

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[AVERY DENNISON CORPORATION](#)

[Table of Contents](#)

2013 10-K

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-K**

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

For the fiscal year ended December 28, 2013

Commission file number 1-7685

**AVERY DENNISON CORPORATION**

*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware** **95-1492269**  
*(State of Incorporation)* *(I.R.S. Employer Identification No.)*

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

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

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of Each Class</u>	<u>Name of each exchange on which registered</u>
Common stock, \$1 par value	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**  
**Not applicable.**

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  No  o

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Act. Yes  No  o

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No  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  No  o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  o  
(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 Act). Yes  No

The aggregate market value of voting and non-voting common equity held by non-affiliates as of June 29, 2013, the last business day of the registrant's most recently completed second fiscal quarter, was \$4,184,795,586.

Number of shares of common stock, \$1 par value, outstanding as of February 22, 2014, the end of the registrant's most recent fiscal month: 95,999,669.

The following documents are incorporated by reference into the Parts of this Form 10-K below indicated:

<u>Document</u>	<u>Incorporated by reference into:</u>
Portions of Annual Report to Shareholders for fiscal year ended December 28, 2013	<b>Parts I, II</b>
Portions of Definitive Proxy Statement for Annual Meeting of Stockholders to be held on April 24, 2014	<b>Parts III, IV</b>

---

---

**AVERY DENNISON CORPORATION**  
**FISCAL YEAR 2013 ANNUAL REPORT ON FORM 10-K**

**TABLE OF CONTENTS**

	<u>Page</u>
<b><u>PART I</u></b>	
<u>Item 1.</u> <u>Business</u>	<u>1</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>5</u>
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	<u>13</u>
<u>Item 2.</u> <u>Properties</u>	<u>14</u>
<u>Item 3.</u> <u>Legal Proceedings</u>	<u>14</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>15</u>
<b><u>PART II</u></b>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>16</u>
<u>Item 6.</u> <u>Selected Financial Data</u>	<u>16</u>
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>16</u>
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	<u>17</u>
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>17</u>
<u>Item 9A.</u> <u>Controls and Procedures</u>	<u>17</u>
<u>Item 9B.</u> <u>Other Information</u>	<u>17</u>
<b><u>PART III</u></b>	
<u>Item 10.</u> <u>Directors, Executive Officers, and Corporate Governance</u>	<u>18</u>
<u>Item 11.</u> <u>Executive Compensation</u>	<u>20</u>
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>20</u>
<u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>20</u>
<u>Item 14.</u> <u>Principal Accounting Fees and Services</u>	<u>20</u>
<b><u>PART IV</u></b>	
<u>Item 15.</u> <u>Exhibits, Financial Statement Schedules</u>	<u>21</u>
<u>Signatures</u>	<u>22</u>
<u>Power of Attorney</u>	<u>23</u>

---

## PART I

### Item 1. BUSINESS

#### Company Background

Avery Dennison Corporation ("Avery Dennison," the "Company," "Registrant," or "Issuer," and which may be referred to as "we" or "us") was incorporated in Delaware in 1977 as Avery International Corporation, the successor corporation to a California corporation of the same name that had been incorporated in 1946. In 1990, we merged one of our subsidiaries into Dennison Manufacturing Company ("Dennison"), as a result of which Dennison became our wholly-owned subsidiary and in connection with which our name was changed to Avery Dennison Corporation. You can learn more about us by visiting our website at [www.averydennison.com](http://www.averydennison.com). Our website address provided in this Form 10-K is not intended to function as a hyperlink and the information on our website is not, nor should it be considered, part of this report or incorporated by reference in this report.

#### Business Overview and Reportable Segments

Our businesses include the production of pressure-sensitive materials and a variety of tickets, tags, labels and other converted products. Some pressure-sensitive materials are sold to label printers and converters that "convert" the materials into labels and other products through embossing, printing, stamping and die-cutting. Some are sold by us in converted form as tapes and reflective sheeting. We also manufacture and sell a variety of other converted products and items not involving pressure-sensitive components, such as fasteners, tickets, tags, radio-frequency identification ("RFID") inlays and tags, and imprinting equipment and related services, which we market to retailers and apparel manufacturers and brand owners.

Our reportable segments in 2013 were:

- Pressure-sensitive Materials ("PSM"); and
- Retail Branding and Information Solutions ("RBIS").

In addition to our reportable segments, our other specialty converting businesses category is comprised of Vancive Medical Technologies™ ("Vancive"), a producer of medical products and solutions.

On January 29, 2013, we entered into an agreement to sell our Office and Consumer Products (OCP) and Designed and Engineered Solutions (DES) businesses to CCL Industries Inc. ("CCL") for a total purchase price of \$500 million. On July 1, 2013, we completed the sale 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 indemnification provisions, including for breaches of certain representations, warranties and covenants, 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 where the OCP and DES businesses operated. The OCP and DES businesses are reported as discontinued operations in this Form 10-K. Prior to this divestiture, the OCP business was reported as a reportable segment and the DES business was included in our other specialty converting businesses.

In 2013, the PSM and RBIS segments contributed approximately 73% and 26%, of our total sales, respectively.

In 2013, international operations constituted a substantial majority of our business, representing approximately 75% of our sales. As of December 28, 2013, we operated approximately 180 manufacturing and distribution facilities worldwide, employed approximately 26,000 persons, and had operations in over 50 countries.

## Pressure-sensitive Materials Segment

Our PSM segment manufactures and sells Fasson®, JAC®, and Avery Dennison®-brand pressure-sensitive label and packaging materials, Avery Dennison®-brand graphics and graphic films, Avery Dennison®-brand reflective products, Avery Dennison®-brand tapes, and performance polymers (largely used to manufacture pressure-sensitive materials). The business of this segment tends not to be seasonal, except for certain outdoor graphics and reflective products and operations in Europe. Pressure-sensitive materials consist primarily of papers, plastic films, metal foils and fabrics, which are coated with company-developed and purchased adhesives, and then laminated with specially coated backing papers and films. They are sold in roll or sheet form with either solid or patterned adhesive coatings, and are available in a wide range of face materials, sizes, thicknesses and adhesive properties. These label and packaging materials are sold worldwide to label printers and converters for labeling, decorating, fastening, electronic data processing and special applications in the home and personal care, beer and beverage, durables, pharmaceutical, wine and spirits, and food market segments.

A pressure-sensitive, or self-adhesive, material is one that adheres to a surface by press-on contact. It generally consists of four layers: a face material, which may be paper, metal foil, plastic film or fabric; an adhesive, which may be permanent or removable; a release coating; and a backing material to protect the adhesive against premature contact with other surfaces, which can also serve as the carrier for supporting and dispensing individual labels. When the products are to be used, the release coating and protective backing are removed, exposing the adhesive, and the label or other face material is pressed or rolled into place.

Because self-adhesive materials are easy to apply without the need for adhesive activation, the use of self-adhesive materials can provide cost savings compared with other materials that require heat- or moisture-activated adhesives. When used in package decoration applications, the visual appeal of self-adhesive materials helps foster increased sales of the product on which the materials are applied. Self-adhesive materials are also used to convey a variety of variable information, such as bar codes for mailing or weight and price information for packaged meats and other foods. Self-adhesive materials provide consistent and versatile adhesion and are available in a large selection of materials in nearly every size, shape and color.

Our graphics and reflective businesses sell a variety of films and other products to the architectural, commercial sign, digital printing, and other related market segments. We also sell durable cast and reflective films to the construction, automotive, and fleet transportation market segments; and reflective films for traffic and safety applications. We provide sign shops, commercial printers and designers a broad range of pressure-sensitive materials to enable the creation of impactful and informative brand and decorative graphics. We have an array of pressure-sensitive vinyl and specialty materials designed for digital imaging, screen printing and sign cutting applications.

Our performance tapes business manufactures and sells coated tapes and adhesive transfer tapes for use in non-mechanical fastening, bonding and sealing systems in various industries. These tapes are sold to industrial original equipment manufacturers, converters, and disposable diaper producers worldwide in roll form and are available in a wide range of face materials, sizes, thicknesses and adhesive properties.

Performance polymer products include a range of solvent- and emulsion-based acrylic polymer adhesives, protective coatings and other polymer additives for internal use, as well as for sale to other companies.

In the PSM segment, our larger competitors in our label and packaging materials business include Raflatac, a subsidiary of UPM-Kymmene Corporation; MacTac, a division of Bemis Company; Ritrama, Inc.; Flexcon Corporation, Inc.; and various regional firms. For graphics and reflective products, our largest competitors are 3M Company ("3M") and the Orafol Group. For performance tapes, our primary competitors include 3M, Tesa-SE, and Nitto Denko Corporation. We believe that entry of

competitors into the field of pressure-sensitive adhesives and materials is limited by technical knowledge and capital requirements. We believe that our technical expertise, relative size and scale of operations, ability to serve our customers with a broad line of quality products and service programs, distribution and brand strength, and development and commercialization of new products are among the more significant advantages in maintaining and further developing our competitive position.

### **Retail Branding and Information Solutions Segment**

Our RBIS segment designs, manufactures and sells a wide variety of branding and information solutions to retailers, brand owners, apparel manufacturers, distributors and industrial customers on a global basis. The business of this segment tends to be seasonal, with higher volume generally in advance of the spring, fall (back-to-school), and holiday shipping periods.

The branding solutions of RBIS include creative services, brand embellishments, graphic tickets, tags, and labels, and sustainable packaging. RBIS information solutions include RFID-enabled inventory accuracy, visibility and loss prevention solutions; price ticketing and marking; care, content, and country of origin compliance solutions; and brand protection and security solutions.

In the RBIS segment, our primary competitors include Checkpoint Systems, Inc., R-pac International Corporation, and SML Group Limited. We believe that our global distribution network, reliable service, product quality and consistency, and ability to serve our customers consistently wherever they manufacture with comprehensive solutions are the key advantages in maintaining and further developing our competitive position.

### **Other specialty converting businesses**

The other specialty converting businesses category consists of Vancive. This business manufactures an array of pressure-sensitive adhesive products for surgical, wound care, ostomy, and electromedical applications. These products are sold primarily to medical supply and device manufacturers and healthcare providers. Vancive continues to make advances, including the development of Metria™ wearable sensors and Benehold™ proprietary adhesive technology.

Vancive competes with a variety of specialized medical products providers ranging from start-ups to multinational companies. We believe that entry of competitors into the medical solutions business is limited by capital and technical requirements. We believe that our ability to serve our customers with quality, cost-effective products and newly-developed and commercialized products are among the more significant factors in developing our competitive position.

### **Segment Financial Information**

Certain financial information on our reporting segments and other specialty converting businesses for fiscal years 2013, 2012, and 2011 appears in Note 13, "Segment Information," in the Notes to Consolidated Financial Statements contained in our 2013 Annual Report to Shareholders (our "2013 Annual Report") and is incorporated herein by reference.

### **Foreign Operations**

Certain financial information about our geographic areas for fiscal years 2013, 2012, and 2011 appears in Note 13, "Segment Information," in the Notes to Consolidated Financial Statements contained in our 2013 Annual Report and is incorporated herein by reference.

## **Working Capital**

Certain financial information about our working capital for fiscal years 2013, 2012, and 2011 appears in the "Financial Condition" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2013 Annual Report and is incorporated herein by reference.

## **Research and Development**

Many of our current products are the result of our research and development efforts. Our research efforts are directed primarily toward developing new products and operating techniques and improving product performance, often in close association with customers. These efforts include patent and product development work relating to printing and coating technologies, as well as adhesive, release and ink chemistries. Additionally, we focus on research projects related to RFID in our RBIS segment and medical technologies in Vancive, for both of which we hold and license a number of patents.

Our expenses for research and development were \$96 million in 2013, \$98.6 million in 2012, and \$93.8 million in 2011.

## **Patents, Trademarks and Licenses**

The loss of individual patents or licenses would not be material to us taken as a whole, nor to our operating segments individually. Our principal trademarks are Avery Dennison, our logo, and Fasson. We believe these trademarks are significantly strong in the market segments in which our products compete.

## **Manufacturing and Environmental Matters**

We use various raw materials, primarily paper, plastic films and resins, as well as specialty chemicals purchased from various commercial and industrial sources, which are subject to price fluctuations. Although shortages can occur from time to time, these raw materials are generally available.

We produce a majority of our self-adhesive materials using water-based emulsion and hot-melt adhesive technologies. Emissions from these operations contain small amounts of volatile organic compounds, which are regulated by agencies of federal, state, local and foreign governments. We continue to evaluate the use of alternative materials and technologies to minimize these emissions.

A portion of our manufacturing process for self-adhesive materials utilizes certain organic solvents which, unless controlled, could be emitted into the atmosphere. Emissions of these substances are regulated by agencies of federal, state, local and foreign governments. In connection with the maintenance and acquisition of certain manufacturing equipment, we invest in solvent capture and control units to assist in regulating these emissions.

We have developed adhesives and adhesive processing systems that minimize the use of solvents. Emulsion adhesives, hot-melt adhesives, and solventless and emulsion silicone systems have been installed in many of our facilities.

Based on current information, we do not believe that the cost of complying with applicable laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material effect upon our capital expenditures, consolidated financial position or results of operations.

For information regarding our potential responsibility for cleanup costs at certain hazardous waste sites, see "Legal Proceedings" (Part I, Item 3) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Part II, Item 7).

## Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed with, or furnished to, the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our investor website at [www.investors.averydennison.com](http://www.investors.averydennison.com) as soon as reasonably practicable after electronic filing with or furnishing to the SEC. We also make available on our website our (i) Amended and Restated Certificate of Incorporation, (ii) Amended and Restated Bylaws, (iii) Corporate Governance Guidelines, (iv) Code of Conduct, which applies to our directors, officers and employees, (v) Code of Ethics for the Chief Executive Officer and Senior Financial Officers, (vi) the charters of the Audit, Compensation and Executive Personnel, and Governance and Social Responsibility Committees of our Board of Directors, and (vii) Audit Committee Complaint Procedures for Accounting and Auditing Matters. These documents are also available free of charge in print to stockholders who request them by writing to: Corporate Secretary, Avery Dennison Corporation, 207 Goode Avenue, Glendale, California 91203.

## Item 1A. RISK FACTORS

The risks described below are not exhaustive. Should these risks actually occur, our business, including our results of operations, cash flows and financial condition, could suffer, which might cause the value of our securities to decline. Our ability to attain our goals and objectives is materially dependent on numerous factors and risks, including but not limited to, the following:

*The demand for our products is impacted by the effects of, and changes in, worldwide conditions, which could have a material adverse effect on our business.*

In 2013, approximately 75% of our sales were from international operations. We have operations in over 50 countries and our domestic and international operations are strongly influenced by matters beyond our control, including changes in political, social, economic and labor conditions, tax laws (including U.S. taxes on foreign subsidiaries), and international trade regulations (including tariffs), as well as the impact of these changes on the underlying demand for our products.

A decline in economic activity in the United States and other regions of the world could result in a material adverse effect on our business, including, among other things, reduced consumer spending, declines in asset valuations, diminished liquidity and credit availability, significant volatility in securities prices, credit rating downgrades, and fluctuations in foreign currency exchange rates. Declines in economic conditions in the United States, Europe, and Asia could adversely affect our customers, suppliers and businesses similar to ours. These declines could result in a variety of negative effects, including lower revenues, increased costs, lower gross margin percentages, increased allowances for doubtful accounts and/or write-offs of accounts receivable, and required recognition of impairments of capitalized assets, including goodwill and other intangibles. A decline in economic conditions, including the ongoing macroeconomic challenges in the United States and Europe and the debt crisis in certain countries in the European Union, could also have other material adverse effects on our business. In addition, uncertainty regarding the stability of global credit and financial markets and widespread financial and business disruptions caused by any future U.S. government shutdown or default by the U.S. on U.S. government obligations could cause significant volatility and disruption in the global and U.S. economies, which could adversely impact our business, including the availability and cost of supplies and materials and our ability to obtain financing at reasonable costs. We are not able to predict the duration and severity of adverse economic conditions in the U.S. and other countries.



*We are affected by competitive conditions and customer preferences. If we do not compete effectively, we could lose market share or reduce selling prices, adversely affecting our business.*

We are at risk that our competitors will expand in our key market segments and implement new technologies, enhancing their competitive position relative to ours. Competitors also may be able to offer additional products, services, lower prices, or other incentives that we cannot or would not offer or that would make our products less profitable. There can be no assurance that we will be able to compete successfully against current and future competitors.

We also are at risk with regard to changes in customer order patterns, such as changes in the levels of inventory maintained by customers and the timing of customer purchases, which may be affected by announced price changes, changes in our incentive programs, or changes in the customer's ability to achieve incentive goals. Changes in customers' preferences for our products can also affect the demand for our products. Decline in demand for our products could have a material adverse effect on our business.

*As a manufacturer, our sales and profitability are dependent upon the cost and availability of raw materials and energy, which are subject to price fluctuations, and our ability to control or pass on costs of raw materials and labor. Raw material cost increases could adversely affect our business.*

The pricing environment for raw materials used in our businesses could become challenging and volatile. Additionally, energy costs can be volatile and unpredictable. Inflationary and other increases in the costs of raw materials, labor and energy have occurred in the past, most recently in 2010 and 2011, and could recur. In addition, rules adopted by the SEC pursuant to Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requiring disclosure concerning the use of certain minerals that are mined from the Democratic Republic of Congo and adjoining countries ("Conflict Mineral Rules") could adversely affect the sourcing, supply and pricing of materials used in our products, particularly if the number of suppliers offering the minerals identified as "conflict free" is limited. Our performance depends in part on our ability to pass on cost increases for raw materials to customers by raising the selling prices for our products and improving productivity. Depending on market dynamics and the terms of customer contracts, our ability to recover these costs through increased pricing may be limited. Also, it is important for us to obtain timely delivery of materials, equipment, and other resources from suppliers, and to make timely delivery to customers. It is possible that any of our supplier relationships could be interrupted due to natural and other disasters or other events, or be terminated in the future. A disruption to our supply chain could adversely affect our sales and profitability, and any sustained interruption in our receipt of adequate supplies could have a material adverse effect on our business.

*Our future profitability may be adversely affected if we generate less productivity improvement than projected.*

We intend to continue efforts to reduce costs in many of our operations, including through facility closures and square footage reductions, headcount reductions, organizational restructuring, process standardization, and manufacturing relocation. However, the success of these efforts is not assured and lower levels of productivity could reduce profitability. In addition, cost reduction actions could expose us to production risk, loss of sales and employee turnover.

*Foreign currency exchange rates, and fluctuations in those rates, may affect our business.*

Fluctuations in currencies can cause transaction, translation and other losses, which could negatively impact our sales and profitability. Margins on sales of our products in foreign countries could be materially and adversely affected by foreign currency exchange rate fluctuations.

We monitor our foreign currency exposures and may, from time to time, use hedging instruments to mitigate exposure to changes in foreign currencies. Hedging activities may only offset a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place.

Additionally, concerns regarding the short- and long-term stability of the euro and its ability to serve as a single currency could lead individual countries to revert, or threaten to revert, to their former local currencies, potentially dislocating the euro. If this were to occur, the assets we hold in a country that re-introduces its local currency could be significantly devalued and the demand and pricing strategy for our products could be adversely impacted given the introduction of additional currencies. Furthermore, if it were to become necessary for us to conduct business in additional currencies, we could be subject to additional earnings volatility as amounts in these currencies are translated into U.S. dollars.

*We have acquired companies and may continue to acquire other companies. Acquisitions come with significant risks and uncertainties, including those related to integration, technology and personnel.*

To grow our product lines and expand into new markets, we have made acquisitions in the past and may do so in the future. Various risks, uncertainties, and costs are associated with acquisitions. Effective integration of systems, controls, objectives, personnel, product lines, market segments, customers, suppliers, and production facilities and cost savings can be difficult to achieve, and the results of integration actions are uncertain, particularly given our geographically dispersed organization. In addition, we may not be able to retain key personnel of an acquired company or successfully execute integration strategies and achieve projected performance targets for the business segment into which an acquired company is integrated. Both before and after the closing of an acquisition, our business and those of the acquired company or companies may suffer due to uncertainty or diversion of management attention. There can be no assurance that any acquisitions will be successful and contribute to our profitability and we may not be able to identify new acquisition opportunities in the future.

*Divestures of any of our businesses or product lines could have a material adverse effect on our business.*

We continually evaluate the performance of our businesses and may determine to sell a business or product line. For example, we completed the sale of our OCP and DES businesses in 2013. Divestitures may result in significant write-offs or impairments of assets, including goodwill and other intangible assets. Divestitures may involve additional risks, including separation of operations, products and personnel, diversion of management attention, disruption to our other businesses and loss of key employees. We may not successfully manage these or other risks we may confront in divesting a business or product line, which could have a material adverse effect on our business.

*Increased difficulty in the collection of receivables as a result of economic conditions or other market factors could have a material adverse effect on our business.*

Although we have processes to administer credit granted to customers and believe our allowance for doubtful accounts is adequate, we have experienced, and in the future may experience, losses as a result of our inability to collect certain accounts receivable. The financial difficulties of a customer could result in reduced business with that customer. We may also assume higher credit risk relating to receivables of a customer experiencing financial difficulty. If these developments occur, our inability to shift sales to other customers or to collect on our accounts receivable from major customers could substantially reduce our income and have a material adverse effect on our business.

*Our inability to develop and successfully market new products and applications could compromise our competitive position.*

The timely introduction of new products and improvements in current products helps determine our success. Research and development is complex and uncertain and requires innovation and anticipation of market trends. We could focus on products that ultimately are not accepted by customers or we could suffer delays in production or launch of new products that could compromise our competitive position.

*We are subject to risks associated with the availability and coverage of various types of insurance.*

We have various types of insurance, including property, workers' compensation, general liability, and environmental liability. Insurance costs can be unpredictable and may adversely impact our business. We retain some portion of our insurable risks, and therefore, unforeseen or catastrophic losses in excess of insured limits could have a material adverse effect on our business.

*Changes in our tax rates could affect our future results.*

Our future effective tax rate could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws and regulations or their interpretation. There can be no assurance that these changes will not have a material adverse effect on our business.

*The amount of various taxes we pay is subject to ongoing compliance requirements and audits by federal, state and foreign tax authorities.*

We are subject to the regular examination of our income tax returns by various tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for taxes. Our estimate of the potential outcome of uncertain tax issues is subject to our assessment of relevant risks, facts, and circumstances existing at that time. We use these assessments to determine the adequacy of our provision for income taxes and other tax-related accounts. 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 materially impact our effective tax rate and/or have a material effect on our business.

*We have deferred tax assets that we may not be able to realize under certain circumstances.*

If we are unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowances against our deferred tax assets. This would result in an increase in our effective tax rate and could have a material adverse effect on our future results. In addition, changes in statutory tax rates may change our deferred tax asset or liability balances, with either a favorable or unfavorable impact on our effective tax rate. The computation and assessment of realizability of our deferred tax assets may also be materially impacted by new legislation or regulations.

*Potential tax liabilities and proposed changes in U.S. tax legislation could materially impact our business.*

Currently, approximately 75% of our sales are generated from customers located outside of the U.S., and a substantial portion of our assets and our employees are located outside of the U.S. We have not accrued income taxes and foreign withholding taxes on unrepatriated earnings for most non-U.S. subsidiaries, because we intend to indefinitely reinvest in the operations of those subsidiaries. Our results of operations and cash flows from operating activities may be materially and adversely affected if tax rules regarding unrepatriated earnings change, if changes in our domestic cash needs require us to repatriate foreign earnings for which no tax provisions have been made, or if the U.S. international tax rules change as part of comprehensive tax reform or other tax legislation.

*For us to remain competitive, it is important to recruit and retain highly-skilled employees. We also utilize various outsourcing arrangements for certain services, and related delays, resource availability, or errors by these service providers may lead to increased costs or disruption in our business.*

There is significant competition to recruit and retain skilled employees. Due to expansion in certain markets and our ongoing productivity efforts and recent employee reductions, it may be difficult for us to recruit and retain sufficient numbers of highly-skilled employees.

In addition, we have outsourced certain services to third-party service providers, and may outsource other services in the future to achieve cost savings and operating efficiencies. Service provider delays, resource availability, business issues or errors may lead to disruption in our businesses and/or increased costs. If we do not effectively develop, implement and manage outsourcing strategies, if third-party providers do not perform effectively and in a timely manner, or if we experience problems with transitioning work to a third party, we may not be able to achieve our expected cost savings, and may experience delays or incur additional costs to correct errors made by these service providers.

*Significant disruption to our information technology infrastructure could adversely impact our business.*

We rely on the efficient and uninterrupted operation of a large and complex information technology infrastructure to link our worldwide divisions. Like other information technology systems, ours is susceptible to a number of factors including, but not limited to, damage or interruptions resulting from a variety of causes such as obsolescence, natural disasters, power failures, human error, viruses, social engineering, phishing, or other malicious attacks and data security breaches. We upgrade and install new systems, which, if installed or programmed incorrectly or on a delayed timeframe, could cause delays or cancellations of customer orders, impede the manufacture or shipment of products, or disrupt the processing of transactions. We have implemented certain measures to reduce our risk related to system and network disruptions, but if a disruption were to occur, we could incur significant losses and remediation costs.

We maintain information necessary to conduct our business, including confidential and proprietary information as well as personal information regarding our customers and employees, in digital form. Data maintained in digital form is subject to the risk of intrusion, tampering and theft. We develop and maintain systems to prevent this from occurring, but the development and maintenance of these systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Moreover, despite our efforts, the possibility of intrusion, tampering and theft cannot be eliminated entirely. In addition, we provide confidential, proprietary and personal information to third parties when it is necessary to pursue business objectives. While we obtain assurances that these third parties will protect this information and, where appropriate, assess the protections employed by these third parties, there is a risk the confidentiality of data held by third parties may be compromised. If our data systems were compromised, our ability to conduct business could be impaired, we could lose profitable opportunities or the value of those opportunities could be diminished and we could lose revenue as a result of unlicensed use of our intellectual property. If personal information of our customers or employees were misappropriated, our reputation with our customers and employees could be injured, resulting in loss of business or morale, and we could incur costs to compensate our customers and employees or pay fines or take other action with respect to judicial or regulatory actions arising out of any such incident.

Additionally, we rely on services provided by third-party vendors for a significant portion of our information technology support, development and implementation, which makes our operations vulnerable to these vendors' failures to perform adequately or maintain effective internal controls.

*Miscalculation of our infrastructure needs could adversely impact our business.*

Projected requirements of our infrastructure investments may differ from actual levels if our volume growth is not as we anticipate. Our infrastructure investments generally are long term in nature, and it is possible that these investments may not generate the expected return due to changes in the marketplace, failures to complete implementation, or other factors. Significant changes from our expected need for and/or returns on infrastructure investments could adversely affect our business.

*Our reputation, sales, and earnings could be affected adversely if the quality of our products and services does not meet customer expectations.*

There are occasions when we manufacture products with quality issues resulting from defective materials, manufacturing, packaging or design. Many of these issues are discovered before shipping, causing delays in shipping, delays in the manufacturing process, and occasionally cancelled orders. When issues are discovered after shipment, they may result in additional shipping costs, discounts, refunds, and loss of future sales. Both pre-shipment and post-shipment quality issues could adversely impact our business and negatively impact our reputation.

*Because our products are sold by third parties, our business depends in part on the financial health of these parties.*

Our products are not sold only by us, but by third-party distributors and retailers as well. Some of our distributors also market products that compete with our products. Changes in the financial or business conditions or the purchasing decisions of these third parties or their customers could affect our business.

*We outsource some of our manufacturing. If there are significant changes in the quality control or financial or business condition of these outsourced manufacturers, our business could be negatively impacted.*

We manufacture most of our products, but we also occasionally use third-party manufacturers, for example, for specialty jobs or capacity overflow. Outsourced manufacturers reduce our ability to prevent product quality issues, late deliveries, customer dissatisfaction and compliance with customer requirements for labor standards. Because of possible quality issues and customer dissatisfaction, deficiencies in the performance of outsourced manufacturers could have a material adverse effect on our business.

*Changes in our business strategies may increase our costs and could affect the profitability of our businesses.*

As changes in our business environment occur, we may need to adjust our business strategies or restructure our operations or particular businesses. When these changes occur, we may incur costs to change our business strategy and may need to write down the value of selected assets. We also may need to invest in new businesses that have short-term returns that are negative or low and whose ultimate business prospects are uncertain. If any of these events were to occur, our costs could increase, our assets could be impaired, or our returns on new investments could be lower than prior to the change in strategy.

*If our indebtedness increases significantly or our credit ratings are downgraded, we may have difficulty obtaining acceptable short- and long-term financing.*

Our overall level of indebtedness and credit ratings are significant factors in our ability to obtain short- and long-term financing. Higher debt levels could negatively impact our ability to meet other business needs and could result in higher financing costs. The credit ratings assigned to us also impact the interest rates paid. A downgrade of our short-term credit ratings below our current levels could impact our ability to access the commercial paper markets and increase our borrowing costs. If our access to commercial paper markets were to become limited, our revolving credit facility and our other credit facilities would be available to meet our short-term funding requirements, if necessary. At December 28, 2013, our variable rate borrowings were \$73.9 million. Fluctuations in interest rates can increase borrowing costs and have a material adverse impact on our business.

*Our current and future debt covenants may limit our flexibility.*

Our credit facilities and the indentures governing our notes contain, and any future indebtedness of ours likely would contain, restrictive covenants that impose operating and financial restrictions on us. The restrictive covenants in our existing debt agreements and any future financing agreements may adversely

affect our ability to engage in certain business activities that may otherwise be in our best long-term interests.

*Additional financings may dilute the holdings of our current shareholders.*

In order to provide capital for the operation of our business, we may enter into additional financing arrangements. These arrangements may involve the issuance of new shares of preferred or common stock, convertible debt securities and/or warrants. Any of these issuances could result in a material increase in the number of shares of common stock outstanding, which would dilute the ownership interests of existing common shareholders. In addition, any new securities could contain provisions, such as priorities on distributions and voting rights, that could materially and adversely affect the value of our existing common stock.

*The level of returns on pension and postretirement plan assets and the actuarial assumptions used for valuation purposes could affect our earnings and cash flows in future periods. Changes in accounting standards and government regulations could also affect our pension and postretirement plan expense and funding requirements.*

We evaluate the assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension plan and other postretirement benefit plans in consultation with outside actuaries. In the event that we were to determine that changes are warranted in the assumptions used, such as the discount rate, expected long-term rate of return, or health care costs, our future pension and projected postretirement benefit expenses and funding requirements could increase or decrease. Because of changing market conditions or changes in the participant population, the actuarial assumptions that we use may differ from actual results, which could have a significant impact on our pension and postretirement liability and related costs. Funding obligations for each plan are determined based on the value of assets and liabilities on a specific date as required under relevant government regulations. Future pension funding requirements, and the timing of funding payments, could also be affected by future legislation or regulation.

*Our pension assets are significant and subject to market, interest and credit risk that may reduce their value.*

Changes in the value of our pension assets could materially adversely affect our earnings and cash flows. In particular, the value of our investments may decline due to increases in interest rates or volatility in the financial markets. Although we mitigate these risks by investing in high quality securities, ensuring adequate diversification of our investment portfolio and monitoring our portfolio's overall risk profile, the value of our investments may nevertheless decline.

*Our share price may be volatile.*

Changes in our stock price may affect our access to, or cost of financing from, capital markets and may affect our stock-based compensation arrangements, among other things. Our stock price, which has at times experienced substantial volatility, is influenced by changes in the overall stock market and demand for equity securities in general. Other factors, including our financial performance on a standalone basis and relative to our peers and competitors, as well as market expectations for our future performance, the level of perceived growth of our industries, and other company-specific factors, can also materially impact our share price. There can be no assurance that our stock price will not be volatile in the future.

*An impairment in the carrying value of goodwill could negatively impact our results of operations and net worth.*

Goodwill is initially recorded at fair value and is not amortized, but is reviewed for impairment annually (or more frequently if impairment indicators are present). We review goodwill for impairment by comparing the fair value of a reporting unit to its carrying value. In assessing fair value, we make estimates

and assumptions about sales, operating margins, growth rates, and discount rates based on our business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors. Goodwill valuations have been calculated primarily using an income approach based on the present value of future cash flows of each reporting unit. We could be required to evaluate the carrying value of goodwill prior to the annual assessment if we experience disruptions to our business, unexpected significant declines in operating results, divestiture of a significant component of our business or sustained market capitalization declines. These types of events could result in goodwill impairment charges in the future. Impairment charges could substantially affect our business in the periods of such charges.

*Adverse developments in legal proceedings, investigations and other legal, compliance and regulatory matters, including those involving product and trade compliance, and other matters, could impact us materially.*

Our financial results could be materially and adversely impacted by an unfavorable outcome to pending or future litigation and investigations, and other legal, compliance and regulatory matters, including, but not limited to, product and trade compliance and other matters. See "Legal Proceedings" (Part I, Item 3).

In addition, the new requirements set forth in the Conflict Mineral Rules required us to undertake due diligence efforts commencing in 2013 that we expect to continue in 2014, with initial disclosure requirements beginning in May 2014. We expect to incur costs associated with complying with these disclosure requirements, including for conducting diligence procedures to determine the sources of conflict minerals that may be used or necessary to the production of our products and, if applicable, potential changes to products, processes or sources of supply as a consequence of such verification activities. We have identified products in certain businesses in our RBIS segment and our other specialty converting businesses that include metals and minerals subject to the Conflict Mineral Rules. Our due diligence efforts to verify the origins of these metals and minerals are ongoing. Our reputation may be harmed if we are not able to sufficiently verify the origins for the minerals and metals used in our products through the due diligence procedures that we implement.

There can be no assurance that any investigation or litigation outcome will be favorable.

*We are required to comply with numerous environmental, health, and safety laws. The costs of complying with these laws could adversely impact our business.*

Due to the nature of our business, we are subject to environmental, health, and safety laws and regulations, including those related to the disposal of hazardous waste from our manufacturing processes. Compliance with existing and future environmental, health and safety laws could subject us to future costs or liabilities, impact our production capabilities, limit our ability to sell, expand or acquire facilities, and generally impact our business. We have accrued liabilities for the environmental clean-up of certain sites, including sites for which governmental agencies have designated us as a potentially responsible party, where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. See "Legal Proceedings" (Part I, Item 3). However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate currently identified sites and other sites that could be identified for cleanup in the future could be higher than the liabilities accrued.

*We are required to comply with anti-corruption laws and regulations of the U.S. government and various international jurisdictions, and our failure to comply with these laws and regulations could have a material adverse impact on our business.*

We are required to comply with the anti-corruption laws and regulations of the U.S. government and various international jurisdictions, such as the U.S. Foreign Corrupt Practices Act and the United

Kingdom's Bribery Act of 2010. Due to the international nature of our business, our failure to comply with these rules and regulations could expose us to liabilities.

*Infringing intellectual property rights of third parties or inadequately acquiring or protecting our intellectual property could harm our ability to compete or grow.*

Because our products involve complex technology and chemistry, we are involved from time to time in litigation involving patents and other intellectual property. Parties have filed, and in the future may file, claims against us alleging that we have infringed their intellectual property rights. If we were held liable for infringement, we could be required to pay damages, obtain licenses or cease making or selling certain products. There can be no assurance that licenses would be available on commercially reasonable terms or at all. The defense of these claims, whether or not meritorious, and the development of new technology could cause us to incur significant costs and divert the attention of management.

We also have valuable intellectual property upon which third parties may infringe. We attempt to protect and restrict access to our intellectual property and proprietary information by relying on the patent, trademark, copyright and trade secret laws of the U.S. and other countries, as well as non-disclosure agreements. However, it may be possible for a third party to obtain our information without our authorization, independently develop similar technologies, or breach a non-disclosure agreement entered into with us. In addition, many of the countries in which we operate do not have intellectual property laws that protect proprietary rights as fully as do laws in the U.S. The use of our intellectual property by someone else without our authorization could reduce or eliminate certain competitive advantages we have, cause us to lose sales or otherwise harm our business. Further, the costs associated with protecting our intellectual property rights could adversely impact our business.

We have obtained and applied for U.S. and foreign trademark registrations and patents, and will continue to evaluate whether to register additional trademarks and apply for patents as appropriate. We cannot guarantee that any of the pending applications will be approved by the applicable government authorities. Further, we cannot assure that the validity of our patents or our trademarks will not be challenged. In addition, third parties may be able to develop competing products using technology that avoids our patents.

*Healthcare reform legislation could have a material adverse impact on our business.*

During 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the United States. Certain of the provisions that could most significantly increase our healthcare costs in the near term include the removal of annual plan limits, the changes in rules regarding eligibility for dependents and the mandate that health plans cover 100% of preventative care. In addition, our healthcare costs could increase if the new legislation and accompanying regulations require us to cover more employees than we do currently or pay penalty amounts in the event that employees do not elect our offered coverage. Much of the cost of the enacted healthcare legislation is expected to occur in or after 2014 due to provisions of the legislation being phased in over time, and changes to our healthcare cost structure could have a material adverse impact on our business.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.



## Item 2. PROPERTIES

As of December 28, 2013, we operated approximately 35 principal manufacturing facilities in excess of 100,000 square feet. The locations of these principal facilities and the reportable segments or businesses for which they presently are used are as follows:

### Pressure-sensitive Materials Segment

Domestic	Peachtree City, Georgia; Fort Wayne, Greenfield and Lowell, Indiana; Fairport Harbor, Mentor and Painesville, Ohio; and Quakertown, Pennsylvania
Foreign	Turnhout, Belgium; Vinhedo, Brazil; Kunshan, China; Champ-sur-Drac, France; Gotha and Schwelm, Germany; Rodange, Luxembourg; Hazerswoude, the Netherlands; and Cramlington, United Kingdom

### Retail Branding and Information Solutions Segment

Domestic	Greensboro and Lenoir, North Carolina; and Miamisburg, Ohio
Foreign	Nansha, Panyu, Shenzhen, and Suzhou, China; Sprockhovel, Germany; and Ancarano, Italy

### Other specialty converting businesses

Domestic	None
Foreign	None

In addition to the principal manufacturing facilities described above, our other principal facilities include our corporate headquarters in Glendale, California, and our divisional offices located in Westborough, Massachusetts; Mentor, Ohio; Kunshan, China; and Leiden, the Netherlands.

We own all of the principal properties identified above, except for the facilities in Vinhedo, Brazil; Glendale, California; Panyu and Shenzhen, China; Sprockhovel, Germany; Rodange, Luxembourg; Westborough, Massachusetts; Greensboro, North Carolina; and Mentor, Ohio, which are leased.

We consider all our properties, whether owned or leased, suitable and adequate for our present needs. We generally expand production capacity as needed to meet increased demand. Owned buildings and plant equipment are insured against major losses from fire and other usual business risks, subject to deductibles. We are not aware of any material defects in title to, or significant encumbrances on, our properties except for certain mortgage liens.

