 38.3 | 10.6 |
| Trade names and trademarks | 25.0 | 21.4 | 3.6 | 26.2 | 22.5 | 3.7 |
| Other intangibles | 12.5 | 11.4 | 1.1 | 12.4 | 11.1 | 1.3 |
| Total | $ 318.5 | $ 252.5 | $ 66.0 | $ 321.6 | $ 236.5 | $ 85.1 |

Amortization expense from continuing operations for finite-lived intangible assets resulting from business acquisitions was $5.8 million and $18.7 million for the three and nine months ended September 27, 2014, respectively, and $6.7 million and $21.6 million for the three and nine months ended September 28, 2013, respectively.

The estimated amortization expense from continuing operations for finite-lived intangible assets resulting from business acquisitions for the remainder of the current fiscal year and each of the next four fiscal years is expected to be as follows:

| (In millions) | Estimated Amortization Expense |
|---|---|
| Remainder of 2014 | $ 5.6 |
| 2015 | 20.9 |
| 2016 | 19.3 |
| 2017 | 10.1 |
| 2018 | 2.5 |

**Note 5. Debt**

In October 2014, we amended and restated our revolving credit facility (the Revolver ) with certain domestic and foreign banks, which increased the amount available thereunder from $675 million to $700 million. The amendment also extended the Revolver s maturity date from December 22, 2016 to October 3, 2019 and adjusted pricing to reflect favorable market conditions. The maturity date may be extended for one-year periods under certain circumstances as set forth in the agreement. The commitments under the Revolver may be increased by up to $325 million, subject to lender approval and customary requirements. Financing available under the Revolver is used as a back-up facility for our commercial paper issuance and can be used to finance other corporate requirements.

The estimated fair value of our long-term debt is primarily based on the credit spread above U.S. Treasury securities on notes with similar rates, credit ratings, and remaining maturities.  The fair value of short-term borrowings, which include commercial paper issuances and short-term lines of credit, approximates carrying value given the short duration of these obligations.  The fair value of our total debt was $1.19 billion at September 27, 2014 and $1.06 billion at December 28, 2013.  Fair value amounts were determined primarily based on Level 2 inputs.

Our various loan agreements require that we maintain specified financial covenant ratios of total debt and interest expense in relation to certain measures of income.  As of September 27, 2014, we were in compliance with our financial covenants.

**Note 6.  Pension and Other Postretirement Benefits**

***Defined Benefit Plans***

We sponsor a number of defined benefit plans, the benefits under some of which have been frozen, covering eligible employees in the U.S. and certain other countries.  Benefits payable to an employee are based primarily on years of service and the employee s compensation during the course of his or her employment with us.  While we have not expressed any intent to terminate these plans, we may do so at any time, subject to applicable laws and regulations.

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We are also obligated to pay unfunded termination indemnity benefits to certain employees outside of the U.S., which are subject to applicable agreements, local laws and regulations. We have not incurred significant costs related to termination indemnity arrangements, and therefore, no related costs are included in the disclosures below.

The following tables set forth the components of net periodic benefit cost (credit), which are recorded in income from continuing operations, for our defined benefit plans:

| | Pension Benefits | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended | | | | Nine Months Ended | | | |
| | September 27, 2014 | | September 28, 2013 | | September 27, 2014 | | September 28, 2013 | |
| (In millions) | U.S. | Int l | U.S. | Int l | U.S. | Int l | U.S. | Int l |
| Service cost | $ .1 | $ 3.3 | $ .1 | $ 3.2 | $ .3 | $ 10.0 | $ .3 | $ 9.3 |
| Interest cost | 11.1 | 5.8 | 10.3 | 5.8 | 33.5 | 18.0 | 29.3 | 17.2 |
| Expected return on plan assets | (12.9) | (6.6) | (12.4) | (5.6) | (38.9) | (19.6) | (35.8) | (16.7) |
| Recognized net actuarial loss | 4.1 | 1.3 | 4.0 | 1.5 | 12.2 | 3.9 | 13.7 | 4.6 |
| Amortization of prior service cost | .2 | .1 | .1 | .2 | .8 | .3 | .3 | .4 |
| Amortization of transition obligation (asset) | | .1 | | | | .1 | | (.1) |
| Recognized (gain) loss on curtailment(1) | | | | (1.6) | | .6 | | (1.6) |
| Net periodic benefit cost | $ 2.6 | $ 4.0 | $ 2.1 | $ 3.5 | $ 7.9 | $ 13.3 | $ 7.8 | $ 13.1 |

(1) Recognized loss on curtailment in 2014 related to a pension plan in the Netherlands and gain on curtailment in 2013 related to a pension plan in Taiwan. These amounts were recorded in Other expense, net in the unaudited Consolidated Statements of Income.

| | U.S. Postretirement Health Benefits | | | |
|---|---|---|---|---|
| | Three Months Ended | | Nine Months Ended | |
| (In millions) | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Interest cost | $ .1 | $ .1 | $ .2 | $ .2 |
| Recognized net actuarial loss | .7 | .6 | 2.1 | 1.9 |
| Amortization of prior service credit | (.8) | (.8) | (2.4) | (3.2) |
| Net periodic benefit credit | $ | $ (.1) | $ (.1) | $ (1.1) |

During the nine months ended September 28, 2013, in connection with the sale of our former OCP and DES businesses, we recognized a curtailment gain of $13.5 million associated with our U.S. postretirement health benefit plan, partially offset by curtailment and settlement losses of $10.2 million associated with certain U.S. pension plans. The net gain of $3.3 million was recorded in Loss from discontinued operations, net of tax in the unaudited Consolidated Statements of Income. Refer to Note 2, Discontinued Operations, Assets Held for Sale and Sale of Assets, for more information on the sale.

We make contributions to our defined benefit plans sufficient to meet the minimum funding requirements of applicable laws and regulations, plus additional amounts, if any, we determine to be appropriate. We contributed $3.9 million and $37 million to our U.S. pension plans during the nine months ended September 27, 2014 and September 28, 2013, respectively. We contributed $1.2 million and $1.7 million to our U.S. postretirement health benefit plan during the nine months ended September 27, 2014 and September 28, 2013, respectively. We contributed approximately $13 million to our international pension plans during both the nine months ended September 27, 2014, and September 28, 2013, respectively. All of the contributions made in the first nine months of 2014 and 2013 were made to meet minimum funding requirements.

