Avery Dennison Corp
Form 10-Q
November 01, 2016
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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 October 1, 2016.

**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 29, 2016: 88,991,587

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**AVERY DENNISON CORPORATION**

**FISCAL THIRD QUARTER 2016 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 January 2, 2016, and subsequent quarterly reports on Form 10-Q, and include, but are not limited to, risks and uncertainties relating to the following: fluctuations in demand affecting sales to customers; worldwide and local economic conditions; fluctuations in currency exchange rates and other risks associated with foreign operations, including in emerging markets; the financial condition and inventory strategies of customers; changes in customer preferences; fluctuations in cost and availability of raw materials; our ability to generate sustained productivity improvement; our ability to achieve and sustain targeted cost reductions; the impact of competitive products and pricing; loss of significant contracts or customers; collection of receivables from customers; selling prices; business mix shift; timely development and market acceptance of new products, including sustainable or sustainably-sourced products; investment in development activities and new production facilities; 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, including cyber-attacks or other intrusions to network security; 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; changes in tax laws and regulations, and uncertainties associated with interpretations of such laws and regulations; outcome of tax audits; fluctuations in pension, insurance, and employee benefit costs; the impact of legal and regulatory proceedings, including with respect to environmental, health and safety; changes in governmental laws and regulations; protection and infringement of intellectual property; changes in political conditions; the 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 impacts of economic conditions on underlying demand for our products and foreign currency fluctuations; (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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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(*Unaudited*)**

| (Dollars in millions, except per share amount) | October 1, 2016 | January 2, 2016 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 189.4 | $ 158.8 |
| Trade accounts receivable, less allowances of $40.6 and $31.5 at October 1, 2016 and January 2, 2016, respectively | 1,069.7 | 964.7 |
| Inventories, net | 565.3 | 478.7 |
| Assets held for sale | 5.9 | 2.5 |
| Other current assets | 183.3 | 170.7 |
| Total current assets | 2,013.6 | 1,775.4 |
| Property, plant and equipment | 2,685.5 | 2,599.9 |
| Accumulated depreciation | (1,780.1) | (1,752.0) |
| Property, plant and equipment, net | 905.4 | 847.9 |
| Goodwill | 821.6 | 686.2 |
| Other intangibles resulting from business acquisitions, net | 70.9 | 45.8 |
| Non-current deferred income taxes | 390.7 | 372.2 |
| Other assets | 398.2 | 406.2 |
| | $ 4,600.4 | $ 4,133.7 |
| | | |
| **Liabilities and Shareholders Equity** | | |
| Current liabilities: | | |
| Short-term borrowings and current portion of long-term debt and capital leases | $ 587.6 | $ 95.3 |
| Accounts payable | 866.7 | 814.6 |
| Accrued payroll and employee benefits | 207.8 | 194.6 |
| Other current liabilities | 394.0 | 354.6 |
| Total current liabilities | 2,056.1 | 1,459.1 |
| Long-term debt and capital leases | 713.0 | 963.6 |
| Long-term retirement benefits and other liabilities | 684.5 | 637.4 |
| Non-current deferred and payable income taxes | 104.4 | 107.9 |
| Commitments and contingencies (see Note 15) | | |
| Shareholders equity: | | |
| Common stock, $1 par value per share, authorized 400,000,000 shares at October 1, 2016 and January 2, 2016; issued 124,126,624 shares at October 1, 2016 and January 2, 2016; outstanding 89,194,833 shares and 89,967,697 shares at October 1, 2016 and January 2, 2016, respectively | 124.1 | 124.1 |

| | | |
|---|---|---|
| Capital in excess of par value | 843.1 | 834.0 |
| Retained earnings | 2,444.1 | 2,277.6 |
| Treasury stock at cost, 34,931,791 shares and 34,158,927 shares at October 1, 2016 and January 2, 2016, respectively | (1,699.9) | (1,587.0) |
| Accumulated other comprehensive loss | (669.0) | (683.0) |
| Total shareholders equity | 1,042.4 | 965.7 |
| | $ 4,600.4 | $ 4,133.7 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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Avery Dennison Corporation

