Avery Dennison Corp
Form 10-Q
August 07, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2012.

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____________ to ____________

Commission file number: 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.)
150 North Orange Grove Boulevard Pasadena, California	**91103**
(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 ¨

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 ¨

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

x Large accelerated filer	¨ Accelerated filer	¨ Non-accelerated filer (Do not check if a smaller reporting company)	¨ Smaller reporting company

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

Number of shares of $1 par value common stock outstanding as of July 28, 2012: 101,463,816

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AVERY DENNISON CORPORATION

FISCAL SECOND QUARTER 2012 FORM 10-Q QUARTERLY REPORT

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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, expect, guidance, intend, may, might, objective, plan, potential, project, seek, shall, should, target, will, woul 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 actual results to differ materially from expected results, performance or achievements of the Company 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 the Company s Annual Report on Form 10-K for the year ended December 31, 2011, 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 in the regions in which we operate; fluctuations in cost and availability of raw materials; ability of the Company to generate sustained productivity improvement; ability of the Company to achieve and sustain targeted cost reductions; impact of competitive products and pricing; loss of significant contract(s) or customer(s); 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 foreign currency exchange rates and other risks associated with foreign operations; integration of acquisitions and completion of dispositions and divestitures; 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; volatility of financial markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; ability of the Company 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 the Company s customers and suppliers; acts of war, terrorism, and natural disasters; and other factors.

The Company believes that the most significant risk factors that could affect its financial performance in the near-term include: (1) the impact of economic conditions on underlying demand for the Company s products; (2) 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; and (3) competitors actions, including pricing, expansion in key markets, and product offerings.

The Company s forward-looking statements are made only as of the date hereof. By making these forward-looking statements, the Company assumes no duty to update them to reflect new, changed or unanticipated events or circumstances, other than as may be required by law.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

(*Unaudited*)

(Dollars in millions, except per share data)	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 161.4	$ 178.0
Trade accounts receivable, less allowances of $44.0 and $43.3 at June 30, 2012 and December 31, 2011, respectively	982.0	877.1
Inventories, net	521.6	475.1
Current deferred and refundable income taxes	114.1	117.4
Assets held for sale	511.2	454.9
Other current assets	111.5	116.3
Total current assets	2,401.8	2,218.8
Property, plant and equipment	2,825.7	2,868.0
Accumulated depreciation	(1,813.4)	(1,788.6)
Property, plant and equipment, net	1,012.3	1,079.4
Goodwill	751.6	759.3
Other intangibles resulting from business acquisitions, net	145.9	161.2
Non-current deferred income taxes	307.5	322.3
Other assets	438.8	431.7
	$ 5,057.9	$ 4,972.7
Liabilities and Shareholders Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 671.5	$ 227.1
Accounts payable	787.3	736.5
Current deferred and payable income taxes	60.4	81.8
Liabilities held for sale	165.0	154.5
Other current liabilities	438.1	447.2
Total current liabilities	2,122.3	1,647.1
Long-term debt	703.2	954.2
Long-term retirement benefits and other liabilities	531.0	587.1
Non-current deferred and payable income taxes	130.9	125.8
Commitments and contingencies (see Note 15)		
Shareholders equity:		
Common stock, $1 par value, authorized 400,000,000 shares at June 30, 2012 and December 31, 2011; issued 124,126,624 shares at June 30, 2012 and December 31, 2011; outstanding 102,339,587 shares and 106,269,919 shares at June 30, 2012 and December 31, 2011, respectively	124.1	124.1
Capital in excess of par value	785.5	778.6
Retained earnings	1,859.4	1,810.5
Treasury stock at cost, 21,772,037 shares and 17,841,705 shares at June 30, 2012 and December 31, 2011, respectively	(904.9)	(791.5)
Accumulated other comprehensive loss	(293.6)	(263.2)
Total shareholders equity	1,570.5	1,658.5
	$ 5,057.9	$ 4,972.7

See Notes to Unaudited Condensed Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME

(*Unaudited*)

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	**June 30, 2012**	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**
Net sales	$ 1,532.3	$ 1,544.8	$ 3,015.6	$ 3,071.3
Cost of products sold	1,132.5	1,148.4	2,228.2	2,275.4
Gross profit	399.8	396.4	787.4	795.9
Marketing, general and administrative expense	292.7	283.3	589.2	598.2
Interest expense	18.6	17.7	36.9	35.4
Other expense, net	11.5	8.3	19.2	12.6
Income from continuing operations before taxes	77.0	87.1	142.1	149.7
Provision for income taxes	25.7	34.0	44.5	59.7
Income from continuing operations	51.3	53.1	97.6	90.0
Income from discontinued operations, net of tax	12.9	20.2	10.5	28.1
Net income	$ 64.2	$ 73.3	$ 108.1	$ 118.1
Per share amounts:				
Net income per common share:				
Continuing operations	$ .50	$ .50	$ .93	$ .85
Discontinued operations	.12	.19	.10	.27
Net income per common share	$ .62	$ .69	$ 1.03	$ 1.12
Net income per common share, assuming dilution:				
Continuing operations	$ .49	$ .50	$ .93	$ .84
Discontinued operations	.13	.19	.10	.27
Net income per common share, assuming dilution	$ .62	$ .69	$ 1.03	$ 1.11
Dividends	$ .27	$ .25	$ .54	$ .50
Average shares outstanding:				
Common shares	103.4	105.7	104.6	105.6
Common shares, assuming dilution	104.3	106.9	105.3	106.8

See Notes to Unaudited Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(*Unaudited*)

	Three Months Ended		Six Months Ended	
(In millions)	**June 30, 2012**	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**
Net income	$ 64.2	$ 73.3	$ 108.1	$ 118.1
Other comprehensive income, before tax:				
Foreign currency translation adjustment	(79.5)	1.6	(37.8)	65.7
Net actuarial loss, prior service cost and net transition asset	3.8	3.2	7.6	7.8
Effective portion of gains or losses on cash flow hedges	2.0	.6	3.8	4.6
Other comprehensive (loss) income, before tax	(73.7)	5.4	(26.4)	78.1
Income tax expense related to items of other comprehensive income	2.0	1.3	4.0	4.4
Other comprehensive (loss) income, net of tax	(75.7)	4.1	(30.4)	73.7
Total comprehensive (loss) income, net of tax	$ (11.5)	$ 77.4	$ 77.7	$ 191.8

See Notes to Unaudited Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(*Unaudited*)

(In millions)	Six Months Ended June 30, 2012	Six Months Ended July 2, 2011
Operating Activities		
Net income	$ 108.1	$ 118.1
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	75.2	84.6
Amortization	35.4	38.7
Provision for doubtful accounts	9.4	7.4
Asset impairment and net loss on sale and disposal of assets	6.3	8.5
Stock-based compensation	21.4	20.7
Other non-cash expense and loss	21.1	23.4
Other non-cash income and gain	(.1)	(1.9)
Changes in assets and liabilities and other adjustments	(235.8)	(394.7)
Net cash provided by (used in) operating activities	41.0	(95.2)
Investing Activities		
Purchases of property, plant and equipment, net	(39.9)	(53.1)
Purchases of software and other deferred charges	(19.9)	(16.1)
Proceeds from sale of product line	.8	
Proceeds from sales (purchases) of investments, net	4.2	(.7)
Net cash used in investing activities	(54.8)	(69.9)
Financing Activities		
Net increase in borrowings (maturities of 90 days or less)	195.2	230.7
Payments of debt (maturities longer than 90 days)	(.8)	(1.0)
Dividends paid	(56.3)	(53.4)
Share repurchases	(142.2)	(13.5)
Proceeds from exercise of stock options, net	4.7	3.0
Other	(2.2)	(5.4)
Net cash (used in) provided by financing activities	(1.6)	160.4
Effect of foreign currency translation on cash balances	(1.2)	2.6
Decrease in cash and cash equivalents	(16.6)	(2.1)
Cash and cash equivalents, beginning of year	178.0	127.5
Cash and cash equivalents, end of period	$ 161.4	$ 125.4

See Notes to Unaudited Condensed Consolidated Financial Statements

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include normal recurring adjustments necessary for a fair statement of the interim results of Avery Dennison Corporation (the Company), a Delaware corporation. 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. The unaudited condensed consolidated financial statements do not contain certain information included in the audited consolidated financial statements and notes thereto in the Company s 2011 Annual Report on Form 10-K, which should be read in conjunction with this Quarterly Report on Form 10-Q.

Fiscal Period

The second quarters of 2012 and 2011 consisted of thirteen-week periods ending June 30, 2012 and July 2, 2011, respectively. The interim results of operations are not necessarily indicative of future financial results.

Note 2. Discontinued Operations

In December 2011, the Company signed a definitive agreement to sell its Office and Consumer Products (OCP) business to 3M Company (3M) for gross cash proceeds of $550 million, subject to adjustment in accordance with the terms of the agreement. This business comprises substantially all of the Company s previously reported OCP segment. The transaction is subject to customary closing conditions and regulatory approvals, and is expected to close in the second half of 2012. The Company has classified the operating results from this business, together with certain costs associated with the divestiture transaction, as discontinued operations in the unaudited Consolidated Statements of Income for the three and six months ended June 30, 2012 and July 2, 2011. Assets and liabilities of this business are classified as held for sale in the unaudited Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011. The operating results of the retained portion of the previously reported OCP segment, which are not significant, are included in other specialty converting businesses for all periods presented.