***Defined Contribution Plans***

We sponsor various defined contribution plans worldwide, with the largest plan being the Avery Dennison Corporation Employee Savings Plan ( Savings Plan ), a 401(k) plan available to our U.S. employees. We recognized expense from continuing operations of $3.2 million and $14.2 million during the three and nine months ended September 27, 2014, respectively, and $5.2 million and $16.7 million during the three and nine months ended September 28, 2013, respectively, related to our employer contributions and employer match of participant contributions to the Savings Plan.

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**Note 7. Research and Development**

Research and development expense from continuing operations was $25.1 million and $77 million for the three and nine months ended September 27, 2014, respectively, and $22.4 million and $71 million for the three and nine months ended September 28, 2013, respectively. This expense was included in Marketing, general and administrative expense in the unaudited Consolidated Statements of Income.

**Note 8. Long-Term Incentive Compensation**

***Equity Awards***

Stock-based compensation expense from continuing operations was $7.6 million and $22.1 million for the three and nine months ended September 27, 2014, respectively, and $8 million and $23.7 million for the three and nine months ended September 28, 2013, respectively. This expense was included in Marketing, general and administrative expense in the unaudited Consolidated Statements of Income.

As of September 27, 2014, we had approximately $40 million of unrecognized compensation expense from continuing operations related to unvested stock-based awards, which is expected to be recognized over the remaining weighted-average requisite service period of approximately two years.

***Cash Awards***

Compensation expense from continuing operations related to cash-based awards was $2 million and $11.9 million for the three and nine months ended September 27, 2014, respectively, and $1.9 million and $6.2 million for the three and nine months ended September 28, 2013, respectively. This expense was included in Marketing, general and administrative expense in the unaudited Consolidated Statements of Income.

**Note 9. Cost Reduction Actions**

***2014 Actions***

During the nine months ended September 27, 2014, we recorded $52.9 million in restructuring charges, net of reversals, related to restructuring actions we initiated in 2014 ( 2014 Actions ), primarily related to the consolidation of certain European operations. These charges consisted of severance and related costs for the reduction of approximately 1,195 positions, lease cancellation costs, and asset impairment charges. Approximately 110 employees impacted by our 2014 Actions remained employed with us as of September 27, 2014. We expect payments to be completed and savings to be realized relating to our 2014 Actions by the end of 2015.

***2012 Program***

In 2013, we recorded $40.3 million in restructuring charges, net of reversals, related to the restructuring program we initiated in 2012 ( 2012 Program ), which consisted of severance and related costs for the reduction of approximately 1,400 positions, lease and other contract cancellation costs, and asset impairment charges. We expect payments related to the 2012 Program to be completed by the end of 2014.

Accruals for severance and related costs and lease and other contract cancellation costs were included in Other current liabilities in the unaudited Condensed Consolidated Balance Sheets. For assets that were not disposed of, impairments were based on the estimated market value of the assets. Restructuring costs were included in Other expense, net in the unaudited Consolidated Statements of Income.

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During the nine months ended September 27, 2014, restructuring charges and payments were as follows:

| (In millions) | Accrual at December 28, 2013 | Charges (Reversals), net | Cash Payments | Non-cash Impairment | Foreign Currency Translation | Accrual at September 27, 2014 |
|---|---|---|---|---|---|---|
| **2014 Actions** | | | | | | |
| Severance and related costs | $ | $ 48.4 | $ (16.7) | $ | $ (1.9) | $ 29.8 |
| Asset impairment charges | | 4.0 | | (4.0) | | |
| Lease cancellation costs | | .5 | (.3) | | | .2 |
| **2012 Program** | | | | | | |
| Severance and related costs | 6.6 | (.4) | (5.2) | | (.1) | .9 |
| Lease and other contract cancellation costs | .2 | | (.2) | | | |
| Total | $ 6.8 | $ 52.5 | $ (22.4) | $ (4.0) | $ (2.0) | $ 30.9 |

The table below shows the total amount of restructuring costs incurred by reportable segment and Corporate. Restructuring costs were included in Other expense, net in the unaudited Consolidated Statements of Income.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In millions) | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| **Restructuring costs by reportable segment and Corporate** | | | | |
| Pressure-sensitive Materials | $ 2.1 | $ 3.4 | $ 35.7 | $ 8.7 |
| Retail Branding and Information Solutions | 4.1 | 12.6 | 16.3 | 22.9 |
| Vancive Medical Technologies | .1 | .1 | .1 | .1 |
| Corporate | .4 | .6 | .4 | .9 |
| | $ 6.7 | $ 16.7 | $ 52.5 | $ 32.6 |

**Note 10. Financial Instruments**

We enter into foreign exchange hedge contracts to reduce our risk from exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in certain foreign currencies that arise primarily as a result of our operations outside the U.S. We also enter into futures contracts to hedge certain price fluctuations for a portion of our anticipated domestic purchases of natural gas. The maximum length of time for which we hedge our exposure to the variability in future cash flows for forecasted transactions is 36 months. We may enter into interest rate contracts to help manage our exposure to certain interest rate fluctuations.

As of September 27, 2014, the aggregate U.S. dollar equivalent notional value of our outstanding commodity contracts and foreign exchange contracts was $6.2 million and $2 billion, respectively.

We recognize all derivative instruments as either assets or liabilities at fair value in the unaudited Condensed Consolidated Balance Sheets. We designate commodity forward contracts on forecasted purchases of commodities and foreign exchange contracts on forecasted transactions as cash flow hedges and foreign exchange contracts on existing balance sheet items as fair value hedges.