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**(*Unaudited*)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In millions, except per share amounts) | **October 1, 2016** | **October 3, 2015** | **October 1, 2016** | **October 3, 2015** |
| Net sales | $ 1,508.7 | $ 1,468.1 | $ 4,535.7 | $ 4,512.1 |
| Cost of products sold | 1,091.1 | 1,062.2 | 3,261.4 | 3,258.6 |
| Gross profit | 417.6 | 405.9 | 1,274.3 | 1,253.5 |
| Marketing, general and administrative expense | 270.3 | 268.1 | 817.7 | 841.8 |
| Interest expense | 14.7 | 14.7 | 45.4 | 45.3 |
| Other expense, net | 4.6 | 7.0 | 60.4 | 49.0 |
| Income from continuing operations before taxes | 128.0 | 116.1 | 350.8 | 317.4 |
| Provision for income taxes | 38.9 | 34.8 | 92.1 | 99.5 |
| Income from continuing operations | 89.1 | 81.3 | 258.7 | 217.9 |
| Income (loss) from discontinued operations | | .4 | | (.6) |
| Net income | $ 89.1 | $ 81.7 | $ 258.7 | $ 217.3 |
| | | | | |
| Per share amounts: | | | | |
| Net income per common share: | | | | |
| Continuing operations | $ 1.00 | $ .89 | $ 2.90 | $ 2.39 |
| Discontinued operations | | | | |
| Net income per common share | $ 1.00 | $ .89 | $ 2.90 | $ 2.39 |
| Net income (loss) per common share, assuming dilution: | | | | |
| Continuing operations | $ .98 | $ .87 | $ 2.85 | $ 2.35 |
| Discontinued operations | | .01 | | (.01) |
| Net income per common share, assuming dilution | $ .98 | $ .88 | $ 2.85 | $ 2.34 |
| Dividends per common share | $ .41 | $ .37 | $ 1.19 | $ 1.09 |
| | | | | |
| Weighted average number of shares outstanding: | | | | |
| Common shares | 89.1 | 91.5 | 89.2 | 91.1 |
| Common shares, assuming dilution | 90.6 | 93.2 | 90.9 | 92.9 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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Avery Dennison Corporation

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(*Unaudited*)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In millions) | **October 1, 2016** | **October 3, 2015** | **October 1, 2016** | **October 3, 2015** |
| Net income | $ 89.1 | $ 81.7 | $ 258.7 | $ 217.3 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation | 15.5 | (60.5) | 21.1 | (129.6) |
| Pension and other postretirement benefits | 4.4 | 5.1 | (6.9) | 17.7 |
| Cash flow hedges | (.1) | (.2) | (.2) | (.8) |
| Other comprehensive income (loss), net of tax | 19.8 | (55.6) | 14.0 | (112.7) |
| Total comprehensive income, net of tax | $ 108.9 | $ 26.1 | $ 272.7 | $ 104.6 |

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 October 1, 2016 | Nine Months Ended October 3, 2015 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 258.7 | $ 217.3 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 88.8 | 95.3 |
| Amortization | 46.7 | 47.5 |
| Provision for doubtful accounts and sales returns | 33.8 | 36.6 |
| Net losses from asset impairments and sales/disposals of assets | 3.8 | 10.9 |
| Stock-based compensation | 20.1 | 18.4 |
| Loss from settlement of pension obligations | 41.4 | |
| Other non-cash expense and loss | 34.7 | 38.9 |
| Changes in assets and liabilities and other adjustments | (162.3) | (182.7) |
| Net cash provided by operating activities | 365.7 | 282.2 |
| | | |
| **Investing Activities** | | |
| Purchases of property, plant and equipment | (104.9) | (89.6) |
| Purchases of software and other deferred charges | (16.6) | (9.0) |
| Proceeds from sales of property, plant and equipment | 4.3 | 7.1 |
| Purchases of investments, net | (.8) | (.2) |
| Payments for acquisitions, net of cash acquired | (227.5) | |
| Other | | 1.5 |
| Net cash used in investing activities | (345.5) | (90.2) |
| | | |
| **Financing Activities** | | |
| Net increase (decrease) in borrowings (maturities of three months or less) | 242.0 | (109.8) |
| Payments of debt (maturities greater than three months) | (1.9) | (6.2) |
| Dividends paid | (106.2) | (99.6) |
| Share repurchases | (181.5) | (108.5) |
| Proceeds from exercises of stock options, net | 63.4 | 78.4 |
| Other | (4.4) | (1.2) |
| Net cash provided by (used in) financing activities | 11.4 | (246.9) |
| | | |
| Effect of foreign currency translation on cash balances | (1.0) | (8.5) |
| Increase (decrease) in cash and cash equivalents | 30.6 | (63.4) |
| Cash and cash equivalents, beginning of year | 158.8 | 207.2 |
| Cash and cash equivalents, end of period | $ 189.4 | $ 143.8 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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## 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 2015 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. Interim results of operations are not necessarily indicative of future results.