As part of the purchase and sale agreement, certain transitional services will be provided primarily by the Company to 3M for up to 15 months after closing. The purpose of these services is to provide short-term assistance to 3M in assuming the operations of the OCP business. Additionally, the Company agreed to enter into a supply agreement with 3M at closing, which would involve the ongoing purchase of certain pressure-sensitive label stock products by 3M from the Company for at least three years after closing. While both agreements are expected to generate revenues and cash flows for the Company, the estimated amounts and the Company s continuing involvement in the OCP operations are not expected to be significant to the Company as a whole.

The operating results of these discontinued operations were as follows:

	Three Months Ended		**Six Months Ended**	
(In millions)	**June 30, 2012**	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**
Net sales	$ 179.2	$ 202.9	$ 336.0	$ 358.2
Income before taxes	$ 18.6	$ 23.7	$ 15.6	$ 28.5
Provision for income taxes	5.7	3.5	5.1	.4
Income from discontinued operations, net of tax	$ 12.9	$ 20.2	$ 10.5	$ 28.1

Net sales from the Company s continuing operations to the OCP business were $19.2 million and $41.2 million for the three and six months ended June 30, 2012, respectively, and $22 million and $44.5 million for the three and six months ended July 2, 2011, respectively. These sales have been included in Net sales in the unaudited Consolidated Statements of Income.

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The carrying values of the major classes of assets and liabilities related to these discontinued operations were as follows:

(In millions)	June 30, 2012	December 31, 2011
Assets		
Trade accounts receivable, net	$ 132.9	$ 117.7
Inventories, net	93.9	50.9
Other current assets	8.0	5.9
Total current assets	234.8	174.5
Property, plant and equipment, net	75.1	74.2
Goodwill	163.1	166.0
Other intangibles resulting from business acquisitions, net	31.2	32.9
Other assets	7.0	7.3
	$ 511.2	$ 454.9
Liabilities		
Short-term borrowings	$ .9	$ 1.1
Accounts payable	55.5	34.7
Other current liabilities	96.0	105.1
Total current liabilities	152.4	140.9
Non-current liabilities	12.6	13.6
	$ 165.0	$ 154.5

Note 3. Inventories

Inventories consisted of:

(In millions)	June 30, 2012	December 31, 2011
Raw materials	$ 237.7	$ 216.2
Work-in-progress	159.1	136.4
Finished goods	181.5	177.6
Inventories at lower of FIFO cost or market (approximates replacement cost)	578.3	530.2
Inventory reserves	(56.7)	(55.1)
Inventories, net	$ 521.6	$ 475.1

Note 4. Goodwill and Other Intangibles Resulting from Business Acquisitions

Goodwill

Changes in the net carrying amount of goodwill for the first six months of 2012, by reportable segment and other businesses, were as follows:

(In millions)	Pressure-sensitive Materials	Retail Branding and Information Solutions	Other specialty converting businesses	Total
Balance as of December 31, 2011				
Goodwill, gross	$ 336.7	$ 1,239.1	$ 3.5	$ 1,579.3
Accumulated impairment losses		(820.0)		(820.0)

Goodwill	336.7	419.1	3.5	759.3
Acquisition adjustments		.1		.1
Translation adjustments	(7.6)	(.1)	(.1)	(7.8)
Balance as of June 30, 2012				
Goodwill, gross	329.1	1,239.1	3.4	1,571.6
Accumulated impairment losses		(820.0)		(820.0)
Goodwill	$ 329.1	$ 419.1	$ 3.4	$ 751.6

Indefinite-Lived Intangible Assets

The carrying value of indefinite-lived intangible assets resulting from business acquisitions, consisting of trade names and trademarks, was $18 million at June 30, 2012 and December 31, 2011.

Finite-Lived Intangible Assets

The following table sets forth the Company s finite-lived intangible assets resulting from business acquisitions at June 30, 2012 and December 31, 2011, which continue to be amortized:

	June 30, 2012			December 31, 2011		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 232.4	$ 128.8	$ 103.6	$ 233.2	$ 117.2	$ 116.0
Patents and other acquired technology	49.0	31.9	17.1	49.0	29.7	19.3
Trade names and trademarks	24.8	20.9	3.9	25.4	21.5	3.9
Other intangibles	12.2	8.9	3.3	12.2	8.2	4.0
Total	$ 318.4	$ 190.5	$ 127.9	$ 319.8	$ 176.6	$ 143.2

Amortization expense from continuing operations for finite-lived intangible assets resulting from business