The following table provides the fair value and balance sheet locations of derivatives as of September 27, 2014:

| (In millions) | Asset Balance Sheet Location | Fair Value | Liability Balance Sheet Location | Fair Value |
|---|---|---|---|---|
| Foreign exchange contracts | Other current assets | $ 4.0 | Other current liabilities | $ 28.4 |
| Commodity contracts | Other current assets | | Other current liabilities | .2 |
| | | $ 4.0 | | $ 28.6 |

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The following table provides the fair value and balance sheet locations of derivatives as of December 28, 2013:

| | Asset | | Liability | |
|---|---|---|---|---|
| (In millions) | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Foreign exchange contracts | Other current assets | $ 3.1 | Other current liabilities | $ 4.7 |
| Commodity contracts | Other current assets | .1 | Other current liabilities | |
| | | $ 3.2 | | $ 4.7 |

***Fair Value Hedges***

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings, resulting in no net material impact to income.

The following table provides the components of gain (loss) recognized in income related to fair value hedge contracts. The corresponding gains or losses on the underlying hedged items approximated the net gain (loss) on these fair value hedge contracts.

| | | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|---|
| (In millions) | Location of Gain (Loss) in Income | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Foreign exchange contracts | Cost of products sold | $ | $ 1.1 | $ (3.0) | $ 1.4 |
| Foreign exchange contracts | Marketing, general and administrative expense | (25.7) | 9.8 | (28.2) | (7.5) |
| | | $ (25.7) | $ 10.9 | $ (31.2) | $ (6.1) |

***Cash Flow Hedges***

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of Accumulated other comprehensive loss and reclassified into earnings in the same period(s) during which the hedged transaction affects earnings. Gains and losses on the derivative, representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

Gains (losses) recognized in Accumulated other comprehensive loss (effective portion) on derivatives related to cash flow hedge contracts were as follows:

| Three Months Ended | Nine Months Ended |
|---|---|

| (In millions) | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
|---|---|---|---|---|
| Foreign exchange contracts | $ .7 | $ (1.4) | $ (1.5) | $ .4 |
| Commodity contracts | (.3) | | (.1) | (.1) |
| | $ .4 | $ (1.4) | $ (1.6) | $ .3 |

The amounts of gain or loss recognized in income related to the ineffective portion of, and the amounts excluded from, effectiveness testing for cash flow hedges and derivatives not designated as hedging instruments were not material for the three and nine months ended September 27, 2014 and September 28, 2013, respectively.

As of September 27, 2014, we expected a net gain of $.2 million to be reclassified from Accumulated other comprehensive loss to earnings within the next 12 months. See Note 13, Comprehensive Income, for more information.

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**Note 11. Taxes Based on Income**

The following table summarizes our income from continuing operations before taxes, provision for income taxes from continuing operations, and effective tax rate:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In millions) | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Income from continuing operations before taxes | $ 101.2 | $ 74.8 | $ 266.1 | $ 265.4 |
| Provision for income taxes | 36.2 | 12.8 | 85.1 | 65.8 |
| Effective tax rate | 35.8% | 17.1% | 32.0% | 24.8% |

The effective tax rate for the three months ended September 27, 2014 included a tax benefit of $4.2 million as a result of changes in certain tax reserves and valuation allowances, tax expense of $4.6 million from the taxable inclusion of a net foreign currency gain related to the revaluation of certain intercompany loans, and a tax benefit of $2.1 million from out-of-period adjustments to properly reflect uncertain tax positions and the cumulative tax effect of currency translation associated with a foreign branch investment. The effective tax rate for the nine months ended September 27, 2014 included a tax benefit of $20 million as a result of changes in certain tax reserves and valuation allowances, tax expense of $4.6 million from a taxable inclusion of a net foreign currency gain related to the revaluation of certain intercompany loans, tax expense of $6 million related to our change in estimate of the potential outcome of uncertain tax issues in China and a net tax benefit of $.8 million from out-of-period adjustments to properly reflect uncertain tax positions, the cumulative tax effect of currency translation associated with a foreign branch investment, the valuation allowance related to state deferred tax assets and deferred taxes related to acquisitions completed in 2002 and 2003. The impact of the out-of-period adjustments was not material to the periods reported or any previous financial statements.

The effective tax rate for the three and nine months ended September 28, 2013 included a tax benefit of $4.1 million from favorable tax rates primarily associated with certain earnings from our operations in lower-tax jurisdictions throughout the world, a tax benefit of $4.9 million for adjustments to domestic income taxes, and a tax benefit of $4.2 from effective settlement of uncertain tax positions. Additionally, the effective tax rate for the nine months ended September 28, 2013 included a net tax benefit of $8.9 million primarily related to changes in tax law, which includes a $4.2 million of tax benefit attributable to the retroactive reinstatement of the federal research and development tax credit, and a net $3.7 million benefit for revaluation of deferred tax balances due to changes in certain foreign statutory tax rates.

The amount of income taxes we pay is subject to ongoing audits by taxing jurisdictions around the world. Our estimate of the potential outcome of any uncertain tax issue is subject to our assessment of relevant risks, facts, and circumstances existing at the time. We believe that we have adequately provided for reasonably foreseeable outcomes related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate. With some exceptions, we and our subsidiaries are no longer subject to income tax examinations by tax authorities for years prior to 2006.

It is reasonably possible that, during the next 12 months, we may realize a decrease in our uncertain tax positions, including interest and penalties, of approximately $17 million, primarily as a result of closing tax years.

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**Note 12. Net Income Per Share**

Net income per common share was computed as follows:

| (In millions, except per share amounts) | | Three Months Ended September 27, 2014 | Three Months Ended September 28, 2013 | Nine Months Ended September 27, 2014 | Nine Months Ended September 28, 2013 |
|---|---|---|---|---|---|
| (A) | Income from continuing operations | $ 65.0 | $ 62.0 | $ 181.0 | $ 199.6 |
| (B) | Loss from discontinued operations, net of tax | (.7) | (15.5) | (3.0) | (26.5) |
| (C) | Net income available to common shareholders | $ 64.3 | $ 46.5 | $ 178.0 | $ 173.1 |
| (D) | Weighted-average number of common shares outstanding | 93.3 | 97.9 | 94.7 | 99.1 |
| | Dilutive shares (additional common shares issuable under stock-based awards) | 1.9 | 1.7 | 1.9 | 1.6 |
| (E) | Weighted-average number of common shares outstanding, assuming dilution | 95.2 | 99.6 | 96.6 | 100.7 |
| Net income (loss) per common share: | | | | | |
| | Continuing operations (A) ÷ (D) | $ .70 | $ .63 | $ 1.91 | $ 2.01 |
| | Discontinued operations (B) ÷ (D) | (.01) | (.16) | (.03) | (.26) |
| Net income per common share (C) ÷ (D) | | $ .69 | $ .47 | $ 1.88 | $ 1.75 |
| Net income (loss) per common share, assuming dilution: | | | | | |
| | Continuing operations (A) ÷ (E) | $ .68 | $ .62 | $ 1.87 | $ 1.98 |
| | Discontinued operations (B) ÷ (E) | | (.15) | (.03) | (.26) |
| Net income per common share, assuming dilution (C) ÷ (E) | | $ .68 | $ .47 | $ 1.84 | $ 1.72 |