***Fiscal Periods***

The third quarters of 2016 and 2015 consisted of thirteen-week periods ending October 1, 2016 and October 3, 2015, respectively. The nine months ended October 1, 2016 and October 3, 2015 each consisted of thirty-nine-week periods.

***Prior Period Financial Statement Revision***

In the fourth quarter of 2015, we identified certain liquid short-term bank drafts with maturities greater than three months that were improperly classified as cash and cash equivalents instead of other current assets, which resulted in an overstatement of operating cash flows, and tax effects related to certain foreign pension plans that were not properly accounted for in our consolidated financial statements. We assessed the materiality of these errors on our financial statements for prior periods in accordance with United States Securities and Exchange Commission ( SEC ) Staff Accounting Bulletin ( SAB ) No. 99, *Materiality*, codified in Accounting Standards Codification ( ASC ) 250, *Presentation of Financial Statements*, and concluded that they were not material to any prior annual or interim periods. Consequently, in accordance with ASC 250 (SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*), we corrected these errors for all prior periods presented by revising the unaudited Condensed Consolidated Financial Statements and other financial information included herein.

The effects of the revision on our unaudited Condensed Consolidated Statements of Cash Flows were as follows:

| | Nine Months Ended October 3, 2015 | | |
|---|---|---|---|
| (In millions) | **As Previously Reported** | **Adjustment** | **As Revised** |
| Net cash provided by operating activities | $ 290.3 | $ (8.1) | $ 282.2 |
| Decrease in cash and cash equivalents | (55.3) | (8.1) | (63.4) |
| Cash and cash equivalents, beginning of year | 227.0 | (19.8) | 207.2 |
| Cash and cash equivalents, end of period | 171.7 | (27.9) | 143.8 |

*Sale of Product Line*

In May 2015, we sold certain assets and transferred certain liabilities associated with a product line in our Retail Branding and Information Solutions ( RBIS ) reportable segment for $1.5 million. The pre-tax loss from the sale, when combined with exit costs related to the sale, totaled $8.5 million. In the first quarter of 2015, we recorded an impairment charge of approximately $2 million related to certain long-lived assets of this product line, as well as $.6 million of other costs related to this sale. This loss and these costs were included in Other expense, net in the unaudited Condensed Consolidated Statements of Income.

*Discontinued Operations*

Income (loss) from discontinued operations during the third quarter and nine months ended October 3, 2015 included tax benefits (expense) related to the completion of certain tax return filings related to the sale of our former Office and Consumer Products ( OCP ) and Designed and Engineered Solutions ( DES ) businesses. We continue to be subject to certain indemnification obligations under the terms of the purchase agreement. In addition, the tax liability associated with the sale remains subject to the completion of tax return filings in certain foreign jurisdictions where we formerly operated the OCP and DES businesses.