## Item 3. LEGAL PROCEEDINGS

As of December 28, 2013, 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 ten 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 such sites and anticipate that our share of cleanup costs will be determined pursuant to remedial 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. Because of the uncertainties associated with environmental assessment and remediation activities, future expenses to remediate these sites could be higher than the

liabilities accrued by us; 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 will adjust our environmental liabilities accordingly. In addition, we could identify additional sites for cleanup in the future. The range of expenses for remediation of any future-identified sites will be assessed as they arise; until then, a range of expenses for such remediation cannot be determined.

As of December 28, 2013, our estimated accrued liability associated with environmental remediation was \$29.6 million.

In addition, 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 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.

See also Note 8, "Contingencies," in the Notes to Consolidated Financial Statements of our 2013 Annual Report, which is incorporated herein by reference.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

(a) The information called for by Item 201 of Regulation S-K appears under "Corporate Information — Stock and Dividend Data" in our 2013 Annual Report and is incorporated herein by reference. We did not sell any unregistered securities during the fourth quarter of 2013.

(b) Not applicable.

(c) Repurchases of Equity Securities by Issuer

On July 25, 2013, our Board of Directors authorized the repurchase of additional shares of our common stock in the total aggregate amount of up to \$400 million (exclusive of any fees, commissions or other expenses related to such purchases). This authorization will remain in effect until shares totaling \$400 million have been repurchased.

On July 26, 2012, our Board of Directors authorized the repurchase of additional shares of our common stock in the total aggregate amount of up to \$400 million (exclusive of any fees, commissions or other expenses related to such purchases). This authorization will remain in effect until shares totaling \$400 million have been repurchased.

Repurchases by us or our "affiliated purchasers" (as defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934) of registered equity securities in the three fiscal months of the fourth quarter of 2013 are listed in the following table.

(Dollars in millions; shares in thousands, except per share amounts)	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans	Approximate dollar value of shares that may yet be purchased under the plans
September 29, 2013 – October 26, 2013	644.3	\$43.31	644.3	
October 27, 2013 – November 23, 2013	396.8	46.90	396.8	
November 24, 2013 – December 28, 2013	268.9	48.89	268.9	
Total	1,310.0	\$45.54	1,310.0	\$455.0

Repurchased shares may be reissued under our stock option and incentive plan or used for other corporate purposes.

**Item 6. SELECTED FINANCIAL DATA**

Selected financial data for each of our last five fiscal years appears under "Five-year Summary" in our 2013 Annual Report and is incorporated herein by reference.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information called for by this Item is contained under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2013 Annual Report and incorporated herein by reference.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information called for by this Item is contained under "Market-Sensitive Instruments and Risk Management" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2013 Annual Report and incorporated herein by reference.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information called for by this Item is contained in our 2013 Annual Report (including the Consolidated Financial Statements and the Notes thereto, Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting, and the Report of Independent Registered Public Accounting Firm) and incorporated herein by reference.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures.* As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the our management, including the Chief Executive Officer and the Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

*Management's Report on Internal Control Over Financial Reporting.* We are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act). Under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 28, 2013. (See Management's Report on Internal Control Over Financial Reporting in our 2013 Annual Report.)

Management's assessment of the effectiveness of our internal control over financial reporting as of December 28, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in the Report of Independent Registered Public Accounting Firm contained in our 2013 Annual Report, which is incorporated herein by reference.

*Changes in Internal Control over Financial Reporting.* During the third quarter of 2013, we began a phased implementation of a new financial system, primarily for our North American and European pressure-sensitive materials businesses, medical solutions business and our corporate accounting function. At the same time, we commenced a phased outsourcing of transaction processing and accounting activities to a new third-party service provider. As part of the transition process, we reviewed the related internal controls and determined that the design of the controls surrounding these processes satisfied our control objectives. Where appropriate, we made changes to affected internal controls and are in the process of testing their operating effectiveness. We are performing the implementation in the ordinary course of business to increase efficiency and we expect to continue the implementation over the next several quarters. Except for these changes, there have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None.

**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

The information concerning directors and corporate governance called for by this Item is incorporated herein by reference from the definitive proxy statement for our Annual Meeting of Stockholders to be held on April 24, 2014, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report (our "2014 Proxy Statement"). The information concerning executive officers called for by this Item appears on the next page of this report. The information concerning any late filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference from our 2014 Proxy Statement.

We have adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers (the "Code"), which applies to our Chief Executive Officer, Chief Financial Officer, and Controller/Chief Accounting Officer. The Code is available on our investor website at [www.investors.averydennison.com](http://www.investors.averydennison.com). We will satisfy disclosure requirements under Item 5.05 of Form 8-K regarding any amendment to, or waiver of, any provision of the Code that applies to these officers disclosing the nature of such amendment or waiver on our website or in a current report on Form 8-K. Our Code of Conduct, which applies to our directors, officers and employees, is also available on our investor website. Our website address is not intended to function as a hyperlink, and the contents of the website are not a part of this Form 10-K, nor are they incorporated herein by reference.

The information concerning our Audit Committee called for by this Item is incorporated by reference from our 2014 Proxy Statement.

**EXECUTIVE OFFICERS OF AVERY DENNISON<sup>(1)</sup>**

<u>Name</u>	<u>Age</u>	<u>Served as Executive Officer since</u>	<u>Former Positions within Past Five Years/ Prior Offices with Avery Dennison</u>
Dean A. Scarborough	58	August 1997	2005-2010 President and Chief Executive Officer
Chairman, President and Chief Executive Officer			2000-2005 President and Chief Operating Officer
Mitchell R. Butier	42	March 2007	2007-2010 Vice President, Controller and Chief
Senior Vice President and Chief Financial Officer			Accounting Officer 2004-2006 Vice President, Finance, Retail Branding and Information Solutions
Lori Bondar	53	June 2010	2008-2010 Vice President, Controller
Vice President, Controller and Chief Accounting Officer			
Anne Hill	54	May 2007	2007-2011 Senior Vice President and Chief Human Resources Officer
Senior Vice President and Chief Human Resources and Communications Officer			Resources Officer
Susan C. Miller	54	March 2008	2008-2009 Senior Vice President and General Counsel
Senior Vice President, General Counsel and Secretary			2007-2008 Vice President and General Counsel 1998-2006 Assistant General Counsel
Donald A. Nolan	53	March 2008	N/A
President, Materials Group			
R. Shawn Neville	51	June 2009	2008-2009 Chief Executive Officer, Boathouse Sports
President, Retail Branding and Information Solutions			

(1) Officers are generally elected on the date of our annual stockholder meeting to serve a one-year term and until their successors are duly elected and qualified.

**Item 11. EXECUTIVE COMPENSATION**

The information called for by this Item is incorporated by reference from our 2014 Proxy Statement.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information called for by this Item is incorporated by reference from our 2014 Proxy Statement.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information called for by this Item is incorporated by reference from our 2014 Proxy Statement.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information called for by this Item is incorporated by reference from our 2014 Proxy Statement.

**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Financial Statements, Financial Statement Schedule and Exhibits

(1) (2) Financial statements and financial statement schedule filed as part of this report are listed on the accompanying Index to Financial Statements and Financial Statement Schedule.

(3) Exhibits filed as a part of this report are listed on the accompanying Exhibit Index. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K is identified as such on the Exhibit Index and incorporated herein by reference.

(b) The Exhibits required to be filed by Item 601 of Regulation S-K are set forth on the accompanying Exhibit Index and incorporated herein by reference.

(c) The financial statement schedules required by Regulation S-X, which are excluded from our 2013 Annual Report by Rule 14a-3(b)(1) and are required to be filed in this report, are set forth on the accompanying Index to Financial Statements and Financial Statement Schedule and incorporated herein by reference.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVERY DENNISON CORPORATION

By: /s/ Mitchell R. Butier

---

Mitchell R. Butier  
Senior Vice President and  
Chief Financial Officer

Dated: February 26, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and as of the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Dean A. Scarborough <hr/> Dean A. Scarborough	Chairman, President and Chief Executive Officer	February 26, 2014
/s/ Mitchell R. Butier <hr/> Mitchell R. Butier	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2014
/s/ Lori J. Bondar <hr/> Lori J. Bondar	Vice President and Controller, and Chief Accounting Officer (Principal Accounting Officer)	February 26, 2014

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below does hereby constitute and appoint Mitchell R. Butier and Susan C. Miller, and each of them, with full power of substitution, his or her true and lawful attorney-in-fact to act for him or her in any and all capacities, to sign this Annual Report on Form 10-K and any or all amendments or supplements thereto, and to file each of the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully, to all intents and purposes, as he or she could do in person, hereby ratifying and confirming all that said attorneys-in-fact or substitutes, or any of them, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and as of the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Bradley A. Alford _____ Bradley A. Alford	Director	February 26, 2014
/s/ Anthony K. Anderson _____ Anthony K. Anderson	Director	February 26, 2014
/s/ Peter K. Barker _____ Peter K. Barker	Director	February 26, 2014
/s/ Rolf L. Börjesson _____ Rolf L. Börjesson	Director	February 26, 2014
/s/ John T. Cardis _____ John T. Cardis	Director	February 26, 2014
/s/ Ken C. Hicks _____ Ken C. Hicks	Director	February 26, 2014
/s/ Charles H. Noski _____ Charles H. Noski	Director	February 26, 2014

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ David E. I. Pyott _____ David E. I. Pyott	Director	February 26, 2014
/s/ Patrick T. Siewert _____ Patrick T. Siewert	Director	February 26, 2014
/s/ Julia A. Stewart _____ Julia A. Stewart	Director	February 26, 2014
/s/ Martha N. Sullivan _____ Martha N. Sullivan	Director	February 26, 2014

**AVERY DENNISON CORPORATION**  
**INDEX TO FINANCIAL STATEMENTS AND FINANCIAL**  
**STATEMENT SCHEDULE**

Data incorporated by reference from the attached portions of the 2013 Annual Report to Shareholders of Avery Dennison Corporation:

Consolidated Financial Statements:

Consolidated Balance Sheets as of December 28, 2013 and December 29, 2012  
Consolidated Statements of Income for 2013, 2012 and 2011  
Consolidated Statements of Comprehensive Income for 2013, 2012 and 2011  
Consolidated Statements of Shareholders' Equity for 2013, 2012 and 2011  
Consolidated Statements of Cash Flows for 2013, 2012 and 2011  
Notes to Consolidated Financial Statements  
Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting  
Report of Independent Registered Public Accounting Firm

Except for the Consolidated Financial Statements, Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm listed above, and certain information referred to in Items 1, 5, 6, 7, and 7A of this report that is expressly incorporated herein by reference, our 2013 Annual Report to Shareholders is not to be deemed "filed" as part of this report.

Data submitted herewith:

<a href="#">Report of Independent Registered Public Accounting Firm on Financial Statement Schedule</a>	<a href="#">S-2</a>
<a href="#">Schedule II — Valuation and Qualifying Accounts and Reserves</a>	<a href="#">S-3</a>
<a href="#">Consent of Independent Registered Public Accounting Firm</a>	<a href="#">S-4</a>

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors  
of Avery Dennison Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 26, 2014 appearing in the 2013 Annual Report to Shareholders of Avery Dennison Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

---

PricewaterhouseCoopers LLP

Los Angeles, California  
February 26, 2014

**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES****(In millions)**

	<b>Balance at Beginning of Year</b>	<b>Net Additions Charged to Costs and Expenses</b>	<b>Deductions From Reserves<sup>(a)</sup></b>	<b>Balance at End of Year</b>
<b>2013</b>				
Allowance for doubtful accounts	\$ 31.1	\$ 5.1	\$ (14.8)	\$ 21.4
Allowance for sales returns	13.7	11.2	(14.7)	10.2
<b>2012</b>				
Allowance for doubtful accounts	34.0	3.4	(6.3)	31.1
Allowance for sales returns	9.3	14.5	(10.1)	13.7
<b>2011</b>				
Allowance for doubtful accounts	38.9	6.3	(11.2)	34.0
Allowance for sales returns	12.5	10.5	(13.7)	9.3

(a) Deductions from reserves include currency translation adjustments for all periods, classification of OCP business balances (where applicable) to "held for sale" in 2011 and the sale of the DES business in 2013.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-191228 and 333-169954) and Form S-8 (File Nos. 33-54411, 33-58921, 33-63979, 333-38707, 333-38709, 333-107370, 33-107371, 333-107372, 333-109814, 333-124495, 333-143897, 333-152508, 333-166832, 333-166836, 333-166837, and 333-181221) of Avery Dennison Corporation of our report dated February 26, 2014 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 26, 2014 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

---

PricewaterhouseCoopers LLP

Los Angeles, California  
February 26, 2014

**EVERY DENNISON CORPORATION****EXHIBIT INDEX****For the Year Ended December 28, 2013**

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing<sup>(1)</sup></u>
2.1	Purchase Agreement, dated as of January 29, 2013, by and among CCL Industries, Inc. ("CCL"), a corporation organized under the laws of Canada, those subsidiaries of CCL to be designated pursuant to Section 5.8 thereof, Registrant, and those subsidiaries of Registrant listed in Annex A thereof	2.1	Current Report on Form 8-K, filed January 30, 2013
2.2	Amendment to Purchase Agreement, dated as of July 1, 2013, by and between Registrant and CCL	2.1	Current Report on Form 8-K, filed July 1, 2013
3.1(i)	Amended and Restated Certificate of Incorporation, as filed on April 28, 2011 with the Office of Delaware Secretary of State	3.1	Current Report on Form 8-K, filed April 28, 2011
3.1(ii)	Amended and Restated Bylaws, dated as of December 5, 2013	3.2	Current Report on Form 8-K, filed December 6, 2013
4.1	Indenture, dated as of March 15, 1991, between Registrant and Security Pacific National Bank, as Trustee (the "1991 Indenture")	4.1	Registration Statement on Form S-3 (File No. 33-39491), filed March 19, 1991
4.2	First Supplemental Indenture, dated as of March 16, 1993, between Registrant and BankAmerica National Trust Company, as successor Trustee (the "Supplemental Indenture")	4.4	Registration Statement on Form S-3 (File No. 33-59642), filed March 17, 1993
4.3	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series C" under the 1991 Indenture, as amended by the Supplemental Indenture	4.7	Current Report on Form 8-K, filed May 12, 1995
4.4	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series D" under the 1991 Indenture, as amended by the Supplemental Indenture	4.8	Current Report on Form 8-K, filed December 16, 1996



<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing<sup>(1)</sup></u>
4.5	Indenture, dated as of July 3, 2001, between Registrant and Chase Manhattan Bank and Trust Company, National Association, as trustee ("2001 Indenture")	4.1	Registration Statement on Form S-3 (File No. 333-64558), filed July 3, 2001
4.6	Officers' Certificate establishing two series of Securities entitled "4.875% Notes due 2013" and "6.000% Notes due 2033" under the 2001 Indenture	4.2	Current Report on Form 8-K, filed January 16, 2003
4.7	4.875% Notes Due 2013	4.3	Current Report on Form 8-K, filed January 16, 2003
4.8	6.000% Notes Due 2033	4.4	Current Report on Form 8-K, filed January 16, 2003
4.9	Indenture, dated as of September 25, 2007, among Avery Dennison Office Products Company ("ADOPC"), Registrant and The Bank of New York Trust Company, N.A., as Trustee ("Bank of NY")	99.1	Current Report on Form 8-K, filed October 1, 2007
4.10	6.625% Guaranteed Notes due 2017	99.1	Current Report on Form 8-K, filed October 1, 2007
4.11	Indenture, dated as of November 20, 2007, between Registrant and Bank of NY	4.2	Current Report on Form 8-K, filed November 20, 2007
4.12	First Supplemental Indenture, dated as of November 20, 2007, between Registrant and Bank of NY	4.3	Current Report on Form 8-K, filed November 20, 2007
4.13	Remarketing Agreement, dated as of September 27, 2010, between Registrant and the Remarketing Agent named therein	1.1	Current Report on Form 8-K, filed November 15, 2010
4.14	Second Supplemental Indenture, dated as of April 13, 2010, between Registrant and Bank of NY	4.2	Current Report on Form 8-K, filed April 13, 2010
4.15	Form of 5.375% Senior Notes due 2020	4.3	Current Report on Form 8-K, filed April 13, 2010
4.16	Third Supplemental Indenture, dated as of April 8, 2013, between Registrant and Bank of NY	4.2	Current Report on Form 8-K, filed April 8, 2013
4.17	Form of 3.35% Senior Notes due 2023	4.3	Current Report on Form 8-K, filed April 8, 2013

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing<sup>(1)</sup></u>
10.1	Credit Agreement, dated as of February 8, 2008, among ADOPC, Registrant, Bank of America, N.A. and Banc of America Securities LLC and JP Morgan Securities Inc ("ADOPC Credit Agreement")	10.2	Quarterly Report on Form 10-Q, filed August 7, 2008
10.2	Second Amendment to ADOPC Credit Agreement	99.3	Current Report on Form 8-K, filed January 27, 2009
10.3	Second Amended and Restated Credit Agreement, dated as of December 22, 2011, by and among Registrant, Bank of America, N.A., Citibank, N.A. and JPMorgan Chase Bank, N.A. and the other lenders party thereto	10.2.2	Current Report on Form 8-K, filed December 23, 2011
10.4*	Deferred Compensation Plan for Directors	10.3	1981 Annual Report on Form 10-K, filed February 29, 1982
10.5*	Executive Group Life Insurance Plan	10.9	1982 Annual Report on Form 10-K, filed February 25, 1983
10.6*	Amended and Restated Supplemental Executive Retirement Plan ("SERP")	10.11.1	Quarterly Report on Form 10-Q, filed August 12, 2009
10.7*	Letter of Grant to D.A. Scarborough under SERP	10.11.2.1	Quarterly Report on Form 10-Q, filed August 12, 2009
10.8*	Letter Agreement with D.A. Scarborough regarding SERP benefits	10.11.2.1	Current Report on Form 8-K, filed December 15, 2010
10.9*	Complete Restatement and Amendment of Executive Deferred Compensation Plan	10.12	1994 Annual Report on Form 10-K, filed March 30, 1995
10.10*	Amended and Restated Retirement Plan for Directors	10.13.1	2002 Annual Report on Form 10-K, filed March 28, 2003
10.11*	Amended and Restated Director Equity Plan ("Director Plan")	10.15.1	Current Report on Form 8-K, filed December 11, 2008
10.12*	Form of Non-Employee Director Stock Option Agreement under Director Plan	10.15.1	2003 Annual Report on Form 10-K, filed March 11, 2004
10.13*	Complete Restatement and Amendment of Executive Variable Deferred Compensation Plan ("EVDACP")	10.16	1994 Annual Report on Form 10-K, filed March 30, 1995
10.14*	Amendment No. 1 to EVDACP	10.16.1	1999 Annual Report on Form 10-K, filed March 30, 2000

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing<sup>(1)</sup></u>
10.15*	Complete Restatement and Amendment of Directors Deferred Compensation Plan	10.17	1994 Annual Report on Form 10-K, filed March 30, 1995
10.16*	Complete Restatement and Amendment of Directors Variable Deferred Compensation Plan ("DVDCP")	10.18	1994 Annual Report on Form 10-K, filed March 30, 1995
10.17*	Amendment No. 1 to DVDCP	10.18.1	1999 Annual Report on Form 10-K, filed March 30, 2000
10.18*	Amended and Restated 2005 Directors Variable Deferred Compensation Plan	10.18.2	Quarterly Report on Form 10-Q, filed May 10, 2011
10.19*	Amended and Restated Stock Option and Incentive Plan ("Equity Plan")	D	2012 Proxy Statement on Schedule 14A, filed March 9, 2012
10.20*	Forms of NQSO Agreement under Equity Plan	10.19.5	2007 Annual Report on Form 10-K, filed February 27, 2008
10.21*	Forms of Equity Awards under Equity Plan	10.19.6	Current Report on Form 8-K, filed April 30, 2008
10.22*	Forms of Equity Agreements under Equity Plan	10.10.19.9	Current Report on Form 8-K, filed December 11, 2008
10.23*	Additional Forms of Equity Agreements under Equity Plan	10.19.10	Current Report on Form 8-K/A, filed December 11, 2008
10.24*	Senior Executive Annual Incentive Plan	D	2009 Proxy Statement on Schedule 14A, filed March 12, 2009
10.25*	Complete Restatement and Amendment of Executive Deferred Retirement Plan ("EDRP")	10.28	1994 Annual Report on Form 10-K, filed March 30, 1995
10.26*	Amendment No. 1 to EDRP	10.28.1	1999 Annual Report on Form 10-K, filed March 30, 2000
10.27*	Amendment No. 2 to EDRP	10.28.2	2001 Annual Report on Form 10-K, filed March 4, 2002
10.28*	Executive Variable Deferred Retirement Plan, amended and restated ("EVDRP")	10.31.5	2003 Annual Report on Form 10-K, filed March 11, 2004
10.29*	2004 EVDRP	4.1	Registration Statement on Form S-8 (File No. 333-109814), filed October 20, 2003
10.30*	2005 EVDRP, amended and restated	10.1	Quarterly Report on Form 10-Q, filed May 7, 2013

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing<sup>(1)</sup></u>
10.31*	Benefits Restoration Plan, amended and restated ("BRP")	10.32.1	Current Report on Form 8-K/A, filed December 11, 2008
10.32*	First Amendment to BRP	10.32.1	2010 Annual Report on Form 10-K, filed March 1, 2011
10.33*	Amended and Restated Capital Accumulation Plan ("CAP")	10.34	1999 Annual Report on Form 10-K, filed March 30, 2000
10.34*	Amendment No. 1 to CAP	10.34.2	1999 Annual Report on Form 10-K, filed March 30, 2000
10.35*	Key Executive Change of Control Severance Plan	10.35	Quarterly Report on Form 10-Q, filed May 10, 2011
10.36*	Executive Severance Plan	10.36	Quarterly Report on Form 10-Q, filed May 10, 2011
10.37*	Long-Term Incentive Unit Plan	10.43	2012 Annual Report on Form 10-K, filed February 27, 2013
10.38*†	Form of Restricted Stock Unit Agreement	N/A	N/A
10.39*†	Form of Performance Unit Agreement	N/A	N/A
10.40*†	Form of Market-Leveraged Stock Unit Agreement	N/A	N/A
10.41*†	Form of Long-Term Incentive Unit Agreement	N/A	N/A
10.42*†	Form of Performance Long-Term Incentive Unit Agreement	N/A	N/A
10.43*†	Form of Director Restricted Stock Unit Agreement	N/A	N/A
10.44	Purchase Agreement, dated as of December 21, 2011, by and among 3M Company, those subsidiaries of 3M to be designated pursuant to Section 5.8 thereof, Registrant, and those subsidiaries of Registrant listed on Annex A thereof	2.1	Current Report on Form 8-K, filed January 3, 2012
10.45	Agreement to Terminate Purchase Agreement, dated as of October 3, 2012, by and between Registrant and 3M Company	10.1	Current Report on Form 8-K, filed October 5, 2012
10.46*	Letter Agreement with D.A. Nolan regarding international assignment	10.1	Quarterly Report on Form 10-Q, filed November 4, 2013

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing<sup>(1)</sup></u>
12†	Computation of Ratio of Earnings to Fixed Charges	N/A	N/A
13†	Portions of Annual Report to Stockholders for fiscal year ended December 28, 2013	N/A	N/A
21†	List of Subsidiaries	N/A	N/A
23†	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (see page S-4)	N/A	N/A
24†	Power of Attorney (see Signatures — Power of Attorney)	N/A	N/A
31.1†	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	N/A	N/A
31.2†	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	N/A	N/A
32.1†	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	N/A	N/A
32.2†	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	N/A	N/A
101INS	XBRL Instance Filing	N/A	N/A
101SCH	XBRL Extension Schema Filing	N/A	N/A
101CAL	XBRL Extension Calculation Linkbase Filing	N/A	N/A
101LAB	XBRL Extension Label Linkbase Filing	N/A	N/A
101PRE	XBRL Extension Presentation Linkbase Filing	N/A	N/A
101DEF	XBRL Extension Definition Linkbase Filing	N/A	N/A

(1) Unless otherwise noted, the File Number for all filings is File No. 1-7685.

\* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K.

† Filed herewith.



**AVERY  
DENNISON**

---



AVERY DENNISON CORPORATION  
RESTRICTED STOCK UNIT AGREEMENT

THIS AGREEMENT, dated \*, is made by and between Avery Dennison Corporation, a Delaware corporation ("Company") and \*, an employee of the Company or a Subsidiary ("Employee").

WHEREAS, the Compensation and Executive Personnel Committee of the Company's Board of Directors ("Committee") or the Chief Executive Officer ("CEO"), as authorized by the Committee, has decided to grant an Award of restricted stock units ("RSUs") provided for herein to Employee under the terms of the Employee Stock Option and Incentive Plan, as amended and restated ("Plan").

NOW, THEREFORE, Company and Employee agree as follows:

#### ARTICLE 1 – DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan.

#### ARTICLE 2 – TERMS OF AWARD

##### 2.1 RSU Award

As of the date of this Agreement, Company grants to Employee an RSU Award representing a right to receive \* shares of the Company's Common Stock in the future, subject to the terms and conditions set forth in this Agreement and the Plan. Each RSU represents one hypothetical share of Common Stock of the Company. The RSU Award shall be held on the books and records of the Company (or its designee) for Employee's RSU account, but shall not represent an equity interest in the Company until such time as actual shares shall be issued to Employee. The RSU Award shall be earned, vested and paid as set forth in this Agreement and shall not earn dividend equivalents. Except as set forth in Sections 2.4 through 2.6, the RSU Award shall vest as follows, subject to Employee's continued employment with the Company through each such vesting date:

##### 2.2 Restriction Period

(a) No portion of the RSU Award may be sold, transferred, assigned, pledged or otherwise encumbered by Employee until all or a portion of the RSU Award becomes vested and the shares are issued. The period of time between the date hereof and the date all or a portion of the RSU Award becomes vested is referred to herein as the "Restriction Period." At the time all or a portion of the RSU Award vests, all or a portion of the RSUs vest, as applicable. Notwithstanding any other provision, the RSUs must be vested before the Company is obligated to settle the RSU Award as described in Article 3.

(b) Subject to Sections 2.4 through 2.6 of this Agreement, any portion of the RSU Award that has not vested by the time of Employee's Termination of Service shall be forfeited by Employee.

##### 2.3 Lapse of Restriction Period

The Restriction Period shall lapse when the RSU Award vests as set forth above or as otherwise set forth in this Agreement.

##### 2.4 Change of Control

In the event of a Change in Control, the restrictions in this Agreement will lapse and be removed if the surviving or successor corporation or parent or subsidiary thereof terminates Employee's employment or service without Cause upon or within 24 months following the Change in Control and the RSU Award granted to Employee pursuant to this Agreement will be earned and vested as of the date of such termination.

---

##### 2.5 Death; Disability

If Employee's employment with the Company or its Subsidiaries terminates by reason of Employee's death or Disability, the restrictions imposed upon the RSU Award granted to Employee pursuant to this Agreement will lapse and be removed, and the RSU Award will be earned and vested as of the date of Termination of Service.

##### 2.6 Retirement

If Employee's employment with the Company or its Subsidiaries terminates by reason of Employee's Retirement, the restrictions imposed upon the RSU Award granted to Employee pursuant to this Agreement will lapse and be removed, and the RSU Award will be earned and vested as of the date of Termination of Service.

##### 2.7 Adjustments in RSU Award

In the event of an Equity Restructuring, the Committee or the Company shall make appropriate and equitable adjustments to the RSU Award granted hereunder.

#### ARTICLE 3 – ISSUANCE OF COMMON STOCK

##### 3.1 Conditions to Issuance of Common Stock

The shares of Common Stock deliverable for the RSU Award, or any part thereof, may be either previously authorized but unissued shares or issued shares that have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. Employee shall not have the rights of a shareholder with respect to this RSU Award until shares are issued to Employee. Issuance of shares of Common Stock is subject to the following conditions:

(a) The receipt by the Company of full payment or withholding for all related taxes in accordance with the Plan. Employee shall be liable for any and all taxes, including withholding taxes, arising out of this RSU Award or the vesting of the RSU Award hereunder. The Company or Employee may elect to have the Company trade part of the shares of Common Stock deliverable for the RSU Award to satisfy such withholding tax obligation;



(b) Subject to Section 4.3 below, the Company shall issue via electronic transfer to Employee's brokerage account the number of shares of Common Stock represented by the number of vested RSUs (less shares traded to cover withholding taxes) as soon as practical following the vesting of same, but in no event later than two and one-half (2.5) months after the calendar year in which the RSUs vest; provided, however, that, if Employee is determined at the time of his separation from service to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Internal Revenue Code of 1986, as amended ("Code"), to the extent delayed payment of the RSUs is required in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, such payment shall be made on the earlier of (ii) the expiration of the six-month period measured from the date of Employee's "separation from service" with the Company (as such term is defined in the Department of Treasury Regulations issued under Section 409A of the Code) or (ii) the date of Employee's death, but in no event earlier than the date on which the RSUs are paid to active employees pursuant to this Section 3.1(b). The determination of whether Employee is a "specified employee" shall be made by the Company in accordance with the terms of Section 409A of the Code and applicable guidance thereunder. Delivery of these shares of Common Stock shall satisfy the Company's obligations under this Agreement; and

(c) Employee shall establish an equity account with a broker designated by the Company (currently Charles Schwab) so that the net shares from vested RSUs (after withholding for applicable taxes) may be electronically transferred to Employee's account.

#### ARTICLE 4 – MISCELLANEOUS

##### 4.1 Agreement Subject to Plan

The Agreement is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

##### 4.2 Administration / Compensation Recovery

---

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, modify or revoke any such procedures. Nothing in this Agreement or the Plan shall be construed to create or imply any contract or right of continued employment between Employee and the Company (or any of its Subsidiaries).

In the case of fraud or other intentional misconduct on the part of Employee (or any other event or circumstance set forth in any clawback policy implemented by the Company or any Subsidiary) that necessitates a restatement of the Company's financial results, Employee will be required to reimburse the Company for any Common Stock issued to Employee under this Award in excess of the amount that would have been issued to Employee based on the restated financial results.

##### 4.3 Code Section 409A

The RSU Award granted hereunder is intended to be exempt from or comply in all respects with Section 409A and this Agreement shall be interpreted accordingly. However, if at any time the Committee or the Company determines that the RSUs may be subject to penalty taxes for noncompliance with Section 409A, the Committee or the Company shall have the right, in its sole discretion, to amend this Agreement as it may determine is necessary or desirable for the RSUs to satisfy the requirements of Section 409A. No provision of this Agreement or the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from Employee or any other individual to the Company or any of its affiliates, employees or agents.

##### 4.4 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. Titles are provided in this Agreement for convenience only and shall not serve as a basis for interpretation or construction of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties.

Employee

Avery Dennison Corporation

\* \_\_\_\_\_

By: /s/ Dean A. Scarborough  
Chairman, President & Chief Executive Officer

Address

\* \_\_\_\_\_

---

AVERY DENNISON CORPORATION  
PERFORMANCE UNIT AGREEMENT

THIS AGREEMENT, dated \*, is made by and between Avery Dennison Corporation, a Delaware corporation (“Company”) and \*, an employee of the Company or a Subsidiary (“Employee”).

WHEREAS, the Compensation and Executive Personnel Committee of the Company’s Board of Directors (“Committee”) or the Chief Executive Officer (“CEO”), as authorized by the Committee, has decided to grant an Award of performance units (“PUs”) provided for herein to Employee under the terms of the Employee Stock Option and Incentive Plan, as amended and restated (“Plan”).

NOW, THEREFORE, Company and Employee agree as follows:

#### ARTICLE 1 – DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan.

#### ARTICLE 2 – TERMS OF AWARD

##### 2.1 PU Award

As of the date of this Agreement, the Company grants to Employee a PU Award representing a right to receive \* shares of the Company’s Common Stock in the future, assuming that the Company’s results at the end of the performance period described in Section 2.2 produce 100% of the target performance, subject to the terms and conditions set forth in this Agreement and the Plan. Each PU Award represents one hypothetical share of Common Stock of the Company at 100% target performance. The PU Award shall be held on the books and records of the Company (or its designee) for Employee’s PU account, but shall not represent an equity interest in the Company until such time as actual shares are issued to Employee. The PU Award shall be earned, vested and paid as set forth in this Agreement and shall not earn dividend equivalents.

##### 2.2 Performance Period

(a) No portion of the PU Award may be sold, transferred, assigned, pledged or otherwise encumbered by Employee until the PU Award is earned and the shares are issued. Employee must be employed by the Company from the date of this Agreement until the date that the PU Award is earned and vested, except as provided in Sections 2.3 through 2.5. The “Performance Period” shall begin on the first day of the fiscal year in which this PU Award is granted and end on the last day of the fiscal year in which the second anniversary of the date of such grant occurs (resulting in a three-year Performance Period). Except as provided in Sections 2.3 and 2.4, after the end of the Performance Period, the specific number of shares of Common Stock to be issued to Employee under the PU Award shall be determined based on the Company’s results during the Performance Period compared against the performance goals (“Goals”) approved by the Committee (as modified by any adjustment items approved by the Committee). The Goals will be communicated, directly or indirectly, to Employee as soon as reasonably practical following their approval by the Committee.

(b) Except as provided in Sections 2.3 and 2.4, the PU Award will be earned and vested on the last day of the Performance Period, subject to the Committee’s certification of results of the Goals after the end of the Performance Period.

(c) Subject to Sections 2.3 through 2.5 of this Agreement, if the PU Award has not been earned by the time of Employee’s Termination of Service, it shall be forfeited by Employee.

---

##### 2.3 Change of Control

In the event of a Change in Control, if the surviving or successor corporation or parent or subsidiary thereof terminates Employee’s employment or service without Cause upon or within 24 months following the Change in Control prior to the determinations referred to in Section 2.2(a) having been made by the Committee, the PU Award granted to Employee pursuant to this Agreement will be earned and vested as of the date of such termination at 100% target performance regardless of the Company’s actual performance.

##### 2.4 Death; Disability

If Employee’s employment with the Company or its Subsidiaries terminates by reason of Employee’s death or Disability, the PU Award will be earned and vested as of the date of Termination of Service based on a prorated time-based formula starting with the beginning of the Performance Period through the end of month in which there is a Termination of Service divided by the total months in the original Performance Period multiplied by the number of shares in the PU Award assuming 100% target performance.

##### 2.5 Retirement

PU Awards granted to employees whose employment with the Company is terminated as a result of Retirement may be earned and vested after the end of the Performance Period based on the Company’s actual performance as determined in Section 2.2(a) on a prorated time-based formula starting with the beginning of the Performance Period through the end of the month in which there is Termination of Service, divided by the total number of months in the Performance Period.

##### 2.6 Adjustments in PU Award

In the event of an Equity Restructuring, the Committee or the Company shall make appropriate and equitable adjustments to the PU Award granted hereunder.

#### ARTICLE 3 – ISSUANCE OF COMMON STOCK

##### 3.1 Conditions to Issuance of Common Stock

The shares of Common Stock deliverable for the PU Award, or any part thereof, may be either previously authorized but unissued shares or issued shares that have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. Employee shall not have the rights of a shareholder with respect to this PU Award until shares are issued to Employee. Issuance of shares of Common Stock is subject to the following conditions:

(a) The receipt by the Company of full payment or withholding for all related taxes in accordance with the Plan. Employee shall be liable for any and all taxes, including withholding taxes, arising out of this PU Award or the vesting of the PU Award hereunder. The Company or Employee may elect to have the Company trade part of the shares of Common Stock deliverable for the PU Award to satisfy such withholding tax obligation;

(b) Subject to Section 4.3 below, the Company shall issue via electronic transfer to Employee's brokerage account the number of shares of Common Stock represented by the number of vested PUs (less shares traded to cover withholding taxes) as soon as practical following the vesting of same, but in no event later than two and one-half (2.5) months after the calendar year in which the PUs vest; provided, however, that, if Employee is determined at the time of his separation from service to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Internal Revenue Code of 1986, as amended ("Code"), to the extent delayed payment of the PUs is required in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, such payment shall be made on the earlier of (i) the expiration of the six-month period measured from the date of Employee's "separation from service" with the Company (as such term is defined in the Department of Treasury Regulations issued under Section 409A of the Code) or (ii) the date of Employee's death, but in no event earlier than the date on which the PUs are paid to active employees pursuant to this Section 3.1(b). The determination of whether Employee is a "specified employee" shall be made by the Company in accordance with the terms of Section 409A of the Code and applicable guidance

---

thereunder. Delivery of these shares of Common Stock shall satisfy the Company's obligations under this Agreement; and

(c) Employee shall establish an equity account with a broker designated by the Company (currently Charles Schwab) so that the net shares from vested PUs (after withholding for applicable taxes) may be electronically transferred to Employee's account.

#### ARTICLE 4 – MISCELLANEOUS

##### 4.1 Agreement Subject to Plan

The Agreement is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

##### 4.2 Administration / Compensation Recovery

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, modify or revoke any such procedures. Nothing in this Agreement or the Plan shall be construed to create or imply any contract or right of continued employment between Employee and the Company (or any of its Subsidiaries).

In the case of fraud or other intentional misconduct on the part of Employee (or any other event or circumstance set forth in any clawback policy implemented by the Company or any Subsidiary) that necessitates a restatement of the Company's financial results, Employee will be required to reimburse the Company for any Common Stock issued to Employee under this Award in excess of the amount that would have been issued to Employee based on the restated financial results.

##### 4.3 Code Section 409A

The PU Award granted hereunder is intended to be exempt from or comply in all respects with Section 409A and this Agreement shall be interpreted accordingly. However, if at any time the Committee or the Company determines that the PUs may be subject to penalty taxes for noncompliance with Section 409A, the Committee or the Company shall have the right, in its sole discretion, to amend this Agreement as it may determine is necessary or desirable for the PUs to satisfy the requirements of Section 409A. No provision of this Agreement or the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from Employee or any other individual to the Company or any of its affiliates, employees or agents.

##### 4.4 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. Titles are provided in this Agreement for convenience only and shall not serve as a basis for interpretation or construction of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties.

Employee  
\* \_\_\_\_\_  
Address  
\* \_\_\_\_\_

Avery Dennison Corporation  
  
By: /s/ Dean A. Scarborough  
Chairman, President & Chief Executive Officer

---

AVERY DENNISON CORPORATION  
MARKET-LEVERAGED STOCK UNIT AGREEMENT

THIS AGREEMENT, dated \*, is made by and between Avery Dennison Corporation, a Delaware corporation (“Company”) and \*, an employee of the Company or a Subsidiary (“Employee”).

WHEREAS, the Compensation and Executive Personnel Committee of the Company’s Board of Directors (“Committee”) or the Chief Executive Officer, as authorized by the Committee, has decided to grant an Award of market-leveraged stock units (“MSUs”) provided for herein to Employee under the terms of the Employee Stock Option and Incentive Plan, as amended and restated (“Plan”). For purposes of the Plan, the MSUs constitute Performance Units.

NOW, THEREFORE, Company and Employee agree as follows:

Article 1 – DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan.

Article 2 – TERMS OF AWARD

Section 2.1 MSU Award

(a) As of the date of this Agreement, the Company grants to Employee an Award of \* MSUs (the “MSU Award”), representing a right to receive shares of Common Stock in the future in an amount based upon the Total Shareholder Return (as defined below) at the end of each performance period described in Section 2.2, subject to the terms and conditions set forth in this Agreement and the Plan. The MSU Award shall be held on the books and records of the Company (or its designee) for Employee’s MSU account, but shall not represent an equity interest in the Company until such time as actual shares of Common Stock are issued to Employee under this Agreement. The MSU Award shall be earned, vested and paid as set forth in this Agreement. No portion of the MSU Award may be sold, transferred, assigned, pledged or otherwise encumbered by Employee until the MSU Award is earned and the shares are issued.

(b) Whenever dividends are paid or distributions made with respect to the Common Stock, Employee shall be entitled to dividend equivalents (“Dividend Equivalents”) in an amount equal in value to the amount of the dividend paid or property distributed on a single share of Common Stock multiplied by the number of MSUs in Employee’s MSU Account as of the record date for such dividend or distribution, which Dividend Equivalents shall be credited as additional MSUs (rounded down to the nearest whole share with fractional shares, if any, forfeited) to Employee’s MSU account as of the payable date for such dividend or distribution.

Section 2.2 Performance Period

(a) The MSUs shall be ratably divided into four tranches (each, a “Tranche”) and each Tranche shall be associated with a specific performance period which shall commence on January 1 of the year of grant and end on December 31 of that year (First Tranche), the following year (Second Tranche), the next following year (Third Tranche) and the next following year (Fourth Tranche) (each such period, a “Performance Period” and the last day of such period, a “Performance Period End Date”).

(b) Each Tranche of the MSUs is unvested as of the date hereof and, unless earlier forfeited pursuant to the terms of this Agreement, shall be eligible to become vested on the Share Vesting Date with respect to such Tranche. For purposes of this Agreement, “Share Vesting Date” shall mean, with respect to each Tranche, the earlier of (i) the date of the Committee’s certification of the Total Shareholder Return (which shall occur within 60 days after the end of the January following such

---

Tranche’s Performance Period) (the “Certification Date”), or (ii) the date of Termination of Service (A) due to death or Disability or (B) by the Company (or any surviving or successor corporation or parent or subsidiary thereof) without Cause upon or within 24 months following a Change in Control; provided that, notwithstanding the foregoing, in the event any Termination of Service occurs after the Performance Period End Date, but before the Certification Date, with respect to any Tranche, the Share Vesting Date for such Tranche shall be the Certification Date for such Tranche.

Section 2.3 Termination of Employment

Subject to Section 2.4:

(a) If Employee’s employment with the Company or its Subsidiaries is terminated by the Company or Employee for any reason after the Performance Period End Date, but before the Share Vesting Date, with respect to any Tranche, the MSUs of such Tranche will remain outstanding and eligible to become vested on and after the date of Termination of Service.

(b) If Employee’s employment with the Company or its Subsidiaries is terminated by the Company or Employee for any reason (other than as set forth in Section 2.3(c), 2.3(d) or 2.3(e)), except as set forth in Section 2.3(a), all MSUs which remain outstanding on the date of Employee’s Termination of Service shall be automatically and immediately forfeited by Employee for no consideration as of Employee’s Termination of Service.

(c) If Employee’s employment with the Company or its Subsidiaries terminates by reason of Employee’s death or Disability,

(i) a portion of the MSUs with respect to all Performance Periods ending on or after the date of Termination of Service will remain outstanding and become vested on the date of Termination of Service (as set forth in Section 3.2(a)) based on a prorated time-based formula for each applicable Tranche which, with respect to each such Tranche, shall equal (A) the total number of full months between the first day of the Performance Period and the end of month in which the Termination of Service occurs divided by the total number of full months in such Tranche’s Performance Period, multiplied by (B) the number of MSUs of such Tranche; and

(ii) all MSUs that do not otherwise remain outstanding pursuant to Section 2.3(a) or 2.3(c)(i) shall be automatically and immediately forfeited by Employee for no consideration as of Employee's Termination of Service.

(d) If Employee's employment with the Company or its Subsidiaries terminates as a result of Retirement,

(i) a portion of the MSUs with respect to all Performance Periods ending on or after the date of Termination of Service will remain outstanding and eligible to become vested on and after the date of Termination of Service based on a prorated time-based formula for each applicable Tranche which, with respect to each such Tranche, shall equal (A) the total number of full months between the first day of the Performance Period and the end of month in which the Termination of Service occurs divided by the total number of full months in such Tranche's Performance Period, multiplied by (B) the number of MSUs of such Tranche; and

(ii) all MSUs that do not otherwise remain outstanding pursuant to Section 2.3(a) or 2.3(d)(i) shall be automatically and immediately forfeited by Employee for no consideration as of Employee's Termination of Service.

For the avoidance of doubt, any MSUs that remain outstanding pursuant to this Section 2.3(d) will be eligible to vest thereafter based on Total Shareholder Return as set forth in Section 3.2(b).

---

(e) If Employee's employment is terminated by the Company (or any surviving or successor corporation or parent or subsidiary thereof) without Cause upon or within twenty-four (24) months following a Change in Control, all outstanding MSUs (other than those described in Section 2.3(a)) will remain outstanding and become vested (as set forth in Section 3.2(a)) on the date of Termination of Service.

#### Section 2.4 Adjustments in MSU Award

In the event of an Equity Restructuring, the Committee or the Company shall make appropriate and equitable adjustments to the MSU Award granted hereunder.

### Article 3 - ISSUANCE OF COMMON STOCK

#### Section 3.1 Issuance of Common Stock

Subject to Section 3.3 below, the Company shall issue the number of shares of Common Stock set forth in Section 3.2 via electronic transfer to Employee's brokerage account (less any shares traded to cover, or associated with net settlement of, withholding taxes) as soon as practical following the Share Vesting Date, but in no event later than sixty (60) days after the applicable Share Vesting Date; provided, however, that, if Employee is determined at the time of his separation from service to be a "specified employee" for purposes of Section 409A(a)(2)(B) (i) of the Code, to the extent delayed settlement of the MSUs is required in order to avoid a prohibited distribution under Section 409A(a)(2)(B) (i) of the Code, such payment shall be made on the earlier of (a) the expiration of the six-month period measured from the date of Employee's "separation from service" with the Company (as such term is defined in the Department of Treasury Regulations issued under Section 409A) or (b) the date of Employee's death. The determination of whether Employee is such a "specified employee" shall be made by the Company in accordance with the terms of Section 409A. Issuance of these shares of Common Stock with respect to any Tranche shall satisfy the Company's obligations under this Agreement with respect to such Tranche in full and, after such issuance, Employee shall automatically and immediately forfeit and have no rights with respect to the MSUs of such Tranche or any shares due thereunder.

#### Section 3.2 Vesting / Number of Shares

(a) In the event of a Share Vesting Date that is the date of Termination of Service (i) due to death or Disability or (ii) by the Company (or any surviving or successor corporation or parent or subsidiary thereof) without Cause upon or within 24 months following a Change in Control, (A) the outstanding MSUs associated with such Share Vesting Date (after taking into account the effects of Sections 2.3(c) and 2.3(e)) shall, unless previously forfeited, become vested, as of such Share Vesting Date and (B) subject to Section 3.3, the number of shares of Common Stock that shall be issued following such Share Vesting Date will equal the number of such vested MSUs.

(b) In the event of any Share Vesting Date (other than as described in Section 3.2(a)) (including, without limitation, any Share Vesting Date with respect to MSUs described in Section 2.3(a)):

(i) if the Total Shareholder Return for the applicable Tranche's Performance Period is equal to or greater than 0.70, then (A) the MSUs of such Tranche, unless previously forfeited, shall become vested and (B) subject to Section 3.3, the number of shares of Common Stock that shall be issued following such Share Vesting Date will equal the product of (x) the number of vested MSUs of the applicable Tranche and (y) the lesser of (I) such Total Shareholder Return and (II) two (2).

(ii) if the Total Shareholder Return for the applicable Tranche's Performance Period is less than 0.70, then no MSUs of such Tranche shall become vested and such MSUs shall be automatically and immediately forfeited by Employee for no consideration as of such Share Vesting Date.

---

(c) For purposes of this Agreement, "Total Shareholder Return" shall equal, with respect to a Performance Period, (i) the sum of (A) the average closing share price of Common Stock for all trading days of the January following the respective Performance Period End Date and (B) the aggregate amount of all dividends paid (on a per share basis) during such Performance Period, divided by (ii) the average closing share price of Common Stock for all trading days in January of the year of grant.

#### Section 3.3 Conditions to Issuance of Common Stock

(a) The shares of Common Stock deliverable pursuant to this MSU Award, or any part thereof, may be authorized and unissued shares, previously outstanding shares held as treasury shares, or treasury shares that have been transferred to and held in a grantor trust of the Company. Such shares shall be fully paid and nonassessable. Employee shall not have the rights of a shareholder with respect to shares of Common Stock deliverable pursuant to this MSU Award until such shares are issued to Employee.

(b) Issuance of shares of Common Stock is subject to the following conditions:

(i) The receipt by the Company of full payment or withholding for all related taxes in accordance with the Plan. Employee shall be liable for any and all taxes, including withholding taxes, arising out of this MSU Award or the vesting of the MSU Award or issuance of shares of Common Stock hereunder. The Company or Employee may elect to have the Company trade part of the shares of Common Stock deliverable for the MSU Award (or reduce the number of shares of Common Stock deliverable for the MSU Award) to satisfy such withholding tax obligation; and

(ii) Employee establishing an equity account with a broker designated by the Company (currently Charles Schwab) so that the net shares deliverable pursuant to the MSUs (after withholding for applicable taxes) may be electronically transferred to Employee's account.

Article 4- MISCELLANEOUS

Section 4.1 Agreement Subject to Plan

The Agreement is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

Section 4.2 Administration / Compensation Recovery

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, modify or revoke any such procedures. Nothing in this Agreement or the Plan shall be construed to create or imply any contract or right of continued employment between Employee and the Company (or any of its Subsidiaries).

In the case of fraud or other intentional misconduct on the part of Employee (or any other event or circumstance set forth in any clawback policy implemented by the Company or any Subsidiary) that necessitates a restatement of the Company's financial results, Employee will be required to reimburse the Company for any Common Stock issued to Employee under this Award in excess of the amount that would have been issued to Employee based on the restated financial results.

Section 4.3 Section 409A

The MSU Award granted hereunder is intended to be exempt from or comply in all respects with Section 409A and this Agreement shall be interpreted accordingly. However, if at any time the Committee or the Company determines that the MSUs may be subject to penalty taxes for

---

noncompliance with Section 409A, the Committee or the Company shall have the right, in its sole discretion, to amend this Agreement as it may determine is necessary or desirable for the MSUs to satisfy the requirements of Section 409A. No provision of this Agreement or the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from Employee or any other individual to the Company or any of its affiliates, employees or agents.

Section 4.4 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. Titles are provided in this Agreement for convenience only and shall not serve as a basis for interpretation or construction of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties.

Employee  
\* \_\_\_\_\_  
Address  
\* \_\_\_\_\_

Avery Dennison Corporation  
  
By: /s/ Dean A. Scarborough  
Chairman, President & Chief Executive Officer



AVERY DENNISON CORPORATION  
LONG-TERM INCENTIVE UNIT AGREEMENT

THIS AGREEMENT, dated \*, is made by and between Avery Dennison Corporation, a Delaware corporation (“Company”) and \*, an employee of the Company or a Subsidiary (“Employee”).

WHEREAS, the Compensation and Executive Personnel Committee of the Company’s Board of Directors (“Committee”) or the Chief Executive Officer (“CEO”), as authorized by the Committee, has decided to grant an Award of long-term incentive units (“LTI Units”) provided for herein to Employee under the terms of the Long-Term Incentive Unit Plan (“Plan”).

NOW, THEREFORE, Company and Employee agree as follows:

#### ARTICLE 1 – DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan.

#### ARTICLE 2 – TERMS OF AWARD

##### 2.1 LTI Units

As of the date of this Agreement, Company grants to Employee an award of \* LTI Units, subject to the terms and conditions set forth in this Agreement and the Plan. The LTI Units shall be held on the books and records of the Company (or its designee) for Employee’s account. The LTI Units shall be earned, vested and paid as set forth in this Agreement. Except as set forth in Sections 2.4 through 2.6, the LTI Units shall vest as follows, subject to Employee’s continued employment with the Company through each such vesting date:

##### 2.2 Restriction Period

(a) No portion of the LTI Units may be sold, transferred, assigned, pledged or otherwise encumbered by Employee until all or a portion of the LTI Units are vested and settled. The period of time between the date hereof and the date all or a portion of the LTI Units becomes vested is referred to herein as the “Restriction Period.” At the time all or a portion of the LTI Units vest, all or a portion of the LTI Units vest, as applicable. Notwithstanding any other provision, the LTI Units must be vested before the Company is obligated to settle the LTI Units as described in Article 3.

(b) Subject to Sections 2.4 through 2.6, any portion of the LTI Units that has not vested by the time of Employee’s Termination of Service shall be forfeited by Employee.

##### 2.3 Lapse of Restriction Period

The Restriction Period shall lapse when the LTI Units vest as set forth above or as otherwise set forth in this Agreement.

##### 2.4 Change of Control

In the event of a Change in Control, the restrictions in this Agreement will lapse and be removed if the surviving or successor corporation or parent or subsidiary thereof terminates Employee’s employment or service without Cause upon or within 24 months following the Change in Control and the LTI Units granted to Employee pursuant to this Agreement will be earned and vested as of the date of such termination.

1

---

##### 2.5 Death; Disability

If Employee’s employment with the Company or its Subsidiaries terminates by reason of Employee’s death or Disability, the restrictions imposed upon the LTI Units granted to Employee pursuant to this Agreement will lapse and be removed, and the LTI Units will be earned and vested as of the date of Termination of Service.

##### 2.6 Retirement

If Employee’s employment with the Company or its Subsidiaries terminates by reason of Employee’s Retirement, the restrictions imposed upon the LTI Units granted to Employee pursuant to this Agreement will lapse and be removed, and the LTI Units will be earned and vested as of the date of Termination of Service.

##### 2.7 Adjustments in LTI Units

In the event of an Equity Restructuring, the Committee or the Company shall make appropriate and equitable adjustments to the LTI Units granted hereunder.

#### ARTICLE 3 – SETTLEMENT OF LTI UNITS

##### 3.1 Settlement of LTI Units

Settlement of the LTI Units is subject to the following conditions:

(a) The receipt by the Company of full payment or withholding for all related taxes. Employee shall be liable for any and all taxes, including withholding taxes, arising out of this LTI Units or the vesting of the LTI Units hereunder; and

(b) The Company shall make a cash payment to Employee in an amount equal to the product of (i) the aggregate number of such vested LTI Units and (ii) the Fair Market Value of a share of the Company’s common stock as of the date of vesting (less withholding taxes) as soon as practical following the vesting of same, but in no event later than two and one-half (2.5) months after the calendar year in which the LTI Units vest; provided, however, that, if Employee is determined at the time of his separation from service to be a “specified employee” for purposes of Section 409A(a)(2)(B)(i) of the Internal Revenue Code of 1986, as amended (“Code”), to the extent delayed payment of the LTI Units is required in order to avoid a prohibited distribution under Section 409A(2)(B)(i) of the Code, such payment shall be made on the earlier

of (A) the expiration of the six-month period measured from the date of Employee's "separation from service" with the Company (as such term is defined in the Department of Treasury Regulations issued under Section 409A of the Code) or (B) the date of Employee's death, but in no event earlier than the date on which the LTI Units are paid to active employees pursuant to this Section 3.1(b). The determination of whether Employee is a "specified employee" shall be made by the Company in accordance with the terms of Section 409A of the Code and applicable guidance thereunder. Immediately following payment with respect to vested LTI Units, Employee shall forfeit such vested LTI Units for no consideration and they shall be of no further value whatsoever.

ARTICLE 4 – MISCELLANEOUS

4.1 Agreement Subject to Plan

The Agreement is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

4.2 Administration / Compensation Recovery

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, modify or revoke any such procedures. Nothing in this Agreement or the Plan shall be construed to create or imply any contract or right of continued employment between Employee and the Company (or any of its Subsidiaries).

In the case of fraud or other intentional misconduct on the part of Employee (or any other event or circumstance set forth in any clawback policy implemented by the Company or any Subsidiary) that necessitates a restatement of the Company's financial results, Employee will be required to reimburse the Company for any Common Stock issued to Employee under this Award in excess of the amount that would have been issued to Employee based on the restated financial results.

4.3 Code Section 409A

The LTI Units granted hereunder is intended to be exempt from or comply in all respects with Section 409A and this Agreement shall be interpreted accordingly. However, if at any time the Committee or the Company determines that the LTI Units may be subject to penalty taxes for noncompliance with Section 409A, the Committee or the Company shall have the right, in its sole discretion, to amend this Agreement as it may determine is necessary or desirable for the LTI Units to satisfy the requirements of Section 409A. No provision of this Agreement or the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from Employee or any other individual to the Company or any of its affiliates, employees or agents.

4.4 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. Titles are provided herein for convenience only and shall not serve as a basis for interpretation or construction of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto.

Employee

Avery Dennison Corporation

\* \_\_\_\_\_

By: /s/ Dean A. Scarborough  
Chairman, President & Chief Executive Officer

Address

\* \_\_\_\_\_



## AVERY DENNISON CORPORATION

## PERFORMANCE LONG-TERM INCENTIVE UNIT AGREEMENT

THIS AGREEMENT, dated \*, is made by and between Avery Dennison Corporation, a Delaware corporation ("Company") and \*, an employee of the Company or a Subsidiary ("Employee").

WHEREAS, the Compensation and Executive Personnel Committee of the Company's Board of Directors ("Committee") or the Chief Executive Officer ("CEO"), as authorized by the Committee, has decided to grant an Award of performance long-term incentive units ("Performance LTI Units") provided for herein to Employee under the terms of the Long-Term Incentive Unit Plan ("Plan").

NOW, THEREFORE, Company and Employee agree as follows:

## ARTICLE 1 – DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan.

## ARTICLE 2 – TERMS OF AWARD

## 2.1 Performance LTI Units

As of the date of this Agreement, the Company grants to Employee an award of \* Performance LTI Units, assuming that the Company's results at the end of the performance period described in Section 2.2 produce 100% of the target performance and subject to the terms and conditions set forth in this Agreement and the Plan. The Performance LTI Units shall be held on the books and records of the Company (or its designee) for Employee's account. The Performance LTI Units shall be earned, vested and paid as set forth in this Agreement.

## 2.2 Performance Period

(a) No portion of the Performance LTI Units may be sold, transferred, assigned, pledged or otherwise encumbered by Employee until the Performance LTI Units are earned and settled. Employee must be employed by the Company from the date of this Agreement until the date that the Performance LTI Units are earned and vested, except as provided in Sections 2.3 through 2.5. The "Performance Period" shall begin on the first day of the fiscal year in which these Performance LTI Units were granted and end on the last day of the fiscal year in which the second anniversary of the date of such grant occurs (resulting in a three-year Performance Period). Except as provided in Sections 2.3 and 2.4, after the end of the Performance Period, the specific amount of payment to be issued to Employee under the Performance LTI Units shall be determined based on the Company's results during the Performance Period compared against the performance goals ("Goals") approved by the Committee (as modified by any adjustment items approved by the Committee). The Goals will be communicated, directly or indirectly, to Employee as soon as reasonably practical following their approval by the Committee.

(b) Except as provided in Sections 2.3 and 2.4, the Performance LTI Units will be earned and vested on the last day of the Performance Period, subject to the Committee's certification of results of the Goals after the end of the Performance Period.

(c) Subject to Sections 2.3 through 2.5 of this Agreement, if the Performance LTI Units have not been earned by the time of Employee's Termination of Service, they shall be forfeited by Employee.

## 2.3 Change of Control

In the event of a Change in Control, if the surviving or successor corporation or parent or subsidiary thereof terminates Employee's employment or service without Cause upon or within 24 months following the Change in Control prior to the determinations referred to in Section 2.2(a) having been made by the Committee, the Performance LTI Units granted to Employee pursuant to this Agreement will be earned and vested as of the date of such termination at 100% target performance regardless of the Company's actual performance.

## 2.4 Death; Disability

If Employee's employment with the Company or its Subsidiaries terminates by reason of Employee's death or Disability, the Performance LTI Units will be earned and vested as of the date of Termination of Service based on a prorated time-based formula starting with the beginning of the Performance Period through the end of month in which there is a Termination of Service divided by the total months in the original Performance Period multiplied by the number of shares in the Performance LTI Units assuming 100% target performance.

## 2.5 Retirement

Performance LTI Units granted to employees whose employment with the Company is terminated as a result of Retirement may be earned and vested after the end of the Performance Period based on the Company's actual performance as determined in Section 2.2(a) on a prorated time-based formula starting with the beginning of the Performance Period through the end of the month in which there is Termination of Service, divided by the total number of months in the Performance Period.

## 2.6 Adjustments in Performance LTI Units

In the event of an Equity Restructuring, the Committee or the Company shall make appropriate and equitable adjustments to the Performance LTI Units granted hereunder.

## ARTICLE 3 – SETTLEMENT OF PERFORMANCE LTI UNITS

## 3.1 Settlement of the Performance LTI Units

Settlement of the Performance LTI Units is subject to the following conditions:

(a) The receipt by the Company of full payment or withholding for all related taxes. Employee shall be liable for any and all taxes, including withholding taxes, arising out of this Performance LTI Units or the vesting of the Performance LTI Units hereunder.

(b) The Company shall make a cash payment to Employee in an amount equal to the product of (i) the aggregate number of such vested Performance LTI Units and (ii) the Fair Market Value of a share of the Company's common stock as of the date of vesting (less withholding taxes) as soon as practical following the vesting of same, but in no event later than two and one-half (2.5) months after the calendar year in which the Performance LTI Units vest; provided, however, that, if Employee is determined at the time of his separation from service to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Internal Revenue Code of 1986, as amended ("Code"), to the extent delayed payment of the Performance LTI Units is required in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, such payment shall be made on the earlier of (i) the expiration of the six-month period measured from the date of Employee's "separation from service" with the Company (as such term is defined in the Department of Treasury Regulations issued under Section 409A of the Code) or (ii) the date of Employee's death, but in no event earlier than the date on which the Performance LTI Units are paid to active employees pursuant to this Section 3.1(b). The determination of whether Employee is a "specified employee" shall be made by the Company in accordance with the terms of Section 409A of the Code and applicable guidance thereunder. Immediately following payment with respect to vested Performance LTI Units, Employee shall forfeit such vested Performance LTI Units for no consideration and they shall be of no further value whatsoever.

---

#### ARTICLE 4 – MISCELLANEOUS

##### 4.1 Agreement Subject to Plan

The Agreement is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

##### 4.2 Administration / Compensation Recovery

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, modify or revoke any such procedures. Nothing in this Agreement or the Plan shall be construed to create or imply any contract or right of continued employment between Employee and the Company (or any of its Subsidiaries).

In the case of fraud or other intentional misconduct on the part of Employee (or any other event or circumstance set forth in any clawback policy implemented by the Company or any Subsidiary) that necessitates a restatement of the Company's financial results, Employee will be required to reimburse the Company for any Common Stock issued to Employee under this Award in excess of the amount that would have been issued to Employee based on the restated financial results.

##### 4.3 Code Section 409A

The Performance LTI Units granted hereunder is intended to be exempt from or comply in all respects with Section 409A and this Agreement shall be interpreted accordingly. However, if at any time the Committee or the Company determines that the Performance LTI Units may be subject to penalty taxes for noncompliance with Section 409A, the Committee or the Company shall have the right, in its sole discretion, to amend this Agreement as it may determine is necessary or desirable for the Performance LTI Units to satisfy the requirements of Section 409A. No provision of this Agreement or the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from Employee or any other individual to the Company or any of its affiliates, employees or agents.

##### 4.4 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. Titles are provided in this Agreement for convenience only and shall not serve as a basis for interpretation or construction of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties.

Employee  
\* \_\_\_\_\_  
Address  
\* \_\_\_\_\_

Avery Dennison Corporation  
  
By: /s/ Dean A. Scarborough  
Chairman, President & Chief Executive Officer

---

AVERY DENNISON CORPORATION  
RESTRICTED STOCK UNIT AGREEMENT

THIS AGREEMENT, dated \*, is made by and between Avery Dennison Corporation, a Delaware corporation ("Company") and \*, a non-employee director of the Company ("Awardee").

WHEREAS, the Compensation and Executive Personnel Committee ("Committee") has reviewed and recommended, and the Board of Directors has approved, the Non-Employee Director Compensation Program, which provides for certain equity awards to be granted annually to the Company's non-employee directors; and

WHEREAS, the Company hereby grants an Award of restricted stock units ("RSUs") provided for herein to Awardee under the terms of the Stock Option and Incentive Plan, as amended and restated ("Plan").

NOW, THEREFORE, Company and Awardee agree as follows:

#### ARTICLE 1 – DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan.

#### ARTICLE 2 – TERMS OF AWARD

##### 2.1 RSU Award

As of the date of this Agreement, Company grants to Awardee an RSU Award representing a right to receive \* shares of the Company's Common Stock in the future, subject to the terms and conditions set forth in this Agreement and the Plan. Each RSU represents one hypothetical share of Common Stock of the Company. The RSU Award shall be held on the books and records of the Company (or its designee) for Awardee's RSU account, but shall not represent an equity interest in the Company until such time as actual shares shall be issued to Awardee. The RSU Award shall be earned, vested and paid as set forth in this Agreement and shall not earn dividend equivalents. Except as set forth in Sections 2.4 through 2.6, the RSU Award shall vest one-third on each of the first, second and third anniversary of the date of grant, subject to Awardee's continued service as a director through each such anniversary.

##### 2.2 Restriction Period

(a) No portion of the RSU Award may be sold, transferred, assigned, pledged or otherwise encumbered by Awardee until all or a portion of the RSU Award becomes vested and the shares are issued. The period of time between the date hereof and the date all or a portion of the RSU Award becomes vested is referred to herein as the "Restriction Period." At the time all or a portion of the RSU Award vests, all or a portion of the RSUs vest, as applicable. Notwithstanding any other provision, the RSUs must be vested before the Company is obligated to settle the RSU Award as described in Article 3.

(b) Subject to Sections 2.4 through 2.6, if Awardee experiences a Termination of Service, the portion of the RSU Award that has not vested by the time of Awardee's Termination of Service shall be forfeited by Awardee.

##### 2.3 Lapse of Restriction Period

The Restriction Period shall lapse when the RSU Award vests as set forth above or as otherwise set forth in this Agreement.

##### 2.4 Change in Control

In the event of a Change in Control, the restrictions in this Agreement will lapse and be removed if the surviving or successor corporation or parent or subsidiary thereof terminates Awardee's directorship or service without Cause upon or within 24 months following the Change in Control and the RSU Award granted to Awardee pursuant to this Agreement will be earned and vested as of the date of such termination.

##### 2.5 Death; Disability

If Awardee's relationship with the Company terminates by reason of Awardee's death or Disability, the restrictions imposed upon the RSU Award granted to Awardee pursuant to this Agreement will lapse and be

removed, and the RSU Award will be earned and vested as of the date of Termination of Service.

##### 2.6 Retirement

If Awardee's relationship with the Company terminates by reason of Awardee's Retirement, the restrictions imposed upon the RSU Award granted to Awardee pursuant to this Agreement will lapse and be removed, and the RSU Award will be earned and vested as of the date of Termination of Service.

##### 2.7 Adjustments in RSU Award

In the event of an Equity Restructuring, the Committee or the Company shall make appropriate and equitable adjustments to the RSU Award granted hereunder.

#### ARTICLE 3 – ISSUANCE OF COMMON STOCK

##### 3.1 Conditions to Issuance of Common Stock

The shares of Common Stock deliverable for the RSU Award, or any part thereof, may be either previously authorized but unissued shares or issued shares that have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. Awardee shall not have the rights of a shareholder with respect to this RSU Award until shares are issued to Awardee. Issuance of shares of Common Stock is subject to the following conditions:

(a) Awardee shall establish an equity account with a broker designated by the Company (currently Charles Schwab) so that the shares from vested RSUs may be electronically transferred to Awardee's account.

(b) Subject to Section 4.3 below, the Company shall issue via electronic transfer to Awardee's brokerage account the number of shares of Common Stock represented by the number of vested RSUs as soon as practical following the vesting of same, but in no event later than two and one-half (2.5) months after the date on which the RSUs vest. Delivery of these shares of Common Stock shall satisfy the Company's obligations under this Agreement.

(c) Awardee shall be liable for any and all taxes, including withholding taxes, arising out of this RSU Award or the vesting of the RSU Award hereunder.

ARTICLE 4 – MISCELLANEOUS

4.1 Agreement Subject to Plan

The Agreement is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

4.2 Administration

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, modify or revoke any such procedures. Nothing in this Agreement or the Plan shall be construed to create or imply any contract or right of continued directorship between Awardee and the Company.

4.3 Code Section 409A

The RSU Award granted hereunder is intended to be exempt from or comply in all respects with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), and this Agreement shall be interpreted accordingly. However, if at any time the Committee or the Company determines that the RSUs may be subject to penalty taxes for noncompliance with Section 409A, the Committee or the Company shall have the right, in its sole discretion, to amend this Agreement as it may determine is necessary or desirable for the RSUs to satisfy the requirements of Section 409A. No provision of this Agreement or the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from Awardee or any other individual to the Company or any of its affiliates, employees or agents.

4.4 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. Titles are provided in this Agreement for convenience only and shall not serve as a basis for interpretation or construction of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto.

Awardee  
\* \_\_\_\_\_

Avery Dennison Corporation

By: /s/ Dean A. Scarborough  
Chairman, President & Chief Executive Officer

Address  
\* \_\_\_\_\_

**AVERY DENNISON CORPORATION AND SUBSIDIARIES**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
(Dollars in millions)

	2013	2012	2011
Earnings:			
Income from continuing operations before taxes	\$ 363.1	\$ 237.6	\$ 213.2
Add: Fixed charges <sup>(1)</sup>	87.9	106.8	110.7
Amortization of capitalized interest	3.8	3.7	3.6
Less: Capitalized interest	(3.4)	(3.4)	(4.9)
	<u>\$ 451.4</u>	<u>\$ 344.7</u>	<u>\$ 322.6</u>
Fixed charges: <sup>(1)</sup>			
Interest expense	\$ 58.9	\$ 72.9	\$ 71.5
Capitalized interest	3.4	3.4	4.9
Interest portion of leases	25.6	30.5	34.3
	<u>\$ 87.9</u>	<u>\$ 106.8</u>	<u>\$ 110.7</u>
Ratio of Earnings to Fixed Charges	<u>5.1</u>	<u>3.2</u>	<u>2.9</u>

<sup>(1)</sup> The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose, "earnings" consist of income from continuing operations before taxes plus fixed charges and amortization of capitalized interest, less capitalized interest. "Fixed charges" consist of interest expense, capitalized interest and the portion of rent expense (estimated to be 35%) on operating leases deemed representative of interest.

Certain prior year amounts have been reclassified to conform to current year presentation.

Businesses at a Glance

	<u>SEGMENT</u> <u>Pressure-sensitive Materials</u>	<u>SEGMENT</u> <u>Retail Branding and Information Solutions</u>	<u>OTHER</u> <u>Other specialty converting businesses</u>
<b>BUSINESSES</b>	• Materials Group	• Retail Branding and Information Solutions	• Vancive Medical Technologies
<b>2013 SALES IN MILLIONS</b>	\$4,455	\$1,611	\$74
<b>PERCENT OF SALES*</b>	73%	26%	1%
<b>GLOBAL BRAND</b>	Avery Dennison®	Avery Dennison® Monarch®	Vancive Medical Technologies™
<b>VALUE</b>	The technologies and materials of the Pressure-sensitive Materials businesses enhance brands' shelf, store and street appeal; inform shoppers of ingredients; protect brand security; improve operational efficiency; and provide visual information that enhances safety	RBIS provides intelligent, creative, and sustainable solutions that elevate brands and accelerate performance through the global retail supply chain	Vancive Medical Technologies delivers advanced medical tapes, films and technologies with its partners to help improve the patient experience, accelerate operational efficiencies, and manage the costs of providing quality patient care and improving outcomes
<b>PRODUCTS/SOLUTIONS</b>	Pressure-sensitive labeling materials; packaging materials and solutions; roll-fed sleeve; performance polymer adhesives and engineered films; graphic imaging media; reflective materials; pressure-sensitive tapes for automotive, building and construction; electronics and industrial applications; diaper tapes and closures	Creative services; brand embellishments; graphic tickets; tags and labels; sustainable packaging; inventory visibility and loss prevention solutions; data management services; price tickets; printers and scanners; RFID (radio-frequency identification) inlays; fasteners; brand protection and security solutions	Skin-contact adhesives; surgical, wound care, ostomy and securement products; medical barrier films; wearable sensor technology
<b>MARKET SEGMENTS</b>	Food; beverage; wine and spirits; home and personal care products; pharmaceuticals; durables; fleet vehicle/automotive; architectural/retail; promotional/advertising; traffic; safety; transportation original equipment manufacturing; personal care; electronics; building and construction	Apparel manufacturing and retail supply chain; food service and supply chain; hard goods and supply chain; pharmaceutical supply chain; logistics	Medical and healthcare
<b>CUSTOMERS</b>	Label converters; package designers; packaging engineers and manufacturers; industrial manufacturers; printers; distributors; designers; advertising agencies; government agencies; sign manufacturers; graphic vendors; tape converters; original equipment manufacturers; construction firms; personal care product manufacturers	Apparel brands; manufacturers and retailers; food service, grocery and pharmaceutical supply chains; consumer goods brands; manufacturers and retailers; automotive manufacturers; transportation companies	Medical products and device manufacturers
<b>WEBSITES</b>	www.label.averydennison.com www.graphics.averydennison.com www.tapes.averydennison.com	www.rbis.averydennison.com www.rfid.averydennison.com	www.vancive.averydennison.com
<b>LEADER</b>	<b>Donald A. Nolan</b> , President, Materials Group	<b>R. Shawn Neville</b> , President, Retail Branding and Information Solutions	<b>Howard Kelly</b> , Vice President and General Manager, Vancive Medical Technologies
	* Percentage of sales calculations exclude sales from discontinued operations.		

## Safe Harbor Statement

The matters discussed in this Annual 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," "estimate," "expect," "foresee," "guidance," "intend," "may," "might," "objective," "plan," "potential," "project," "seek," "shall," "should," "target," "will," "would," or variations thereof, and 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.

## Five-year Summary

	2013		2012		2011		2010		2009 <sup>(1)</sup>	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
<b>(Dollars in millions, except % and per share amounts)</b>										
<b>For the Year</b>										
Net sales	\$ 6,140.0	100.0	\$ 5,863.5	100.0	\$ 5,844.9	100.0	\$ 5,604.8	100.0	\$ 5,020.4	100.0
Gross profit	1,637.7	26.7	1,528.2	26.1	1,475.3	25.2	1,466.4	26.2	1,223.6	24.4
Marketing, general and administrative expense	1,179.0	19.2	1,148.9	19.6	1,139.4	19.5	1,145.9	20.4	1,054.8	21.0
Goodwill and indefinite-lived intangible asset impairment charges	—	—	—	—	—	—	—	—	832.0	16.6
Interest expense	59.0	1.0	72.9	1.2	71.1	1.2	76.6	1.4	85.3	1.7
Other expense, net <sup>(2)</sup>	36.6	.6	68.8	1.2	51.6	.9	18.7	.3	161.9	3.2
Income (loss) from continuing operations before taxes	363.1	5.9	237.6	4.1	213.2	3.6	225.2	4.0	(910.4)	(18.1)
Provision for (benefit from) income taxes	118.8	1.9	80.0	1.4	71.5	1.2	(8.4)	(.1)	(86.0)	(1.7)
Income (loss) from continuing operations	244.3	4.0	157.6	2.7	141.7	2.4	233.6	4.2	(824.4)	(16.4)
(Loss) income from discontinued operations, net of tax	(28.5)	N/A	57.8	N/A	48.4	N/A	83.3	N/A	77.7	N/A
Net income (loss)	215.8	3.5	215.4	3.7	190.1	3.3	316.9	5.7	(746.7)	(14.9)

	2013	2012	2011	2010	2009
<b>Per Share Information</b>					
Income (loss) per common share from continuing operations	\$ 2.48	\$ 1.54	\$ 1.34	\$ 2.21	\$ (7.96)
Income (loss) per common share from continuing operations, assuming dilution	2.44	1.52	1.33	2.19	(7.96)
(Loss) income per common share from discontinued operations	(.29)	.56	.46	.79	.75
(Loss) income per common share from discontinued operations, assuming dilution	(.28)	.56	.45	.78	.75
Net income (loss) per common share	2.19	2.10	1.80	3.00	(7.21)
Net income (loss) per common share, assuming dilution	2.16	2.08	1.78	2.97	(7.21)
Dividends per common share	1.14	1.08	1.00	0.80	1.22
Weighted-average common shares outstanding (in millions)	98.4	102.6	105.8	105.8	103.6
Weighted-average common shares outstanding, assuming dilution (in millions)	100.1	103.5	106.8	106.8	103.6
Book value per share at fiscal year-end	\$ 15.51	\$ 15.82	\$ 15.60	\$ 15.61	\$ 12.94
Market price per share at fiscal year-end	50.48	34.40	28.68	42.34	36.49
Market price per share range	34.92 to 50.65	26.38 to 34.97	23.97 to 43.11	30.79 to 42.49	17.26 to 40.02

<b>At End of Year</b>					
Working capital (deficit) <sup>(3)</sup>	\$ 536.4	\$ 25.5	\$ 271.3	\$ 120.1	\$ (134.5)
Property, plant and equipment, net <sup>(3)</sup>	922.5	1,015.5	1,079.4	1,262.9	1,354.7
Total assets	4,610.6	5,105.3	4,972.7	5,099.4	5,002.8
Long-term debt and capital leases <sup>(3)</sup>	950.6	702.2	954.2	956.2	1,088.7
Total debt <sup>(3)</sup>	1,027.5	1,222.4	1,181.3	1,337.2	1,624.3
Shareholders' equity	1,492.2	1,580.9	1,658.5	1,645.7	1,362.6
Number of employees	26,000	29,800	30,400	32,100	31,300
<b>Other Information</b>					
Depreciation and amortization expense <sup>(4)</sup>	\$ 204.3	\$ 211.0	\$ 220.0	\$ 220.5	\$ 234.7
Research and development expense <sup>(4)</sup>	96.0	98.6	93.8	84.5	77.2
Effective tax rate <sup>(4)</sup>	32.7%	33.7%	33.5%	(3.7)%	9.4%
Return on average shareholders' equity	13.9	13.4	11.1	21.6	(55.7)
Return on average total capital	9.3	9.1	7.6	12.8	(20.6)

(1) Results for 2009 reflected a 53-week period.

(2) Included pretax charges for severance and related costs, asset impairment, lease and other contract cancellation charges, and other items.

(3) Amounts for 2012 and 2011 are related to continuing operations only.

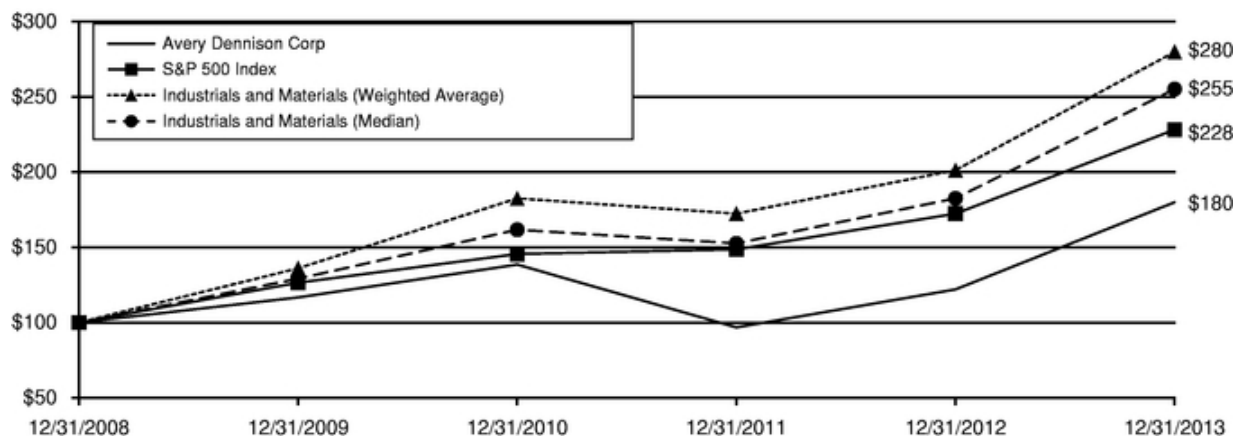
(4) Amounts and rates related to continuing operations only.



## Stockholder Return Performance

The following graph compares the cumulative stockholder return on our common stock, including the reinvestment of dividends, with the return on the S&P 500® Stock Index, the average return (weighted by market capitalization) of the S&P 500® Materials and Industrials subsets (the "Market Basket"), and the median return of the Market Basket, in each case for the five-year period ending December 31, 2013.

### Comparison of Five-Year Cumulative Total Return as of December 31, 2013



### Total Return Analysis <sup>(1)</sup>

	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Avery Denison Corporation	\$ 100.0	\$ 116.71	\$ 138.54	\$ 96.77	\$ 122.03	\$ 179.93
S&P 500 Index	\$ 100.0	\$ 126.47	\$ 145.55	\$ 148.59	\$ 172.34	\$ 228.13
Market Basket (Weighted Average) <sup>(2)</sup>	\$ 100.0	\$ 136.06	\$ 182.52	\$ 172.36	\$ 201.23	\$ 279.80
Market Basket (Median)	\$ 100.0	\$ 129.13	\$ 161.69	\$ 152.62	\$ 182.51	\$ 255.11

<sup>(1)</sup> Assumes \$100 invested on December 31, 2008 and the reinvestment of dividends.

<sup>(2)</sup> Average weighted by market capitalization.

Historical stock price performance is not necessarily indicative of future stock price performance.

# 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 Consolidated Financial Statements and notes thereto. It includes the following sections:

Non-GAAP Financial Measures	14
Overview and Outlook	14
Analysis of Results of Operations	16
Results of Operations by Reportable Segment	17
Financial Condition	18
Critical Accounting Policies and Estimates	23
Recent Accounting Requirements	27
Market-Sensitive Instruments and Risk Management	27

## NON-GAAP FINANCIAL MEASURES

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America, or GAAP. Our discussion of financial results includes several non-GAAP financial measures we use to provide additional information concerning our operating performance and liquidity 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. Based upon feedback from our 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. These measures may not be comparable to similarly named non-GAAP measures used by other companies.

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, and 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 sale 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, and timing, and that may increase the volatility of the working capital as a percent 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.
- *Net debt to EBITDA ratio* refers to total debt less cash and cash equivalents, divided by EBITDA, which refers to earnings from continuing operations before interest, taxes, depreciation and amortization. We believe the net debt to EBITDA ratio is meaningful because investors view it as an indicator of our leverage position.

## OVERVIEW AND OUTLOOK

### Fiscal Year

Normally, each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks. Our 2013, 2012, and 2011 fiscal years consisted of 52-week periods ending December 28, 2013, December 29, 2012, and December 31, 2011, respectively.

### Divestitures

On January 29, 2013, we entered into an agreement to sell our Office and Consumer Products ("OCP") and Designed and Engineered Solutions ("DES") businesses to CCL Industries Inc. ("CCL"). On July 1, 2013, we completed the sale for a total purchase price of \$500 million (\$481.2 million, net of cash provided) 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.

The sale resulted in a loss, net of tax, of \$16 million in 2013.

We continue to be subject to indemnification provisions, including for breaches of certain representations, warranties, and covenants 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 the OCP and DES businesses operated. Prior

## Management's Discussion and Analysis of Financial Condition and Results of Operations

to this divestiture, the OCP business was reported as a reportable segment and the DES business was included in our other specialty converting businesses.

### Sales

Our sales from continuing operations increased 5% on both a reported and organic basis in 2013 compared to 2012 due to higher volume.

In 2012, sales remained approximately the same as prior year as the increase in sales on an organic basis was offset by the unfavorable impact of foreign currency translation. On an organic basis, sales in 2012 increased 4% due to higher volume.

	2013	2012	2011
<b>Estimated change in sales due to</b>			
Organic sales change	5%	4%	2%
Foreign currency translation	—	(3)	3
Reported sales change <sup>(1)</sup>	5%	—%	4%

<sup>(1)</sup> Totals may not sum due to rounding.

### Income from Continuing Operations

Income from continuing operations increased from approximately \$158 million in 2012 to approximately \$244 million in 2013. Major factors affecting the change in income from continuing operations in 2013 compared to 2012 included:

#### Positive factors:

- Benefits from productivity initiatives, including savings from restructuring actions
- Higher volume
- Gain on sale of assets
- Lower restructuring costs
- Lower interest expense

#### Offsetting factors:

- Higher employee-related costs
- Higher provision for income taxes
- Charitable contribution to Avery Dennison Foundation

The net impact of pricing and changes in raw material input costs was modest as commodity costs were relatively stable during the period.

### Cost Reduction 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 (the "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.

We have achieved in excess of \$100 million in annualized savings from this program. Approximately \$75 million and approximately \$20 million in savings related to our 2012 Program were realized in 2013 and 2012, respectively. Incremental savings of more than \$20 million related to our 2012 Program are expected to be realized in 2014.

#### 2011 Actions

In 2011, we recorded approximately \$44 million in restructuring charges, net of reversals, including charges for discontinued operations, consisting of severance and related costs for the reduction of approximately 910 positions, asset impairment charges, and lease cancellation costs. We realized approximately \$55 million in annualized savings from these restructuring actions, with approximately one-fourth of the amount realized in 2011 and the remainder in 2012.

Refer to Note 11, "Cost Reduction Actions," to the Consolidated Financial Statements for more information.

### Free Cash Flow

(In millions)	2013	2012	2011
Net cash provided by operating activities	\$ 320.1	\$ 513.4	\$ 422.7
Purchases of property, plant and equipment	(129.2)	(99.2)	(109.6)
Purchases of software and other deferred charges	(52.2)	(59.1)	(26.0)
Proceeds from sale of property, plant and equipment	38.7	4.2	4.6
Sales (purchases) of investments, net	.1	(6.7)	.3
Plus: charitable contribution to Avery Dennison Foundation utilizing proceeds from divestitures	10.0	—	—
Plus: discretionary pension plan contributions utilizing proceeds from divestitures	50.1	—	—
Plus (minus): divestiture-related payments and free cash outflow (inflow) from discontinued operations, net	92.7	(49.7)	(62.3)
<b>Free cash flow</b>	<b>\$ 330.3</b>	<b>\$ 302.9</b>	<b>\$ 229.7</b>

Free cash flow in 2013 increased compared to 2012 primarily due to higher operating income and lower pension contributions (excluding discretionary pension plan contributions utilizing proceeds from divestitures), partially offset by buildup in inventory levels to support higher sales, higher payments for taxes, as well as higher incentive compensation paid in 2013 for the 2012 performance year.

Free cash flow in 2012 increased compared to 2011 due to increased focus on working capital management, higher net income and lower incentive compensation paid in 2012 for the 2011 performance year, partially offset by the timing of accounts receivable from sales in late fourth quarter 2012.

See "Analysis of Results of Operations" and "Liquidity" for more information.

### Outlook

Certain factors that we believe may contribute to results for 2014 compared to results for 2013 are described below.

We expect organic sales growth of 3% to 5% in 2014.

The extra week in our 2014 fiscal year is anticipated to increase sales and to have a modest positive impact on earnings.

We expect earnings to increase in 2014.

We estimate cash restructuring costs of approximately \$45 million in 2014.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

We expect our annual effective tax rate in 2014 to be comparable to 2013; however, our annual effective tax rate may be impacted by future events including changes in tax laws, geographic income mix, repatriation of cash, tax audits, closure of tax years, legal entity restructuring, and changes in valuation allowances on deferred tax assets. Our effective tax rate can potentially have wide variances from quarter to quarter, resulting from interim reporting requirements and the recognition of discrete events.

We anticipate our capital and software expenditures in 2014 to be approximately \$185 million.

### ANALYSIS OF RESULTS OF OPERATIONS

#### Income from Continuing Operations Before Taxes

(In millions)	2013	2012	2011
Net sales	\$ 6,140.0	\$ 5,863.5	\$ 5,844.9
Cost of products sold	4,502.3	4,335.3	4,369.6
Gross profit	1,637.7	1,528.2	1,475.3
Marketing, general and administrative expense	1,179.0	1,148.9	1,139.4
Interest expense	59.0	72.9	71.1
Other expense, net	36.6	68.8	51.6
Income from continuing operations before taxes	\$ 363.1	\$ 237.6	\$ 213.2

	%	%	%
<b>As a Percent of Sales</b>			
Gross profit	26.7	26.1	25.2
Marketing, general and administrative expense	19.2	19.6	19.5
Income from continuing operations before taxes	5.9	4.1	3.6

#### Sales

In 2013, sales grew approximately 5% on both a reported and organic basis compared to the prior year due to higher volume.

In 2012, sales remained approximately the same as the prior year, as the unfavorable impact of foreign currency translation largely offset sales growth on an organic basis. On an organic basis, sales grew 4% in 2012 due to higher volume.

#### Gross Profit Margin

Gross profit margin in 2013 improved compared to 2012 primarily reflecting benefits from productivity initiatives, including restructuring savings, and higher volume, partially offset by changes in product mix and higher employee-related costs. The net impact of pricing and changes in raw material input costs was modest as commodity costs were relatively stable during the period.

Gross profit margin in 2012 improved compared to 2011 primarily reflecting benefits from productivity initiatives, including restructuring savings, and higher volume, partially offset by higher employee-related costs and changes in product mix. The net impact of pricing and changes in raw material input costs was modest as commodity costs were relatively stable during the period.

#### Marketing, General and Administrative Expense

Marketing, general and administrative expense increased in 2013 compared to 2012 due to higher employee-related costs and investments in growth, partially offset by benefits from restructuring.

Marketing, general and administrative expense increased in 2012 compared to 2011 due to higher employee-related costs and investments in growth, partially offset by benefits from productivity initiatives, including restructuring savings, and the favorable impact of foreign currency translation.

#### Interest Expense

Interest expense decreased approximately \$14 million in 2013 as a result of the senior notes we issued in April 2013 having a lower interest rate and fees than our senior notes which matured and were repaid in January 2013, and our repayment in the second half of 2013 of borrowings from outstanding commercial paper issuances utilizing net proceeds from divestitures. Interest expense increased approximately \$2 million in 2012 compared to 2011 due primarily to higher foreign debt balances during 2012.

#### Other Expense, net

(In millions)	2013	2012	2011
<b>Other expense, net by type</b>			
Restructuring costs:			
Severance and related costs	\$ 27.2	\$ 49.3	\$ 35.0
Asset impairment charges and lease and other contract cancellation costs	13.1	6.5	8.9
Other items:			
Charitable contribution to Avery Dennison Foundation	10.0	—	—
Indefinite-lived intangible asset impairment	—	7.0	—
Gain on sale of product line	—	(.6)	—
Gain on sale of assets	(17.8)	—	—
Loss from debt extinguishment	—	—	.7
Gain from curtailment of pension obligation	(1.6)	—	—
Legal settlements	2.5	—	(1.2)
Product line exits	—	3.9	—
Divestiture-related costs <sup>(1)</sup>	3.2	2.7	8.2
Other expense, net	\$ 36.6	\$ 68.8	\$ 51.6

<sup>(1)</sup> Represents only the portion allocated to continuing operations.

Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information regarding the gain from curtailment of pension obligation.

Refer to Note 11, "Cost Reduction Actions," to the Consolidated Financial Statements for more information regarding costs associated with restructuring.

For more information regarding debt extinguishments, refer to "Financial Condition" below, and Note 4, "Debt and Capital Leases," to the Consolidated Financial Statements.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Net Income and Earnings per Share

(In millions, except per share amounts)	2013	2012	2011
Income from continuing operations before taxes	\$ 363.1	\$ 237.6	\$ 213.2
Provision for income taxes	118.8	80.0	71.5
Income from continuing operations	244.3	157.6	141.7
(Loss) income from discontinued operations, net of tax	(28.5)	57.8	48.4
Net income	\$ 215.8	\$ 215.4	\$ 190.1
Net income per common share	\$ 2.19	\$ 2.10	\$ 1.80
Net income per common share, assuming dilution	2.16	2.08	1.78
Net income as a percent of sales	3.5%	3.7%	3.3%
Effective tax rate for continuing operations	32.7	33.7	33.5

### Provision for (Benefit from) Income Taxes

The effective tax rate for continuing operations was 32.7%, 33.7%, and 33.5% for fiscal years 2013, 2012, and 2011, respectively. The 2013 effective tax rate for continuing operations reflected \$11 million of benefit for adjustments to federal income tax, primarily due to the enactment of the American Taxpayer Relief Act of 2012 ("ATRA"), and \$18.8 million of net expense on changes in certain tax reserves and valuation allowances. Additionally, the effective tax rate for 2013 reflected a benefit of \$11.2 million from favorable tax rates on certain earnings from our operations in lower-tax jurisdictions throughout the world, offset by \$12.1 million of expense related to the accrual of U.S. taxes on certain foreign earnings. The 2012 effective tax rate for continuing operations reflected \$6.2 million of benefit from the release of a valuation allowance on certain state tax credits and \$11.2 million of expense related to the accrual of U.S. taxes on certain foreign earnings. Additionally, the effective tax rate for 2012 was negatively impacted by approximately \$5 million from the statutory expiration of federal research and development tax credits on December 31, 2011. The 2011 effective tax rate for continuing operations reflected \$7 million of expense for increases in valuation allowances and \$2.8 million of expense from the settlement of foreign tax audits.

On January 2, 2013, ATRA was enacted, retrospectively extending the federal research and development credit for amounts paid or incurred after December 31, 2011 and before January 1, 2014. The retroactive effects were recognized in the first quarter of 2013. ATRA also retroactively extended the controlled foreign corporation ("CFC") look-through rule that had expired on December 31, 2011. For periods in which the look-through rule is effective, certain dividends, interest, rents, and royalties received or accrued by a CFC of a U.S. multinational enterprise from a related CFC are excluded from U.S. federal income tax. The retroactive effect of the extension of the CFC look-through rule did not have a material impact on our effective tax rate or operating results after taking into consideration tax accruals related to our repatriation assertions.

Refer to Note 12, "Taxes Based on Income," to the Consolidated Financial Statements for more information.

### RESULTS OF OPERATIONS BY REPORTABLE SEGMENT

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

#### Pressure-sensitive Materials Segment

(In millions)	2013	2012	2011
Net sales including intersegment sales	\$ 4,519.6	\$ 4,318.5	\$ 4,320.5
Less intersegment sales	(64.6)	(60.9)	(59.5)
Net sales	4,455.0	4,257.6	4,261.0
Operating income <sup>(1)</sup>	\$ 442.8	\$ 359.7	\$ 349.1
<sup>(1)</sup> Included costs associated with restructuring in all years, gain on sale of product line in 2012, and legal settlement in 2011.	\$ 10.8	\$ 33.5	\$ 20.1

#### Net Sales

In 2013, sales in our Pressure-sensitive Materials segment increased approximately 5% on both a reported and organic basis compared to the prior year due to higher volume. On an organic basis, sales increased at a high single-digit rate in emerging markets and at a low single-digit rate in both North America and Europe.

In our label and packaging materials business, sales on an organic basis increased in 2013 at a low-single digit rate. Combined sales on an organic basis for our graphics, reflective, and performance tapes businesses increased in 2013 at a mid-single digit rate.

In 2012, sales in our Pressure-sensitive Materials segment remained approximately the same compared to the prior year. On an organic basis, sales grew approximately 4% in 2012 due to higher volume.

In our label and packaging materials business, sales on an organic basis increased in 2012 at a mid-single digit rate. Combined sales on an organic basis for our graphics, reflective, and performance tapes businesses increased in 2012 at a low-single digit rate.

#### Operating Income

Operating income increased in 2013 primarily reflecting the benefits from productivity initiatives, including restructuring savings, lower restructuring costs, and higher volume, partially offset by higher employee-related costs. The net impact of pricing and changes in raw material input costs was modest as commodity costs were relatively stable during the period.

Operating income increased in 2012 due to higher volume and the benefits from productivity initiatives, including restructuring savings, partially offset by the impact of changes in product mix, higher employee-related costs, the unfavorable impact of foreign currency translation, and higher restructuring costs.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Retail Branding and Information Solutions Segment

(In millions)	2013	2012	2011
Net sales including intersegment sales	\$ 1,613.5	\$ 1,538.8	\$ 1,513.4
Less intersegment sales	(2.4)	(3.8)	(3.3)
Net sales	\$ 1,611.1	\$ 1,535.0	\$ 1,510.1
Operating income <sup>(1)</sup>	81.7	53.3	42.1
<sup>(1)</sup> Included costs associated with restructuring in all years, gains from curtailment of pension obligation and on sale of assets in 2013, indefinite-lived intangible asset impairment charge in 2012, and legal settlement in 2011.	\$ 20.0	\$ 24.8	\$ 17.8

### Net Sales

In 2013, sales increased approximately 5% on both a reported and organic basis compared to 2012 due to increased demand from U.S. and European retailers and brands, including continued RFID adoption.

In 2012, sales increased approximately 2% reflecting sales growth on an organic basis, partially offset by the unfavorable impact of foreign currency translation. On an organic basis, sales increased approximately 3% due to increased demand from U.S. and European retailers and brands, including continued RFID adoption.

### Operating Income

Operating income increased in 2013 primarily reflecting the benefits from productivity initiatives, including restructuring savings, higher volume, indefinite-lived intangible asset impairment charges in the prior year, and gain on sale of assets, partially offset by higher employee-related costs and higher restructuring costs.

Operating income increased in 2012 primarily reflecting the benefits from productivity initiatives, including restructuring savings, and higher volume, partially offset by higher employee-related costs, indefinite-lived intangible asset impairment charges, and higher restructuring costs.

### Other specialty converting businesses

(In millions)	2013	2012	2011
Net sales including intersegment sales	\$ 77.5	\$ 71.7	\$ 74.5
Less intersegment sales	(3.6)	(.8)	(.7)
Net sales	73.9	70.9	73.8
Operating loss <sup>(1)</sup>	\$ (8.3)	\$ (16.2)	\$ (12.5)
<sup>(1)</sup> Included costs associated with restructuring in 2013 and 2012, and product line exit costs in 2012.	\$ .1	\$ 4.8	\$ -

### Net Sales

In 2013, sales increased approximately 4% due to sales growth on an organic basis and the favorable impact of foreign currency translation, partially offset by the impact of a product line exit in the prior year. On an organic basis, sales grew approximately 8% due primarily to higher volume in our medical business.

In 2012, sales decreased approximately 4% as the impact of product line exits in 2012, as well as the unfavorable impact of foreign currency translation, partially offset by sales growth on an organic basis. On an organic basis, sales grew approximately 3% due primarily to higher volume.

### Operating Loss

Operating loss decreased for these businesses in 2013 due to costs related to a product line exit in the prior year, payments from a business partner for development of a new product, and higher volume in our medical business, partially offset by higher employee-related costs and investments in growth.

Operating loss increased for these businesses in 2012 due to product line exit costs, investments in growth, and higher restructuring costs, partially offset by higher volume in our medical business and the benefit from productivity initiatives.

## FINANCIAL CONDITION

### Liquidity

#### Cash Flow from Operating Activities

(In millions)	2013	2012	2011
Net income	\$ 215.8	\$ 215.4	\$ 190.1
Depreciation and amortization	204.6	220.6	246.5
Provision for doubtful accounts and sales returns	16.3	19.5	16.8
Gain on sale of businesses	(49.3)	-	-
Indefinite-lived intangible asset impairment charge	-	7.0	-
Asset impairment, net (gain) loss on sale/disposal of assets, and gain on sale of product line	(5.8)	11.7	9.9
Loss from debt extinguishment	-	-	.7
Stock-based compensation	34.0	38.9	39.6
Other non-cash expense and loss	49.3	41.8	38.1
Other non-cash income and gain	(11.8)	-	(2.0)
Trade accounts receivable	(110.8)	(106.7)	(43.6)
Inventories	(75.9)	(.8)	(22.2)
Other current assets	3.5	(7.6)	29.4
Accounts payable	108.2	68.0	31.3
Accrued liabilities	(21.2)	73.8	(94.9)
Income taxes (deferred and accrued)	41.9	11.1	36.6
Other assets	(5.4)	(4.0)	1.5
Long-term retirement benefits and other liabilities	(73.3)	(75.3)	(55.1)
Net cash provided by operating activities	\$ 320.1	\$ 513.4	\$ 422.7

For cash flow purposes, changes in assets and liabilities and other adjustments exclude the impact of foreign currency translation (discussed below in "Analysis of Selected Balance Sheet Accounts").

In 2013, cash flow provided by operating activities decreased compared to 2012 primarily due to lower cash flow from the OCP and DES businesses, inventory build to support higher sales, higher payments for taxes, higher incentive compensation paid in 2013 for the 2012 performance year, higher pension contributions including discretionary



pension plan contributions utilizing the net proceeds from divestitures, and charitable contribution to Avery Dennison Foundation, partially offset by the impact of extension in payment terms with suppliers and the timing of inventory purchases.

In 2012, cash flow provided by operating activities improved compared to 2011 due to increased focus on working capital

## Management's Discussion and Analysis of Financial Condition and Results of Operations

management, higher net income and lower incentive compensation paid in 2012 for the 2011 performance year, partially offset by the timing of accounts receivable from sales in late fourth quarter 2012.

### Cash Flow from Investing Activities

(In millions)	2013	2012	2011
Purchases of property, plant and equipment	\$ (129.2)	\$ (99.2)	\$ (109.6)
Purchases of software and other deferred charges	(52.2)	(59.1)	(26.0)
Proceeds from sale of product lines	—	.8	21.5
Proceeds from sale of property, plant and equipment	38.7	4.2	4.6
Sales (purchases) of investments, net	.1	(6.7)	.3
Proceeds from sale of businesses, net of cash provided	481.2	—	—
Other	.8	—	5.0
Net cash provided by (used in) investing activities	\$ 339.4	\$ (160.0)	\$ (104.2)

#### Capital and Software Spending

In both 2013 and 2012, we invested in new equipment primarily in Asia, the U.S. and Europe.

Information technology investments in 2013 were primarily associated with standardization initiatives. Information technology investments in 2012 were related to both customer service and standardization initiatives.

#### Proceeds from Sale of Product Lines

In 2011, we received proceeds totaling \$21.5 million from the sale of two product lines, one in our performance films business (\$21 million) and the other in our label and packaging materials business (\$.5 million). In 2012, we received an additional \$.8 million from the product line sale in our label and packaging materials business.

#### Proceeds from Sale of Property, Plant and Equipment

In March 2013, we entered into an agreement to sell the property and equipment of our corporate headquarters in Pasadena, California for approximately \$20 million. In April 2013, we completed the sale and recognized a pre-tax gain of \$10.9 million in "Other expense, net" in the Consolidated Statements of Income. Proceeds from sale of property, plant and equipment also included approximately \$11 million from the sale of property, plant and equipment in China, as well as proceeds of \$5 million from the sale of a research facility also located in Pasadena, California.

#### Proceeds from Sale of Businesses, Net of Cash Provided

We received \$481.2 million, net of cash provided from the sale of our OCP and DES businesses, which, when offset by approximately \$93 million of estimated net cash used in the OCP and DES businesses and divestiture-related payments, results in our estimate of net proceeds of approximately \$390 million.

### Cash Flow from Financing Activities

(In millions)	2013	2012	2011
Net change in borrowings and payments of debt	\$ (187.2)	\$ 40.5	\$ (147.9)
Dividends paid	(112.0)	(110.4)	(106.5)
Share repurchases	(283.5)	(235.2)	(13.5)
Proceeds from exercise of stock options, net	44.8	10.2	3.9
Other	(8.3)	(2.7)	(7.5)
Net cash used in financing activities	\$ (546.2)	\$ (297.6)	\$ (271.5)

#### Borrowings and Repayment of Debt

We had no outstanding short-term variable rate borrowings from commercial paper issuances at year-end 2013, compared to \$187 million (weighted-average interest rate of .4%) at year-end 2012.

During 2013, commercial paper borrowings were used to fund share repurchase activity given the seasonality of our business. During 2013, a portion of our outstanding borrowings was repaid using the net proceeds from the \$250 million issuance of senior notes discussed below, as well as the net proceeds from divestitures.

Short-term borrowings outstanding under uncommitted lines of credit were \$73.9 million (weighted-average interest rate of 11.2%) at year-end 2013, compared to \$81.1 million (weighted-average interest rate of 11.2%) at year-end 2012.

We had medium-term notes of \$50 million outstanding at both year-end 2013 and 2012.

In April 2013, we issued \$250 million of senior notes due April 2023. The notes bear an interest rate of 3.35% per year, payable semiannually in arrears. The net proceeds from the offering, after deducting underwriting discounts and offering expenses, were approximately \$247.5 million and were used to repay a portion of the indebtedness outstanding under our commercial paper program during the second quarter of 2013.

In December 2011, we amended and restated our revolving credit facility (the "Revolver") with certain domestic and foreign banks, which reduced the amount available thereunder from \$1 billion to \$675 million. The amendment also extended the Revolver's maturity date to December 22, 2016, modified the minimum interest coverage financial covenant level, and adjusted pricing to reflect market conditions. The maturity date may be extended for one-year periods under certain circumstances as set forth in the agreement. Commitments under the Revolver may be increased by up to \$250 million, subject to lender approval and customary requirements. Financing available under the Revolver is used as a back-up facility for our commercial paper issuances and can be used to finance other corporate requirements. In conjunction with the amendment, we recorded a debt extinguishment loss of \$.7 million (included in "Other expense, net" in the Consolidated Statements of Income) in the fourth quarter of 2011 related to the unamortized debt issuance costs for the previous Revolver. No balances were outstanding under the Revolver as of year-end 2013 or 2012. Commitment fees associated with this facility in 2013, 2012, and 2011, were \$1.4 million, \$1.4 million, and \$2.5 million, respectively.

Refer to Note 4, "Debt and Capital Leases," to the Consolidated Financial Statements for more information.

Refer to "Capital Resources" below for further information on 2013 and 2012 borrowings and repayment of debt.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Dividend Payments

Our annual dividend per share was \$1.14 in 2013 compared to \$1.08 in 2012. On April 25, 2013, we increased our quarterly dividend to \$.29 per share, representing a 7% increase from our previous dividend rate of \$.27 per share.

### Share Repurchases

From time to time, our Board of Directors authorizes us to repurchase shares of our outstanding common stock. Repurchased shares may be reissued under our stock option and incentive plan or used for other corporate purposes. In 2013, we repurchased approximately 6.6 million shares of our common stock at an aggregate cost of \$283.5 million.

On July 25, 2013, our Board of Directors authorized the repurchase of additional shares of our common stock in the total aggregate amount of up to \$400 million (exclusive of any fees, commissions or other expenses related to such purchases). This authorization will remain in effect until shares totaling \$400 million have been repurchased.

On July 26, 2012, our Board of Directors authorized the repurchase of additional shares of our common stock in the total aggregate amount of up to \$400 million (exclusive of any fees, commissions or other expenses related to such purchases). This authorization will remain in effect until shares totaling \$400 million have been repurchased.

As of December 28, 2013, shares of our common stock in the aggregate amount of approximately \$455 million remained authorized for repurchase under these Board authorizations.

### Analysis of Selected Balance Sheet Accounts

#### Long-lived Assets

Goodwill decreased by approximately \$13 million to \$751 million at year-end 2013, which primarily reflected the impact of foreign currency translation.

Other intangibles resulting from business acquisitions, net, decreased by approximately \$29 million to \$96 million at year-end 2013, which primarily reflected current year amortization expense.

Refer to Note 3, "Goodwill and Other Intangibles Resulting from Business Acquisitions," to the Consolidated Financial Statements for more information.

Other assets increased by approximately \$29 million to \$486 million at year-end 2013, which primarily reflected an increase in software and other deferred charges, net of amortization expense (\$17 million), an increase in the cash surrender value of our corporate-owned life insurance (\$13 million), and the capitalization of financing costs related to the issuance of the senior notes discussed above (\$2 million), partially offset by a decrease in long-term pension assets (\$3 million).

#### Shareholders' Equity Accounts

The balance of our shareholders' equity decreased by approximately \$89 million to \$1.49 billion at year-end 2013, which reflected the effect of share repurchases, dividend payments, and the unfavorable impact of foreign currency translation. These decreases were partially offset by net income and a decrease in "Accumulated other comprehensive loss" as a result of higher discount rates at year-end 2013.

The balance of our treasury stock increased by approximately \$194 million to \$1.17 billion at year-end 2013, which reflected share repurchase activity (\$284 million), partially offset by the use of treasury shares to settle exercises of stock options and vesting of restricted stock units and performance units (\$71 million) and the funding of contributions to our U.S. defined contribution plan (\$19 million).

Accumulated other comprehensive loss increased by approximately \$3 million to \$281 million at year-end 2013 primarily due to the unfavorable impact of foreign currency translation (\$43 million), partially offset by lower net actuarial losses in our pension and other postretirement plans as a result of higher discount rates and current year amortization of net actuarial losses, net pension transition obligations and prior service cost (\$39 million) and a net gain on derivative instruments designated as cash flow and firm commitment hedges (\$1 million). Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information.

### Impact of Foreign Currency Translation

(In millions)	2013	2012	2011
Change in net sales	\$ 8	\$ (201)	\$ 145
Change in net income from continuing operations	4	(11)	9

In 2013, international operations generated approximately 75% of our net sales. Our future results are subject to changes in political and economic conditions in the regions in which we operate and the impact of fluctuations in foreign currency exchange and interest rates.

The effect of foreign currency translation on net sales in 2013 compared to 2012 primarily reflected the favorable impact from sales in the European Union and China, partially offset by the unfavorable impact from sales in Brazil and India.

Translation gains and losses for operations in hyperinflationary economies, if any, are included in net income in the period incurred. Operations are treated as being in a hyperinflationary economy based on the cumulative inflation rate over the past three years. We had no operations in hyperinflationary economies in fiscal years 2013, 2012, or 2011.

### Effect of Foreign Currency Transactions

The impact on net income from transactions denominated in foreign currencies may be mitigated because the costs of our products are generally denominated in the currencies in which they are sold. In addition, to reduce our income and cash flow exposure to transactions in foreign currencies, we enter into foreign exchange forward, option and swap contracts where available and appropriate.

### Analysis of Selected Financial Ratios

We utilize the financial ratios discussed below to assess our financial condition and operating performance.

#### Working Capital and Operational Working Capital Ratios

Working capital (current assets minus current liabilities and net assets held for sale), as a percent of net sales, increased in 2013 compared to 2012 primarily due to a decrease in short-term and current portion of long-term debt, as well as an increase in cash and cash equivalents.

Operational working capital, as a percent of net sales, is reconciled with working capital below. Our objective is to minimize our investment

## Management's Discussion and Analysis of Financial Condition and Results of Operations

in operational working capital, as a percentage of sales, to maximize cash flow and return on investment.

(Dollars in millions)	2013	2012
(A) Working capital	\$ 536.4	\$ 25.5
Reconciling items:		
Cash and cash equivalents	(351.6)	(235.4)
Current deferred and refundable income taxes and other current assets	(228.3)	(258.0)
Short-term borrowings and current portion of long-term debt and capital leases	76.9	520.2
Current deferred and payable income taxes and other current accrued liabilities	587.7	589.5
(B) Operational working capital	\$ 621.1	\$ 641.8
(C) Net sales	\$ 6,140.0	\$ 6,035.6 <sup>(1)</sup>
Working capital, as a percent of net sales (A) ÷ (C)	8.7%	.4%
Operational working capital, as a percent of net sales (B) ÷ (C)	10.1%	10.6%

<sup>(1)</sup> Net sales for 2012 were not restated to reflect the classification of the DES business as discontinued operations.

As a percent of net sales, operational working capital in 2013 improved modestly compared to 2012. The primary factors contributing to this change, which includes the impact of foreign currency translation, are discussed below.

### Accounts Receivable Ratio

The average number of days sales outstanding was 60 days in 2013 compared to 59 days in 2012, calculated using the four-quarter average accounts receivable balance divided by the average daily sales for the year. The increase in the current year average number of days sales outstanding reflected the timing of collection and extended payment terms, partially offset by the effect of discontinued operations, which decreased the average number of days sales outstanding by approximately one day.

### Inventory Ratio

Average inventory turnover was 8.8 in 2013 compared to 8.7 in 2012, calculated using the annual cost of sales divided by the four-quarter average inventory balance. The increase in the average inventory turnover from prior year primarily reflected our continued focus on inventory management.

### Accounts Payable Ratio

The average number of days payable outstanding was 68 days in 2013 compared to 64 days in 2012, calculated using the four-quarter average accounts payable balance divided by the average daily cost of products sold for the year. The increase in the current year average number of days payable outstanding was primarily due to the impact of extension in payment terms with suppliers, the timing of inventory purchases, and the effect of discontinued operations, which increased the average number of days payable outstanding by approximately one day.

### Net Debt to EBITDA Ratio

(Dollars in millions)	2013	2012	2011
Income from continuing operations	\$ 244.3	\$ 157.6	\$ 141.7
Reconciling items:			
Interest Expense	59.0	72.9	71.1
Provision for income taxes	118.8	80.0	71.5
Depreciation	135.2	145.4	151.3
Amortization	69.1	65.6	68.7
EBITDA	\$ 626.4	\$ 521.5	\$ 504.3
Total debt	\$ 1,027.5	\$ 1,222.4	\$ 1,181.3
Less cash and cash equivalents	(351.6)	(235.4)	(178.0)
Net debt	\$ 675.9	\$ 987.0	\$ 1,003.3
Net debt to EBITDA ratio	1.1	1.9	2.0

The net debt to EBITDA ratio was lower in 2013 compared to 2012 primarily due to lower total debt and an increase in cash and cash equivalents as a result of the net proceeds received from the sale of the OCP and DES businesses, as well as from higher earnings from continuing operations.

The net debt to EBITDA ratio in 2012 was lower compared to 2011 primarily due to an increase in cash and cash equivalents, partially offset by an increase in commercial paper borrowings. The lower net debt to EBITDA ratio in 2012 compared to 2011 was also due to higher earnings from continuing operations.

### Financial Covenants

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 December 28, 2013, we were in compliance with our financial covenants.

### Fair Value of Debt

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 rating, and remaining maturities. The fair value of short-term borrowings, which include commercial paper and short-term lines of credit, approximates carrying value given the short duration of these obligations. The fair value of our total debt was \$1.06 billion at December 28, 2013 and \$1.31 billion at December 29, 2012. Fair value amounts were determined primarily based on Level 2 inputs. Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information.

### Capital Resources

Capital resources include cash flows from operations, cash and cash equivalents and debt financing. At year-end 2013, we had cash and cash equivalents of approximately \$352 million held in accounts at third-party financial institutions.

Our cash balances are held in numerous locations throughout the world. At December 28, 2013, the majority of our cash and cash equivalents were held by our foreign subsidiaries. Our policy is to indefinitely reinvest the majority of the earnings of our foreign subsidiaries. To meet U.S. cash requirements, we have several cost-effective liquidity options available. These options include borrowing funds at reasonable rates, including borrowings from foreign subsidiaries, and repatriating certain foreign earnings. However, if we

## Management's Discussion and Analysis of Financial Condition and Results of Operations

were to repatriate foreign earnings, we may be subject to additional taxes in the U.S.

Our \$675 million Revolver, which supports our commercial paper program, matures on December 22, 2016. Based upon our current outlook for our business and market conditions, we believe that the Revolver, in addition to the uncommitted bank lines of credit maintained in the countries in which we operate, would, if necessary, provide sufficient liquidity to fund our operations during the next twelve months. As of December 28, 2013, no balances were outstanding under the Revolver.

Refer to Note 4, "Debt and Capital Leases," to the Consolidated Financial Statements for more information.

We are exposed to financial market risk resulting from changes in interest and foreign currency rates, and to possible liquidity and credit risks of our counterparties.

### Capital from Debt

Our total debt decreased by approximately \$195 million in 2013 to \$1.03 billion at year-end 2013 compared to \$1.22 billion at year-end 2012, primarily reflecting the repayment of our outstanding commercial paper borrowings in the second half of 2013 using the net proceeds from the sale of the OCP and DES businesses. We use commercial paper borrowings due to the seasonality of our cash flow during the year. Refer to "Borrowings and Repayment of Debt" above for more information.

In April 2013, we issued \$250 million of senior notes due April 2023. The notes bear an interest rate of 3.35% per year, payable semiannually in arrears. The net proceeds from the offering, after deducting underwriting discounts and offering expenses, were approximately \$247.5 million and were used to repay a portion of the indebtedness outstanding under our commercial paper program during the second quarter of 2013.

In January 2013, we repaid \$250 million of senior notes due in 2013 using commercial paper borrowings.

Uncommitted lines of credit were approximately \$371 million at year-end 2013 and \$411 million at year-end 2012. These lines may be cancelled at any time by us or the issuing banks.

Credit ratings are a significant factor in our ability to raise short-term and long-term financing. The credit ratings assigned to us also impact the interest rates paid and our access to commercial paper, credit facilities, and other borrowings. A downgrade of our short-term credit ratings below our current levels could impact our ability to access the commercial paper markets. If our access to commercial paper markets were to become limited, the Revolver and our other credit facilities would be available to meet our short-term funding requirements, if necessary. When determining a credit rating, we believe that rating agencies primarily consider our competitive position, business outlook, consistency of cash flows, debt level and liquidity, geographic dispersion and management team. We remain committed to retaining an investment grade rating.

### Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

#### Contractual Obligations at End of Year 2013

(In millions)	Payments Due by Period						
	Total	2014	2015	2016	2017	2018	Thereafter
Short-term borrowings	\$ 73.9	\$ 73.9	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt	949.2	—	5.0	—	249.6	—	694.6
Long-term capital leases	3.0	1.6	.7	.2	.1	.2	.2
Interest on long-term debt	429.4	51.1	50.9	50.8	46.6	34.2	195.8
Operating leases	206.8	52.2	41.9	30.2	17.2	12.2	53.1
Pension and postretirement benefit payments (unfunded plans)	84.1	7.9	7.4	6.7	7.1	22.4	32.6
<b>Total contractual obligations</b>	<b>\$ 1,746.4</b>	<b>\$ 186.7</b>	<b>\$ 105.9</b>	<b>\$ 87.9</b>	<b>\$ 320.6</b>	<b>\$ 69.0</b>	<b>\$ 976.3</b>

We enter into operating leases primarily for office and warehouse space and equipment for electronic data processing and transportation. The table above includes minimum annual rental commitments on operating leases having initial or remaining non-cancelable lease terms of one year or more. The terms of our leases do not impose significant restrictions or unusual obligations, except for the commercial facility located in Mentor, Ohio described below.

The table above does not include:

- Purchase obligations or open purchase orders at year-end – It is impracticable for us to either obtain this information or provide a reasonable estimate thereof due to the decentralized nature of our purchasing systems. In addition, purchase orders are generally at fair value and cancelable without penalty.
- Cash funding requirements for pension benefits payable to certain eligible current and future retirees under our funded plans – Benefits paid by our funded pension plans are paid through a trust or trust equivalent. Cash funding requirements for our funded plans, which can be significantly impacted by earnings on investments, the discount rate, changes in the plans, and funding laws and regulations, are not included as we are not able to estimate required contributions to the trust or trust equivalent. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for expected contributions to our plans.
- Deferred compensation plan benefit payments – It is impracticable for us to obtain a reasonable estimate for 2015 and beyond due to the volatility of the payment amounts and certain events that could trigger immediate payment of benefits to participants. In addition, the account balances per participant are marked-to-market monthly and benefit payments are adjusted annually. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information.
- Unfunded termination indemnity benefits to certain employees outside of the U.S. – These benefits are subject to applicable agreements, local laws and regulations. We have not incurred significant costs related to performance under these arrangements.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

- Unrecognized tax benefit reserves of approximately \$137 million – The resolution of the balance, including the timing of payments, is contingent upon various unknown factors and cannot be reasonably estimated. Refer to Note 12, "Taxes Based on Income," to the Consolidated Financial Statements for further information on unrecognized tax benefits.
- Obligations associated with a commercial facility located in Mentor, Ohio, used primarily for the North American headquarters and research center of our Materials group. The facility consists generally 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. Refer to Note 7, "Commitments," to the Consolidated Financial Statements for more information.

### 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 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.

### Environmental

As of December 28, 2013, 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 ten 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, and 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 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 assessed as they arise; until then, a range of expenses for such remediation cannot be determined.

The activity in 2013 and 2012 related to environmental liabilities was as follows:

(In millions)	2013	2012
Balance at beginning of year	\$ 32.5	\$ 40.6
Charges (reversals), net	4.6	(3.1)
Payments	(7.5)	(5.0)
Balance at end of year	\$ 29.6	\$ 32.5

At year-end 2013, approximately \$10 million of the balance was classified as short-term and was included in "Other accrued liabilities" in the 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 year-end 2013, the outstanding amount guaranteed was approximately \$6 million.

Unused letters of credit (primarily standby) outstanding with various financial institutions were approximately \$89 million at year-end 2013.

Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for information regarding asset retirement obligations and product warranties.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expense. Actual results could differ from those estimates.

Critical accounting policies are those that are important to our financial condition and results, and which require us to make difficult, subjective and/or complex judgments. Critical accounting policies cover accounting matters that are inherently uncertain because their future resolution is unknown. We believe that critical accounting policies include accounting for revenue recognition, sales returns and allowances, accounts receivable allowances, inventories, impairment of

## Management's Discussion and Analysis of Financial Condition and Results of Operations

long-lived assets, goodwill and indefinite-lived intangible assets, fair value measurements, pension and postretirement benefits, taxes based on income, long-term incentive compensation, restructuring costs, litigation matters, and environmental expenditures.

### Revenue Recognition

Sales are recognized when persuasive evidence of an arrangement exists, pricing is determinable, delivery has occurred based on applicable sales terms, and collection is reasonably assured. Sale terms are generally free on board (f.o.b.) shipping point or f.o.b. destination, depending upon local business customs. For most regions in which we operate, f.o.b. shipping point terms are utilized and sales are recorded at the time of shipment, because this is when title and risk of loss are transferred. In certain regions, notably in Europe, f.o.b. destination terms are generally utilized and sales are recorded when the products are delivered to the customer's delivery site, because this is when title and risk of loss are transferred. Furthermore, sales, provisions for estimated returns, and the cost of products sold are recorded at the time title transfers to customers and when the customers assume the risks and rewards of ownership. Actual product returns are charged against estimated sales return allowances.

Sales rebates and discounts are common practice in the industries in which we operate. Volume, promotional, price, cash and other discounts and customer incentives are accounted for as a reduction to gross sales. Rebates and discounts are recorded based upon estimates at the time products are sold. These estimates are based upon our historical experience for similar programs and products. We review these rebates and discounts on an ongoing basis and accruals for rebates and discounts are adjusted, if necessary, as additional information becomes available.

### Sales Returns and Allowances

Sales returns and allowances represent credits we grant to our customers (both affiliated and non-affiliated) for the return of unsatisfactory product or a negotiated allowance in lieu of return. We accrue for returns and allowances based upon the gross price of the products sold and historical experience for such products. We record these allowances based on estimates related to: (i) customer-specific allowances; and (ii) an amount, based on our historical experience, for allowances not yet identified.

### Accounts Receivable Allowances

We are required to make judgments as to the collectability of accounts receivable based on established aging policy, historical experience and future expectations. The allowances for doubtful accounts represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. The customer complaint reserve represents estimated sales returns and allowances. These allowances are used to reduce gross trade receivables to their net realizable values. We record these allowances based on estimates related to: (i) customer-specific allowances; (ii) amounts based upon an aging schedule; and (iii) an amount, based on our historical experience, for allowances not yet identified.

### Inventories

Inventories are stated at the lower-of-cost-or-market value and are categorized as raw materials, work-in-progress or finished goods. Cost is determined using the first-in, first-out ("FIFO") method. Inventory reserves are recorded to cost of products sold for damaged, obsolete, excess and slow-moving inventory and we establish a lower cost basis for the inventory. We use estimates to record these reserves. Slow-moving inventory is reviewed by category and may be partially or fully reserved for depending on the type of product, level of usage, and the length of time the product has been included in inventory.

### Impairment of Long-lived Assets

Impairment charges are recorded when the carrying amounts of long-lived assets are determined not to be recoverable. Recoverability is measured by comparing the undiscounted cash flows expected to result from their use and eventual disposition to the carrying value of the related asset or asset group. The amount of impairment loss is calculated as the excess of the carrying value over the fair value. Historically, changes in market conditions and management strategy have caused us to reassess the carrying amount of our long-lived assets.

### Goodwill and Indefinite-lived Intangible Assets

Our reporting units are composed of either a discrete business or an aggregation of businesses with similar economic characteristics. We have the following reporting units: materials; retail branding and information solutions; reflective solutions; performance tapes; and medical solutions. In performing the required impairment tests, we primarily apply a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. We perform our annual impairment test of goodwill during the fourth quarter.

Certain factors may result in the need to perform an impairment test prior to the fourth quarter, including significant underperformance of a business relative to expected operating results, significant adverse economic and industry trends, significant decline in our market capitalization for an extended period of time relative to net book value, or a decision to divest an individual business within a reporting unit.

We determine goodwill impairment using a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step of the impairment test is not necessary. However, if the carrying amount of a reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any.

The second step, if necessary, compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied fair value of goodwill exceeds the carrying amount, then goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

In consultation with outside specialists, we estimate the fair value of our reporting units using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various assumptions about the reporting units, including sales, operating margins, growth rates, and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based on our forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are

## Management's Discussion and Analysis of Financial Condition and Results of Operations

also made for varying perpetual growth rates for periods beyond the long-term business plan period. We base our fair value estimates on projected financial information and assumptions that we believe are reasonable. However, actual future results may differ from those estimates and projections, and those differences may be material. The valuation methodology used to estimate the fair value of reporting units requires inputs and assumptions that reflect current market conditions, as well as the impact of planned business and operational strategies that require management judgment. The estimated fair value could increase or decrease depending on changes in the inputs and assumptions. Our annual first step impairment analysis in the fourth quarter of 2013 indicated that the fair values of our reporting units exceeded their respective carrying values, including goodwill. The fair value of the reporting units tested exceeded their carrying values by 67% to 173%.

We test indefinite-lived intangible assets, consisting of trademarks, for impairment in the fourth quarter or whenever events or circumstances indicate that it is more likely than not that their carrying values exceed their fair values. Fair value is estimated as the discounted value of future revenues using a royalty rate that a third party would pay for use of the asset. Variation in the royalty rates could impact the estimate of fair value. If the carrying amount of an asset exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess. In the fourth quarter of 2012, we recorded an indefinite-lived intangible asset impairment of \$7 million. The carrying value of this asset was \$10.9 million at December 28, 2013. The fair value of this asset exceeded its carrying value by 4%.

### Fair Value Measurements

We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability.

We determine fair value based on a three-tier fair value hierarchy, which we use to prioritize the inputs used in measuring fair value. These tiers consist of Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring us to develop our own assumptions to determine the best estimate of fair value.

### Pension and Postretirement Benefits

Assumptions used in determining projected benefit obligations and the fair value of plan assets for our defined benefit pension plans and other postretirement benefit plans are evaluated by management in consultation with outside actuaries. In the event that we determine that changes are warranted in the assumptions used, such as the discount rate, expected long-term rate of return, or health care costs, future pension and postretirement benefit expenses could increase or decrease. Due to changes in market conditions or participant population, the actuarial assumptions that we use may differ from actual results, which could have a significant impact on our pension and postretirement liability and related cost.

#### *Discount Rate*

In consultation with our actuaries, we annually review and determine the discount rates to be used in connection with our postretirement obligations. The assumed discount rate for each pension plan reflects market rates for high quality corporate bonds currently available. In the U.S., our discount rate is determined by evaluating yield curves consisting of large populations of high quality corporate bonds. The projected pension benefit payment streams are then matched with the bond portfolios to determine a rate that reflects the liability duration unique to our plans. A .25% increase in the discount rate in the U.S. as of December 28, 2013 would decrease our 2014 periodic benefit cost and projected benefit obligation by approximately \$.1 million and \$28 million, respectively, and a .25% decrease in the discount rate in the U.S. would increase our 2014 periodic benefit cost and projected benefit obligation by approximately \$.1 million and \$29 million, respectively.

#### *Long-term Return on Assets*

We determine the long-term rate of return assumption for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, taking into account our asset allocation, the correlation between our asset classes, and the mix of active and passive investments. Additionally, current market conditions, including interest rates, are evaluated and market data is reviewed for reasonability and appropriateness. An increase or decrease on the long-term return on assets in the U.S. of .25% would have decreased or increased our 2014 periodic benefit cost by approximately \$2 million.

#### *Healthcare Cost Trend Rate*

Our practice is to fund the cost of postretirement benefits from operating cash flows. For measurement purposes, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014. This rate is expected to decrease to approximately 5% by 2018.

### Taxes Based on Income

Deferred tax assets and liabilities reflect temporary differences between the amount of assets and liabilities for financial and tax reporting purposes. These amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is recorded to reduce our deferred tax assets to the amount that is more likely than not to be realized. Changes in tax laws or accounting standards and methods may affect recorded deferred taxes in future periods.

Income taxes have not been provided on certain undistributed earnings of international subsidiaries because the earnings are considered to be indefinitely reinvested.

When establishing a valuation allowance, we consider future sources of taxable income such as "future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards" and "tax planning strategies." A tax planning strategy is defined as "an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets." In the event we determine a deferred tax asset will not be realized in the future, the valuation adjustment to the deferred tax asset will be charged to earnings in the period in which we make such a determination. We also



## Management's Discussion and Analysis of Financial Condition and Results of Operations

acquired certain net deferred tax assets with existing valuation allowances in prior years. If it is later determined that it is more likely than not that a deferred tax asset will be realized, we will release the valuation allowance to current earnings or adjust the purchase price allocation.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified.

Investment tax credits are accounted for in the period earned in accordance with the flow-through method.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. We use a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We record a liability for the difference between the benefit recognized and measured and tax position taken or expected to be taken on our tax returns. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. We report tax-related interest and penalties as a component of income tax expense.

Our estimates and assumptions used for determining realization of deferred tax assets and the outcome of uncertain tax issues are subject to our assessment of relevant risks, facts, and circumstances existing as of the balance sheet date. Our future results may include favorable or unfavorable adjustments that may materially impact our effective tax rate and/or our financial results.

### Long-Term Incentive Compensation

We have not capitalized expense associated with our long-term incentive compensation.

Changes in forfeiture rates are recorded as a cumulative adjustment in the period estimates are revised.

#### *Valuation of Stock-Based Awards*

Our stock-based compensation expense is based on the fair value of awards, adjusted for estimated forfeitures, and is amortized on a straight-line basis over the requisite service period for stock options, restricted stock units ("RSUs"), and performance units ("PUs"). The compensation expense related to market-leveraged stock units ("MSUs") is based on the fair value of awards, adjusted for estimated forfeitures, and is amortized on a graded-vesting basis over their respective performance periods.

Compensation expense for awards with a market condition as a performance objective, which includes PUs and MSUs, is not adjusted if the condition is not met, as long as the requisite service period is met.

The fair value of stock options is estimated as of the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for our expected dividend yield, expected stock price volatility, risk-free interest rate and the expected option term. The following assumptions are used in estimating the fair value of granted stock options:

*Risk-free interest rate* is based on the 52-week average of the Treasury-Bond rate that has a term corresponding to the expected option term.

*Expected stock price volatility* represents an average of implied and historical volatility.

*Expected dividend yield* is based on the current annual dividend divided by the 12-month average of our monthly stock price prior to the date of grant.

*Expected option term* is determined based on historical experience under our stock option and incentive plans.

The fair value of RSUs and certain PUs that are subject to achievement of performance objectives based on a performance condition is determined based on the closing price of our common stock as of the date of grant, adjusted for foregone dividends.

The fair value of stock-based awards that are subject to achievement of performance objectives based on a market condition, which includes PUs and MSUs, is determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected volatility assumptions and other assumptions appropriate for determining fair value, to estimate the probability of satisfying the target performance objectives established for the award.

Certain of these assumptions are based on management's estimates, in consultation with outside specialists. Significant changes in assumptions for future awards and actual forfeiture rates could materially impact stock-based compensation expense and our results of operations.

#### *Valuation of Cash-Based Awards*

Cash-based awards consist of long-term incentive units ("LTI Units") granted to eligible employees. Cash-based awards are classified as liability awards and are remeasured at each quarter-end over the applicable vesting or performance period. In addition to LTI units that mirror the terms and conditions of RSUs, we also grant certain employees LTI units that mirror the terms and conditions of PUs and MSUs.

#### *Accounting for Income Taxes for Stock-Based Compensation*

We elected to use the short-cut method to calculate the historical pool of windfall tax benefits related to employee and non-employee director stock-based compensation awards. In addition, we elected to follow the tax law ordering approach to determine the sequence in which deductions and net operating loss carryforwards are utilized, as well as the direct-only approach to calculate the amount of windfall or shortfall tax benefits.

### Restructuring Costs

We have compensation plans that provide eligible employees with severance in the event of an involuntary termination due to qualifying cost reduction actions. We calculate severance using the benefit formula under the plans. Accordingly, we record provisions for severance and other exit costs (including asset impairment charges and lease and other contract cancellation costs) when they are probable and estimable. In the absence of a plan or established local practice for overseas jurisdictions, liabilities for restructuring costs are recognized when incurred.

### Litigation Matters

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. When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best

## Management's Discussion and Analysis of Financial Condition and Results of Operations

estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. The ultimate resolution of these claims could affect future results of operations should our exposure be materially different from our estimates or should liabilities be incurred that were not previously accrued. Potential insurance reimbursements are not offset against potential liabilities, and such liabilities are not discounted.

### Environmental Expenditures

Environmental expenditures are generally expensed. However, environmental expenditures for newly acquired assets and those which extend or improve the economic useful life of existing assets are capitalized and amortized over the shorter of the estimated useful life of the acquired asset or the remaining life of the existing asset. We review our estimates of costs of compliance with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated us as a potentially responsible party. When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. Potential insurance reimbursements are not offset against potential liabilities, and such liabilities are not discounted.

### RECENT ACCOUNTING REQUIREMENTS

Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for this information.

### MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

#### Risk Management

We are exposed to the impact of changes in interest rates and foreign currency exchange rates.

Our policy is not to purchase or hold foreign currency or interest rate or commodity contracts for trading purposes.

Our objective in managing our exposure to foreign currency changes is to reduce the risk to our earnings and cash flow associated with foreign exchange rate changes. As a result, we enter into foreign exchange forward, option and swap contracts to reduce risks associated with the value of our existing foreign currency assets, liabilities, firm commitments and anticipated foreign revenues and costs, when available and appropriate. The gains and losses on these contracts are intended to offset changes in the related exposures. We do not hedge our foreign currency exposure in a manner that would entirely eliminate the effects of changes in foreign exchange rates on our net income.

Our objective in managing our exposure to interest rate changes is to reduce the impact of interest rate changes on earnings and cash flows. To achieve our objectives, we may periodically use interest rate contracts to manage our exposure to interest rate changes.

Additionally, we enter into certain natural gas futures contracts to reduce the risks associated with domestic natural gas anticipated to be used in manufacturing and operations. These amounts are not material to our financial statements.

In the normal course of operations, we also face other risks that are either non-financial or non-quantifiable. These risks principally include changes in economic or political conditions, other risks associated with foreign operations, commodity price risk and litigation risk, which are not reflected in the analyses that follow.

#### Foreign Exchange Value-At-Risk

We use a Value-At-Risk ("VAR") model to determine the estimated maximum potential one-day loss in earnings associated with our foreign exchange positions and contracts. This approach assumes that market rates or prices for foreign exchange positions and contracts are normally distributed. VAR model estimates were made assuming normal market conditions. Firm commitments, accounts receivable and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were included in the model. Forecasted transactions, which certain of these instruments are intended to hedge, were excluded from the model.

In both 2013 and 2012, the VAR was estimated using a variance-covariance methodology. The currency correlation was based on one-year historical data obtained from one of our domestic banks. A 95% confidence level was used for a one-day time horizon.

The estimated maximum potential one-day loss in earnings for our foreign exchange positions and contracts was \$1.2 million at year-end 2013 and \$.6 million at year-end 2012.

The VAR model is a risk analysis tool and does not purport to represent actual losses in fair value that we could incur, nor does it consider the potential effect of favorable changes in market factors.

#### Interest Rate Sensitivity

An assumed 30 basis point move in interest rates affecting our variable-rate borrowings (10% of our weighted-average interest rate on floating rate debt) would have had an estimated \$1.1 million effect on our 2013 earnings.

An assumed 30 basis point move in interest rates affecting our variable-rate borrowings (10% of our weighted-average interest rate on floating rate debt) would have had an estimated \$1.3 million effect on our 2012 earnings.

# Consolidated Balance Sheets

(Dollars in millions)	December 28, 2013	December 29, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 351.6	\$ 235.4
Trade accounts receivable, less allowances of \$31.6 and \$44.8 at year-end 2013 and 2012, respectively	1,016.5	972.8
Inventories, net	494.1	473.3
Current deferred and refundable income taxes	103.4	129.1
Assets held for sale	1.3	472.2
Other current assets	124.9	128.9
<b>Total current assets</b>	<b>2,091.8</b>	<b>2,411.7</b>
Property, plant and equipment, net	922.5	1,015.5
Goodwill	751.1	764.4
Other intangibles resulting from business acquisitions, net	96.0	125.0
Non-current deferred income taxes	263.4	331.6
Other assets	485.8	457.1
	<b>\$ 4,610.6</b>	<b>\$ 5,105.3</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term borrowings and current portion of long-term debt and capital leases	\$ 76.9	\$ 520.2
Accounts payable	889.5	804.3
Accrued payroll and employee benefits	224.1	202.8
Accrued trade rebates	79.6	71.4
Current deferred and payable income taxes	49.3	65.1
Liabilities held for sale	—	160.5
Other accrued liabilities	234.7	250.2
<b>Total current liabilities</b>	<b>1,554.1</b>	<b>2,074.5</b>
Long-term debt and capital leases	950.6	702.2
Long-term retirement benefits and other liabilities	476.4	607.2
Non-current deferred and payable income taxes	137.3	140.5
Commitments and contingencies (see Notes 7 and 8)		
Shareholders' equity:		
Common stock, \$1 par value per share, authorized – 400,000,000 shares at year-end 2013 and 2012; issued – 124,126,624 shares at year-end 2013 and 2012; outstanding – 96,178,411 shares and 99,915,457 shares at year-end 2013 and 2012, respectively	124.1	124.1
Capital in excess of par value	812.3	801.8
Retained earnings	2,009.1	1,910.8
Treasury stock at cost, 27,948,213 shares and 24,211,167 shares at year-end 2013 and 2012, respectively	(1,172.2)	(977.8)
Accumulated other comprehensive loss	(281.1)	(278.0)
<b>Total shareholders' equity</b>	<b>1,492.2</b>	<b>1,580.9</b>
	<b>\$ 4,610.6</b>	<b>\$ 5,105.3</b>

See Notes to Consolidated Financial Statements

## Consolidated Statements of Income

(In millions, except per share amounts)	2013	2012	2011
Net sales	\$ 6,140.0	\$ 5,863.5	\$ 5,844.9
Cost of products sold	4,502.3	4,335.3	4,369.6
Gross profit	1,637.7	1,528.2	1,475.3
Marketing, general and administrative expense	1,179.0	1,148.9	1,139.4
Interest expense	59.0	72.9	71.1
Other expense, net	36.6	68.8	51.6
Income from continuing operations before taxes	363.1	237.6	213.2
Provision for income taxes	118.8	80.0	71.5
Income from continuing operations	244.3	157.6	141.7
(Loss) income from discontinued operations, net of tax	(28.5)	57.8	48.4
Net income	\$ 215.8	\$ 215.4	\$ 190.1
Per share amounts:			
Net income (loss) per common share:			
Continuing operations	\$ 2.48	\$ 1.54	\$ 1.34
Discontinued operations	(.29)	.56	.46
Net income per common share	\$ 2.19	\$ 2.10	\$ 1.80
Net income (loss) per common share, assuming dilution:			
Continuing operations	\$ 2.44	\$ 1.52	\$ 1.33
Discontinued operations	(.28)	.56	.45
Net income per common share, assuming dilution	\$ 2.16	\$ 2.08	\$ 1.78
Dividends per common share	\$ 1.14	\$ 1.08	\$ 1.00
Average shares outstanding:			
Common shares	98.4	102.6	105.8
Common shares, assuming dilution	100.1	103.5	106.8

See Notes to Consolidated Financial Statements

## Consolidated Statements of Comprehensive Income

(In millions)	2013	2012	2011
Net income	\$ 215.8	\$ 215.4	\$ 190.1
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustment:			
Translation (loss) gain	(53.3)	43.6	(49.5)
Reclassifications to net income	10.8	-	-
Pension and other postretirement benefits:			
Net actuarial gain (loss)	68.2	(111.6)	(158.7)
Prior service (cost) credit	(19.9)	-	34.1
Reclassifications to net income:			
Amortization of net actuarial loss	28.4	20.3	14.3
Amortization of prior service credit	(3.3)	(4.0)	(1.7)
Amortization of transition asset	(.1)	(.5)	(.5)
Net curtailment on pension and post-retirement benefit obligations	(13.3)	-	-
Settlement on pension obligations	1.2	.6	(.1)
Derivative financial instruments:			
Losses (gains) recognized on cash flow hedges	1.0	(1.8)	(3.0)
Reclassifications to net income	.3	9.7	6.4
Other comprehensive income (loss), before tax	20.0	(43.7)	(158.7)
Income tax expense (benefit) related to items of other comprehensive income (loss)	23.1	(28.9)	(38.4)
Other comprehensive (loss), net of tax	(3.1)	(14.8)	(120.3)
<b>Total comprehensive income, net of tax</b>	<b>\$ 212.7</b>	<b>\$ 200.6</b>	<b>\$ 69.8</b>

See Notes to Consolidated Financial Statements

## Consolidated Statements of Shareholders' Equity

(Dollars in millions, except per share amounts)	Common stock, \$1 par value	Capital in excess of par value	Retained earnings	Employee stock benefit trust	Treasury stock	Accumulated other comprehensive loss	Total
<b>Fiscal year ended 2010</b>	\$ 124.1	\$ 768.0	\$ 1,727.9	\$ (73.2)	\$ (758.2)	\$ (142.9)	\$ 1,645.7
Net income			190.1				190.1
Other comprehensive loss						(120.3)	(120.3)
Repurchase of 316,757 shares for treasury					(13.5)		(13.5)
Employee Stock Benefit Trust ("ESBT") transfer of 954,536 shares to treasury				31.4	(31.4)		-
Stock issued under stock-based compensation plans, including tax of \$(1.3) and dividends of \$.6 paid on stock held in ESBT (transfer of 38,346 and 432,112 shares from treasury and ESBT, respectively)		20.7	.1	16.5	1.3		38.6
Stock contributed to the Savings Plan ("401(k) Plan") (transfer of 326,185 and 398,093 shares from treasury and ESBT, respectively)			(1.1)	15.2	10.3		24.4
Dividends: \$1.00 per share			(106.5)				(106.5)
ESBT market value adjustment		(10.1)		10.1			-
<b>Fiscal year ended 2011</b>	\$ 124.1	\$ 778.6	\$ 1,810.5	\$ -	\$ (791.5)	\$ (263.2)	\$ 1,658.5
Net income			215.4				215.4
Other comprehensive loss						(14.8)	(14.8)
Repurchase of 7,927,344 shares for treasury					(235.2)		(235.2)
Stock issued under stock-based compensation plans of 713,571 shares, including tax of \$(3.8)		23.2	(3.8)		22.4		41.8
Stock of 844,311 shares contributed to the 401(k) Plan			(.9)		26.5		25.6
Dividends: \$1.08 per share			(110.4)				(110.4)
<b>Fiscal year ended 2012</b>	\$ 124.1	\$ 801.8	\$ 1,910.8	\$ -	\$ (977.8)	\$ (278.0)	\$ 1,580.9
Net income			215.8				215.8
Other comprehensive loss						(3.1)	(3.1)
Repurchase of 6,555,672 shares for treasury					(283.5)		(283.5)
Stock issued under stock-based compensation plans of 2,240,185 shares, including tax of \$1.7		10.5	(11.6)		70.7		69.6
Stock of 578,441 shares contributed to the 401(k) Plan			6.1		18.4		24.5
Dividends: \$1.14 per share			(112.0)				(112.0)
<b>Fiscal year ended 2013</b>	\$ 124.1	\$ 812.3	\$ 2,009.1	\$ -	\$ (1,172.2)	\$ (281.1)	\$ 1,492.2

See Notes to Consolidated Financial Statements

## Consolidated Statements of Cash Flows

(In millions)	2013	2012	2011
<b>Operating Activities</b>			
Net income	\$ 215.8	\$ 215.4	\$ 190.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	135.6	150.1	168.0
Amortization	69.0	70.5	78.5
Provision for doubtful accounts and sales returns	16.3	19.5	16.8
Gain on sale of businesses	(49.3)	—	—
Indefinite-lived intangible asset impairment charge	—	7.0	—
Asset impairment, net (gain) loss on sale/disposal of assets, and gain on sale of product line	(5.8)	11.7	9.9
Loss from debt extinguishment	—	—	.7
Stock-based compensation	34.0	38.9	39.6
Other non-cash expense and loss	49.3	41.8	38.1
Other non-cash income and gain	(11.8)	—	(2.0)
Change in assets and liabilities and other adjustments:			
Trade accounts receivable	(110.8)	(106.7)	(43.6)
Inventories	(75.9)	(.8)	(22.2)
Other current assets	3.5	(7.6)	29.4
Accounts payable	108.2	68.0	31.3
Accrued liabilities	(21.2)	73.8	(94.9)
Taxes on income	(12.2)	12.4	37.6
Deferred taxes	54.1	(1.3)	(1.0)
Other assets	(5.4)	(4.0)	1.5
Long-term retirement benefits and other liabilities	(73.3)	(75.3)	(55.1)
Net cash provided by operating activities	320.1	513.4	422.7
<b>Investing Activities</b>			
Purchases of property, plant and equipment	(129.2)	(99.2)	(109.6)
Purchases of software and other deferred charges	(52.2)	(59.1)	(26.0)
Proceeds from sale of product lines	—	.8	21.5
Proceeds from sale of property, plant and equipment	38.7	4.2	4.6
Sales (purchases) of investments, net	.1	(6.7)	.3
Proceeds from sale of businesses, net of cash provided	481.2	—	—
Other	.8	—	5.0
Net cash provided by (used in) investing activities	339.4	(160.0)	(104.2)
<b>Financing Activities</b>			
Net (decrease) increase in borrowings (maturities of 90 days or less)	(435.3)	42.3	(146.4)
Additional borrowings (maturities longer than 90 days)	250.0	—	—
Payments of debt (maturities longer than 90 days)	(1.9)	(1.8)	(1.5)
Dividends paid	(112.0)	(110.4)	(106.5)
Share repurchases	(283.5)	(235.2)	(13.5)
Proceeds from exercise of stock options, net	44.8	10.2	3.9
Other	(8.3)	(2.7)	(7.5)
Net cash used in financing activities	(546.2)	(297.6)	(271.5)
Effect of foreign currency translation on cash balances	2.9	1.6	3.5
Increase in cash and cash equivalents	116.2	57.4	50.5
Cash and cash equivalents, beginning of year	235.4	178.0	127.5
Cash and cash equivalents, end of year	\$ 351.6	\$ 235.4	\$ 178.0

See Notes to Consolidated Financial Statements

# Notes to Consolidated Financial Statements

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

We develop innovative identification and decorative solutions for businesses and consumers worldwide. Our products include pressure-sensitive labeling technology and materials; graphics imaging media; retail branding and information solutions; radio-frequency identification ("RFID") inlays and tags; specialty tapes; and medical solutions.

### Principles of Consolidation

The consolidated financial statements include the accounts of majority-owned subsidiaries. Intercompany accounts, transactions and profits are eliminated in consolidation. Investments representing less than 20% ownership and in which we do not have significant influence are accounted for using the cost method of accounting.

### Financial Presentation

As further discussed in Note 2, "Discontinued Operations, Exit/Sale of Product Lines, Sale of Assets and Assets Held for Sale," we have classified the operating results of our 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 Consolidated Statements of Income for all periods presented. The results and financial condition of discontinued operations have been excluded from the notes to our Consolidated Financial Statements, except for certain prior-year balances related to the DES business and as otherwise indicated. Prior to this divestiture, the OCP business was reported as a reportable segment and the DES business was included in our other specialty converting businesses.

Certain prior year amounts have been reclassified to conform to current year presentation.

### Segment Reporting

We have the following two reportable segments for financial reporting purposes:

- Pressure-sensitive Materials – manufactures and sells pressure-sensitive labeling technology and materials, films for graphic and reflective applications, performance polymers (largely adhesives used to manufacture pressure-sensitive materials), and specialty tapes; and
- Retail Branding and Information Solutions – designs, manufactures and sells a wide variety of branding and information products and services, including brand and price tickets, tags and labels (including RFID inlays), and related services, supplies and equipment.

Certain operating segments are aggregated or combined based on materiality, quantitative factors, and similar qualitative economic characteristics, including primary products, production processes, customers, and distribution methods. Operating segments that do not exceed the quantitative thresholds or are not considered for aggregation are reported in a category entitled "other specialty converting businesses," which is comprised of a business that produces medical solutions.

Refer to Note 13, "Segment Information," for further information.

### Fiscal Year

Our 2013, 2012, and 2011 fiscal years consisted of 52-week periods ending December 28, 2013, December 29, 2012, and December 31, 2011, respectively.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expense. Actual results could differ from these estimates.

### Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits in banks, and short-term investments with maturities of three months or less when purchased. The carrying value of these assets approximates fair value due to the short maturity of the instruments. Cash paid for interest and income taxes, including amounts paid for discontinued operations, were as follows:

(In millions)	2013	2012	2011
Interest, net of capitalized amounts	\$ 64.1	\$ 68.0	\$ 65.0
Income taxes, net of refunds	129.4	97.7	70.5

Capital expenditures accrued but not paid, including amounts for discontinued operations, were \$11.5 million in 2013, \$12 million in 2012, and \$9.5 million in 2011.

### Accounts Receivable

We record trade accounts receivable at the invoiced amount. The allowances for doubtful accounts represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. The customer complaint reserve represents estimated sales returns and allowances. These allowances are used to reduce gross trade receivables to their net realizable values. We record these allowances based on estimates related to:

- Customer-specific allowances;
- Amounts based upon an aging schedule; and
- An amount, based on our historical experience, for allowances not yet identified.

No single customer represented 10% or more of our net sales in, or trade accounts receivable at, year-end 2013 or 2012. However, during 2013, our ten largest customers by net sales represented 12% of our net sales. As of December 28, 2013, our ten largest customers by trade accounts receivable represented 14% of our trade accounts receivable. These customers were concentrated in the Pressure-sensitive Materials segment. We do not generally require our customers to provide collateral.

### Inventories

Inventories are stated at the lower-of-cost-or-market value and are categorized as raw materials, work-in-progress or finished goods. Cost is determined using the first-in, first-out ("FIFO") method. Inventory reserves are recorded to cost of products sold for damaged, obsolete,



## Notes to Consolidated Financial Statements

excess and slow-moving inventory and we establish a lower cost basis for the inventory. We use estimates to record these reserves. Slow-moving inventory is reviewed by category and may be partially or fully reserved for depending on the type of product, level of usage, and the length of time the product has been included in inventory.

Net inventories at year-end were as follows:

(In millions)	2013	2012
Raw materials	\$ 196.3	\$ 184.5
Work-in-progress	149.0	139.2
Finished goods	148.8	149.6
Inventories, net	\$ 494.1	\$ 473.3

### Property, Plant and Equipment

Major classes of property, plant and equipment, stated at cost, at year-end were as follows:

(In millions)	2013	2012
Land	\$ 47.0	\$ 56.5
Buildings and improvements	580.2	660.5
Machinery and equipment	2,001.3	2,090.5
Construction-in-progress	74.3	63.6
Property, plant and equipment	2,702.8	2,871.1
Accumulated depreciation	(1,780.3)	(1,855.6)
Property, plant and equipment, net	\$ 922.5	\$ 1,015.5

Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets, ranging from three to forty-seven years for buildings and improvements and two to thirty years for machinery and equipment. Leasehold improvements are depreciated over the shorter of the useful life of the asset or the term of the associated leases. Maintenance and repair costs are expensed as incurred; renewals and betterments are capitalized. Upon the sale or retirement of assets, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting gain or loss included in net income. The carrying amounts of capital lease assets were not significant at year-end 2013 and 2012.

### Software

We capitalize internal and external software costs that are incurred during the application development stage of software development, including costs incurred for the design, coding, installation to hardware, testing, and upgrades and enhancements that provide additional functionalities and capabilities to the software and hardware. Internal and external software costs during the preliminary project stage are expensed, as are those costs during the post-implementation and/or operation stage, including internal and external training costs and maintenance costs.

Capitalized software, which is included in "Other assets" in the Consolidated Balance Sheets, is amortized on a straight-line basis over the estimated useful life of the software, ranging from two to ten years. Capitalized software costs at year-end were as follows:

(In millions)	2013	2012
Cost	\$ 427.9	\$ 388.4
Accumulated amortization	(264.6)	(236.3)
Software, net	\$ 163.3	\$ 152.1

Software amortization expense from continuing operations was \$35.3 million in 2013, \$30.7 million in 2012, and \$32.1 million in 2011.

### Impairment of Long-lived Assets

Impairment charges are recorded when the carrying amounts of long-lived assets are determined not to be recoverable. Recoverability is measured by comparing the undiscounted cash flows expected to result from their use and eventual disposition to the carrying value of the related asset or asset group. The amount of impairment loss is calculated as the excess of the carrying value over the fair value. Historically, changes in market conditions and management strategy have caused us to reassess the carrying amount of our long-lived assets.

### Goodwill and Other Intangibles Resulting from Business Acquisitions

Business combinations are accounted for by the acquisition method, and the excess of the acquisition cost over the fair value of net tangible assets and identified intangible assets acquired is considered goodwill. As a result, we disclose goodwill separately from other intangible assets. Other identifiable intangibles include customer relationships, patents and other acquired technology, trade names and trademarks, and other intangibles.

We have the following reporting units: materials; retail branding and information solutions; reflective solutions; performance tapes; and medical solutions. In performing the required impairment tests, we primarily apply a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. We perform our annual impairment test of goodwill during the fourth quarter.

Certain factors may result in the need to perform an impairment test prior to the fourth quarter, including significant underperformance of a business relative to expected operating results, significant adverse economic and industry trends, significant decline in our market capitalization for an extended period of time relative to net book value, or a decision to divest an individual business within a reporting unit.

We determine goodwill impairment using a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step of the impairment test is not necessary. However, if the carrying amount of a reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any.

The second step, if necessary, compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied fair value of goodwill exceeds the carrying amount, then goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

## Notes to Consolidated Financial Statements

In consultation with outside specialists, we estimate the fair value of our reporting units using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various assumptions about the reporting units, including sales, operating margins, growth rates, and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based on our forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period. We base our fair value estimates on projected financial information and assumptions that we believe are reasonable. However, actual future results may differ from those estimates and projections, and those differences may be material. The valuation methodology used to estimate the fair value of reporting units requires inputs and assumptions that reflect current market conditions, as well as the impact of planned business and operational strategies that require management judgment. The estimated fair value could increase or decrease depending on changes in the inputs and assumptions.

We test indefinite-lived intangible assets, consisting of trademarks, for impairment in the fourth quarter or whenever events or circumstances indicate that it is more likely than not that their carrying values exceed their fair values. Fair value is estimated as the discounted value of future revenues using a royalty rate that a third party would pay for use of the asset. Variation in the royalty rates could impact the estimate of fair value. If the carrying amount of an asset exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess.

See also Note 3, "Goodwill and Other Intangibles Resulting from Business Acquisitions."

### Foreign Currency

Asset and liability accounts of international operations are translated into U.S. dollars at current rates. Revenues and expenses are translated at the weighted-average currency rate for the fiscal year. Translation gains and losses of subsidiaries operating in hyperinflationary economies, if any, are included in net income in the period incurred. Gains and losses resulting from hedging the value of investments in certain international operations and from translation of balance sheet accounts are recorded directly as a component of other comprehensive income.

Gains and losses resulting from foreign currency transactions are included in income in the period incurred. Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency), including hedging impacts, decreased net income by \$7.9 million, \$8.8 million, and \$4.4 million in 2013, 2012, and 2011, respectively.

We had no operations in hyperinflationary economies in fiscal years 2013, 2012, or 2011.

### 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.

On the date we enter into a derivative contract, we determine whether the derivative will be designated as a hedge. Those derivatives not designated as hedges are recorded on the balance sheets at fair value, with changes in the fair value recognized in earnings. Those derivatives designated as hedges are classified as either (1) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (a "fair value" hedge); or (2) a hedge of a forecasted transaction or the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge). Our policy is not to purchase or hold any foreign currency, interest rate or commodity contracts for trading purposes.

We assess, both at the inception of the hedge and on an ongoing basis, whether hedges are highly effective. If it is determined that a hedge is not highly effective, we prospectively discontinue hedge accounting. For cash flow hedges, the effective portion of the related gains and losses is recorded as a component of other comprehensive income, and the ineffective portion is reported in earnings. Amounts in accumulated other comprehensive income (loss) are reclassified into earnings in the same period during which the hedged transaction affects earnings. In the event the anticipated transaction is no longer likely to occur, we recognize the change in fair value of the instrument in current period earnings. Changes in fair value hedges are recognized in current period earnings. Changes in the fair value of underlying hedged items (such as recognized assets or liabilities) are also recognized in current period earnings and offset the changes in the fair value of the derivative.

In the Consolidated Statements of Cash Flows, hedge transactions are classified in the same category as the item hedged, primarily in operating activities.

See also Note 5, "Financial Instruments."

### Fair Value Measurements

We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability.

We determine fair value based on a three-tier fair value hierarchy, which we use to prioritize the inputs used in measuring fair value. These tiers consist of Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring us to develop our own assumptions to determine the best estimate of fair value.

### Treasury Shares

We fund a portion of our employee-related expenses using shares of our common stock held in treasury. We elected to record net gains or losses associated with our use of treasury shares to retained earnings.

## Notes to Consolidated Financial Statements

### Revenue Recognition

Sales are recognized when persuasive evidence of an arrangement exists, pricing is determinable, delivery has occurred based on applicable sales terms, and collection is reasonably assured. Sale terms are generally free on board (f.o.b.) shipping point or f.o.b. destination, depending upon local business customs. For most regions in which we operate, f.o.b. shipping point terms are utilized and sales are recorded at the time of shipment, because this is when title and risk of loss are transferred. In certain regions, notably in Europe, f.o.b. destination terms are generally utilized and sales are recorded when the products are delivered to the customer's delivery site, because this is when title and risk of loss are transferred. Furthermore, sales, provisions for estimated returns, and the cost of products sold are recorded at the time title transfers to customers and when the customers assume the risks and rewards of ownership. Actual product returns are charged against estimated sales return allowances.

Sales rebates and discounts are common practice in the industries in which we operate. Volume, promotional, price, cash and other discounts and customer incentives are accounted for as a reduction to gross sales. Rebates and discounts are recorded based upon estimates at the time products are sold. These estimates are based upon historical experience for similar programs and products. We review these rebates and discounts on an ongoing basis and accruals for rebates and discounts are adjusted, if necessary, as additional information becomes available.

### Advertising Costs

Advertising costs from continuing operations, which are included in "Marketing, general and administrative expense" in the Consolidated Statements of Income, were \$10.6 million in 2013, \$8.9 million in 2012, and \$9.3 million in 2011. Our policy is to expense advertising costs as incurred.

### Research and Development

Research and development costs are related to research, design and testing of new products and applications and are expensed as incurred. Research and development expense from continuing operations, which is included in "Marketing, general and administrative expense" in the Consolidated Statements of Income, was \$96 million in 2013, \$98.6 million in 2012, and \$93.8 million in 2011.

### Pension and Postretirement Benefits

Assumptions used in determining projected benefit obligations and the fair value of plan assets for our defined benefit pension plans and other postretirement benefit plans are evaluated by management in consultation with outside actuaries. In the event that we determine that changes are warranted in the assumptions used, such as the discount rate, expected long-term rate of return, or health care costs, future pension and postretirement benefit expenses could increase or decrease. Due to changes in market conditions or participant population, the actuarial assumptions that we use may differ from actual results, which could have a significant impact on our pension and postretirement liability and related cost. Refer to Note 6, "Pension and Other Postretirement Benefits," for further information on these assumptions.

### Product Warranty

We provide for an estimate of costs that may be incurred under our basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of the product. Factors that affect our warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy our warranty obligation and availability of insurance coverage. Because these factors are impacted by actual experience and future expectations, we assess the adequacy of our recorded warranty liability and adjust the amounts as necessary. Our product warranty liability was \$1.3 million and \$5 million at year-end 2013 and 2012, respectively.

### Long-Term Incentive Compensation

No long-term incentive compensation expense was capitalized for the years ended 2013, 2012, or 2011.

Changes in forfeiture rates are recorded as a cumulative adjustment in the period estimates are revised.

#### *Valuation of Stock-Based Awards*

Our stock-based compensation expense is based on the fair value of awards, adjusted for estimated forfeitures, and is amortized on a straight-line basis over the requisite service period for stock options, restricted stock units ("RSUs"), and performance units ("PUs"). The compensation expense related to market-leveraged stock units ("MSUs") is based on the fair value of awards, adjusted for estimated forfeitures, and is amortized on a graded-vesting basis over their respective performance periods.

Compensation expense awards with a market condition as a performance objective, which includes PUs and MSUs, is not adjusted if the condition is not met, as long as the requisite service period is met.

The fair value of stock options is estimated as of the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for our expected dividend yield, expected stock price volatility, risk-free interest rate and the expected option term.

The fair value of RSUs and certain PUs that are subject to achievement of performance objectives based on a performance condition is determined based on the closing price of our common stock as of the date of grant, adjusted for foregone dividends.

The fair value of stock-based awards that are subject to achievement of performance objectives based on a market condition, which includes PUs and MSUs, is determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected volatility assumptions and other assumptions appropriate for determining fair value, to estimate the probability of satisfying the target performance objectives established for the award.

Certain of these assumptions are based on management's estimates, in consultation with outside specialists. Significant changes in assumptions for future awards and actual forfeiture rates could materially impact stock-based compensation expense and our results of operations.

#### *Valuation of Cash-Based Awards*

Cash-based awards consist of long-term incentive units ("LTI Units") granted to eligible employees. Cash-based awards are classified as liability awards and are remeasured at each quarter-end over the applicable vesting or performance period. In addition to LTI units that mirror the terms and conditions of RSUs, we also grant certain employees LTI units that mirror the terms and conditions of PUs and MSUs.

## Notes to Consolidated Financial Statements

### Accounting for Income Taxes for Stock-Based Compensation

We elected to use the short-cut method to calculate the historical pool of windfall tax benefits related to employee and non-employee director stock-based compensation awards. In addition, we elected to follow the tax law ordering approach to determine the sequence in which deductions and net operating loss carryforwards are utilized, as well as the direct-only approach to calculate the amount of windfall or shortfall tax benefits.

See also Note 10, "Long-term Incentive Compensation."

### Litigation Matters

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. When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. The ultimate resolution of these claims could affect future results of operations should our exposure be materially different from our estimates or should liabilities be incurred that were not previously accrued. Potential insurance reimbursements are not offset against potential liabilities, and such liabilities are not discounted. Refer to Note 8, "Contingencies," for further information.

### Environmental Expenditures

Environmental expenditures are generally expensed. However, environmental expenditures for newly acquired assets and those which extend or improve the economic useful life of existing assets are capitalized and amortized over the shorter of the estimated useful life of the acquired asset or the remaining life of the existing asset. We review our estimates of costs of compliance with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated us as a potentially responsible party. When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. Potential insurance reimbursements are not offset against potential liabilities, and such liabilities are not discounted. Refer to Note 8, "Contingencies," for further information.

### Asset Retirement Obligations

We recognize a liability for the fair value of conditional asset retirement obligations based on estimates determined through present value techniques. An asset retirement is "conditional" when the timing and/or method of settlement of the retirement obligation is conditional upon a future event that may or may not be within our control. Our asset retirement obligations primarily relate to lease restoration costs. Our estimated liability associated with asset retirement obligations was \$5.4 million and \$11.9 million at year-end 2013 and 2012, respectively.

### Restructuring Costs

We have compensation plans that provide eligible employees with severance in the event of an involuntary termination due to qualifying cost reduction actions. We calculate severance using the benefit formula under the plans. Accordingly, we record provisions for severance and other exit costs (including asset impairment charges and lease and other contract cancellation costs) when they are probable and estimable. In the absence of a plan or established local practice for overseas jurisdictions, liabilities for restructuring costs are recognized when incurred. See also Note 11, "Cost Reduction Actions."

### Taxes Based on Income

Deferred tax assets and liabilities reflect temporary differences between the amount of assets and liabilities for financial and tax reporting purposes. These amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is recorded to reduce our deferred tax assets to the amount that is more likely than not to be realized. Changes in tax laws or accounting standards and methods may affect recorded deferred taxes in future periods.

Income taxes have not been provided on certain undistributed earnings of international subsidiaries because the earnings are considered to be indefinitely reinvested.

When establishing a valuation allowance, we consider future sources of taxable income such as "future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards" and "tax planning strategies." A tax planning strategy is defined as "an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets." In the event we determine a deferred tax asset will not be realized in the future, the valuation adjustment to the deferred tax asset will be charged to earnings in the period in which we make such a determination. We also acquired certain net deferred tax assets with existing valuation allowances in prior years. If it is later determined that it is more likely than not that a deferred tax asset will be realized, we will release the valuation allowance to current earnings or adjust the purchase price allocation.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified.

Investment tax credits are accounted for in the period earned in accordance with the flow-through method.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. We use a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We record a liability for the difference between the benefit recognized and measured and tax position taken or expected to be taken on our tax returns. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. We report tax-related interest and penalties as a component of income tax expense.

Our estimates and assumptions used for determining realization of deferred tax assets and the outcome of uncertain tax issues are subject to our assessment of relevant risks, facts, and circumstances existing as of the balance sheet date. Our future results may include favorable or unfavorable adjustments that may materially impact our effective tax rate and/or our financial results.

See also Note 12, "Taxes Based on Income."

## Notes to Consolidated Financial Statements

### Net Income Per Share

Net income per common share was computed as follows:

(In millions, except per share amounts)	2013	2012	2011
(A) Income from continuing operations	\$ 244.3	\$ 157.6	\$ 141.7
(B) (Loss) income from discontinued operations, net of tax	(28.5)	57.8	48.4
(C) Net income available to common shareholders	\$ 215.8	\$ 215.4	\$ 190.1
(D) Weighted-average number of common shares outstanding	98.4	102.6	105.8
Dilutive shares (additional common shares issuable under employee stock-based awards)	1.7	.9	1.0
(E) Weighted-average number of common shares outstanding, assuming dilution	100.1	103.5	106.8
Net income (loss) per common share:			
Continuing operations (A) ÷ (D)	\$ 2.48	\$ 1.54	\$ 1.34
Discontinued operations (B) ÷ (D)	(.29)	.56	.46
Net income per common share (C) ÷ (D)	\$ 2.19	\$ 2.10	\$ 1.80
Net income (loss) per common share, assuming dilution:			
Continuing operations (A) ÷ (E)	\$ 2.44	\$ 1.52	\$ 1.33
Discontinued operations (B) ÷ (E)	(.28)	.56	.45
Net income per common share, assuming dilution (C) ÷ (E)	\$ 2.16	\$ 2.08	\$ 1.78

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 7 million shares in 2013, 12 million shares in 2012, and 11 million shares in 2011.

### Comprehensive Income

Comprehensive income, net of tax, includes net income, foreign currency translation adjustment, net actuarial loss, prior service cost and net transition assets, and the gains or losses on the effective portion of cash flow and firm commitment hedges that are currently presented as a component of shareholders' equity.

The changes in "Accumulated other comprehensive loss" (net of tax) for the year 2013 were as follows:

(In millions)	Net Gain (Loss) on Derivative Instruments Designated as Cash Flow and Firm Commitment Hedges	Net Actuarial Gain (Loss), Prior Service Cost and Net Transition Assets, Less Amortization	Foreign Currency Translation Adjustment	Total
Balance as of December 29, 2012	\$ (2.0)	\$ (456.5)	\$ 180.5	\$ (278.0)
Other comprehensive income (loss) before reclassifications, net of tax	.8	29.4	(53.3)	(23.1)
Reclassifications to net income, net of tax	.2	9.0	10.8	20.0
Net current-period other comprehensive income (loss), net of tax	1.0	38.4	(42.5)	(3.1)
Balance as of December 28, 2013	\$ (1.0)	\$ (418.1)	\$ 138.0	\$ (281.1)

Cash flow and firm commitment hedging instrument activities in other comprehensive loss, net of tax, were as follows:

(In millions)	2012
Beginning accumulated derivative loss	\$ (6.9)
Reclassifications to net income	6.0
Net change in the revaluation of hedging transactions	(1.1)
Ending accumulated derivative loss	\$ (2.0)

## Notes to Consolidated Financial Statements

The effects of amounts reclassified from "Accumulated other comprehensive loss" to income from continuing operations for the year 2013 were as follows:

(In millions)	Amounts Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
<b>Gains (losses) on cash flow hedges:</b>		
Foreign exchange contracts	\$ .6	Cost of products sold
Commodity contracts	(1.2)	Cost of products sold
Interest rate contracts	(.1)	Interest expense
	(.7)	Total before tax
	.2	Benefit from income taxes
	(.5)	Net of tax
Amortization of defined benefit pension items	(23.5)	(a)
	7.8	Benefit from income taxes
	(15.7)	Net of tax
<b>Total reclassifications for the period</b>	<b>\$ (16.2)</b>	<b>Total, net of tax</b>

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

During 2013, we reclassified \$6.4 million (net of tax) from "Accumulated other comprehensive loss" to "(Loss) income from discontinued operations, net of tax," related to a net gain from curtailment in our domestic defined benefit plans and settlements from certain international pension plans as a result of the sale of the OCP and DES businesses. Refer to Note 6, "Pension and Other Postretirement Benefits," for more information.

Additionally, during 2013, we recognized \$10.8 million (net of tax) of currency translation loss from "Accumulated other comprehensive loss" to "(Loss) income from discontinued operations, net of tax" as a result of the sale of the OCP and DES businesses.

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

(In millions)	2013	2012	2011
Foreign currency translation adjustment	\$ -	\$ .9	\$ -
<b>Pension and other postretirement benefits:</b>			
Net actuarial gain (loss)	26.4	(38.3)	(56.4)
Prior service (cost) credit	(7.5)	-	12.8
<b>Reclassifications to net income:</b>			
Amortization of net actuarial loss	9.4	6.9	4.7
Amortization of prior service credit	(1.3)	(1.5)	(.7)
Amortization of transition asset	-	(.1)	(.1)
Net curtailment on pension and post-retirement benefit obligations	(4.8)	-	-
Settlement on pension obligations	.6	.2	-
<b>Derivative financial instruments:</b>			
Losses (gains) recognized on cash flow hedges	.2	(.7)	(1.1)
Reclassifications to net income	.1	3.7	2.4
<b>Income tax expense (benefit) related to items of other comprehensive income (loss)</b>	<b>\$ 23.1</b>	<b>\$ (28.9)</b>	<b>\$ (38.4)</b>

### Business Combinations

We record the assets acquired and liabilities assumed from acquired businesses at fair value, and we make estimates and assumptions to determine fair value.

We utilize a variety of assumptions and estimates that are believed to be reasonable in determining fair value for assets acquired and liabilities assumed. These assumptions and estimates include estimated discounted cash flow analysis, growth rates, discount rates, current replacement cost for similar capacity for certain assets, market rate assumptions for certain obligations and certain potential costs of compliance with environmental laws related to remediation and cleanup of acquired properties. We also utilize information obtained from management of the acquired businesses and our historical experience from previous acquisitions.

We apply significant assumptions and estimates in determining the fair values of certain intangible assets resulting from the acquisitions (such as customer relationships, patents and other acquired technology, and trademarks and trade names, as well as related applicable useful lives), property, plant and equipment, receivables, inventories, investments, tax accounts, environmental liabilities, stock-based compensation awards, lease commitments and restructuring and integration costs. Unanticipated events and circumstances may occur that could affect the accuracy or validity of such assumptions, estimates or actual results. Generally, changes to the fair values of assets acquired and liabilities assumed (including cost estimates for certain obligations and liabilities) are recorded as an adjustment to goodwill during the purchase price allocation period (generally within one year of the acquisition date) and as operating expenses thereafter.

### Assets Held for Sale

We measure assets held for sale at the lower of their carrying amount or fair value less costs to sell.

## Notes to Consolidated Financial Statements

### Recent Accounting Requirements

In July 2013, the Financial Accounting Standards Board ("FASB") issued guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar loss, or a tax credit carryforward exists. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. We do not anticipate that adoption of this guidance will have a significant impact on our financial position, results of operations, cash flows, or disclosures.

In March 2013, the FASB issued new accounting guidance clarifying the accounting for the release of cumulative translation adjustments into net income when a parent company either (i) sells a part or all of its investment in a foreign entity or (ii) no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. We do not anticipate that adoption of this guidance will have a significant impact on our financial position, results of operations, cash flows, or disclosures.

### Transactions with Related Persons

We enter into transactions with related persons infrequently. In cases in which we do enter into these transactions, we believe that they are in the ordinary course of business and on terms that would have been obtained from unaffiliated third persons.

One of our former directors, Peter W. Mullin, who retired from our Board of Directors on April 25, 2013, was the chairman, chief executive officer and majority stockholder in various entities (collectively referred to as the "Mullin Companies") that previously provided executive compensation, benefits consulting and insurance agency services to us. In October 2008, the assets of the Mullin Companies were sold to a subsidiary of Prudential Financial, Inc. ("Prudential"). We pay premiums to insurance carriers for life insurance originally placed by the Mullin Companies in connection with our various employee benefit plans. Mr. Mullin received approximately \$.1 million in each of the fiscal years ended 2012 and 2011, from the commissions earned by Prudential from those insurance carriers. Mr. Mullin's share of the commissions was determined in accordance with the terms of a commission sharing agreement entered into between Mr. Mullin and Prudential at the time of the sale. In addition, substantially all of the life insurance policies we originally placed through the Mullin Companies were issued by insurance carriers that participated in reinsurance agreements with M Life Insurance Company ("M Life"), a wholly-owned subsidiary of M Financial Holdings, Inc., a company in which the Mullin Companies own a minority interest and for which Mr. Mullin serves as chairman. Mr. Mullin received approximately \$.3 million and \$.1 million in 2012 and 2011, respectively, from the net reinsurance gains of M Life. A portion of the reinsurance gains received by Mr. Mullin were subject to forfeiture in certain circumstances.

## NOTE 2. DISCONTINUED OPERATIONS, EXIT/SALE OF PRODUCT LINES, SALE OF ASSETS AND ASSETS HELD FOR SALE

### Discontinued Operations

In December 2011, we signed an agreement to sell our 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 comprised substantially all of our previously reported OCP segment. On October 3, 2012, we and 3M mutually agreed to terminate the agreement. We continued to pursue the divestiture of the OCP business through the end of 2012 and classified its operating results, together with certain costs associated with the planned divestiture, as discontinued operations in the Consolidated Statements of Income for all periods presented.

On January 29, 2013, we entered into an agreement to sell our OCP and DES businesses to CCL Industries Inc. ("CCL"). As part of the agreement with CCL, we agreed to enter into a supply agreement at closing, pursuant to which CCL would purchase certain pressure-sensitive label stock, adhesives and other base material products for up to six years after closing. While the supply agreement is expected to continue generating revenues and cash flows from the OCP and DES businesses, our continuing involvement in the OCP and DES operations is not expected to be significant to us as a whole.

On July 1, 2013, we completed the sale for a total purchase price of \$500 million (\$481.2 million net of cash provided) 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 indemnification provisions, including for breaches of certain representations, warranties, and covenants, 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 the OCP and DES businesses operated.

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

(In millions)	2013	2012	2011
Net sales	\$ 380.4	\$ 912.3	\$ 956.2
(Loss) income before taxes, including divestiture-related and restructuring costs	\$ (12.4)	\$ 86.4	\$ 84.6
Provision for income taxes	.1	28.6	36.2
(Loss) income from discontinued operations, net of tax before loss on sale	(12.5)	57.8	48.4
Loss on sale, net of tax provision of \$65.4	(16.0)	-	-
(Loss) income from discontinued operations, net of tax	\$ (28.5)	\$ 57.8	\$ 48.4

The (loss) income before taxes, including divestiture-related and restructuring costs, for 2013 included a curtailment gain associated with our postretirement health and welfare benefit plans, partially offset by divestiture-related costs. Refer to Note 6, "Pension and Other Postretirement Benefits," for information regarding the curtailment gain. The (loss) income from discontinued operations, net of tax, reflected the elimination of certain corporate cost allocations. The income tax provision included in the net loss on sale reflects tax versus book basis differences, primarily associated with goodwill.

Net sales from continuing operations to discontinued operations were \$45.8 million, \$100 million, and \$100 million during 2013, 2012, and 2011, respectively. These sales have been included in "Net sales" in the Consolidated Statements of Income.

The assets and liabilities of the OCP business were classified as "held for sale" at December 29, 2012, as we continued to pursue the sale of this business through the end of 2012 and into 2013. The assets and liabilities of the DES business were classified as "held for sale" since the first quarter of 2013 in connection with our agreement to sell both businesses to CCL, as discussed above.

## Notes to Consolidated Financial Statements

The carrying values of the major classes of assets and liabilities of the OCP business that were classified as "held for sale" were as follows:

(In millions)	2012
<b>Assets</b>	
Trade accounts receivable, net	\$ 119.0
Inventories, net	57.2
Other current assets	7.7
Total current assets	183.9
Property, plant and equipment, net	79.5
Goodwill	167.9
Other intangibles resulting from business acquisitions, net	32.5
Other assets	8.4
	\$ 472.2
<b>Liabilities</b>	
Short-term borrowings	\$ -
Accounts payable	31.2
Accrued payroll and employee benefits	21.2
Other accrued liabilities	91.9
Total current liabilities	144.3
Non-current liabilities	16.2
	\$ 160.5

### Exit/Sale of Product Lines

In the third quarter of 2012, we exited certain product lines in the previously reported OCP segment, incurring exit costs of \$3.9 million (included in "Other expense, net" in the Consolidated Statements of Income). The operating results of these product lines, which are not significant, were included in other specialty converting businesses for all periods presented.

In 2011, we received proceeds totaling \$21.5 million from the sale of two product lines, one from our performance films business (\$21 million) and the other from our label and packaging materials business (\$.5 million). In 2012, we received an additional \$.8 million from the product line sale in our label and packaging materials business. In connection with the sale of the product line from the performance films business, we recognized a gain of \$5.6 million in 2011 (included in "Other expense, net" in the Consolidated Statements of Income).

### Sale of Assets and Assets Held for Sale

In March 2013, we entered into an agreement to sell the property and equipment of our corporate headquarters in Pasadena, California for approximately \$20 million. In April 2013, we completed the sale and recognized a pre-tax gain of \$10.9 million in "Other expense, net" in the Consolidated Statements of Income. During 2013, we also completed the sale of certain property, plant and equipment in China for approximately \$11 million, as well as the sale of a research facility also located in Pasadena, California for approximately \$5 million.

In the third quarter of 2013, we classified certain properties and equipment that we are in the process of selling as "held for sale" in the Consolidated Balance Sheets at December 28, 2013. The carrying value of these assets was \$1.3 million as of December 28, 2013.

### NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Results from our annual impairment test in the fourth quarter of 2013 indicated that no impairment had occurred in 2013 related to goodwill and indefinite-lived intangible assets. The fair value of these assets was primarily based on Level 3 inputs.

#### Goodwill

Changes in the net carrying amount of goodwill for 2013 and 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
<b>Goodwill as of December 31, 2011</b>	\$ 336.7	\$ 419.1	\$ 3.5	\$ 759.3
Foreign currency translation adjustments	1.6	3.5	-	5.1
<b>Goodwill as of December 29, 2012</b>	338.3	422.6	3.5	764.4
Divestiture <sup>(1)</sup>	-	-	(3.5)	(3.5)
Acquisition adjustments	-	(.2)	-	(.2)
Translation adjustments	(3.9)	(5.7)	-	(9.6)
<b>Goodwill as of December 28, 2013</b>	\$ 334.4	\$ 416.7	\$ -	\$ 751.1

<sup>(1)</sup> See Note 2, "Discontinued Operations, Exit/Sale of Product Lines, Sale of Assets and Assets Held for Sale," for more information.

The carrying amount of goodwill at December 28, 2013 and December 29, 2012 was net of accumulated impairment losses of \$820 million, which were reported in the Retail Branding and Information Solutions segment.

#### Indefinite-Lived Intangible Assets

The carrying value of indefinite-lived intangible assets resulting from business acquisitions, consisting of trademarks, was \$10.9 million and \$11.1 million at December 28, 2013 and December 29, 2012, respectively.

In conjunction with the preparation of our annual impairment test in the fourth quarter of 2012, we determined that the carrying value of our indefinite-lived intangible assets exceeded its fair value which resulted in a non-cash impairment charge of \$7 million, which was recorded in "Other



## Notes to Consolidated Financial Statements

expense, net" in the Consolidated Statements of Income. This charge was included in the Retail Branding and Information Solutions reportable segment. The fair value of these assets was primarily based on Level 3 inputs.

### Finite-Lived Intangible Assets

The following table sets forth our finite-lived intangible assets resulting from business acquisitions at December 28, 2013 and December 29, 2012, which continue to be amortized:

(In millions)	2013			2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 234.1	\$ 164.6	\$ 69.5	\$ 234.7	\$ 142.3	\$ 92.4
Patents and other acquired technology	48.9	38.3	10.6	49.0	34.0	15.0
Trade names and trademarks	26.2	22.5	3.7	25.7	21.9	3.8
Other intangibles	12.4	11.1	1.3	12.4	9.7	2.7
<b>Total</b>	<b>\$ 321.6</b>	<b>\$ 236.5</b>	<b>\$ 85.1</b>	<b>\$ 321.8</b>	<b>\$ 207.9</b>	<b>\$ 113.9</b>

The finite-lived intangible assets related to our OCP business were classified in the Consolidated Balance Sheets at year-end 2012 as "Assets held for sale." See Note 2, "Discontinued Operations, Exit/Sale of Product Lines, Sale of Assets and Assets Held for Sale," for more information.

Amortization expense from continuing operations for finite-lived intangible assets resulting from business acquisitions was \$28.5 million for 2013, \$29.9 million for 2012, and \$30.3 million for 2011.

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

(In millions)	Estimated Amortization Expense
2014	\$ 24.3
2015	20.9
2016	19.5
2017	10.0
2018	2.5

As of December 28, 2013, the weighted-average amortization periods from the date of acquisition and weighted-average remaining useful lives of finite-lived intangible assets were as follows:

(In years)	Weighted-average Amortization Periods from the Date of Acquisition	Weighted-average Remaining Useful Life
Customer relationships	11	3
Patents and other acquired technology	13	3
Trade names and trademarks	12	6
Other intangibles	6	1

## NOTE 4. DEBT AND CAPITAL LEASES

### Short-Term Borrowings

We had no outstanding short-term variable rate borrowings from commercial paper issuances at December 28, 2013, and \$187 million outstanding (weighted-average interest rate of .4%) at December 29, 2012. A portion of our outstanding borrowings at December 29, 2012 was repaid using the net proceeds from the \$250 million issuance of senior notes discussed below, as well as the net proceeds from divestitures.

### Short-Term Credit Facilities

In December 2011, we amended and restated our revolving credit facility (the "Revolver") with certain domestic and foreign banks, which reduced the amount available thereunder from \$1 billion to \$675 million. The amendment also extended the Revolver's maturity date to December 22, 2016, modified the minimum interest coverage financial covenant level, and adjusted pricing to reflect market conditions. The maturity date may be extended for one-year periods under certain circumstances as set forth in the agreement. Commitments under the Revolver may be increased by up to \$250 million, subject to lender approval and customary requirements. Financing available under the Revolver is used as a back-up facility for our commercial paper issuances and can be used to finance other corporate requirements. In conjunction with the amendment, we recorded a debt extinguishment loss of \$.7 million (included in "Other expense, net" in the Consolidated Statements of Income) in the fourth quarter of 2011 related to the unamortized debt issuance costs for the previous Revolver. No balances were outstanding under the Revolver as of December 28, 2013 or December 29, 2012. Commitment fees associated with this facility in 2013, 2012, and 2011 were \$1.4 million, \$1.4 million, and \$2.5 million, respectively.

Uncommitted lines of credit were approximately \$371 million and \$411 million at December 28, 2013 and December 29, 2012, respectively. These lines may be cancelled at any time by us or the issuing banks. Short-term borrowings outstanding under uncommitted lines of credit were \$73.9 million (weighted-average interest rate of 11.2%) and \$81.1 million (weighted-average interest rate of 11.2%) at December 28, 2013 and December 29, 2012, respectively.

## Notes to Consolidated Financial Statements

### Long-Term Borrowings and Capital Leases

Long-term debt, including its respective interest rates, and capital lease obligations at year-end consisted of the following:

(In millions)	2013	2012
<b>Long-term debt and capital leases</b>		
Medium-term notes:		
Series 1995 due 2015 through 2025	\$ 50.0	\$ 50.0
Long-term notes		
Senior notes due 2013 at 4.9%	–	250.0
Senior notes due 2017 at 6.6%	249.6	249.4
Senior notes due 2020 at 5.4%	249.9	249.9
Senior notes due 2023 at 3.4%	249.7	–
Senior notes due 2033 at 6.0%	150.0	150.0
Capital lease obligations	3.0	4.8
Less amount classified as current	(1.6)	(251.9)
<b>Total long-term debt and capital leases</b>	<b>\$ 950.6</b>	<b>\$ 702.2</b>

Our medium-term notes have maturities from 2015 through 2025 and accrue interest at an average fixed rate of 7.5%.

Maturities of long-term debt and capital leases for each of the next five fiscal years and thereafter are expected to be as follows:

Year	(In millions)
2014 (classified as current)	\$ 1.6
2015	5.7
2016	.2
2017	249.7
2018	.2
2019 and thereafter	694.8

In April 2013, we issued \$250 million of senior notes due April 2023. The notes bear an interest rate of 3.35% per year, payable semiannually in arrears. The net proceeds from the offering, after deducting underwriting discounts and offering expenses, were approximately \$247.5 million and were used to repay a portion of the indebtedness outstanding under our commercial paper program during the second quarter of 2013.

In January 2013, we repaid \$250 million of senior notes due in 2013 using commercial paper borrowings.

### Other

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 December 28, 2013, we were in compliance with our financial covenants.

Our total interest costs from continuing operations in 2013, 2012, and 2011 were \$62.3 million, \$76.2 million, and \$75.9 million, respectively, of which \$3.3 million, \$3.3 million, and \$4.8 million, respectively, were capitalized as part of the cost of assets.

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 and short-term lines of credit, approximates carrying value given the short duration of these obligations. The fair value of our total debt was \$1.06 billion at December 28, 2013 and \$1.31 billion at December 29, 2012. Fair value amounts were determined primarily based on Level 2 inputs. Refer to Note 1, "Summary of Significant Accounting Policies."

### NOTE 5. FINANCIAL INSTRUMENTS

As of December 28, 2013, the aggregate U.S. dollar equivalent notional value of our outstanding commodity contracts and foreign exchange contracts was \$4.4 million and \$1.9 billion, respectively.

We recognize all derivative instruments as either assets or liabilities at fair value in the 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 December 28, 2013:

(In millions)	Asset		Liability	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	\$ 3.1	Other accrued liabilities	\$ 4.7
Commodity contracts	Other current assets	.1	Other accrued liabilities	–
		<b>\$ 3.2</b>		<b>\$ 4.7</b>

The following table provides the fair value and balance sheet locations of derivatives as of December 29, 2012:

(In millions)	Asset		Liability	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	\$ 10.0	Other accrued liabilities	\$ 2.8
Commodity contracts			Other accrued liabilities	.9
Commodity contracts			Long-term retirement benefits and other liabilities	.1
		<b>\$ 10.0</b>		<b>\$ 3.8</b>

## Notes to Consolidated Financial Statements

### 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 the 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.

(In millions)	Location of Gain (Loss) in Income	2013	2012	2011
Foreign exchange contracts	Cost of products sold	\$ 2.3	\$ —	\$ .5
Foreign exchange contracts	Marketing, general and administrative expense	(35.9)	17.8	(13.0)
		\$ (33.6)	\$ 17.8	\$ (12.5)

### 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:

(In millions)	2013	2012	2011
Foreign exchange contracts	\$ 1.1	\$ (.9)	\$ .3
Commodity contracts	(.1)	(.9)	(3.3)
	\$ 1.0	\$ (1.8)	\$ (3.0)

Amounts reclassified from "Accumulated other comprehensive loss" (effective portion) on derivatives related to cash flow hedge contracts were as follows:

(In millions)	Location of Gain (Loss) in Income	2013	2012	2011
Foreign exchange contracts	Cost of products sold	\$ .6	\$ (2.5)	\$ .9
Commodity contracts	Cost of products sold	(1.2)	(2.8)	(2.9)
Interest rate contracts	Interest expense	(.1)	(4.4)	(4.2)
		\$ (.7)	\$ (9.7)	\$ (6.2)

The amount of gain or loss recognized in income related to the ineffective portion of, and the amount excluded from, effectiveness testing for cash flow hedges and derivatives not designated as hedging instruments was not material in 2013, 2012, or 2011.

As of December 28, 2013, we expect a net gain of \$3 million to be reclassified from "Accumulated other comprehensive loss" to earnings within the next 12 months. See Note 1, "Summary of Significant Accounting Policies," for more information.

### 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.

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.

Effective December 31, 2011, benefits under our U.K. defined benefit plan were frozen. Benefits under this plan stopped accruing; however, benefits accrued through December 31, 2011 were preserved and will be paid out (for employees fully vested at the time of retirement or other qualified event) under the terms of the plan. We did not incur curtailment loss in connection with the freezing of benefits under this plan.

Employees who participated in our U.S. defined benefit plan, the Avery Dennison Pension Plan ("ADPP"), between December 1, 1986 and November 30, 1997, may also have a benefit under our Stock Holding and Retirement Enhancement Plan ("SHARE Plan"), a defined contribution plan. The ADPP is a floor offset plan that coordinates the amount of projected benefit obligation to an eligible participant with the SHARE Plan. The total benefit payable to an eligible participant equals the greater of the value of the participant's benefit from the ADPP or the value of the participant's SHARE Plan account. Lower than expected asset returns on the participant balances in the SHARE Plan may increase the projected benefit obligation under the ADPP. In the fourth quarter of 2013, we amended the SHARE Plan to require participants to make an early election of whether they want to (a) receive their assets in the SHARE Plan as a distribution, in which case their retirement benefit under the ADPP would be offset by the annuity equivalent of these assets, or (b) transfer their SHARE Plan assets to the ADPP and receive the full ADPP retirement benefit in annuity form, rather than wait to make such election upon termination of employment. The amendment resulted in an estimated actuarial loss of \$21 million to the ADPP, which is subject to future amortization. This estimate will be adjusted by the end of 2014 to reflect the actual elections of participants.

#### Plan Assets

During 2012, we transitioned the investment management of the ADPP assets to a liability driven investment (LDI) strategy. Under an LDI strategy, the assets are invested in a diversified portfolio that is split into two sub-portfolios: a growth portfolio and a liability hedging portfolio. The growth portfolio consists primarily of equity and high-yield fixed income securities. The liability hedging portfolio consists primarily of investment grade fixed income securities and cash, and is intended, over time, to more closely match the liabilities of the plan. The investment objective of the portfolio is to improve the funded status of the plan; as funded status reaches certain trigger points, the portfolio moves to a more conservative asset allocation by increasing the

## Notes to Consolidated Financial Statements

allocation to the liability hedging portfolio. The current allocation is 51% in the growth portfolio and 49% in the liability hedging portfolio, subject to periodic fluctuations due to market movements. The plan assets are diversified across asset classes, striving to balance risk and return within the limits of prudent risk-taking and Section 404 of the Employee Retirement Income Security Act of 1974, as amended. Because many of the pension liabilities are long-term, the investment horizon is also long-term, but the investment plan must also ensure adequate near-term liquidity to fund benefit payments.

Assets of our international plans are invested in accordance with local accepted practices and primarily include equity securities, fixed income securities, insurance contracts and cash. Asset allocations and investments vary by country and plan. Our target plan asset investment allocation for our international plans combined is 37% in equity securities, 48% in fixed income securities and cash, and 15% in insurance contracts and other investments, subject to periodic fluctuations in these respective asset classes.

### Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value:

Cash is valued at nominal value. Money market funds are valued at net asset value ("NAV"). Mutual funds are valued at fair value as determined by quoted market prices, based upon the NAV of shares held by the plans at year-end. Pooled funds, which include real estate pooled funds and multi-asset common trust funds, are comprised of shares or units in funds that are not publicly traded and are valued at net unit value, as determined by the fund's trustees based on the underlying securities in the trust. Equities are valued at the closing price reported on the active market on which the individual securities are traded. Real estate investment trusts are valued based on quoted prices in active markets. Debt securities consist primarily of treasury securities and corporate bonds, which are valued using bid prices; observable market inputs to determine these prices include reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids and offers. Insurance contracts are valued at book value, which approximates fair value and is calculated using the prior year balance plus or minus investment returns and changes in cash flows. Pooled funds – alternative investments are investments in a fund of hedge funds and are valued monthly on a one-month lag. We assess information available to us to determine whether there are any material changes to values at the reporting date. As of the end of fiscal 2013, our investment in pooled funds – alternative investments was subject to a lock up period which ends in 2014, after which shares may be redeemed quarterly upon 65 days' notice.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth, by level within the fair value hierarchy, U.S. plan assets (all in the ADPP) at fair value as of year-end 2013:

(In millions)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash	\$ 15.8	\$ 15.8	\$ –	\$ –
Liability hedging portfolio				
Pooled funds – Corporate debt/agencies	332.7	–	332.7	–
Pooled funds – U.S. bonds, other fixed income	.4	–	.4	–
Total liability hedging portfolio	333.1	–	333.1	–
Growth portfolio <sup>(1)</sup>				
Pooled funds – Global equities	60.0	–	60.0	–
Pooled funds – Global real estate investment trusts	45.8	–	45.8	–
Pooled funds – High yield bonds	65.2	–	65.2	–
Pooled funds – International	86.6	–	86.6	–
Pooled funds – U.S. equities	89.5	–	89.5	–
Pooled funds – Alternative investments	51.2	–	–	51.2
Total growth portfolio	398.3	–	347.1	51.2
Total U.S. plan assets at fair value	\$ 747.2	\$ 15.8	\$ 680.2	\$ 51.2
Other assets <sup>(2)</sup>	.2			
Total U.S. plan assets	\$ 747.4			

<sup>(1)</sup> "Pooled funds – International" excludes U.S. equity securities; "Pooled funds – Global equities" includes U.S. equity securities.

<sup>(2)</sup> Included accrued recoverable taxes at year-end 2013.

## Notes to Consolidated Financial Statements

The following table presents a reconciliation of Level 3 for U.S. plan assets held during the year ended December 28, 2013:

(In millions)	Level 3 Assets Pooled Funds – Alternative Investments
Balance at December 29, 2012	\$ –
Net realized and unrealized gain	1.2
Purchases	50.0
Settlements	–
Impact of changes in foreign currency exchange rates	–
Balance at December 28, 2013	\$ 51.2

The following table sets forth, by level within the fair value hierarchy, international plan assets at fair value as of year-end 2013:

(In millions)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash	\$ 4.7	\$ 4.7	\$ –	\$ –
Fixed income securities				
Mutual funds	.3	.3	–	–
Pooled funds – Emerging markets bonds	6.2	–	6.2	–
Pooled funds – European bonds	193.8	–	193.8	–
Pooled funds – U.K. bonds	56.6	–	56.6	–
Pooled funds – Global bonds	3.3	–	3.3	–
Pooled funds – High yield bonds	6.7	–	6.7	–
Total fixed income securities	266.9	.3	266.6	–
Equity securities				
Pooled funds – Emerging markets	20.9	–	20.9	–
Pooled funds – U.K.	17.2	–	17.2	–
Pooled funds – Global	151.3	–	151.3	–
Pooled funds – Real estate investment trusts	28.8	–	28.8	–
Total equity securities	218.2	–	218.2	–
Other investments				
Pooled funds – Commodities	9.5	–	9.5	–
Pooled funds – Real estate	7.7	–	7.7	–
Pooled funds – Other	31.7	–	31.7	–
Insurance contracts	27.4	–	–	27.4
Total other investments	76.3	–	48.9	27.4
Total international plan assets at fair value	\$ 566.1	\$ 5.0	\$ 533.7	\$ 27.4
Other assets	.5			
Total international plan assets	\$ 566.6			

## Notes to Consolidated Financial Statements

The following table presents a reconciliation of Level 3 for international plan assets held during the year ended December 28, 2013:

(In millions)	Level 3 Assets	
	Insurance Contracts	
Balance at December 29, 2012	\$	27.8
Net realized and unrealized gain		.8
Purchases		2.4
Settlements		(6.7)
Transfers <sup>(1)</sup>		2.3
Impact of changes in foreign currency exchange rates		.8
Balance at December 28, 2013	\$	27.4

(1) Includes transfers in Switzerland related to the OCP and DES divestitures.

The following table sets forth, by level within the fair value hierarchy, U.S. plan assets (all in the ADPP) at fair value as of year-end 2012:

(In millions)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash	\$ 8.0	\$ 8.0	\$ -	\$ -
Liability hedging portfolio				
Pooled funds – Corporate debt/agencies	216.1	-	216.1	-
Total liability hedging portfolio	216.1	-	216.1	-
Growth portfolio <sup>(1)</sup>				
Pooled funds – Global equities	65.2	-	65.2	-
Pooled funds – Global real estate investment trusts	43.3	-	43.3	-
Pooled funds – High yield bonds	63.7	-	63.7	-
Pooled funds – International	97.5	-	97.5	-
Pooled funds – U.S. equities	154.5	-	154.5	-
Total growth portfolio	424.2	-	424.2	-
Total U.S. plan assets at fair value	\$ 648.3	\$ 8.0	\$ 640.3	\$ -
Other assets <sup>(2)</sup>	.2			
Total U.S. plan assets	\$ 648.5			

(1) "Pooled funds – International" excludes U.S. equity securities; "Pooled funds – Global equities" includes U.S. equity securities.

(2) Included accrued recoverable taxes at year-end 2012.

## Notes to Consolidated Financial Statements

The following table sets forth, by level within the fair value hierarchy, international plan assets at fair value as of year-end 2012:

(In millions)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash	\$ 6.2	\$ 6.2	\$ -	\$ -
Fixed income securities				
Mutual funds	.3	.3	-	-
Pooled funds – European bonds	239.0	-	239.0	-
Pooled funds – Global bonds	9.0	-	9.0	-
Total fixed income securities	248.3	.3	248.0	-
Equity securities				
Pooled funds – Asia Pacific region	12.7	-	12.7	-
Pooled funds – Emerging markets	18.5	-	18.5	-
Pooled funds – European region	46.3	-	46.3	-
Pooled funds – Global	81.5	-	81.5	-
Pooled funds – Real estate investment trusts	28.9	-	28.9	-
Pooled funds – U.S.	10.6	-	10.6	-
Total equity securities	198.5	-	198.5	-
Other investments				
Pooled funds – Other	33.8	-	33.8	-
Insurance contracts	27.8	-	-	27.8
Total other investments	61.6	-	33.8	27.8
Total international plan assets at fair value	\$ 514.6	\$ 6.5	\$ 480.3	\$ 27.8
Other assets	.4			
Total international plan assets	\$ 515.0			

The following table presents a reconciliation of Level 3 for international plan assets held during the year ended December 29, 2012:

(In millions)	Level 3 Assets
	Insurance Contracts
Balance at December 31, 2011	\$ 26.5
Net realized and unrealized gain	.5
Purchases	2.0
Settlements	(1.7)
Impact of changes in foreign currency exchange rates	.5
Balance at December 29, 2012	\$ 27.8

### Postretirement Health Benefits

We provide postretirement health benefits to certain U.S. retired employees up to the age of 65 under a cost-sharing arrangement, and provide supplemental Medicare benefits to certain U.S. retirees over the age of 65. Our policy is to fund the cost of the postretirement benefits from operating cash flows. While we have not expressed any intent to terminate postretirement health benefits, we may do so at any time, subject to applicable laws and regulations.

In November 2011, we made certain changes to our U.S. postretirement health benefit plan. As a result of these changes, we will no longer subsidize retiree medical premiums for eligible participants who retired after December 31, 2013. In addition, beginning January 1, 2012, retiree medical premiums for eligible participants who retired on or after January 1, 2007 were based on the claims expense of the retiree group, resulting in a higher premium rate for retirees and lower claims expense for us.

### Plan Assumptions

#### Discount Rate

In consultation with our actuaries, we annually review and determine the discount rates to be used in connection with our postretirement obligations. The assumed discount rate for each pension plan reflects market rates for high quality corporate bonds currently available. In the U.S., our discount rate is determined by evaluating yield curves consisting of large populations of high quality corporate bonds. The projected pension benefit payment streams are then matched with the bond portfolios to determine a rate that reflects the liability duration unique to our plans.

#### Long-term Return on Assets

We determine the long-term rate of return assumption for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, taking into account our asset allocation, the correlation between our asset classes, and the mix of active and passive investments. Additionally, current market conditions,

## Notes to Consolidated Financial Statements

including interest rates, are evaluated and market data is reviewed for reasonability and appropriateness.

### Healthcare Cost Trend Rate

Our practice is to fund the cost of postretirement benefits from operating cash flows. For measurement purposes, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014. This rate is expected to decrease to approximately 5% by 2018.

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(In millions)	One-percentage-point Increase		One-percentage-point Decrease	
Effect on total of service and interest cost components	\$	.01	\$	(.01)
Effect on postretirement benefit obligations		.3		(.3)

### Plan Balance Sheet Reconciliations

The following table provides a reconciliation of benefit obligations, plan assets, funded status of the plans and accumulated other comprehensive loss, for our defined benefit plans:

#### Plan Benefit Obligations

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2013		2012		2013	2012
	U.S.	Int'l	U.S.	Int'l		
<b>Change in projected benefit obligations</b>						
Projected benefit obligations at beginning of year	\$ 963.7	\$ 597.6	\$ 835.8	\$ 519.5	\$ 12.0	\$ 12.4
Service cost	.4	13.0	.3	9.0	–	–
Interest cost	39.7	23.3	40.3	24.5	.3	.4
Participant contribution	–	4.1	–	4.1	1.2	1.2
Amendments <sup>(1)</sup>	19.9	–	–	–	–	–
Actuarial (gain) loss <sup>(2)</sup>	(59.8)	8.5	131.5	50.5	(.5)	1.7
Plan transfer <sup>(3)</sup>	5.7	7.1	2.0	.1	–	–
Benefits paid	(45.4)	(21.2)	(46.2)	(22.3)	(3.5)	(3.7)
Curtailments	9.5	(1.7)	–	–	(.4)	–
Settlements	–	(6.0)	–	–	–	–
Foreign currency translation	–	18.1	–	12.2	–	–
Projected benefit obligations at end of year	\$ 933.7	\$ 642.8	\$ 963.7	\$ 597.6	\$ 9.1	\$ 12.0
Accumulated benefit obligations at end of year	\$ 933.7	\$ 601.7	\$ 961.4	\$ 559.0		

<sup>(1)</sup> Amendments to the U.S. pension plan related to the SHARE plan.

<sup>(2)</sup> Actuarial gain/loss in 2013 included an out-of-period adjustment of \$15 million recorded in the fourth quarter of 2013 to properly state the balance sheet pension liability by increasing the projected benefit obligation as a result of a change from the historical method of projecting the SHARE Plan asset values. The corresponding adjustment affected other comprehensive income, with no impact to net income in 2013, and is subject to future amortization. The impact of this out-of-period adjustment was not considered material to the current or any previous financial statements.

<sup>(3)</sup> Plan transfer for the U.S. represented a transfer from the Avery Dennison Corporation Employee Savings Plan. Plan transfers for the international plans include transfers in Switzerland and Germany related to the OCP and DES divestitures.

#### Plan Assets

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2013		2012		2013	2012
	U.S.	Int'l	U.S.	Int'l		
<b>Change in plan assets</b>						
Plan assets at beginning of year	\$ 648.5	\$ 515.0	\$ 551.2	\$ 441.3	\$ –	\$ –
Actual return on plan assets	61.8	26.6	83.9	62.7	–	–
Plan transfer <sup>(1)</sup>	5.7	2.3	2.0	–	–	–
Employer contributions	76.8	28.9	57.6	19.4	2.3	2.5
Participant contributions	–	4.1	–	4.1	1.2	1.2
Benefits paid	(45.4)	(21.2)	(46.2)	(22.3)	(3.5)	(3.7)
Settlements	–	(6.0)	–	–	–	–
Foreign currency translation	–	16.9	–	9.8	–	–
Plan assets at end of year	\$ 747.4	\$ 566.6	\$ 648.5	\$ 515.0	\$ –	\$ –

<sup>(1)</sup> Plan transfer for the U.S. represented a transfer from our savings plan. Plan transfers for the international plans include transfers in Switzerland related to the OCP and DES divestitures.



## Notes to Consolidated Financial Statements

### Funded Status

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2013		2012		2013	2012
	U.S.	Int'l	U.S.	Int'l		
<b>Funded status of the plans</b>						
Other assets	\$ -	\$ 35.4	\$ -	\$ 38.3	\$ -	\$ -
Other accrued liabilities	(3.6)	(2.7)	(3.9)	(2.1)	(2.2)	(2.7)
Long-term retirement benefits and other liabilities	(182.7)	(108.9)	(311.3)	(118.9)	(6.9)	(9.3)
Plan assets less than benefit obligations	\$ (186.3)	\$ (76.2)	\$ (315.2)	\$ (82.7)	\$ (9.1)	\$ (12.0)

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2013		2012		2011		2013	2012	2011
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
<b>Weighted-average assumptions used for determining year-end obligations</b>									
Discount rate	4.85%	3.88%	4.00%	3.94%	4.75%	4.80%	3.45%	2.85%	3.75%
Rate of increase in future compensation levels	-	2.24	-	2.24	-	2.79	-	-	-

The amount in non-current pension assets represents the net assets of our overfunded plans, which consist of a few international plans. The amounts in current and non-current pension liabilities represent the net obligations of our underfunded plans, which consist of all U.S. and several international plans.

For U.S. and international plans combined, the projected benefit obligations and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were \$1.25 billion and \$953.7 million, respectively, at year-end 2013 and \$1.27 billion and \$829.2 million, respectively, at year-end 2012.

For U.S. and international plans combined, the accumulated benefit obligations and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$1.22 billion and \$938.6 million, respectively, at year-end 2013 and \$1.24 billion and \$816.5 million, respectively, at year-end 2012.

### Accumulated Other Comprehensive Loss

The following table sets forth the pretax amounts, including that of discontinued operations, recognized in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets:

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2013		2012		2013	2012
	U.S.	Int'l	U.S.	Int'l		
Net actuarial loss	\$ 466.9	\$ 129.5	\$ 558.8	\$ 131.4	\$ 26.6	\$ 29.9
Prior service cost (credit)	21.0	2.5	1.5	2.9	(26.2)	(43.3)
Net transition obligation	-	.5	-	.4	-	-
Net amount recognized in accumulated other comprehensive loss (income)	\$ 487.9	\$ 132.5	\$ 560.3	\$ 134.7	\$ .4	\$ (13.4)

The following table sets forth the pretax amounts, including that of discontinued operations, recognized in "Other comprehensive loss (income)":

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2013		2012		2011		2013	2012	2011
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Net actuarial (gain) loss	\$ (73.4)	\$ 6.1	\$ 93.5	\$ 16.4	\$ 133.6	\$ 18.1	\$ (.9)	\$ 1.7	\$ 7.0
Prior service cost (credit)	19.9	-	-	-	-	-	-	-	(34.1)
Amortization of net actuarial loss and prior service cost (credit)	(18.9)	(8.3)	(15.3)	(3.3)	(8.9)	(3.8)	14.7	2.1	.6
Net amount recognized in other comprehensive (income) loss	\$ (72.4)	\$ (2.2)	\$ 78.2	\$ 13.1	\$ 124.7	\$ 14.3	\$ 13.8	\$ 3.8	\$ (26.5)

## Notes to Consolidated Financial Statements

### Plan Income Statement Reconciliations

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

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2013		2012		2011		2013	2012	2011
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Service cost	\$ .4	\$ 13.0	\$ .3	\$ 9.1	\$ .3	\$ 10.5	\$ –	\$ –	\$ 1.3
Interest cost	39.7	23.3	40.3	24.5	40.2	26.3	.3	.5	1.7
Expected return on plan assets	(48.1)	(22.6)	(45.9)	(22.1)	(45.7)	(24.9)	–	–	–
Recognized actuarial loss	17.7	6.3	14.3	3.1	8.5	4.0	2.5	2.7	1.9
Amortization of prior service cost (credit)	.3	.5	.4	.4	.4	.4	(4.1)	(4.8)	(2.5)
Amortization of transition asset	–	(.1)	–	(.5)	–	(.5)	–	–	–
Recognized gain on curtailment <sup>(1)</sup>	–	(1.5)	–	–	–	(.2)	–	–	–
Recognized loss (gain) on settlement <sup>(2)</sup>	–	.5	.6	–	–	(.1)	–	–	–
Net periodic benefit cost (credit)	\$ 10.0	\$ 19.4	\$ 10.0	\$ 14.5	\$ 3.7	\$ 15.5	\$ (1.3)	\$ (1.6)	\$ 2.4

- (1) Recognized gain on curtailment in 2013 related to a plan in Taiwan and was recorded in "Other expense, net" in the Consolidated Statements of Income.  
(2) Represented settlement events in the U.S. in 2012.

In 2013, in connection with the sale of our OCP and DES businesses, we recognized a curtailment gain of \$13.1 million associated with our postretirement health and welfare benefit plans, partially offset by curtailment and settlement losses of \$10.4 million associated with our pension plans. The net gain of \$2.7 million was recorded in "(Loss) income from discontinued operations, net of tax" in the Consolidated Statements of Income. Refer to Note 2, "Discontinued Operations, Exit/Sale of Product Lines, Sale of Assets and Assets Held for Sale," for more information on the sale.

The following table sets forth the weighted-average assumptions used for determining net periodic cost:

	Pension Benefits						U.S. Postretirement Health Benefits		
	2013		2012		2011		2013	2012	2011
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Discount rate	4.00%	3.94%	4.75%	4.80%	5.50%	5.24%	2.85%	3.75%	5.25%
Expected long-term rate of return on plan assets	8.00	4.78	8.00	4.95	8.00	5.48	–	–	–
Rate of increase in future compensation levels	–	2.24	–	2.79	–	2.95	–	–	–

### Plan Contributions

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. In 2014, we expect to contribute approximately \$4 million to our U.S. pension plans. We also expect to contribute approximately \$17 million to our international pension plans, bringing our total expected contribution to our U.S. and international pension plans to approximately \$21 million.

We also expect to contribute approximately \$2 million to our postretirement benefit plan in 2014.

### Future Benefit Payments

Anticipated future benefit payments, which reflect expected service periods for eligible participants, are as follows:

(In millions)	Pension Benefits		U.S. Postretirement Health Benefits	
	U.S.	Int'l	U.S.	Int'l
2014	\$ 48.4	\$ 20.7	\$ –	\$ 2.3
2015	49.6	21.0	–	1.7
2016	51.0	22.6	–	1.1
2017	53.2	22.9	–	.9
2018	70.1	23.8	–	.6
2019 – 2023	289.9	138.7	–	2.0

## Notes to Consolidated Financial Statements

### Estimated Amortization Amounts in Accumulated Other Comprehensive Loss

Our estimates of fiscal year 2014 amortization of amounts included in "Accumulated other comprehensive loss" are as follows:

(In millions)	Pension Benefits		U.S. Postretirement Health Benefits	
	U.S.	Int'l		
Net actuarial loss	\$ 15.7	\$ 5.3	\$	2.7
Prior service cost (credit)	1.2	.4		(3.3)
Net transition obligation	—	.1		—
Net amount to be recognized	\$ 16.9	\$ 5.8	\$	(.6)

### 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. Employees hired after December 31, 2008, who were no longer eligible to participate in our defined benefit pension plans and early retiree medical plan, received an enhanced employer matching contribution in the Savings Plan through December 31, 2010. Effective January 1, 2011, we increased and made uniform our matching contribution for all participants in the Savings Plan in connection with the freezing of benefits under the ADPP and Benefit Restoration Plan effective December 31, 2010.

We recognized expense from continuing operations of \$21 million, \$19.8 million, and \$19.3 million in 2013, 2012, and 2011, respectively, related to our employer contributions and employer match of participant contributions to the Savings Plan.

### Other Retirement Plans

We have deferred compensation plans which permit eligible employees and directors to defer a portion of their compensation. The compensation voluntarily deferred by the participant, together with certain employer contributions, earn specified and variable rates of return. As of year-end 2013 and 2012, we had accrued \$128.6 million and \$128.3 million, respectively, for our obligations under these plans. These obligations are funded by corporate-owned life insurance contracts and standby letters of credit. As of year-end 2013 and 2012, these obligations were secured by standby letters of credit of \$3 million and \$16 million, respectively. Proceeds from the insurance policies are payable to us upon the death of covered participants. The cash surrender value of these policies, net of outstanding loans, included in "Other assets" in the Consolidated Balance Sheets, was \$204.6 million and \$187.4 million at year-end 2013 and 2012, respectively.

Our deferred compensation expense (gain) from continuing operations was \$5.9 million, \$7.1 million, and \$(4.1) million for 2013, 2012, and 2011, respectively. A portion of the interest on certain of our contributions may be forfeited by participants if their employment terminates before age 55 other than by reason of death or disability.

We maintain a Directors Deferred Equity Compensation Plan, which allows our non-employee directors to elect to receive their cash compensation in deferred stock units ("DSUs") issued under our stock option and incentive plan. Dividend equivalents, representing the value of dividends per share paid on shares of our common stock and calculated with reference to the number of DSUs held as of a quarterly dividend record date, are credited in the form of additional DSUs. A director's DSUs are converted into shares of our common stock upon his or her resignation or retirement. Approximately .1 million DSUs were outstanding as of year-end 2013 and 2012, with an aggregate value of \$5.5 million and \$3.1 million, respectively.

### NOTE 7. COMMITMENTS

Minimum annual rental commitments on operating leases having initial or remaining non-cancelable lease terms of one year or more are as follows:

Year	(In millions)
2014	\$ 52.2
2015	41.9
2016	30.2
2017	17.2
2018	12.2
2019 and thereafter	53.1
Total minimum lease payments	\$ 206.8

Rent expense for operating leases from continuing operations, which includes maintenance and insurance costs and property taxes, was approximately \$70 million in 2013, \$75 million in 2012, and \$84 million in 2011. Operating leases relate primarily to office and warehouse space, and equipment for electronic data processing and transportation. The terms of these leases do not impose significant restrictions or unusual obligations, except as noted below.

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 generally 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 \$19 million at December 28, 2013, which was included in "Long-term retirement benefits and other liabilities" in the Consolidated Balance Sheets.

Refer to Note 4, "Debt and Capital Leases," for capital lease obligations.

### NOTE 8. 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

## Notes to Consolidated Financial Statements

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 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.

### Environmental

As of December 28, 2013, 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 ten 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, and 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 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 in 2013 and 2012 related to environmental liabilities was as follows:

(In millions)	2013	2012
Balance at beginning of year	\$ 32.5	\$ 40.6
Charges (reversals), net	4.6	(3.1)
Payments	(7.5)	(5.0)
Balance at end of year	\$ 29.6	\$ 32.5

As of December 28, 2013, approximately \$10 million of the balance was classified as short-term and was included in "Other Accrued Liabilities" in the 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 December 28, 2013, the outstanding amount guaranteed was approximately \$6 million.

Unused letters of credit (primarily standby) outstanding with various financial institutions were approximately \$89 million at December 28, 2013.

## NOTE 9. SHAREHOLDERS' EQUITY

### Common Stock and Share Repurchase Program

Our Certificate of Incorporation authorizes five million shares of \$1 par value preferred stock (none outstanding), with respect to which our Board of Directors may fix the series and terms of issuance, and 400 million shares of \$1 par value voting common stock.

From time to time, our Board of Directors authorizes us to repurchase shares of our outstanding common stock. Repurchased shares may be reissued under our stock option and incentive plan or used for other corporate purposes. In 2013, we repurchased approximately 6.6 million shares of our common stock at an aggregate cost of \$283.5 million.

On July 25, 2013, our Board of Directors authorized the repurchase of additional shares of our common stock in the total aggregate amount of up to \$400 million (exclusive of any fees, commissions or other expenses related to such purchases). This authorization will remain in effect until shares totaling \$400 million have been repurchased.

On July 26, 2012, our Board of Directors authorized the repurchase of additional shares of our common stock in the total aggregate amount of up to \$400 million (exclusive of any fees, commissions or other expenses related to such purchases). This authorization will remain in effect until shares totaling \$400 million have been repurchased.

As of December 28, 2013, shares of our common stock in the aggregate amount of approximately \$455 million remained authorized for repurchase under these Board authorizations.

## NOTE 10. LONG-TERM INCENTIVE COMPENSATION

### Equity Awards

#### Stock-Based Compensation

We maintain various stock option and incentive plans and grant our annual stock-based compensation awards to eligible employees in February and non-employee directors in May. Prior to 2013, these awards were granted to non-employee directors in April. Certain awards granted to retirement-eligible employees vest in full upon retirement; awards to these employees are accounted for as fully vested on the date of grant.

Stock-based compensation expense from continuing operations and the total recognized tax benefit related to this expense for the years 2013, 2012, and 2011 were as follows:

(In millions)	2013	2012	2011
Stock-based compensation expense	\$ 32.3	\$ 35.8	\$ 36.4
Tax benefit	10.8	12.5	12.5

This expense was included in "Marketing, general and administrative expense" in the Consolidated Statements of Income.

As of December 28, 2013, we had approximately \$57 million of unrecognized compensation expense from continuing operations related to unvested stock options, PUs, MSUs, and RSUs. The unrecognized compensation expense is expected to be recognized

## Notes to Consolidated Financial Statements

over the remaining weighted-average requisite service period of approximately two years for each of these awards.

### Stock Options

Stock options granted to non-employee directors and employees may be granted at no less than 100% of the fair market value of our common stock on the date of the grant. Options generally vest ratably over a three-year period for non-employee directors and over a four-year period for employees. Options expire ten years from the date of grant.

The fair value of our stock option awards is estimated as of the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for our expected dividend yield, expected stock price volatility, risk-free interest rate and the expected option term. The following assumptions are used in estimating the fair value of granted stock options:

*Risk-free interest rate* is based on the 52-week average of the Treasury-Bond rate that has a term corresponding to the expected option term.

*Expected stock price volatility* represents an average of the implied and historical volatility.

*Expected dividend yield* is based on the current annual dividend divided by the 12-month average of our monthly stock price prior to grant.

*Expected option term* is determined based on historical experience under our stock option and incentive plans.

The weighted-average fair value per share of options granted during 2013 was \$6.97, compared to \$7.08 for 2012, and \$9.45 for 2011.

The underlying weighted-average assumptions used were as follows:

	2013	2012	2011
Risk-free interest rate	1.04%	1.82%	2.22%
Expected stock price volatility	27.17%	32.81%	30.70%
Expected dividend yield	3.40%	3.30%	2.76%
Expected option term	6.2 years	6.0 years	6.2 years

The following table sets forth stock option information related to our stock option and incentive plans during 2013:

	Number of options (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at December 29, 2012	11,376.9	\$ 43.93	5.59	\$ 28.0
Granted	.8	40.33		
Exercised	(1,668.1)	27.01		
Forfeited or expired	(1,818.4)	51.19		
Outstanding at December 28, 2013	7,891.2	\$ 45.85	4.27	\$ 69.0
Options vested and expected to vest at December 28, 2013	7,608.9	46.30	4.15	64.2
Options exercisable at December 28, 2013	6,230.4	\$ 49.08	3.41	\$ 40.8

The total intrinsic value of stock options exercised was \$26.1 million in 2013, \$3.8 million in 2012, and \$2.9 million in 2011. Cash received by us from the exercise of these stock options was approximately \$44.8 million in 2013, \$10.2 million in 2012, and \$3.9 million in 2011. The tax benefit associated with these exercised options was \$8.5 million in 2013, \$1.3 million in 2012, and \$.9 million in 2011. The intrinsic value of the stock options is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

### Performance Units ("PUs")

PUs are granted under our stock option and incentive plan to certain of our eligible employees. PUs are payable in shares of our common stock at the end of a three-year cliff vesting period provided that certain performance objectives are achieved at the end of the period. Over the performance period, the estimated number of shares of our common stock issuable upon vesting is adjusted upward or downward based upon the probability of achievement of performance objectives. The actual number of shares issued can range from 0% to 200% of the target shares at the time of grant.

We exceeded the target level for certain performance objectives established for the 2010-2012 performance period, which resulted in an overall payout of 117% of target for the PUs granted in 2010. These awards were paid in the first quarter of 2013.

The following table summarizes information related to awarded PUs:

	Number of PUs (in thousands)	Weighted-average grant-date fair value
Unvested at December 29, 2012	1,001.2	\$ 35.20
Granted at target	208.5	52.93
Granted for above-target performance <sup>(1)</sup>	57.5	30.87
Vested	(328.8)	29.71
Forfeited/cancelled	(143.2)	37.78
Unvested at December 28, 2013	795.2	\$ 41.32

<sup>(1)</sup> Reflects awards granted in excess of target as a result of our achieving above-target performance for the 2010 - 2012 performance period.

### Market-Leveraged Stock Units ("MSUs")

In 2013, in lieu of stock options and RSUs, we began granting performance-based MSUs, which vest ratably over a four-year period. Although dividend equivalents accrue on MSUs during the vesting period, they are earned and paid only at vesting. The number of MSU shares earned is based upon our absolute total shareholder return at each vesting date and can range from 0% to 200% of the target amount of MSUs subject to vesting. Each of the four vesting periods represents one tranche of MSUs and the fair value of each of these four tranches

## Notes to Consolidated Financial Statements

was determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected volatility assumptions and other assumptions, to estimate the probability of achieving the performance objective established for the award.

The following table summarizes information related to awarded MSUs:

	Number of MSUs (in thousands)	Weighted- average grant-date fair value
Unvested at December 29, 2012	–	\$ –
Granted at target	346.6	51.40
Vested	–	–
Forfeited/cancelled	(16.5)	51.56
Unvested at December 28, 2013	330.1	\$ 51.40

### Restricted Stock Units ("RSUs")

RSUs granted under our stock option and incentive plan usually vest ratably over a period of three years for non-employee directors and four years for employees provided that directorship or employment continues through the applicable vesting date. If the condition is not met, unvested RSUs are generally forfeited.

The following table summarizes information related to awarded RSUs:

	Number of RSUs (in thousands)	Weighted- average grant- date fair value
Unvested at December 29, 2012	1,352.2	\$ 29.68
Granted	59.9	38.72
Vested	(548.6)	29.06
Forfeited/cancelled	(182.5)	29.77
Unvested at December 28, 2013	681.0	\$ 31.06

### Cash Awards

#### Long-Term Incentive Units

In 2012, we began granting long-term incentive units ("LTI units") under our long-term incentive unit plan to certain eligible employees. LTI Units are service-based awards that generally vest ratably over a four-year period. The settlement value equals the number of vested LTI units multiplied by the average of the high and low market prices of our common stock on the vesting date. The compensation expense related to these awards is amortized on a straight-line basis and the fair value is remeasured using the estimated percentage of units expected to be earned multiplied by the average of the high and low market prices of our common stock at each quarter-end.

In 2013, we also began granting cash-based awards in the form of performance and market-leveraged LTI Units to eligible employees. Performance LTI Units are payable in cash at the end of a three-year cliff vesting period provided that certain performance objectives are achieved at the end of the performance period. Market-leveraged LTI Units are payable in cash and vest ratably over a period of four years. The number of performance and market-leveraged LTI Units earned at vesting is adjusted upward or downward based upon the probability of achieving the performance objectives established for the respective award and the actual number of units issued can range from 0% to 200% of the target units subject to vesting. The performance and market-leveraged LTI Units are remeasured using the estimated percentage of units expected to be earned multiplied by the average of the high and low market prices of our common stock at each quarter-end over their respective performance periods. The compensation expense related to performance LTI Units is amortized on a straight-line basis over their respective performance period. The compensation expense related to market-leveraged LTI Units is amortized on a graded-vesting basis over their respective performance periods.

The compensation expense from continuing operations related to these units was \$6.3 million and \$1.9 million for the years ended December 28, 2013 and December 29, 2012, respectively. This expense was included in "Marketing, general and administrative expense" in the Consolidated Statements of Income. The total recognized tax benefit related to these units was \$3.2 million and \$.5 million for the years December 28, 2013 and December 29, 2012.

### NOTE 11. COST REDUCTION 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 (the "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.

No employees impacted by the 2012 Program remained employed with us as of December 28, 2013.

#### 2011 Actions

In 2011, we recorded approximately \$45 million in restructuring charges, net of reversals, including charges for discontinued operations, consisting of severance and related costs for the reduction of approximately 910 positions, asset impairment charges, and lease cancellation costs. No employees impacted by these actions remained employed with us as of December 29, 2012.

Accruals for severance and related costs and lease and other contract cancellation costs were included in "Other accrued liabilities" in the Consolidated Balance Sheets. For assets that were not disposed, impairments were based on the estimated market value of the assets.

## Notes to Consolidated Financial Statements

During 2013, restructuring charges and payments were as follows:

(In millions)	Accrual at December 29, 2012	Charges (Reversals), net	Cash Payments	Non-cash Impairment	Foreign Currency Translation	Accrual at December 28, 2013
<b>2012 Program</b>						
Severance and related costs	\$ 20.7	\$ 27.2	\$ (41.0)	\$ —	\$ (.3)	\$ 6.6
Lease and other contract cancellation costs	.1	3.4	(3.3)	—	—	.2
Asset impairment charges	—	9.7	—	(9.7)	—	—
<b>2011 Actions</b>						
Severance and related costs	.1	—	(.1)	—	—	—
<b>Total</b>	<b>\$ 20.9</b>	<b>\$ 40.3</b>	<b>\$ (44.4)</b>	<b>\$ (9.7)</b>	<b>\$ (.3)</b>	<b>\$ 6.8</b>

During 2012, restructuring charges and payments, including those for discontinued operations, were as follows:

(In millions)	Accrual at December 31, 2011	Charges (Reversals), net	Cash Payments	Non-cash Impairment	Foreign Currency Translation	Accrual at December 29, 2012
<b>2012 Program</b>						
Severance and related costs	\$ —	\$ 50.7	\$ (30.5)	\$ —	\$ .5	\$ 20.7
Lease cancellation costs	—	.1	—	—	—	.1
Asset impairment charges	—	6.9	—	(6.9)	—	—
<b>2011 Actions</b>						
Severance and related costs	12.7	(1.1)	(11.7)	—	.2	.1
Lease cancellation costs	1.8	(.2)	(1.6)	—	—	—
<b>Q3 2010 – Q4 2010 Actions</b>						
Severance and related costs	.2	—	(.2)	—	—	—
<b>Total</b>	<b>\$ 14.7</b>	<b>\$ 56.4</b>	<b>\$ (44.0)</b>	<b>\$ (6.9)</b>	<b>\$ .7</b>	<b>\$ 20.9</b>

The table below shows the total amount of costs incurred by reportable segment and other businesses in connection with these restructuring actions for the periods shown below. Restructuring costs in continuing operations were included in "Other expense, net" in the Consolidated Statements of Income.

(In millions)	2013	2012	2011
<b>Restructuring costs by reportable segment and other businesses</b>			
Pressure-sensitive Materials	\$ 10.8	\$ 34.1	\$ 19.7
Retail Branding and Information Solutions	28.5	17.8	19.4
Other specialty converting businesses	.1	.9	—
Corporate	.9	3.0	4.8
Continuing operations	40.3	55.8	43.9
Discontinued operations	—	.6	1.3
	<b>\$ 40.3</b>	<b>\$ 56.4</b>	<b>\$ 45.2</b>

Subsequent to the end of the fiscal year 2013, in January 2014, we announced our intent to close an older manufacturing facility in the Netherlands and consolidate those operations with the operations of another existing facility in Germany. This restructuring action is anticipated to result in a reduction of approximately 110 positions from our Pressure-sensitive Materials segment.

### NOTE 12. TAXES BASED ON INCOME

Taxes based on income (loss) were as follows:

(In millions)	2013	2012	2011
<b>Current:</b>			
U.S. federal tax	\$ 1.9	\$ (18.7)	\$ (8.6)
State taxes	.3	(2.4)	(1.1)
International taxes	107.3	101.2	78.4
	109.5	80.1	68.7
<b>Deferred:</b>			
U.S. federal tax	(11.2)	9.5	(6.8)
State taxes	1.3	(9.3)	(1.4)
International taxes	19.2	(.3)	11.0
	9.3	(.1)	2.8
<b>Provision for income taxes</b>	<b>\$ 118.8</b>	<b>\$ 80.0</b>	<b>\$ 71.5</b>

## Notes to Consolidated Financial Statements

The principal items accounting for the difference between taxes computed at the U.S. statutory rate and taxes recorded were as follows:

(In millions)	2013	2012	2011
Computed tax at 35% of income before taxes	\$ 127.1	\$ 83.1	\$ 74.5
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	2.4	1.1	(2.4)
Foreign earnings taxed at different rates <sup>(1)(2)</sup>	(14.7)	11.8	2.3
Valuation allowance	(4.3)	(23.6)	7.0
Corporate owned life insurance	(6.9)	(5.5)	(5.1)
U.S. federal research and development tax credits	(7.0)	-	(4.6)
Tax contingencies and audit settlements	23.1	9.4	2.9
Expiration of carryforward items	2.5	4.8	.4
Other items, net	(3.4)	(1.1)	(3.5)
Provision for income taxes	\$ 118.8	\$ 80.0	\$ 71.5

(1) Included foreign earnings taxed in the U.S., net of credits, for all years.

(2) Included \$12.1 million and \$11.2 million of expense related to the accrual of U.S. taxes on certain foreign earnings for 2013 and 2012, respectively. For 2011, there was no such accrual.

Income (loss) from continuing operations before taxes from our U.S. and international operations was as follows:

(In millions)	2013	2012	2011
U.S.	\$ (36.2)	\$ (125.7)	\$ (81.8)
International	399.3	363.3	295.0
Income from continuing operations before taxes	\$ 363.1	\$ 237.6	\$ 213.2

The effective tax rate for continuing operations was 32.7%, 33.7%, and 33.5% for fiscal years 2013, 2012, and 2011, respectively. The 2013 effective tax rate for continuing operations reflected \$11 million of benefit for adjustments to federal income tax, primarily due to the enactment of the American Taxpayer Relief Act of 2012 ("ATRA"), and \$18.8 million of net expense on changes in certain tax reserves and valuation allowances. Additionally, the effective tax rate for 2013 reflected a benefit of \$11.2 million from favorable tax rates on certain earnings from our operations in lower-tax jurisdictions throughout the world, offset by \$12.1 million of expense related to the accrual of U.S. taxes on certain foreign earnings. The 2012 effective tax rate for continuing operations reflected \$6.2 million of benefit from the release of a valuation allowance on certain state tax credits and \$11.2 million of expense related to the accrual of U.S. taxes on certain foreign earnings. Additionally, the effective tax rate for 2012 was negatively impacted by approximately \$5 million from the statutory expiration of federal research and development tax credits on December 31, 2011. The 2011 effective tax rate for continuing operations reflected \$7 million of expense for increases in valuation allowances and \$2.8 million of expense from the settlement of foreign tax audits.

On January 2, 2013, ATRA was enacted, retrospectively extending the federal research and development credit for amounts paid or incurred after December 31, 2011 and before January 1, 2014. The retroactive effects were recognized in the first quarter of 2013. ATRA also retroactively extended the controlled foreign corporation ("CFC") look-through rule that had expired on December 31, 2011. For periods in which the look-through rule is effective, certain dividends, interest, rents, and royalties received or accrued by a CFC of a U.S. multinational enterprise from a related CFC are excluded from U.S. federal income tax. The retroactive effect of the extension of the CFC look-through rule did not have a material impact on our effective tax rate or operating results after taking into consideration tax accruals related to our repatriation assertions. The extensions of the CFC look-through rule and the research and development credit expired on December 31, 2013.

Deferred income taxes have not been provided on approximately \$2.1 billion of undistributed earnings of foreign subsidiaries as of December 28, 2013 since these amounts are intended to be indefinitely reinvested in foreign operations. It is not practicable to calculate the deferred taxes associated with these earnings because of the variability of multiple factors that would need to be assessed at the time of any assumed repatriation; however, foreign tax credits would likely be available to reduce federal income taxes in the event of distribution. In making this assertion, we evaluate, among other factors, the profitability of our U.S. and foreign operations and the need for cash within and outside the U.S., including cash requirements for capital improvements, acquisitions, market expansion, and stock repurchase programs.

Deferred income taxes reflect the temporary differences between the amounts at which assets and liabilities are recorded for financial reporting purposes and the amounts utilized for tax purposes. The primary components of the temporary differences that gave rise to our deferred tax assets and liabilities were as follows:

(In millions)	2013	2012
Accrued expenses not currently deductible	\$ 44.7	\$ 80.3
Net operating losses	306.2	323.8 <sup>(1)</sup>
Tax credit carryforwards	129.2	118.0
Capital loss carryforward	-	6.0
Postretirement and postemployment benefits	100.8	107.9
Pension costs	95.7	146.1
Inventory reserves	8.6	12.1
Other assets	6.2	2.7
Valuation allowance	(59.0)	(69.3) <sup>(1)</sup>
Total deferred tax assets <sup>(2)</sup>	632.4	727.6
Depreciation and amortization	(127.8)	(166.7)
Repatriation accrual	(52.9)	(20.3)
Foreign operating loss recapture	(136.5)	(136.5)
Other liabilities	(1.8)	(3.1) <sup>(1)</sup>
Total deferred tax liabilities <sup>(2)</sup>	(319.0)	(326.6)
Total net deferred tax assets	\$ 313.4	\$ 401.0

(1) The presentation for 2012 was revised to conform to the presentation shown for 2013. The revision was immaterial having no impact on total net deferred tax assets but resulted in a decrease of \$33.4 million, \$27.9 million, and \$5.5 million in net operating losses, valuation allowance, and other liabilities, respectively.

(2) Reflect gross amounts before jurisdictional netting of deferred tax assets and liabilities.

A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized. The valuation allowance at December 28, 2013 and December 29, 2012 was \$59 million and \$69.3 million, respectively. In 2013, we recognized \$4.3 million as a tax benefit in continuing operations with the remaining \$6 million primarily impacting discontinued operations.

Net operating loss carryforwards of foreign subsidiaries at December 28, 2013 and December 29, 2012 were \$1.06 billion and \$1.14 billion, respectively. If unused, foreign net operating losses of



## Notes to Consolidated Financial Statements

\$42.8 million would expire between 2014 and 2017, and \$77.5 million would expire after 2017. Net operating losses of \$944.8 million can be carried forward indefinitely. Based on current projections, certain indefinite-lived foreign net operating losses may take approximately 50 years to be fully utilized. Tax credit carryforwards of both domestic and foreign subsidiaries at December 28, 2013 and December 29, 2012 totaled \$129.2 million and \$118 million, respectively. If unused, tax credit carryforwards of \$3.4 million would expire between 2014 and 2016, \$87.2 million would expire between 2017 and 2021, and \$30.1 million would expire after 2021. Tax credit carryforwards of \$8.5 million can be carried forward indefinitely.

With the expiration of our tax holiday in Bangladesh during 2013, tax holidays did not have a material effect on our 2013 results. We do not anticipate the expected expiration of our remaining tax holidays in Thailand and Vietnam between 2014 and 2016 to have a material effect on our effective tax rate, operating results, or financial condition.

### Unrecognized Tax Benefits

As of December 28, 2013, our unrecognized tax benefits totaled \$137.2 million, \$96.7 million of which, if recognized, would reduce the annual effective income tax rate. As of December 29, 2012, our unrecognized tax benefits totaled \$121.6 million, \$82.8 million of which, if recognized, would reduce the annual effective income tax rate.

Where applicable, we recognize potential accrued interest and penalties related to unrecognized tax benefits from our global operations in income tax expense. We recognized expense of \$2.7 million, \$5.5 million, and \$2.7 million in the Consolidated Statements of Income in 2013, 2012, and 2011, respectively. We have accrued \$29.2 million and \$29.1 million for interest and penalties, net of tax benefit, in the Consolidated Balance Sheets at December 28, 2013 and December 29, 2012, respectively.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is set forth below:

(In millions)	2013	2012
Balance at beginning of year	\$ 121.6	\$ 120.3
Additions based on tax positions related to the current year	20.1	15.7
Additions for tax positions of prior years	8.3	.6
Reductions for tax positions of prior years:		
Changes in judgment	(4.0)	(5.6)
Settlements	(2.6)	(2.3)
Lapses and statute expirations	(6.2)	(4.4)
Changes due to translation of foreign currencies	-	(2.7)
Balance at end of year	\$ 137.2	\$ 121.6

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 that 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. As of the date the 2013 financial statements are being issued, we and our U.S. subsidiaries have completed the Internal Revenue Service's Compliance Assurance Process Program through 2012. We are subject to routine tax examinations in other jurisdictions. With a few exceptions, we are no longer subject to 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 \$20 million, primarily as a result of closing tax years.

### NOTE 13. SEGMENT INFORMATION

The accounting policies of the segments are described in Note 1, "Summary of Significant Accounting Policies." Intersegment sales are recorded at or near market prices and are eliminated in determining consolidated sales. We evaluate performance based on income from operations before interest expense and taxes. General corporate expenses are also excluded from the computation of income from operations for the segments.

We do not disclose total assets by reportable segment since we do not produce and review such information internally. We do not disclose revenues from external customers for each product because it is impracticable to do so. As our reporting structure is not organized or reviewed internally by country, results by individual country are not provided.

(In millions)	2013	2012	2011
<b>Net sales to unaffiliated customers</b>			
Pressure-sensitive Materials	\$ 4,455.0	\$ 4,257.6	\$ 4,261.0
Retail Branding and Information Solutions	1,611.1	1,535.0	1,510.1
Other specialty converting businesses	73.9	70.9	73.8
Net sales to unaffiliated customers	\$ 6,140.0	\$ 5,863.5	\$ 5,844.9
<b>Intersegment sales</b>			
Pressure-sensitive Materials	\$ 64.6	\$ 60.9	\$ 59.5
Retail Branding and Information Solutions	2.4	3.8	3.3
Other specialty converting businesses	3.6	.8	.7
Intersegment sales	\$ 70.6	\$ 65.5	\$ 63.5
<b>Income from continuing operations before taxes</b>			
Pressure-sensitive Materials	\$ 442.8	\$ 359.7	\$ 349.1
Retail Branding and Information Solutions	81.7	53.3	42.1
Other specialty converting businesses	(8.3)	(16.2)	(12.5)
Corporate expense	(94.1)	(86.3)	(94.4)
Interest expense	(59.0)	(72.9)	(71.1)
Income from continuing operations before taxes	\$ 363.1	\$ 237.6	\$ 213.2
<b>Capital expenditures</b>			
Pressure-sensitive Materials	\$ 81.1	\$ 64.8	\$ 71.2
Retail Branding and Information Solutions	42.4	24.7	24.2
Other specialty converting businesses	1.2	3.4	3.5
Capital expenditures	\$ 124.7	\$ 92.9	\$ 98.9

## Notes to Consolidated Financial Statements

(In millions)	2013	2012	2011
<b>Depreciation and amortization expense</b>			
Pressure-sensitive Materials	\$ 113.5	\$ 112.8	\$ 119.1
Retail Branding and Information Solutions	86.7	93.9	96.5
Other specialty converting businesses	4.1	4.3	4.4
Depreciation and amortization expense	\$ 204.3	\$ 211.0	\$ 220.0
<b>Other expense, net by reportable segment and other businesses</b>			
Pressure-sensitive Materials	\$ 10.8	\$ 33.5	\$ 20.1
Retail Branding and Information Solutions	20.0	24.8	17.8
Other specialty converting businesses	.1	4.8	–
Corporate	5.7	5.7	13.7
Other expense, net	\$ 36.6	\$ 68.8	\$ 51.6
<b>Other expense, net by type</b>			
Restructuring costs:			
Severance and related costs	\$ 27.2	\$ 49.3	\$ 35.0
Asset impairment charges and lease and other contract cancellation costs	13.1	6.5	8.9
Other items:			
Charitable contribution to Avery Dennison Foundation	10.0	–	–
Indefinite-lived intangible asset impairment charge	–	7.0	–
Gain on sale of product line	–	(.6)	–
Gain on sale of assets	(17.8)	–	–
Loss from debt extinguishment	–	–	.7
Gain from curtailment of pension obligation	(1.6)	–	–
Legal settlements	2.5	–	(1.2)
Product line exits	–	3.9	–
Divestiture-related costs <sup>(1)</sup>	3.2	2.7	8.2
Other expense, net	\$ 36.6	\$ 68.8	\$ 51.6

<sup>(1)</sup> Represents only the portion allocated to continuing operations.

Revenues in our continuing operations by geographic area are set forth below. Revenues are attributed to geographic areas based on the location to which the product is shipped. Export sales from the United States to unaffiliated customers are not a material factor in our business.

(In millions)	2013	2012	2011
<b>Net sales to unaffiliated customers</b>			
U.S.	\$ 1,537.6	\$ 1,528.3	\$ 1,473.0
Europe	1,958.4	1,851.1	1,994.8
Asia	1,823.5	1,627.6	1,526.9
Latin America	515.6	501.2	489.9
Other international	304.9	355.3	360.3
Net sales to unaffiliated customers	\$ 6,140.0	\$ 5,863.5	\$ 5,844.9

Property, plant and equipment, net, in our U.S. and international operations are set forth below.

(In millions)	2013	2012	2011
<b>Property, plant and equipment, net</b>			
U.S.	\$ 279.6	\$ 340.2	\$ 370.5
International	642.9	675.3	708.9
Property, plant and equipment, net	\$ 922.5	\$ 1,015.5	\$ 1,079.4

Notes to Consolidated Financial Statements

NOTE 14. QUARTERLY FINANCIAL INFORMATION (Unaudited)

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2013</b>				
Net sales	\$ 1,498.9	\$ 1,552.3	\$ 1,504.9	\$ 1,583.9
Gross profit	401.7	417.5	402.2	416.3
Income from continuing operations	66.8	70.8	62.0	44.7
Loss from discontinued operations, net of tax	(9.0)	(2.0)	(15.5)	(2.0)
Net income	57.8	68.8	46.5	42.7
Net income (loss) per common share:				
Continuing operations	.67	.71	.63	.46
Discontinued operations	(.09)	(.02)	(.16)	(.02)
Net income per common share	.58	.69	.47	.44
Net income (loss) per common share, assuming dilution:				
Continuing operations	.66	.70	.62	.45
Discontinued operations	(.09)	(.02)	(.15)	(.02)
Net income per common share, assuming dilution	.57	.68	.47	.43
<b>2012</b>				
Net sales	\$ 1,443.0	\$ 1,490.4	\$ 1,447.0	\$ 1,483.1
Gross profit	377.1	388.1	381.0	382.0
Income from continuing operations	44.6	49.1	35.9	28.0
(Loss) income from discontinued operations, net of tax	(.7)	15.1	22.4	21.0
Net income	43.9	64.2	58.3	49.0
Net income per common share:				
Continuing operations	.42	.47	.36	.28
Discontinued operations	-	.15	.22	.21
Net income per common share	.42	.62	.58	.49
Net income (loss) per common share, assuming dilution:				
Continuing operations	.42	.47	.35	.28
Discontinued operations	(.01)	.15	.22	.20
Net income per common share, assuming dilution	.41	.62	.57	.48

## Notes to Consolidated Financial Statements

"Other expense, net" is presented by type for each quarter below:

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2013</b>				
Restructuring costs:				
Severance and related costs	\$ 6.8	\$ 5.4	\$ 8.7	\$ 6.3
Asset impairment, lease and other contract cancellation charges	1.3	2.4	8.0	1.4
Other items:				
Charitable contribution to Avery Dennison Foundation	–	–	10.0	–
Gain on sale of assets	(1.3)	(10.9)	(.5)	(5.1)
Gain from curtailment of pension obligation	–	–	(1.6)	–
Legal settlement	–	2.5	–	–
Divestiture-related costs <sup>(1)</sup>	.7	.3	1.1	1.1
Other expense, net	\$ 7.5	\$ (.3)	\$ 25.7	\$ 3.7
<b>2012</b>				
Restructuring costs:				
Severance and related costs	\$ 5.7	\$ 9.8	\$ 17.6	\$ 16.2
Asset impairment and lease cancellation charges	1.5	.4	1.5	3.1
Other items:				
Indefinite-lived intangible asset impairment charge	–	–	–	7.0
Gain on sale of product line	–	(.6)	–	–
Product line exits	–	–	2.1	1.8
Divestiture-related costs <sup>(1)</sup>	.4	1.6	.7	–
Other expense, net	\$ 7.6	\$ 11.2	\$ 21.9	\$ 28.1

<sup>(1)</sup> Represents only the portion allocated to continuing operations.

## NOTE 15. 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 December 28, 2013:

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

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of December 29, 2012:

(In millions)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Assets</b>				
Trading securities	\$ 18.6	\$ 9.3	\$ 9.3	\$ –
Derivative assets	10.0	–	10.0	–
<b>Liabilities</b>				
Derivative liabilities	\$ 3.8	\$ 1.0	\$ 2.8	\$ –

## Notes to Consolidated Financial Statements

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 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 Consolidated Balance Sheets. As of December 29, 2012, trading securities of \$9 million and \$17.7 million were included in "Cash and cash equivalents" and "Other current assets," respectively, in the 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." 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 inputs that are readily available in public markets are classified within Level 2 of the valuation hierarchy.

### Non-recurring Fair Value Measurements

During 2013, long-lived assets with carrying amounts totaling \$8.3 million were written down to their fair value of \$4.8 million, resulting in an impairment charge of \$3.5 million, which was included in "Other expense, net" in the Consolidated Statements of Income. The fair value was based on the sale price of the assets, less estimated broker fees, which are primarily Level 3 inputs.

Long-lived assets with carrying amounts totaling \$4.4 million were written down to their fair value of \$1.3 million, resulting in an impairment charge of \$3.1 million during 2011, which was included in "Other expense, net" in the Consolidated Statements of Income. Of the \$1.3 million, \$1.1 million was primarily based on Level 2 inputs and \$.2 million was primarily based on Level 3 inputs. These assets were in both reportable segments and other specialty converting businesses.

## STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements and accompanying information were prepared by and are the responsibility of management. The statements were prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts that are based on management's best estimates and judgments.

Oversight of management's financial reporting and internal accounting control responsibilities is exercised by the Board of Directors, through the Audit Committee, which is comprised solely of independent directors. The Committee meets periodically with financial management, internal auditors and the independent registered public accounting firm to obtain reasonable assurance that each is meeting its responsibilities and to discuss matters concerning auditing, internal accounting control and financial reporting. The independent registered public accounting firm and our internal audit department have free access to meet with the Audit Committee without management's presence.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15(d)-15(f). Under the supervision and with the participation of management, including the chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework (1992)*, management has concluded that internal control over financial reporting was effective as of December 28, 2013. Management's assessment of the effectiveness of internal control over financial reporting as of December 28, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Dean A. Scarborough

---

**Dean A. Scarborough**  
Chairman, President and  
Chief Executive Officer

/s/ Mitchell R. Butier

---

**Mitchell R. Butier**  
Senior Vice President and  
Chief Financial Officer

# Report of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AVERY DENNISON CORPORATION:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at December 28, 2013 and December 29, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California  
February 26, 2014

# Corporate Information

## Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP  
Los Angeles, California

## Registrar and Transfer Agent

Broadridge Corporate Issuer Solutions, Inc.  
P.O. Box 1342  
Brentwood, NY 11717  
(888) 682-5999  
(720) 864-4993 (international)  
(855) 627-5080 (hearing impaired)  
<https://investor.broadridge.com>

## Annual Meeting

Our Annual Meeting of Stockholders will be held at 1:30 p.m. on April 24, 2014 at the Hilton Hotel, 100 West Glenoaks Boulevard, Glendale, California 91202.

## The Direct Share Purchase and Sale Program

Shareholders of record may reinvest their cash dividends in additional shares of Avery Dennison common stock at market price. Investors may also invest optional cash payments of up to \$12,500 per month in Avery Dennison common stock at market price. Avery Dennison investors not yet participating in the program, as well as brokers and custodians who hold Avery Dennison common stock for clients, may obtain a copy of the program by contacting Broadridge Corporate Issuer Solutions, Inc.

## Direct Deposit of Dividends

Avery Dennison shareholders may receive their quarterly dividend payments by direct deposit into their checking or savings accounts. For more information, contact Broadridge Corporate Issuer Solutions, Inc.

## Other Information

We are including, as Exhibits 31.1 and 31.2 to our Annual Report on Form 10-K for fiscal year 2013 filed with the Securities and Exchange Commission ("SEC"), certificates of our Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. We submitted to the New York Stock Exchange ("NYSE") our annual written affirmation, along with the Chief Executive Officer's certificate that he is not aware of any violation by the Company of NYSE's corporate governance listing standards, on April 29, 2013.

A copy of our Annual Report on Form 10-K, as filed with the SEC, will be furnished to shareholders and interested investors free of charge upon written request to our Corporate Secretary. Copies may also be downloaded from our investor website at [www.investors.averydennison.com](http://www.investors.averydennison.com).

## Corporate Headquarters and Mailing Address

Avery Dennison Corporation  
207 Goode Avenue  
Glendale, California 91203  
Phone: (626) 304-2000  
Fax: (626) 304-2251

## Stock and Dividend Data

Our common stock is listed on the NYSE.  
Ticker symbol: AVY

	2013		2012	
	High	Low	High	Low
<b>Market Price</b>				
First Quarter	\$ 43.58	\$ 34.92	\$ 31.03	\$ 27.15
Second Quarter	44.46	40.13	32.42	26.38
Third Quarter	46.15	42.76	32.04	27.22
Fourth Quarter	50.65	42.28	34.97	29.55

(1) Prices shown represent the highest and lowest closing prices during the period.

	2013	2012
<b>Dividends per Common Share</b>		
First Quarter	\$ .27	\$ .27
Second Quarter	.29	.27
Third Quarter	.29	.27
Fourth Quarter	.29	.27
	\$ 1.14	\$ 1.08
Number of shareholders of record as of year-end	6,339	6,745



## QuickLinks

[Exhibit 13](#)

[ORGANIZATION OF INFORMATION](#)  
[NON-GAAP FINANCIAL MEASURES](#)  
[OVERVIEW AND OUTLOOK](#)  
[ANALYSIS OF RESULTS OF OPERATIONS](#)  
[RESULTS OF OPERATIONS BY REPORTABLE SEGMENT](#)

[FINANCIAL CONDITION](#)

[CRITICAL ACCOUNTING POLICIES AND ESTIMATES](#)  
[RECENT ACCOUNTING REQUIREMENTS](#)  
[MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT](#)

[STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS](#)  
[MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING](#)

SUBSIDIARY <sup>(1)</sup>	JURISDICTION IN WHICH <u>ORGANIZED</u>
ADC PHILIPPINES, INC.	PHILIPPINES
ADESPAN S.R.L.	ITALY
ADHIPRESS BANGLADESH LTD.	BANGLADESH
ADHIPRESS (HONG KONG) LTD.	HONG KONG
AVERY CORP.	U.S.A.
AVERY DE MEXICO SRL DE CV	MEXICO
AVERY DENNISON AUSTRALIA GROUP HOLDINGS PTY LIMITED	AUSTRALIA
AVERY DENNISON AUSTRALIA INTERNATIONAL HOLDINGS PTY LTD.	AUSTRALIA
AVERY DENNISON AUSTRALIA PTY LTD.	AUSTRALIA
AVERY DENNISON BELGIE BVBA	BELGIUM
AVERY DENNISON BENELUX BVBA	BELGIUM
AVERY DENNISON BULGARIA EOOD	BULGARIA
AVERY DENNISON BV	NETHERLANDS
AVERY DENNISON CANADA CORPORATION	CANADA
AVERY DENNISON CENTRAL EUROPE GMBH	GERMANY
AVERY DENNISON CHILE S.A.	CHILE
AVERY DENNISON COLOMBIA S. A.	COLOMBIA
AVERY DENNISON CONVERTED PRODUCTS DE MEXICO, S.A. DE C.V.	MEXICO
AVERY DENNISON CONVERTED PRODUCTS EL SALVADOR S. A. DE C. V.	EL SALVADOR
AVERY DENNISON COORDINATION CENTER BVBA	BELGIUM
AVERY DENNISON C.A.	VENEZUELA
AVERY DENNISON DE ARGENTINA S.A.	ARGENTINA
AVERY DENNISON DEUTSCHLAND GMBH	GERMANY
AVERY DENNISON DO BRASIL LTDA.	BRAZIL
AVERY DENNISON DOMINICAN REPUBLIC S. A.	DOMINICAN REPUBLIC
AVERY DENNISON EGYPT LLC	EGYPT
AVERY DENNISON ETIKET TICARET LIMITED SIRKETI	TURKEY
AVERY DENNISON EUROPE GMBH	SWITZERLAND
AVERY DENNISON EUROPE HOLDING (DEUTSCHLAND) GMBH & CO KG	GERMANY
AVERY DENNISON FINANCE BELGIUM BVBA	BELGIUM
AVERY DENNISON FINANCE GERMANY GMBH	GERMANY
AVERY DENNISON FINANCE LUXEMBOURG II SARL	LUXEMBOURG
AVERY DENNISON FINANCE LUXEMBOURG S. A. R. L.	LUXEMBOURG
AVERY DENNISON FINANCE LUXEMBOURG III SARL	LUXEMBOURG
AVERY DENNISON FOUNDATION	U.S.A.
AVERY DENNISON G HOLDINGS I LLC	U.S.A.
AVERY DENNISON G HOLDINGS III LLC	U.S.A.
AVERY DENNISON G INVESTMENTS 111 LIMITED	GIBRALTAR
AVERY DENNISON G INVESTMENTS V LIMITED	GIBRALTAR
AVERY DENNISON GROUP DANMARK APS	DENMARK
AVERY DENNISON GROUP SINGAPORE (PTE) LIMITED	SINGAPORE
AVERY DENNISON GULF FZCO	UNITED ARAB EMIRATES
AVERY DENNISON HOLDING GMBH	GERMANY
AVERY DENNISON HOLDING LUXEMBOURG S. A. R. L.	LUXEMBOURG
AVERY DENNISON HOLDING & FINANCE THE NETHERLANDS BV	NETHERLANDS
AVERY DENNISON HOLDINGS LLC	U.S.A.
AVERY DENNISON HOLDINGS NEW ZEALAND LIMITED	NEW ZEALAND
AVERY DENNISON HONG KONG BV	NETHERLANDS
AVERY DENNISON HONG KONG HOLDING I B.V.	NETHERLANDS
AVERY DENNISON HONG KONG HOLDING II B.V.	NETHERLANDS
AVERY DENNISON IBERICA, S.A.	SPAIN

AVERY DENNISON INNOVATIONS LLC	U.S.A.
AVERY DENNISON INTELLIGENT HEALTHCARE SOLUTIONS LLC	U.S.A.
AVERY DENNISON INVESTMENT LUXEMBOURG II SARL	LUXEMBOURG
AVERY DENNISON INVESTMENTS LUXEMBOURG S.A.R.L.	LUXEMBOURG
AVERY DENNISON INVESTMENTS LUXEMBOURG III SARL	LUXEMBOURG
AVERY DENNISON INVESTMENTS LUXEMBOURG IV SARL	LUXEMBOURG
AVERY DENNISON INVESTMENTS LUXEMBOURG V SCA	LUXEMBOURG
AVERY DENNISON ITALIA S.R.L.	ITALY
AVERY DENNISON JAPAN K.K.	JAPAN
AVERY DENNISON JAPAN MATERIALS COMPANY LTD.	JAPAN
AVERY DENNISON KAGIT URUNLERI SANAYI TICARET LIMITED SIRKETI	TURKEY
AVERY DENNISON KOREA LIMITED	SOUTH KOREA
AVERY DENNISON LABELS LIMITED	HONG KONG
AVERY DENNISON LANKA (PRIVATE) LIMITED	SRI LANKA
AVERY DENNISON LUXEMBOURG SALES SARL	LUXEMBOURG
AVERY DENNISON LUXEMBOURG S.A.R.L.	LUXEMBOURG
AVERY DENNISON MANAGEMENT GMBH	GERMANY
AVERY DENNISON MANAGEMENT KGAA	LUXEMBOURG
AVERY DENNISON MANAGEMENT LUXEMBOURG S.A.R.L.	LUXEMBOURG

VERY DENNISON MATERIALS EUROPE B.V.	NETHERLANDS
VERY DENNISON MATERIALS EUROPE GMBH	SWITZERLAND
VERY DENNISON MATERIALS FRANCE S.A.R.L.	FRANCE
VERY DENNISON MATERIALS GMBH	GERMANY
VERY DENNISON MATERIALS IRELAND LIMITED	IRELAND
VERY DENNISON MATERIALS NEDERLAND BV	NETHERLANDS
VERY DENNISON MATERIALS NEW ZEALAND LIMITED	NEW ZEALAND
VERY DENNISON MATERIALS PTY LIMITED	AUSTRALIA
VERY DENNISON MATERIALS ROM SRL	ROMANIA
VERY DENNISON MATERIALS RUSSIA LLC	RUSSIA
VERY DENNISON MATERIALS SALES FRANCE S. A. S.	FRANCE
VERY DENNISON MATERIALS SALES GERMANY GMBH	GERMANY
VERY DENNISON MATERIALS SDN BHD	MALAYSIA
VERY DENNISON MATERIALS UKRAINE	UKRAINE
VERY DENNISON MATERIALS U.K. LIMITED	UNITED KINGDOM
VERY DENNISON MAURITIUS LTD.	MAURITIUS
VERY DENNISON MOROCCO SARL	MOROCCO
VERY DENNISON NETHERLANDS INVESTMENT 0 BV	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT I BV	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT II B. V.	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT III BV	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT IX BV	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT NORTH AMERICA BV	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT VI BV	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT VII B.V.	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT VIII B.V..	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT X B V	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT XI COOPERATIEF U.A.	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT XII BV	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT XIII BV	NETHERLANDS
VERY DENNISON NETHERLANDS INVESTMENT XV BV	NETHERLANDS
VERY DENNISON NORDIC APS	DENMARK
VERY DENNISON NTP A. S.	NORWAY
VERY DENNISON OFFICE ACCESSORIES U.K. LIMITED	UNITED KINGDOM
VERY DENNISON OFFICE PRODUCTS COMPANY	U.S.A.
VERY DENNISON OFFICE PRODUCTS HOLDINGS COMPANY	U.S.A.
VERY DENNISON OFFICE PRODUCTS MANUFACTURING U.K. LTD.	UNITED KINGDOM

---

VERY DENNISON OFFICE PRODUCTS (PTY.) LTD.	SOUTH AFRICA
VERY DENNISON OVERSEAS CORPORATION	U.S.A.
VERY DENNISON OVERSEAS CORPORATION (JAPAN BRANCH)	JAPAN
VERY DENNISON PENSION TRUSTEE LIMITED	UNITED KINGDOM
VERY DENNISON PERU S. R. L.	PERU
VERY DENNISON POLSKA SP. Z O.O.	POLAND
VERY DENNISON PRAHA SPOL. S R. O.	CZECH REPUBLIC
VERY DENNISON RBIS PTY LTD	AUSTRALIA
VERY DENNISON RBIS SINGAPORE PTE	SINGAPORE
VERY DENNISON RETAIL INFORMATION SERVICES COLOMBIA S. A.	COLOMBIA
VERY DENNISON RETAIL INFORMATION SERVICES DE MEXICO, S. A. DE C.V.	MEXICO
VERY DENNISON RETAIL INFORMATION SERVICES DOMINICAN REPUBLIC, S. A.	DOMINICAN REPUBLIC
VERY DENNISON RETAIL INFORMATION SERVICES EL SALVADOR S. A. DE C. V.	EL SALVADOR
VERY DENNISON RETAIL INFORMATION SERVICES GUATEMALA, S. A.	GUATEMALA
VERY DENNISON RETAIL INFORMATION SERVICES HONDURAS, S. R.L.	HONDURAS
VERY DENNISON RETAIL INFORMATION SERVICES LLC	U.S.A.
VERY DENNISON RETAIL INFORMATION SERVICES PERU SAC	PERU
VERY DENNISON RETAIL INFORMATION SERVICES UK LTD.	UNITED KINGDOM
VERY DENNISON RETAIL INFORMATION SERVICES (PTY) LTD	SOUTH AFRICA
VERY DENNISON RFID COMPANY	U.S.A.
VERY DENNISON RIS KOREA LTD.	KOREA
VERY DENNISON RIS MALAYSIA SDN BHD.	MALAYSIA
VERY DENNISON RIS TAIWAN LTD.	TAIWAN
VERY DENNISON RIS VIETNAM CO. LTD.	VIETNAM
VERY DENNISON R.I.S. FRANCE S. A. S.	FRANCE
VERY DENNISON R.I.S. IBERIA S.L.	SPAIN
VERY DENNISON R.I.S. ITALIA S.R.L.	ITALY
VERY DENNISON R.I.S. POLSKA SP.ZO.O	POLAND
VERY DENNISON SCANDINAVIA AB	SWEDEN
VERY DENNISON SCANDINAVIA APS	DENMARK
VERY DENNISON SCHWEIZ AG	SWITZERLAND
VERY DENNISON SECURITY PRINTING EUROPE APS	DENMARK
VERY DENNISON SHARED SERVICES, INC.	U.S.A.
VERY DENNISON SINGAPORE INVESTMENTS B.V.	NETHERLANDS
VERY DENNISON SINGAPORE (PTE) LTD	SINGAPORE
VERY DENNISON SOUTH AFRICA (PROPRIETARY) LIMITED	SOUTH AFRICA
VERY DENNISON SYSTEMES D'ETIQUETAGE FRANCE S.A.S.	FRANCE
VERY DENNISON S.R.L.	ROMANIA
VERY DENNISON TREASURY MANAGEMENT BV	NETHERLANDS
VERY DENNISON TEKSTIL URUNLERI SANAYI VE TICARET LIMITED SIRKETI	TURKEY

AVERY DENNISON U.K. II LIMITED  
AVERY DENNISON U.K. LIMITED  
AVERY DENNISON VERMOGENSVERWALTUNGS GMBH & CO K.G.  
AVERY DENNISON ZWECKFORM OFFICE PRODUCTS EUROPE GMBH  
AVERY DENNISON ZWECKFORM OFFICE PRODUCTS MANUFACTURING GMBH  
AVERY DENNISON (ASIA) HOLDINGS LIMITED  
AVERY DENNISON (CHINA) COMPANY LIMITED  
AVERY DENNISON (FUZHOU) CONVERTED PRODUCTS LIMITED  
AVERY DENNISON (GUANGZHOU) CONVERTED PRODUCTS LIMITED  
AVERY DENNISON (GUANGZHOU) CO. LTD.  
AVERY DENNISON (HONG KONG) LIMITED  
AVERY DENNISON (INDIA) PRIVATE LIMITED  
AVERY DENNISON (IRELAND) LIMITED  
AVERY DENNISON (KUNSHAN) CO., LIMITED  
AVERY DENNISON (MALAYSIA) SDN. BHD.  
AVERY DENNISON (QINGDAO) CONVERTED PRODUCTS LIMITED

UNITED KINGDOM  
UNITED KINGDOM  
GERMANY  
GERMANY  
GERMANY  
MAURITIUS  
CHINA  
CHINA  
CHINA  
CHINA  
HONG KONG  
INDIA  
IRELAND  
CHINA  
MALAYSIA  
CHINA

AVERY DENNISON (SHENZHEN) CONVERT PRODUCTS LIMITED  
AVERY DENNISON (SUZHOU) CO. LIMITED  
AVERY DENNISON (THAILAND) LTD.  
AVERY DENNISON (VIETNAM) LIMITED  
AVERY DENNISON, S.A. DE C.V.  
AVERY GRAPHIC SYSTEMS, INC.  
AVERY HOLDING LIMITED  
AVERY HOLDING S.A.S.  
AVERY LLC  
AVERY OFFICE PRODUCTS PUERTO RICO L.L.C.  
AVERY PACIFIC LLC  
AVERY PROPERTIES PTY. LIMITED  
BEST COURAGE INTERNATIONAL LIMITED  
BONFIRE MANAGEMENT LIMITED  
COLLITEX S.R.L.  
CREATERO GMBH  
DENNISON INTERNATIONAL COMPANY  
DENNISON MANUFACTURING COMPANY  
DENNISON MOROCCO SARL  
EUSTON FINANCIAL LIMITED  
INDUSTRIAL DE MARCAS LTDA  
INFODRAGON MANAGEMENT LIMITED  
JAC ASIA PACIFIC SDN BHD  
JAC CARIBE C.S.Z.  
JAC DO BRASIL LTDA.  
JAC NEW ZEALAND LIMITED  
JACKSTADT FRANCE S.N.C.  
JACKSTADT SOUTH AFRICA (PTY) LTD.  
JINTEX LIMITED  
KUNSHAN DAH MEI WEAVING CO. LTD  
L&E AMERICAS SERVICIOS, S. A. DE C.V.  
MARKSTAR INTERNATIONAL LTD.  
MODERN MARK INTERNATIONAL LIMITED  
MONARCH MARKING SYSTEMS HOLDINGS LTD  
MONARCH MARKING (S.E.A.) PTE. LTD  
NAPERVILLE GLOBAL LIMITED  
NEW WALES FINANCE LIMITED  
NEWCLASSIC INVESTMENT LIMITED  
PAXAR BANGLADESH LTD.  
PAXAR B. V.  
PAXAR CANADA CORPORATION  
PAXAR CORPORATION  
PAXAR CORPORATION (MALAYSIA) SDN. BHD.  
PAXAR DE COLOMBIA FTZ LTDA.  
PAXAR DE EL SALVADOR S. A. DE C. V.  
PAXAR DE GUATEMALA, S. A.  
PAXAR DE MEXICO S. A. DE C. V.  
PAXAR DE NICARAGUA. S.A.  
PAXAR DO BRASIL LTDA  
PAXAR FAR EAST LTD.  
PAXAR KOREA LTD.  
PAXAR PACKAGING (GUANGZHOU) LTD.  
PAXAR PAKISTAN (PVT) LTD.  
PAXAR (CHINA) LTD.  
PAXAR (THAILAND) LIMITED  
PT AVERY DENNISON INDONESIA

CHINA  
CHINA  
THAILAND  
VIETNAM  
MEXICO  
U.S.A.  
UNITED KINGDOM  
FRANCE  
U.S.A.  
PUERTO RICO  
U.S.A.  
AUSTRALIA  
BRITISH VIRGIN ISLANDS  
BRITISH VIRGIN ISLANDS  
ITALY  
GERMANY  
U.S.A.  
U.S.A.  
MOROCCO  
BRITISH VIRGIN ISLANDS  
COLOMBIA  
BRITISH VIRGIN ISLANDS  
MALAYSIA  
DOMINICAN REPUBLIC  
BRAZIL  
NEW ZEALAND  
FRANCE  
SOUTH AFRICA  
JERSEY, CHANNEL ISLANDS  
CHINA  
MEXICO  
HONG KONG  
HONG KONG  
UNITED KINGDOM  
SINGAPORE  
BRITISH VIRGIN ISLANDS  
BRITISH VIRGIN ISLANDS  
BRITISH VIRGIN ISLANDS  
BANGLADESH  
NETHERLANDS  
CANADA  
U.S.A.  
MALAYSIA  
COLOMBIA  
EL SALVADOR  
GUATEMALA  
MEXICO  
NICARAGUA  
BRAZIL  
HONG KONG  
SOUTH KOREA  
CHINA  
PAKISTAN  
HONG KONG  
THAILAND  
INDONESIA

PT AVERY DENNISON PACKAGING INDONESIA  
P. T. PACIFIC LABEL INDONESIA  
P. T. PAXAR INDONESIA  
RVL AMERICAS, S DE R.L. DE C.V.  
RVL CENTRAL AMERICA, S. A.  
RVL PACKAGING FAR EAST LIMITED  
RVL SERVICE, S. DE R. L. DE C. V.  
SECURITY PRINTING DIVISION, INC.  
SINGAPORE LACES & LABELS (PTE) LIMITED  
SKILLFIELD INVESTMENTS LIMITED  
SU ZHOU JI ZHONG GARMENTS ACCESSORY CO. LIMITED  
SUZHOU FENG YI HENG YE DYE CO. ,LTD.  
TIGER EIGHT GROUP LIMITED  
WORLDWIDE RISK INSURANCE, INC.

INDONESIA  
INDONESIA  
INDONESIA  
MEXICO  
GUATEMALA  
HONG KONG  
MEXICO  
U.S.A.  
SINGAPORE  
BRITISH VIRGIN ISLANDS  
CHINA  
CHINA  
BRITISH VIRGIN ISLANDS  
U.S.A.

---

(1) Each subsidiary listed on this Exhibit 21 is a Consolidated Subsidiary

---

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

**CERTIFICATION**

I, Dean A. Scarborough, certify that:

1. I have reviewed this annual report on Form 10-K of Avery Dennison Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Dean A. Scarborough

Dean A. Scarborough

Chairman, President and Chief Executive Officer

February 26, 2014

---

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

**CERTIFICATION**

I, Mitchell R. Butier, certify that:

1. I have reviewed this annual report on Form 10-K of Avery Dennison Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mitchell R. Butier

\_\_\_\_\_  
Mitchell R. Butier  
Senior Vice President and  
Chief Financial Officer

February 26, 2014

---

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER\***  
**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 28, 2013 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 26, 2014

/s/ Dean A. Scarborough  
\_\_\_\_\_  
Dean A. Scarborough  
Chairman, President and Chief Executive Officer

\* The above certification accompanies the Company's Annual Report on Form 10-K and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.

---



**CERTIFICATION OF CHIEF FINANCIAL OFFICER\***  
**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 28, 2013 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 26, 2014

/s/ Mitchell R. Butier  
\_\_\_\_\_  
Mitchell R. Butier  
Senior Vice President and  
Chief Financial Officer

\* The above certification accompanies the Company's Annual Report on Form 10-K and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.

---