Certain stock-based compensation awards were not included in the computation of net income per common share, assuming dilution, because they would not have had a dilutive effect. Stock-based compensation awards excluded from the computation totaled approximately 3 million shares for the three and nine months ended September 27, 2014, and approximately 5 million shares and 6 million shares for the three and nine months ended September 28, 2013, respectively.

**Note 13. Comprehensive Income**

The changes in Accumulated other comprehensive loss (net of tax) for the nine-month period ended September 27, 2014 were as follows:

| (In millions) | **Total** |
|---|---|

| | Cash Flow Hedges | Pension and Other Postretirement Benefits | Foreign Currency Translation | |
|---|---|---|---|---|
| Balance as of December 28, 2013 | $ (1.0) | $ (418.1) | $ 138.0 | $ (281.1) |
| Other comprehensive loss before reclassifications, net of tax | (1.2) | (1.0) | (83.5) | (85.7) |
| Reclassifications to net income, net of tax | 1.1 | 12.1 | | 13.2 |
| Net current-period other comprehensive (loss) income, net of tax | (.1) | 11.1 | (83.5) | (72.5) |
| Balance as of September 27, 2014 | $ (1.1) | $ (407.0) | $ 54.5 | $ (353.6) |

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The changes in Accumulated other comprehensive loss (net of tax) for the nine-month period ended September 28, 2013 were as follows:

| (In millions) | Cash Flow Hedges | Pension and Other Postretirement Benefits | Foreign Currency Translation | Total |
|---|---|---|---|---|
| Balance as of December 29, 2012 | $ (2.0) | $ (456.5) | $ 180.5 | $ (278.0) |
| Other comprehensive income (loss) before reclassifications, net of tax | .2 | 57.3 | (21.9) | 35.6 |
| Reclassifications to net income, net of tax | (.4) | 4.4 | 10.8 | 14.8 |
| Net current-period other comprehensive (loss) income, net of tax | (.2) | 61.7 | (11.1) | 50.4 |
| Balance as of September 28, 2013 | $ (2.2) | $ (394.8) | $ 169.4 | $ (227.6) |

Amounts reclassified from Accumulated other comprehensive loss to increase (decrease) income from continuing operations were as follows:

| | Amounts Reclassified from Accumulated Other Comprehensive Loss | | | | |
|---|---|---|---|---|---|
| | Three Months Ended | | Nine Months Ended | | |
| (In millions) | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 | Affected Line Item in the Statements Where Net Income is Presented |
| Cash flow hedges: | | | | | |
| Foreign exchange contracts | $ (.2) | $ .5 | $ (1.7) | $ 1.3 | Cost of products sold |
| Commodity contracts | | (.1) | .2 | (.8) | Cost of products sold |
| | (.2) | .4 | (1.5) | .5 | Total before tax |
| | .2 | (.1) | .4 | (.2) | Provision for income taxes |
| | | .3 | (1.1) | .3 | Net of tax |
| | | | | | |
| Pension and other postretirement benefits(1) | (5.7) | (5.7) | (17.6) | (17.7) | |
| | 1.6 | 1.9 | 5.5 | 5.9 | Provision for income taxes |
| | (4.1) | (3.8) | (12.1) | (11.8) | Net of tax |
| Total reclassifications for the period | $ (4.1) | $ (3.5) | $ (13.2) | $ (11.5) | Total, net of tax |

(1) See Note 6, Pension and Other Postretirement Benefits, for more information.

The following table sets forth the income tax expense (benefit) allocated to each component of other comprehensive loss (income):

| (In millions) | Three Months Ended September 27, 2014 | Three Months Ended September 28, 2013 | Nine Months Ended September 27, 2014 | Nine Months Ended September 28, 2013 |
|---|---|---|---|---|
| Pension and other postretirement benefits | $ 1.6 | $ 31.3 | $ 5.5 | $ 35.6 |
| Cash flow hedges | .1 | (.8) | | (.2) |
| Income tax expense related to components of other comprehensive loss (income) | $ 1.7 | $ 30.5 | $ 5.5 | $ 35.4 |

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**Note 14. Fair Value Measurements**

***Recurring Fair Value Measurements***

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of September 27, 2014:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| (In millions) | **Total** | **Quoted Prices in Active Markets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Other Unobservable Inputs (Level 3)** |
| **Assets** | | | | |
| Trading securities | $ 17.8 | $ 6.5 | $ 11.3 | $ |
| Derivative assets | 4.0 | | 4.0 | |
| **Liabilities** | | | | |
| Derivative liabilities | $ 28.6 | $ .2 | $ 28.4 | $ |

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of December 28, 2013:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| (In millions) | **Total** | **Quoted Prices in Active Markets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Other Unobservable Inputs (Level 3)** |
| **Assets** | | | | |
| Trading securities | $ 17.7 | $ 7.6 | $ 10.1 | $ |
| Short-term investments | 114.5 | | 114.5 | |
| Derivative assets | 3.2 | .1 | 3.1 | |
| **Liabilities** | | | | |
| Derivative liabilities | $ 4.7 | $ | $ 4.7 | $ |

Trading securities include fixed income securities (primarily U.S. government and corporate debt securities) measured at fair value using quoted prices/bids and a money market fund measured at fair value using net asset value. As of September 27, 2014, trading securities of $.3 million and $17.5 million were included in Cash and cash equivalents and Other current assets, respectively, in the unaudited Condensed Consolidated Balance Sheets. As of December 28, 2013, trading securities of $.3 million and $17.4 million were included in Cash and cash equivalents and Other current assets, respectively, in the unaudited Condensed Consolidated Balance Sheets. Short-term investments are comprised of commercial paper and are measured at fair value using broker quoted prices. As of December 28, 2013, short-term investments were included in Cash and cash equivalents in the unaudited Condensed Consolidated Balance Sheets. Derivatives that are exchange-traded are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy. Derivatives measured based on foreign exchange rate inputs that are readily available in public markets are classified within Level 2 of the valuation hierarchy.