**Note 2. Acquisitions**

On August 1, 2016, we completed the acquisition of the European business of MACtac ( Mactac ) from Platinum Equity through the purchase of Evergreen Holding V, LLC. Mactac manufactures pressure-sensitive materials that complement our existing graphics portfolio and has been included in our Pressure-sensitive Materials segment. The total consideration for this acquisition, net of cash received, was approximately $222 million, which we funded primarily through existing credit facilities. The purchase price is subject to certain adjustments in accordance with the terms of the purchase agreement

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Due to the time required to complete our assessment, the final valuation of certain acquired assets and liabilities, including property, plant and equipment, intangible assets, taxes, and environmental and asset retirement obligations, is currently pending.

This acquisition was not material to our condensed consolidated financial statements.

**Note 3. Inventories**

Net inventories consisted of:

| (In millions) | October 1, 2016 | January 2, 2016 |
|---|---|---|
| Raw materials | $ 207.8 | $ 180.5 |
| Work-in-progress | 172.1 | 143.0 |
| Finished goods | 185.4 | 155.2 |
| Inventories, net | $ 565.3 | $ 478.7 |

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

***Goodwill***

Changes in the net carrying amount of goodwill for the nine months ended October 1, 2016, by reportable segment, were as follows:

| (In millions) | Pressure-sensitive Materials | Retail Branding and Information Solutions | Total |
|---|---|---|---|
| Goodwill as of January 2, 2016 | $ 277.9 | $ 408.3 | $ 686.2 |
| Acquired during current period(1) | 125.0 | | 125.0 |
| Translation adjustments | 7.2 | 3.2 | 10.4 |
| Goodwill as of October 1, 2016 | $ 410.1 | $ 411.5 | $ 821.6 |

(1) Goodwill acquired during the current period primarily related to the Mactac acquisition.

The carrying amounts of goodwill at October 1, 2016 and January 2, 2016 were net of accumulated impairment losses of $820 million, which were included in our RBIS reportable segment.

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

In connection with the Mactac acquisition, we recognized an estimated $120 million of preliminary goodwill based on our expectation of synergies and other benefits of combining our businesses. These synergies and benefits include use of our existing commercial infrastructure to expand sales of products of the acquired business in a cost-efficient manner. The amount of goodwill recognized is not expected to be deductible for tax purposes.

***Other Intangibles Resulting from Business Acquisitions***

In connection with the Mactac acquisition, we acquired approximately $39 million of identifiable intangible assets, which includes finite-lived and indefinite-lived intangible assets. Identifiable intangible assets consist of customer relationships, trade names and trademarks, and patents and other acquired technology. The table below summarizes the preliminary amounts and weighted average useful lives, if applicable, of these intangible assets:

| | Amount (in millions) | Weighted-average amortization period (in years) |
|---|---|---|
| Customer relationships | $ 22.8 | 15 |
| Patents and other acquired technology | 2.4 | 4 |
| Trade names and trademarks(1) | 14.2 | n/a |

(1) Acquired trade names and trademarks associated with the Mactac acquisition were not subject to amortization as they were classified as indefinite-lived intangible assets.

Refer to Note 2, Acquisitions, to the unaudited Condensed Consolidated Financial Statements for more information.

**Note 5. Debt and Capital Leases**

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 includes 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 $1.35 billion at October 1, 2016 and $1.08 billion at January 2, 2016. Fair value amounts were determined based primarily on Level 2 inputs, which are inputs other than quoted prices in active markets that are either directly or indirectly observable.

Our $700 million revolving credit facility (the Revolver ) contains financial covenants requiring that we maintain specified ratios of total debt and interest expense in relation to certain measures of income. As of October 1, 2016 and January 2, 2016, we were in compliance with our financial covenants.

In March 2016, we entered into an agreement with three commercial paper dealers to establish a Euro-Commercial Paper Program pursuant to which we may issue unsecured commercial paper notes up to a maximum aggregate amount outstanding of $500 million. Proceeds from issuances under this program may be used for general corporate purposes. The maturities of the notes may vary, but may not exceed 364 days from the date of issuance. Our payment obligations with respect to any notes issued under this program would be backed by the Revolver. There are no financial covenants under this program. As of October 1, 2016, $210.3 million was outstanding under this program.

We reclassified approximately $250 million of senior notes due on October 1, 2017 from long-term debt to current portion of long-term debt.