**Note 15. Commitments and Contingencies**

***Legal Proceedings***

We are involved in various lawsuits, claims, inquiries, and other regulatory and compliance matters, most of which are routine to the nature of our business. We have accrued liabilities for matters where it is probable that a loss will be incurred and the amount of loss can be reasonably estimated. Because of the uncertainties associated with claims resolution and litigation, future expenses to resolve these matters could be higher than the liabilities we have accrued; however, we are unable to reasonably estimate a range of potential expenses. If information becomes available that allows us to reasonably estimate the range of potential expenses in an amount higher or lower than what we have accrued, we would adjust our accrued liabilities accordingly. Additional lawsuits, claims, inquiries, and other regulatory and compliance matters could arise in the future. The range of expenses for resolving any future matters will be assessed as they arise; until then, a range of potential expenses for such resolution cannot be determined. Based upon current information, we believe that the impact of the resolution of these matters would not be, individually or in the aggregate, material to our financial position, results of operations or cash flows.

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***Environmental***

As of September 27, 2014, we have been designated by the U.S. Environmental Protection Agency ( EPA ) and/or other responsible state agencies as a potentially responsible party ( PRP ) at fourteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of our liability has been agreed. We are participating with other PRPs at these sites, and anticipate that our share of remediation costs will be determined pursuant to agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

We have accrued liabilities for sites where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. These estimates could change as a result of changes in planned remedial actions, remediation technologies, site conditions, the estimated time to complete remediation, environmental laws and regulations, and other factors. Because of the uncertainties associated with environmental assessment and remediation activities, future expenses to remediate these sites could be higher than the liabilities we have accrued; however, we are unable to reasonably estimate a range of potential expenses. If information becomes available that allows us to reasonably estimate the range of potential expenses in an amount higher or lower than what we have accrued, we would adjust our environmental liabilities accordingly. In addition, we may be identified as a PRP at additional sites in the future. The range of expenses for remediation of any future-identified sites will be addressed as they arise; until then, a range of expenses for such remediation cannot be determined.

The activity for the nine months ended September 27, 2014 related to environmental liabilities was as follows:

| (In millions) | | |
|---|---|---|
| Balance at December 28, 2013 | $ | 29.6 |
| Charges (reversals), net | | 1.4 |
| Payments | | (3.3) |
| Balance at September 27, 2014 | $ | 27.7 |

As of September 27, 2014, approximately $11 million of the balance was classified as short-term and included in Other current liabilities in the unaudited Condensed Consolidated Balance Sheets.

***Guarantees***

We participate in receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. We guarantee the collection of the related receivables. At September 27, 2014, the outstanding amount guaranteed was approximately $.5 million.

Unused letters of credit (primarily standby) outstanding with various financial institutions were approximately $68 million at September 27, 2014.

***Commitments***

On September 9, 2005, we completed a ten-year lease financing for a commercial facility located in Mentor, Ohio, used primarily for the North American headquarters and research center of our Materials group. The facility consists of land, buildings, and equipment. We lease the facility under an operating lease arrangement, which contains a residual value guarantee of $31.5 million, as well as certain obligations with respect to the refinancing of the lessor s debt of $11.5 million (collectively, the Guarantee ). At the end of the lease term, we have the option to purchase or remarket the facility at an amount equivalent to the value of the Guarantee. If our estimated fair value (or estimated selling price) of the facility falls below the Guarantee, we would be required to pay the lessor a shortfall, which is an amount equivalent to the Guarantee less our estimated fair value. During the second quarter of 2011, we estimated a shortfall with respect to the Guarantee and began to recognize the shortfall on a straight-line basis over the remaining lease term. The carrying amount of the shortfall was approximately $21 million at September 27, 2014, which was included in Long-term retirement benefits and other liabilities in the unaudited Condensed Consolidated Balance Sheets.

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Avery Dennison Corporation

**Note 16. Segment Information**

Financial information by reportable segment from continuing operations is set forth below.

| (In millions) | Three Months Ended September 27, 2014 | Three Months Ended September 28, 2013 | Nine Months Ended September 27, 2014 | Nine Months Ended September 28, 2013 |
|---|---|---|---|---|
| **Net sales to unaffiliated customers** | | | | |
| Pressure-sensitive Materials | $ 1,157.0 | $ 1,094.0 | $ 3,481.4 | $ 3,305.9 |
| Retail Branding and Information Solutions | 383.9 | 391.4 | 1,186.0 | 1,193.7 |
| Vancive Medical Technologies | 18.7 | 19.5 | 58.1 | 56.5 |
| Net sales to unaffiliated customers | $ 1,559.6 | $ 1,504.9 | $ 4,725.5 | $ 4,556.1 |
| **Intersegment sales** | | | | |
| Pressure-sensitive Materials | $ 16.2 | $ 15.6 | $ 49.1 | $ 48.6 |
| Retail Branding and Information Solutions | .5 | .9 | 1.9 | 2.0 |
| Vancive Medical Technologies | 2.7 | .3 | 7.5 | 1.2 |
| Intersegment sales | $ 19.4 | $ 16.8 | $ 58.5 | $ 51.8 |
| **Income from continuing operations before taxes** | | | | |
| Pressure-sensitive Materials | $ 116.6 | $ 111.7 | $ 315.1 | $ 334.1 |
| Retail Branding and Information Solutions | 20.6 | 12.5 | 65.5 | 50.7 |
| Vancive Medical Technologies | (2.9) | (.7) | (7.2) | (6.2) |
| Corporate expense | (17.7) | (32.7) | (60.9) | (70.2) |
| Interest expense | (15.4) | (16.0) | (46.4) | (43.0) |
| Income from continuing operations before taxes | $ 101.2 | $ 74.8 | $ 266.1 | $ 265.4 |
| **Other expense, net by reportable segment** | | | | |
| Pressure-sensitive Materials | $ 2.1 | $ 3.4 | $ 36.3 | $ 8.7 |
| Retail Branding and Information Solutions | 5.2 | 10.5 | 16.8 | 19.5 |
| Vancive Medical Technologies | .1 | .1 | .1 | .1 |
| Corporate | .4 | 11.7 | .4 | 4.6 |
| Other expense, net | $ 7.8 | $ 25.7 | $ 53.6 | $ 32.9 |
| **Other expense, net by type** | | | | |
| Restructuring costs: | | | | |
| Severance and related costs | $ 5.1 | $ 8.7 | $ 48.0 | $ 20.9 |
| Asset impairment charges and lease and other contract cancellation charges | 1.6 | 8.0 | 4.5 | 11.7 |
| Other items: | | | | |
| Indefinite-lived intangible asset impairment charge | 3.0 | | 3.0 | |
| Charitable contribution to Avery Dennison Foundation | | 10.0 | | 10.0 |
| Gain on sales of assets | (1.9) | (.5) | (2.5) | (12.7) |
| (Gain) loss on curtailment of pension obligation | | (1.6) | .6 | (1.6) |
| Legal settlement | | | | 2.5 |
| Divestiture-related costs(1) | | 1.1 | | 2.1 |
| Other expense, net | $ 7.8 | $ 25.7 | $ 53.6 | $ 32.9 |

(1) Represents only the portion allocated to continuing operations.

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**Note 17. Recent Accounting Requirements**

In August 2014, the Financial Accounting Standards Board ( FASB ) issued a new standard that requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern. Management s evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. Under this new standard, substantial doubt exists when it is probable that the entity will be unable to meet its obligations as they become due within one year of the date the financial statements are issued. If applicable, certain disclosures are required, including management s plans to mitigate those relevant conditions or events to alleviate the substantial doubt. This standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. We expect the adoption of this standard will have no impact on our financial position, results of operations, cash flows, or disclosures.

In June 2014, the FASB revised guidance on share-based compensation awards that require a specific performance target to be achieved in order for the awards to vest. This revised guidance requires that a performance target that impacts vesting and can be achieved after the requisite service period be treated as a performance condition. As such, a performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that a performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The revised guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, and can be applied either (i) prospectively to all awards granted or modified after the effective date or (ii) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Early adoption is permitted. We do not anticipate the adoption of this revised guidance to have a significant impact on our financial position, results of operations, cash flows, or disclosures.

In May 2014, the FASB issued revised guidance on revenue recognition. This revised guidance provides a single comprehensive model for accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This revised guidance will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. This revised guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This revised guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those years, and can be applied retrospectively either to each prior reporting period presented or with the cumulative effect of adoption recognized at the date of initial application. Early adoption is not permitted. We are evaluating the method and impact the adoption of this revised guidance will have on our financial position, results of operations, cash flows, or disclosures.

In April 2014, the FASB issued revised guidance on reporting discontinued operations. This revised guidance defines a discontinued operation as a disposal of a component or a group of components of an entity that represents a strategic shift that has (or will have) a major effect on the entity s operations and financial results. This revised guidance also requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. This revised guidance is effective for fiscal years beginning on or after December 15, 2014 and interim periods within those years, with earlier adoption permitted. We do not anticipate the adoption of this revised guidance to have a significant impact on our financial position, results of operations, cash flows, or disclosures.

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

## ORGANIZATION OF INFORMATION

Management s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, provides management s views on our financial condition and results of operations, and should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements and notes thereto. It includes the following sections:



## NON-GAAP FINANCIAL MEASURES

We report financial results in conformity with accounting principles generally accepted in the United States of America, or GAAP, and also communicate with investors using certain non-GAAP financial measures. These non-GAAP financial measures are not in accordance with, nor are they a substitute for or superior to, the comparable GAAP financial measures. These non-GAAP financial measures are intended to supplement presentation of our financial results that are prepared in accordance with GAAP. Based upon feedback from investors and financial analysts, we believe that supplemental non-GAAP financial measures provide information that is useful to the assessment of our performance and operating trends, as well as liquidity.

Our non-GAAP financial measures exclude the impact of certain events, activities or strategic decisions. By excluding certain accounting effects, both positive and negative, of certain items, we believe that we are providing meaningful supplemental information to facilitate an understanding of our core operating results and liquidity measures. These non-GAAP financial measures are used internally to evaluate trends in our underlying performance, as well as to facilitate comparison to the results of competitors for a single period. While some of the items we exclude from GAAP financial measures recur, they tend to be disparate in amount, frequency, or timing.

We use the following non-GAAP financial measures in this MD&A:

- *Organic sales change* refers to the increase or decrease in sales excluding the estimated impact of currency translation, product line exits, acquisitions and divestitures, and, where applicable, the extra week in the fiscal year. The estimated impact of currency translation is calculated on a constant currency basis, with prior period results translated at current period average exchange rates to exclude the effect of currency fluctuations. We believe organic sales change assists investors in evaluating the underlying sales growth from the ongoing activities of our businesses and provides improved comparability of results period to period.

- *Free cash flow* refers to cash flow from operations, less payments for property, plant and equipment, software and other deferred charges, plus proceeds from sales of property, plant and equipment, plus (minus) net proceeds from sales (purchases) of investments, plus discretionary contributions to pension plans and charitable contribution to Avery Dennison Foundation utilizing proceeds from divestitures. Free cash flow excludes uses of cash that do not directly or immediately support the underlying business, such as discretionary debt reductions, dividends, share repurchases, and certain effects of acquisitions and divestitures (e.g., cash flow from discontinued operations, taxes, and transaction costs).

- *Operational working capital* refers to trade accounts receivable and inventories, net of accounts payable, and excludes cash and cash equivalents, short-term borrowings, deferred taxes, other current assets and other current liabilities, as well as current assets and current liabilities of held-for-sale businesses. We use this non-GAAP financial measure to assess our working capital (deficit) requirements because it excludes the impact of fluctuations attributable to our financing and other activities (which affect cash and cash equivalents, deferred taxes, other current assets, and other current liabilities) that tend to be disparate in amount, frequency, or timing, and that may increase the volatility of the working capital as a percentage of sales from period to period. Additionally, the excluded items are not significantly influenced by our day-to-day activities managed at the operating level and may not reflect the underlying trends in our operations.

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## OVERVIEW AND OUTLOOK

### Overview

*Sales*

Our sales increased 4% in the first nine months of 2014 compared to the same period last year.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| **Estimated change in sales due to** | | | | |
| Organic sales change | 3% | 4% | 4% | 4% |
| Foreign currency translation | | 1 | | |
| Reported sales change(1) | 4% | 4% | 4% | 4% |

(1) Totals may not sum due to rounding and other factors.

*Income from Continuing Operations*

Income from continuing operations increased approximately $3 million and decreased approximately $19 million in the third quarter and first nine months of 2014, respectively, compared to the same periods last year.  Major factors affecting the change in income from continuing operations in the first nine months of 2014 compared to the same period last year included:

Positive factors:

- Benefits from productivity initiatives, including savings from restructuring actions, net of transition costs
- Higher volume

Offsetting factors:

- Higher employee-related costs
- Higher restructuring costs, primarily related to the consolidation of certain European operations in our Pressure-sensitive Materials segment

- Higher income taxes
- Net impact of raw material input costs and pricing

*Divestitures*

In July 2013, we completed the sale of our former Office and Consumer Products ( OCP ) and Designed and Engineered Solutions ( DES ) businesses and entered into an amendment to the purchase agreement, which, among other things, increased the target net working capital amount and amended provisions related to employee matters and indemnification. We continue to be subject to certain indemnification provisions under the terms of the purchase agreement. In addition, the tax liability associated with the sale is subject to completion of tax return filings in the jurisdictions in which our former OCP and DES businesses operated.

**Cost Reduction Actions**

*2014 Actions*

During the first nine months of 2014, we recorded $52.9 million in restructuring charges, net of reversals, related to restructuring actions we initiated in 2014 ( 2014 Actions ), primarily related to the consolidation of certain European operations. These charges consisted of severance and related costs for the reduction of approximately 1,195 positions, lease cancellation costs, and asset impairment charges. We anticipate approximately $38 million in annualized savings from these restructuring actions, of which approximately $12 million is expected to be realized in 2014, with the remainder realized in 2015. During the first nine months of 2014, we recorded approximately $11 million of transition costs related to the 2014 Actions.

*2012 Program*

In 2013, we recorded $40.3 million in restructuring charges, net of reversals, related to the restructuring program we initiated in 2012 ( 2012 Program ), which consisted of severance and related costs for the reduction of approximately 1,400 positions, lease and other contract cancellation costs, and asset impairment charges.

In 2012, we recorded $56.4 million in restructuring charges, net of reversals, related to our 2012 Program, which consisted of severance and related costs for the reduction of approximately 1,060 positions, lease cancellation costs, and asset impairment charges.

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Restructuring costs are included in Other expense, net in the unaudited Consolidated Statements of Income. Refer to Note 9, Cost Reduction Actions, to the unaudited Condensed Consolidated Financial Statements for more information.

**Free Cash Flow**

| (In millions) | Nine Months Ended September 27, 2014 | Nine Months Ended September 28, 2013 |
|---|---|---|
| Net cash provided by operating activities | $ 200.2 | $ 95.7 |
| Purchases of property, plant and equipment | (100.8) | (79.1) |
| Purchases of software and other deferred charges | (22.0) | (34.6) |
| Proceeds from sales of property, plant and equipment | 4.1 | 30.8 |
| Sales of investments, net | | .6 |
| Plus: charitable contribution to Avery Dennison Foundation utilizing proceeds from divestitures | | 10.0 |
| Plus: divestiture-related payments and free cash outflow from discontinued operations | .6 | 81.8 |
| Free cash flow | $ 82.1 | $ 105.2 |

Free cash flow in the first nine months of 2014 decreased compared to 2013 primarily due to the timing of vendor payments, lower proceeds from sales of property, plant and equipment in 2014, higher incentive compensation paid in 2014 for the 2013 performance year, and higher capital expenditures in 2014, partially offset by the timing of inventory purchases and lower pension contributions in 2014.

**2014 Outlook**

Certain factors that we believe may contribute to results for 2014 are described below:

- We expect organic sales growth of approximately 3.5% in 2014 compared to 2013.
- We expect earnings to increase in 2014 compared to 2013.
- We estimate cash restructuring costs of approximately $55 million in 2014.
- We expect our full year 2014 tax rate to be comparable to 2013.
- We anticipate our capital and software expenditures in 2014 to be approximately $185 million.

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## ANALYSIS OF RESULTS OF OPERATIONS FOR THE THIRD QUARTER

### Income from Continuing Operations before Taxes

| | Three Months Ended | |
|---|---|---|
| (In millions) | **September 27, 2014** | **September 28, 2013** |
| Net sales | $ 1,559.6 | $ 1,504.9 |
| Cost of products sold | 1,158.9 | 1,102.7 |
| Gross profit | 400.7 | 402.2 |
| Marketing, general and administrative expense | 276.3 | 285.7 |
| Interest expense | 15.4 | 16.0 |
| Other expense, net | 7.8 | 25.7 |
| Income from continuing operations before taxes | $ 101.2 | $ 74.8 |
| | | |
| *As a Percentage of Sales* | | |
| Gross profit | 25.7% | 26.7% |
| Marketing, general and administrative expense | 17.7 | 19.0 |
| Income from continuing operations before taxes | 6.5 | 5.0 |

*Sales*

Sales from continuing operations increased 4% in the third quarter of 2014 compared to the same period last year primarily due to higher sales on an organic basis and the favorable impact of foreign currency translation. On an organic basis, sales increased 3% due to higher volume.

Refer to Results of Operations by Reportable Segment for the Third Quarter for further information.

*Gross Profit Margin*

Gross profit margin for the third quarter of 2014 decreased compared to the same period last year due to the net impact of raw material input costs and pricing, changes in country mix and product mix, and higher employee-related costs, partially offset by benefits from productivity initiatives, including savings from restructuring actions, net of transition costs.

*Marketing, General and Administrative Expense*

Marketing, general and administrative expense decreased in the third quarter of 2014 compared to the same period last year reflecting benefits from productivity initiatives, including savings from restructuring actions, and lower incentive compensation expense.

*Other Expense, net*

| (In millions) | Three Months Ended September 27, 2014 | Three Months Ended September 28, 2013 |
|---|---|---|
| **Other expense, net by type** | | |
| Restructuring costs: | | |
| Severance and related costs | $ 5.1 | $ 8.7 |
| Asset impairment charges and lease and other contract cancellation charges | 1.6 | 8.0 |
| Other items: | | |
| Indefinite-lived intangible asset impairment charge | 3.0 | |
| Charitable contribution to Avery Dennison Foundation | | 10.0 |
| Gain on sales of assets | (1.9) | (.5) |
| Gain from curtailment of pension obligation | | (1.6) |
| Divestiture-related costs(1) | | 1.1 |
| Other expense, net | $ 7.8 | $ 25.7 |

(1) Represents only the portion allocated to continuing operations.

Refer to Note 9, Cost Reduction Actions, to the unaudited Condensed Consolidated Financial Statements for more information regarding costs associated with restructuring.

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***Net Income and Earnings per Share***

| | Three Months Ended | |
|---|---|---|
| (In millions, except per share amounts) | **September 27, 2014** | **September 28, 2013** |
| Income from continuing operations before taxes | $ 101.2 | $ 74.8 |
| Provision for income taxes | 36.2 | 12.8 |
| Income from continuing operations | 65.0 | 62.0 |
| Loss from discontinued operations, net of tax | (.7) | (15.5) |
| Net income | $ 64.3 | $ 46.5 |
| Net income per common share | $ .69 | $ .47 |
| Net income per common share, assuming dilution | .68 | .47 |
| | | |
| Net income as a percentage of sales | 4.1% | 3.1% |
| Effective tax rate for continuing operations | 35.8 | 17.1 |

*Provision for Income Taxes*

The effective tax rate for the three months ended September 27, 2014 included a tax benefit of $4.2 million as a result of changes in certain tax reserves and valuation allowances, tax expense of $4.6 million from the taxable inclusion of a net foreign currency gain related to the revaluation of certain intercompany loans, and a tax benefit of $2.1 million from out-of-period adjustments to properly reflect uncertain tax positions and the cumulative tax effect of currency translation associated with a foreign branch investment.  The impact of the out-of-period adjustments was not material to the periods reported or any previous financial statements.

The effective tax rate for the three months ended September 28, 2013 included a tax benefit of $4.1 million from favorable tax rates primarily associated with certain earnings from our operations in lower-tax jurisdictions throughout the world, a tax benefit of $4.9 million for adjustments to domestic income taxes, and a tax benefit of $4.2 million from effective settlement of uncertain tax positions.

Our effective tax rate can vary widely from quarter to quarter, resulting from interim reporting requirements, the recognition of discrete events and the timing of repatriation of foreign earnings.  Refer to Note 11,    Taxes Based on Income,    to the unaudited Condensed Consolidated Financial Statements for further information.

**RESULTS OF OPERATIONS BY REPORTABLE SEGMENT FOR THE THIRD QUARTER**

Operating income refers to income from continuing operations before interest and taxes.

**Pressure-sensitive Materials**

| (In millions) | Three Months Ended September 27, 2014 | September 28, 2013 |
|---|---|---|
| Net sales including intersegment sales | $ 1,173.2 | $ 1,109.6 |
| Less intersegment sales | (16.2) | (15.6) |
| Net sales | $ 1,157.0 | $ 1,094.0 |
| Operating income(1) | 116.6 | 111.7 |
| | | |
| (1)Included costs associated with restructuring in both quarters | $ 2.1 | $ 3.4 |

*Net Sales*

In the third quarter of 2014, sales in our Pressure-sensitive Materials segment increased approximately 6% compared to the same period last year, reflecting higher sales on an organic basis and the favorable impact of foreign currency translation. On an organic basis, sales increased approximately 5% primarily due to higher volume. On an organic basis, sales increased at an upper-single digit rate in emerging markets, at a mid-single digit rate in Western Europe markets, and at a low-single digit rate in North America.

In the third quarter of 2014, sales in our label and packaging materials product line increased on an organic basis at a mid-single digit rate. Combined sales on an organic basis for our graphics, reflective, and performance tapes product lines also increased in the third quarter of 2014 at a mid-single digit rate.

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*Operating Income*

Operating income increased in the third quarter of 2014 compared to the same period last year due to higher volume and benefits from productivity initiatives, including restructuring, net of transition costs, partially offset by the net impact of raw material input costs and pricing. Wage inflation was largely offset by lower incentive compensation.

**Retail Branding and Information Solutions**

| (In millions) | Three Months Ended September 27, 2014 | September 28, 2013 |
|---|---|---|
| Net sales including intersegment sales | $ 384.4 | $ 392.3 |
| Less intersegment sales | (.5) | (.9) |
| Net sales | $ 383.9 | $ 391.4 |
| Operating income(1) | 20.6 | 12.5 |
| (1)Included costs associated with restructuring and gain on sales of assets in both quarters, indefinite-lived intangible asset impairment charge in 2014, and gain from curtailment of pension obligation in 2013. | $ 5.2 | $ 10.5 |

*Net Sales*

In the third quarter of 2014, sales in our Retail Branding and Information Solutions segment decreased approximately 2% compared to the same period last year on both reported and organic bases due to lower volume, reflecting decreased demand from U.S.-based apparel retailers and brands.

*Operating Income*

Operating income increased in the third quarter of 2014 primarily reflecting benefits from productivity initiatives, including savings from restructuring actions, lower restructuring costs, and lower incentive compensation expense, partially offset by lower volume and wage inflation.

**Vancive Medical Technologies**

| (In millions) | Three Months Ended September 27, 2014 | September 28, 2013 |
|---|---|---|
| Net sales including intersegment sales | $ 21.4 | $ 19.8 |
| Less intersegment sales | (2.7) | (.3) |
| Net sales | $ 18.7 | $ 19.5 |
| Operating loss | (2.9) | (.7) |
| (1)Included costs associated with restructuring in both quarters | | |