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

***Defined Benefit Plans***

We sponsor a number of defined benefit plans, the accrual of benefits under some of which has 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.

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

In December 2015, we offered eligible former employees who were vested participants in the Avery Dennison Pension Plan ( ADPP ), a U.S. pension plan, the opportunity to receive their benefits immediately as either a lump-sum payment or an annuity, rather than waiting until they are retirement eligible under the terms of the plan. In the second quarter of 2016, approximately $70 million of pension obligations related to this plan were settled out of existing plan assets and a non-cash pre-tax settlement charge of $41.4 million was recorded in Other expense, net in the unaudited Condensed Consolidated Statements of Income. This settlement required us to remeasure the remaining net pension obligations of the ADPP. As a result, approximately $72 million of additional net pension obligations with a corresponding increase in actuarial losses recorded in Accumulated other comprehensive loss was recognized primarily due to lower discount rates that were in effect when the plan was remeasured.

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

| | Pension Benefits | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended | | | | Nine Months Ended | | | |
| | October 1, 2016 | | October 3, 2015 | | October 1, 2016 | | October 3, 2015 | |
| (In millions) | U.S. | Int l | U.S. | Int l | U.S. | Int l | U.S. | Int l |
| Service cost | $ .1 | $ 3.5 | $ .1 | $ 3.3 | $ .3 | $ 10.4 | $ .3 | $ 10.3 |
| Interest cost | 8.1 | 4.1 | 10.8 | 4.3 | 26.4 | 12.4 | 32.5 | 13.1 |
| Actuarial loss | .7 | | | | 2.4 | | | |
| Expected return on plan assets | (10.4) | (5.4) | (12.8) | (5.4) | (32.3) | (16.1) | (38.6) | (16.2) |
| Recognized net actuarial loss | 4.9 | 1.7 | 5.2 | 2.4 | 14.1 | 5.3 | 15.4 | 7.2 |
| Amortization of prior service cost (credit) | .3 | | .2 | | .9 | (.2) | .8 | (.1) |
| Recognized loss on settlements(1) | | | | | 41.4 | | | 3.8 |
| Net periodic benefit cost | $ 3.7 | $ 3.9 | $ 3.5 | $ 4.6 | $ 53.2 | $ 11.8 | $ 10.4 | $ 18.1 |

(1)In 2016, we recognized a loss on settlements related to our U.S. pension plan as a result of making the lump-sum pension payments described above; in 2015, we recognized a loss on settlements related to pension plans in Germany and France as a result of the sale of a product line in our RBIS reportable segment. These losses on settlements were recorded in Other expense, net in the unaudited Condensed Consolidated Statements of Income.

| | U.S. Postretirement Health Benefits | | | |
|---|---|---|---|---|
| | Three Months Ended | | Nine Months Ended | |
| (In millions) | October 1, 2016 | October 3, 2015 | October 1, 2016 | October 3, 2015 |
| Interest cost | $ | $ .1 | $ .1 | $ .2 |
| Recognized net actuarial loss | .5 | .5 | 1.3 | 1.6 |
| Amortization of prior service credit | (.9) | (.8) | (2.5) | (2.4) |
| Net periodic benefit credit | $ (.4) | $ (.2) | $ (1.1) | $ (.6) |

**Note 7. Research and Development**

Research and development expense from continuing operations was $22.4 million and $67.4 million for the three and nine months ended October 1, 2016, respectively, and $22.2 million and $70.6 million for the three and nine months ended October 3, 2015, respectively. This expense was included in Marketing, general and administrative expense in the unaudited Condensed Consolidated Statements of Income.

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

***Equity Awards***

Stock-based compensation expense from continuing operations was $6 million and $20.1 million for the three and nine months ended October 1, 2016, respectively, and $5.2 million and $18.4 million for the three and nine months ended October 3, 2015, respectively. This expense was included in Marketing, general and administrative expense in the unaudited Condensed Consolidated Statements of Income.

As of October 1, 2016, we had approximately $44 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 period of approximately two years.

***Cash Awards***

Compensation expense from continuing operations related to long-term incentive units was $7 million and $21.7 million for the three and nine months ended October 1, 2016, respectively, and $1.4 million and $16.7 million for the three and nine months ended October 3, 2015, respectively. This expense was included in Marketing, general and administrative expense in the unaudited Condensed Consolidated Statements of Income.

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**Note 9. Cost Reduction Actions**

***2015/2016 Actions***

During the nine months ended October 1, 2016, we recorded $15 million in restructuring charges, net of reversals, related to restructuring actions initiated during the third quarter of 2015 that we expect to continue through 2016 ( 2015/2016 Actions ). These charges consisted of severance and related costs for the reduction of approximately 310 positions, lease cancellation costs, and asset impairment charges.

During fiscal year 2015, we recorded $26.1 million in restructuring charges, net of reversals, related to our 2015/2016 Actions. These charges consisted of severance and related costs for the reduction of approximately 430 positions, lease cancellation costs, and asset impairment charges.

No employees impacted by our 2015/2016 Actions taken through October 1, 2016 remained employed with us as of such date. We expect charges and payments related to these actions to be substantially completed in 2016.

***2014/2015 Actions***

During fiscal year 2015, we recorded $33.4 million in restructuring charges, net of reversals, related to restructuring actions we initiated in 2014 that continued through the second quarter of 2015 ( 2014/2015 Actions ). These charges consisted of severance and related costs for the reduction of approximately 605 positions, lease cancellation costs, and asset impairment charges.

Approximately 25 employees impacted by our 2014/2015 Actions remained employed with us as of October 1, 2016. We expect charges and payments related to these actions to be substantially completed in 2016.

Accruals for severance and related costs and lease cancellation costs were included in Other current liabilities in the unaudited Condensed Consolidated Balance Sheets. Asset impairment charges were based on the estimated market value of the assets, less selling costs, if applicable. Restructuring charges were included in Other expense, net in the unaudited Condensed Consolidated Statements of Income.

During the nine months ended October 1, 2016, restructuring charges and payments were as follows:

| (In millions) | **Accrual at January 2, 2016** | **Charges (Reversals), net** | **Cash Payments** | **Non-cash Impairment** | **Foreign Currency Translation** | **Accrual at October 1, 2016** |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| **2015/2016 Actions** | | | | | | |
| Severance and related costs | $ 8.4 | $ 11.1 | $ (18.8) | $ | $ .2 | $ .9 |
| Asset impairment charges | | 2.9 | | (2.9) | | |
| Lease cancellation costs | .2 | 1.0 | (.8) | | | .4 |
| | | | | | | |
| **2014/2015 Actions** | | | | | | |
| Severance and related costs | 4.8 | (.3) | (3.3) | | | 1.2 |
| | | | | | | |
| **Prior actions** | | | | | | |
| Severance and related costs | .7 | (.1) | | | | .6 |
| Total | $ 14.1 | $ 14.6 | $ (22.9) | $ (2.9) | $ .2 | $ 3.1 |

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The table below shows the total amount of restructuring charges incurred by reportable segment and Corporate:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In millions) | October 1, 2016 | October 3, 2015 | October 1, 2016 | October 3, 2015 |
| **Restructuring charges by reportable segment and Corporate** | | | | |
| Pressure-sensitive Materials | $ .7 | $ 1.1 | $ 7.5 | $ 15.5 |
| Retail Branding and Information Solutions | 1.5 | 3.7 | 6.6 | 19.4 |
| Vancive Medical Technologies | .4 | 1.7 | .5 | 3.4 |
| Corporate | | .1 | | 2.2 |
| | $ 2.6 | $ 6.6 | $ 14.6 | $ 40.5 |

**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 enter into interest rate contracts to help manage our exposure to certain interest rate fluctuations. 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.

As of October 1, 2016, the aggregate U.S. dollar equivalent notional value of our outstanding commodity contracts and foreign exchange contracts was $2.3 million and $1.5 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 designate 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 October 1, 2016:

| | Asset | | Liability | |
|---|---|---|---|---|
| (In millions) | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |