

Avery Dennison Corp  
Form 10-Q  
August 07, 2013  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

For the quarterly period ended June 29, 2013.

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number: 1-7685**

**AVERY DENNISON CORPORATION**

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

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-1492269**  
(I.R.S. Employer Identification No.)

**150 North Orange Grove Boulevard**  
**Pasadena, California**  
(Address of principal executive offices)

**91103**  
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Number of shares of \$1 par value common stock outstanding as of July 27, 2013: 98,081,578

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**AVERY DENNISON CORPORATION**

**FISCAL SECOND QUARTER 2013 FORM 10-Q QUARTERLY REPORT**

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**SAFE HARBOR STATEMENT**

The matters discussed in this Quarterly Report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, contain estimates, assumptions, projections and/or expectations regarding future events, which may or may not occur. Words such as aim, anticipate, assume, believe, continue, could, estimate, expect, guidance, intend, may, might, objective, plan, potential, project, seek, shall, should, target, will, would, 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 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 29, 2012 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 foreign currency exchange rates and other risks associated with foreign operations; integration of acquisitions and completion of potential dispositions; timing and amounts of future dividends and share repurchases; customer and supplier concentrations; successful implementation of new manufacturing technologies and installation of manufacturing equipment; disruptions in information technology systems; successful installation of new or upgraded information technology systems; volatility of financial markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; our ability to obtain adequate financing arrangements and maintain access to capital; fluctuations in interest and tax rates; fluctuations in pension, insurance and employee benefit costs; impact of legal and regulatory proceedings, including with respect to environmental, health and safety; changes in governmental laws and regulations; changes in political conditions; impact of epidemiological events on the economy and our customers and suppliers; acts of war, terrorism, and natural disasters; and other factors.

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

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

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**PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CONDENSED CONSOLIDATED BALANCE SHEETS***(Unaudited)*

| (Dollars in millions, except per share amount)                                                                                                                                                                                                                                          | <b>June 29, 2013</b> | <b>December 29, 2012</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|--------------------------|
| <b>Assets</b>                                                                                                                                                                                                                                                                           |                      |                          |
| Current assets:                                                                                                                                                                                                                                                                         |                      |                          |
| Cash and cash equivalents                                                                                                                                                                                                                                                               | \$ 211.6             | \$ 235.4                 |
| Trade accounts receivable, less allowances of \$40.5 and \$44.8 at June 29, 2013 and December 29, 2012, respectively                                                                                                                                                                    | 1,009.5              | 972.8                    |
| Inventories, net                                                                                                                                                                                                                                                                        | 508.0                | 473.3                    |
| Current deferred and refundable income taxes                                                                                                                                                                                                                                            | 127.9                | 129.1                    |
| Assets held for sale                                                                                                                                                                                                                                                                    | 609.4                | 472.2                    |
| Other current assets                                                                                                                                                                                                                                                                    | 122.6                | 128.9                    |
| Total current assets                                                                                                                                                                                                                                                                    | 2,589.0              | 2,411.7                  |
| Property, plant and equipment                                                                                                                                                                                                                                                           | 2,665.6              | 2,871.1                  |
| Accumulated depreciation                                                                                                                                                                                                                                                                | (1,743.2)            | (1,855.6)                |
| Property, plant and equipment, net                                                                                                                                                                                                                                                      | 922.4                | 1,015.5                  |
| Goodwill                                                                                                                                                                                                                                                                                | 747.5                | 764.4                    |
| Other intangibles resulting from business acquisitions, net                                                                                                                                                                                                                             | 109.2                | 125.0                    |
| Non-current deferred income taxes                                                                                                                                                                                                                                                       | 344.3                | 331.6                    |
| Other assets                                                                                                                                                                                                                                                                            | 478.6                | 457.1                    |
|                                                                                                                                                                                                                                                                                         | <b>\$ 5,191.0</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                                                                                                                                                                                                          | \$ 438.2             | \$ 520.2                 |
| Accounts payable                                                                                                                                                                                                                                                                        | 821.3                | 804.3                    |
| Current deferred and payable income taxes                                                                                                                                                                                                                                               | 53.1                 | 65.1                     |
| Liabilities held for sale                                                                                                                                                                                                                                                               | 170.6                | 160.5                    |
| Other current liabilities                                                                                                                                                                                                                                                               | 501.7                | 524.4                    |
| Total current liabilities                                                                                                                                                                                                                                                               | 1,984.9              | 2,074.5                  |
| Long-term debt and capital leases                                                                                                                                                                                                                                                       | 951.4                | 702.2                    |
| Long-term retirement benefits and other liabilities                                                                                                                                                                                                                                     | 595.3                | 607.2                    |
| Non-current deferred and payable income taxes                                                                                                                                                                                                                                           | 144.8                | 140.5                    |
| Commitments and contingencies (see Note 15)                                                                                                                                                                                                                                             |                      |                          |
| Shareholders' equity:                                                                                                                                                                                                                                                                   |                      |                          |
| Common stock, \$1 par value per share, authorized 400,000,000 shares at June 29, 2013 and December 29, 2012; issued 124,126,624 shares at June 29, 2013 and December 29, 2012; outstanding 98,484,345 shares and 99,915,457 shares at June 29, 2013 and December 29, 2012, respectively | 124.1                | 124.1                    |

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|                                                                                                                      |            |            |
|----------------------------------------------------------------------------------------------------------------------|------------|------------|
| Capital in excess of par value                                                                                       | 800.7      | 801.8      |
| Retained earnings                                                                                                    | 1,974.9    | 1,910.8    |
| Treasury stock at cost, 25,642,279 shares and 24,211,167 shares at June 29, 2013 and December 29, 2012, respectively | (1,060.1)  | (977.8)    |
| Accumulated other comprehensive loss                                                                                 | (325.0)    | (278.0)    |
| Total shareholders' equity                                                                                           | \$ 5,191.0 | \$ 5,105.3 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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**CONSOLIDATED STATEMENTS OF INCOME***(Unaudited)*

| (In millions, except per share amounts)                | <b>Three Months Ended</b> |                      | <b>Six Months Ended</b> |                      |
|--------------------------------------------------------|---------------------------|----------------------|-------------------------|----------------------|
|                                                        | <b>June 29, 2013</b>      | <b>June 30, 2012</b> | <b>June 29, 2013</b>    | <b>June 30, 2012</b> |
| Net sales                                              | \$ 1,552.3                | \$ 1,490.4           | \$ 3,051.2              | \$ 2,933.4           |
| Cost of products sold                                  | 1,134.8                   | 1,102.3              | 2,232.0                 | 2,168.2              |
| Gross profit                                           | 417.5                     | 388.1                | 819.2                   | 765.2                |
| Marketing, general and administrative expense          | 293.5                     | 284.7                | 594.4                   | 573.6                |
| Interest expense                                       | 14.8                      | 18.6                 | 27.0                    | 36.9                 |
| Other (income) expense, net                            | (.3)                      | 11.2                 | 7.2                     | 18.8                 |
| Income from continuing operations before taxes         | 109.5                     | 73.6                 | 190.6                   | 135.9                |
| Provision for income taxes                             | 38.7                      | 24.5                 | 53.0                    | 42.2                 |
| Income from continuing operations                      | 70.8                      | 49.1                 | 137.6                   | 93.7                 |
| (Loss) income from discontinued operations, net of tax | (2.0)                     | 15.1                 | (11.0)                  | 14.4                 |
| Net income                                             | \$ 68.8                   | \$ 64.2              | \$ 126.6                | \$ 108.1             |
| Per share amounts:                                     |                           |                      |                         |                      |
| Net income (loss) per common share:                    |                           |                      |                         |                      |
| Continuing operations                                  | \$ .71                    | \$ .47               | \$ 1.38                 | \$ .89               |
| Discontinued operations                                | (.02)                     | .15                  | (.11)                   | .14                  |
| Net income per common share                            | \$ .69                    | \$ .62               | \$ 1.27                 | \$ 1.03              |
| Net income (loss) per common share, assuming dilution: |                           |                      |                         |                      |
| Continuing operations                                  | \$ .70                    | \$ .47               | \$ 1.36                 | \$ .89               |
| Discontinued operations                                | (.02)                     | .15                  | (.11)                   | .14                  |
| Net income per common share, assuming dilution         | \$ .68                    | \$ .62               | \$ 1.25                 | \$ 1.03              |
| Dividends per common share                             | \$ .29                    | \$ .27               | \$ .56                  | \$ .54               |
| Average shares outstanding:                            |                           |                      |                         |                      |
| Common shares                                          | 99.3                      | 103.4                | 99.7                    | 104.6                |
| Common shares, assuming dilution                       | 100.8                     | 104.3                | 101.3                   | 105.3                |

See Notes to Unaudited Condensed Consolidated Financial Statements

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**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(Unaudited)*

| (In millions)                                                        | Three Months Ended |               | Six Months Ended |               |
|----------------------------------------------------------------------|--------------------|---------------|------------------|---------------|
|                                                                      | June 29, 2013      | June 30, 2012 | June 29, 2013    | June 30, 2012 |
| Net income                                                           | \$ 68.8            | \$ 64.2       | \$ 126.6         | \$ 108.1      |
| Other comprehensive loss, before tax:                                |                    |               |                  |               |
| Foreign currency translation adjustment                              | (38.5)             | (79.5)        | (56.5)           | (37.8)        |
| Net actuarial loss, prior service cost and net transition asset      | 6.8                | 3.8           | 12.9             | 7.6           |
| Effective portion of gains/losses on cash flow hedges                | .6                 | 2.0           | 1.5              | 3.8           |
| Other comprehensive loss, before tax                                 | (31.1)             | (73.7)        | (42.1)           | (26.4)        |
| Income tax expense related to components of other comprehensive loss | 2.6                | 2.0           | 4.9              | 4.0           |
| Other comprehensive loss, net of tax                                 | (33.7)             | (75.7)        | (47.0)           | (30.4)        |
| Total comprehensive income (loss), net of tax                        | \$ 35.1            | \$ (11.5)     | \$ 79.6          | \$ 77.7       |

See Notes to Unaudited Condensed Consolidated Financial Statements



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**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(Unaudited)*

| (In millions)                                                                     | Six Months Ended |               |
|-----------------------------------------------------------------------------------|------------------|---------------|
|                                                                                   | June 29, 2013    | June 30, 2012 |
| <b>Operating Activities</b>                                                       |                  |               |
| Net income                                                                        | \$ 126.6         | \$ 108.1      |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |               |
| Depreciation                                                                      | 69.5             | 75.2          |
| Amortization                                                                      | 33.8             | 35.4          |
| Provision for doubtful accounts and sales returns                                 | 9.5              | 9.4           |
| Asset impairment and net (gain) loss on sale/disposal of assets                   | (9.2)            | 6.3           |
| Stock-based compensation                                                          | 17.6             | 21.4          |
| Other non-cash expense and loss                                                   | 28.2             | 21.1          |
| Other non-cash income and gain                                                    |                  | (.1)          |
| Changes in assets and liabilities and other adjustments                           | (229.3)          | (235.8)       |
| Net cash provided by operating activities                                         | 46.7             | 41.0          |
| <b>Investing Activities</b>                                                       |                  |               |
| Purchases of property, plant and equipment                                        | (49.9)           | (43.3)        |
| Purchases of software and other deferred charges                                  | (24.6)           | (19.9)        |
| Proceeds from sale of product line                                                |                  | .8            |
| Proceeds from sale of property, plant and equipment                               | 25.8             | 3.4           |
| Sale of investments, net                                                          | .1               | 4.2           |
| Other                                                                             | .8               |               |
| Net cash used in investing activities                                             | (47.8)           | (54.8)        |
| <b>Financing Activities</b>                                                       |                  |               |
| Net (decrease) increase in borrowings (maturities of 90 days or less)             | (77.3)           | 195.2         |
| Additional borrowings (maturities longer than 90 days)                            | 250.0            |               |
| Payments of debt (maturities longer than 90 days)                                 | (.8)             | (.8)          |
| Dividends paid                                                                    | (55.7)           | (56.3)        |
| Share repurchases                                                                 | (148.9)          | (142.2)       |
| Proceeds from exercise of stock options, net                                      | 32.4             | 4.7           |
| Other                                                                             | (8.1)            | (2.2)         |
| Net cash used in financing activities                                             | (8.4)            | (1.6)         |
| Effect of foreign currency translation on cash balances                           | 1.9              | (1.2)         |
| Cash and cash equivalents classified as held for sale                             | (16.2)           |               |
| Decrease in cash and cash equivalents                                             | (23.8)           | (16.6)        |
| Cash and cash equivalents, beginning of year                                      | 235.4            | 178.0         |
| Cash and cash equivalents, end of period                                          | \$ 211.6         | \$ 161.4      |

See Notes to Unaudited Condensed Consolidated Financial Statements



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**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. General**

The accompanying unaudited Condensed Consolidated Financial Statements include normal recurring adjustments necessary for a fair statement of our interim results. The unaudited Condensed Consolidated Financial Statements and notes in this Quarterly Report on Form 10-Q are presented as permitted by Article 10 of Regulation S-X and do not contain certain information included in the audited Consolidated Financial Statements and notes thereto in our 2012 Annual Report on Form 10-K, which should be read in conjunction with this Quarterly Report on Form 10-Q.

***Fiscal Period***

The second quarters of 2013 and 2012 consisted of thirteen-week periods ending June 29, 2013 and June 30, 2012, respectively. The six months ended June 29, 2013 and June 30, 2012 consisted of twenty-six-week periods. The interim results of operations are not necessarily indicative of future results.

***Financial Presentation***

As discussed further in Note 2, Discontinued Operations and Sale of Assets, 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 unaudited Consolidated Statements of Income for all periods presented. The results and financial condition of discontinued operations have been excluded from the notes to our unaudited Condensed Consolidated Financial Statements, except for certain prior-year balances related to the DES business and as otherwise indicated.

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

**Note 2. Discontinued Operations and Sale of Assets**

***Discontinued Operations***

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 with CCL 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. Additionally, we agreed to enter into a transition services agreement ( TSA ) at closing, under which certain transitional services would be provided primarily by us to CCL for up to 15 months

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after closing. The purpose of these services would be to provide short-term assistance to CCL in assuming the operations of the OCP and DES businesses. While the TSA and supply agreement are 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, subsequent to the end of the second quarter of 2013, we and CCL amended certain provisions of the agreement, primarily related to working capital, employee matters and indemnification and completed the sale for a total purchase price of \$500 million in cash, subject to customary closing adjustments expected to be finalized by October 1, 2013. The completion of this transaction will be reflected in our financial statements in the third quarter of 2013.

The operating results of the DES business, which were previously reported in other specialty converting businesses, have been classified as discontinued operations in the unaudited Consolidated Statements of Income for all periods presented.

The operating results of these discontinued operations were as follows:

| (In millions)                                                                        | Three Months Ended |               | Six Months Ended |               |
|--------------------------------------------------------------------------------------|--------------------|---------------|------------------|---------------|
|                                                                                      | June 29, 2013      | June 30, 2012 | June 29, 2013    | June 30, 2012 |
| Net sales                                                                            | \$ 218.7           | \$ 224.3      | \$ 380.6         | \$ 425.0      |
| (Loss) income before taxes, including<br>divestiture-related and restructuring costs | \$ (4.1)           | \$ 22.0       | \$ (14.7)        | \$ 21.8       |
| (Benefit from) provision for income taxes                                            | (2.1)              | 6.9           | (3.7)            | 7.4           |
| (Loss) income from discontinued operations, net of<br>tax                            | \$ (2.0)           | \$ 15.1       | \$ (11.0)        | \$ 14.4       |

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The loss from discontinued operations, net of tax, in both the second quarter and first six months of 2013 compared to the income from discontinued operations, net of tax, in the same periods last year reflected lower net sales, loss on a contract, curtailment and settlement losses associated with the Avery Dennison Pension Plan and Benefit Restoration Plan, and higher divestiture-related costs, partially offset by the cessation of depreciation and amortization following the classification of the assets of the DES business as held for sale. Refer to Note 6, Pension and Other Postretirement Benefits, for further information on the pension curtailment and settlement losses.

The loss from discontinued operations, net of tax, also reflected the elimination of certain corporate cost allocations for both the three and six months ended June 29, 2013 and June 30, 2012.

Net sales from continuing operations to discontinued operations were \$24.4 million and \$44 million for the three and six months ended June 29, 2013, respectively, and \$22.4 million and \$48.1 million for the three and six months ended June 30, 2012, respectively. These sales have been included in Net sales in the unaudited 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 during the first quarter of 2013 in connection with our agreement to sell both businesses to CCL, as discussed above. The carrying values of the major classes of assets and liabilities of the OCP and DES businesses that were classified as held for sale were as follows:

| (In millions)                                               | June 29, 2013 | December 29, 2012 |
|-------------------------------------------------------------|---------------|-------------------|
| <b>Assets</b>                                               |               |                   |
| Cash and cash equivalents                                   | \$ 16.2       | \$                |
| Trade accounts receivable, net                              | 150.0         | 119.0             |
| Inventories, net                                            | 100.5         | 57.2              |
| Other current assets                                        | 5.2           | 7.7               |
| Total current assets                                        | 271.9         | 183.9             |
| Property, plant and equipment, net                          | 125.0         | 79.5              |
| Goodwill                                                    | 168.7         | 167.9             |
| Other intangibles resulting from business acquisitions, net | 32.4          | 32.5              |
| Other assets                                                | 11.4          | 8.4               |
|                                                             | \$ 609.4      | \$ 472.2          |
| <b>Liabilities</b>                                          |               |                   |
| Accounts payable                                            | \$ 61.5       | \$ 31.2           |
| Other current liabilities                                   | 80.9          | 113.1             |
| Total current liabilities                                   | 142.4         | 144.3             |
| Non-current liabilities                                     | 28.2          | 16.2              |
|                                                             | \$ 170.6      | \$ 160.5          |

**Sale of Assets**

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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 (income) expense, net in the unaudited Consolidated Statements of Income. In conjunction with the sale, we entered into a short-term leaseback arrangement with the buyer. The initial term of the lease is nine months with two optional three-month extensions. Refer to Note 15, Commitments and Contingencies, for information regarding the lease of our new corporate headquarters.

### Note 3. Inventories

Net inventories consisted of:

| (In millions)    | June 29, 2013 | December 29, 2012 |
|------------------|---------------|-------------------|
| Raw materials    | \$ 202.6      | \$ 184.5          |
| Work-in-progress | 149.2         | 139.2             |
| Finished goods   | 156.2         | 149.6             |
| Inventories, net | \$ 508.0      | \$ 473.3          |

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

Changes in the net carrying amount of goodwill for the six months ended June 29, 2013, by reportable segment and other businesses, were as follows:

| (In millions)                          | <b>Pressure-sensitive<br/>Materials</b> | <b>Retail<br/>Branding and<br/>Information<br/>Solutions</b> | <b>Other<br/>specialty<br/>converting<br/>businesses</b> | <b>Total</b> |
|----------------------------------------|-----------------------------------------|--------------------------------------------------------------|----------------------------------------------------------|--------------|
| Goodwill as of December 29, 2012       | \$ 338.3                                | \$ 422.6                                                     | \$ 3.5                                                   | \$ 764.4     |
| Acquisition adjustments                |                                         | (.2)                                                         |                                                          | (.2)         |
| Translation adjustments                | (8.7)                                   | (4.5)                                                        |                                                          | (13.2)       |
| Reclassifications to held for sale (1) |                                         |                                                              | (3.5)                                                    | (3.5)        |
| Goodwill as of June 29, 2013           | \$ 329.6                                | \$ 417.9                                                     | \$                                                       | \$ 747.5     |

(1) The goodwill balance associated with our DES business was classified in the unaudited Condensed Consolidated Balance Sheets as Assets held for sale at June 29, 2013. See Note 2, Discontinued Operations and Sale of Assets, for more information.

The carrying amount of goodwill at June 29, 2013 and December 29, 2012 included 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 June 29, 2013 and December 29, 2012, respectively.

**Finite-Lived Intangible Assets**

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

| (In millions) | June 29, 2013               |                             | Net<br>Carrying<br>Amount | December 29, 2012           |                             | Net<br>Carrying<br>Amount |
|---------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|               | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |                           | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |                           |
|               |                             |                             |                           |                             |                             |                           |

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|                                       |                 |                 |                |                 |                 |                 |
|---------------------------------------|-----------------|-----------------|----------------|-----------------|-----------------|-----------------|
| Customer relationships                | \$ 232.7        | \$ 153.1        | \$ 79.6        | \$ 234.7        | \$ 142.3        | \$ 92.4         |
| Patents and other acquired technology | 49.0            | 36.2            | 12.8           | 49.0            | 34.0            | 15.0            |
| Trade names and trademarks            | 25.5            | 21.7            | 3.8            | 25.7            | 21.9            | 3.8             |
| Other intangibles                     | 12.3            | 10.2            | 2.1            | 12.4            | 9.7             | 2.7             |
| <b>Total</b>                          | <b>\$ 319.5</b> | <b>\$ 221.2</b> | <b>\$ 98.3</b> | <b>\$ 321.8</b> | <b>\$ 207.9</b> | <b>\$ 113.9</b> |

Amortization expense from continuing operations for finite-lived intangible assets resulting from business acquisitions was \$7.4 million and \$14.9 million for the three and six months ended June 29, 2013, respectively, and \$7.5 million and \$15 million for the three and six months ended June 30, 2012, respectively.

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

| (In millions)     | <b>Estimated<br/>Amortization<br/>Expense</b> |
|-------------------|-----------------------------------------------|
| Remainder of 2013 | \$ 13.4                                       |
| 2014              | 24.6                                          |
| 2015              | 21.0                                          |
| 2016              | 19.5                                          |
| 2017              | 10.8                                          |



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**Note 5. 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 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 \$1.44 billion at June 29, 2013 and \$1.31 billion at December 29, 2012. Fair value amounts were determined primarily based on Level 2 inputs, which are defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.

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 June 29, 2013, we were in compliance with all of our financial covenants.

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.

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

***Defined Benefit Plans***

We sponsor a number of defined benefit plans, some of which are 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.

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:

**Pension Benefits**

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| (In millions)                      | Three Months Ended |        |               |        | Six Months Ended |        |               |        |
|------------------------------------|--------------------|--------|---------------|--------|------------------|--------|---------------|--------|
|                                    | June 29, 2013      |        | June 30, 2012 |        | June 29, 2013    |        | June 30, 2012 |        |
|                                    | U.S.               | Int 1  | U.S.          | Int 1  | U.S.             | Int 1  | U.S.          | Int 1  |
| Service cost                       | \$ .1              | \$ 3.0 | \$ .1         | \$ 2.3 | \$ .2            | \$ 6.1 | \$ .2         | \$ 4.6 |
| Interest cost                      | 9.5                | 5.6    | 9.7           | 6.2    | 19.0             | 11.4   | 19.4          | 12.3   |
| Expected return on plan assets     | (11.7)             | (5.5)  | (11.5)        | (5.6)  | (23.4)           | (11.1) | (23.0)        | (11.1) |
| Recognized net actuarial loss      | 4.8                | 1.6    | 3.5           | .9     | 9.7              | 3.1    | 6.9           | 1.7    |
| Amortization of prior service cost | .1                 | .1     | .1            | .1     | .2               | .2     | .2            | .2     |
| Amortization of transition asset   |                    | (.1)   |               | (.2)   |                  | (.1)   |               | (.3)   |
| Net periodic benefit cost          | \$ 2.8             | \$ 4.7 | \$ 1.9        | \$ 3.7 | \$ 5.7           | \$ 9.6 | \$ 3.7        | \$ 7.4 |

| (In millions)                        | U.S. Postretirement Health Benefits |               |                  |               |
|--------------------------------------|-------------------------------------|---------------|------------------|---------------|
|                                      | Three Months Ended                  |               | Six Months Ended |               |
|                                      | June 29, 2013                       | June 30, 2012 | June 29, 2013    | June 30, 2012 |
| Interest cost                        | \$ .1                               | \$ .1         | \$ .1            | \$ .2         |
| Recognized net actuarial loss        | .6                                  | .6            | 1.3              | 1.2           |
| Amortization of prior service credit | (1.2)                               | (1.2)         | (2.4)            | (2.4)         |
| Net periodic benefit credit          | \$ (.6)                             | \$ (.5)       | \$ (1.0)         | \$ (1.0)      |

During the three months ended June 29, 2013, in connection with the sale of our OCP and DES businesses, we recognized curtailment and settlement losses of \$10.4 million associated with the Avery Dennison Pension Plan and Benefit Restoration Plan ( BRP ). These losses were recorded in (Loss) income from discontinued operations, net of tax in the unaudited Consolidated Statements of Income. Refer to Note 2, Discontinued Operations and Sale of Assets, for more information.

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We make contributions to our defined benefit plans sufficient to meet the minimum funding requirements under applicable laws and regulations, plus additional amounts, if any, we determine to be appropriate. We contributed \$18.5 million and \$26.9 million to our U.S. pension plans during the six months ended June 29, 2013 and June 30, 2012, respectively. We contributed \$1.1 million and \$1.4 million to our U.S. postretirement health benefit plan during the six months ended June 29, 2013 and June 30, 2012, respectively. We contributed approximately \$10 million to our international pension plans during each of the six months ended June 29, 2013 and June 30, 2012. All of the year-to-date 2013 and 2012 contributions were made to meet minimum funding requirements.

***Defined Contribution Plans***

We sponsor various defined contribution plans worldwide, with the largest plan being the Avery Dennison Corporation Savings Plan ( Savings Plan ), a 401(k) plan available to our U.S. employees. We recognized expense from continuing operations of \$4.9 million and \$11.5 million during the three and six months ended June 29, 2013, respectively, and \$6 million and \$11.3 million during the three and six months ended June 30, 2012, respectively, related to our employer contributions and employer match of participant contributions to the Savings Plan.

**Note 7. Research and Development**

Research and development expense from continuing operations was \$25.1 million and \$48.6 million for the three and six months ended June 29, 2013, respectively, and \$26.3 million and \$50.8 million for the three and six months ended June 30, 2012, respectively. This expense was included in Marketing, general and administrative expense in the unaudited Consolidated Statements of Income.

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

Our annual long-term compensation awards are granted to eligible employees in February and non-employee directors in May. Prior to 2013, annual long-term compensation 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.

***Equity Awards***

In 2013, in lieu of stock options and restricted stock units, we began granting performance-based market-leveraged stock units ( 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 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 compensation expense related to MSUs is amortized on a graded-vesting basis over their respective performance periods.

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Stock-based compensation expense from continuing operations was \$7.8 million and \$15.7 million for the three and six months ended June 29, 2013, respectively, and \$8.6 million and \$19.2 million for the three and six months ended June 30, 2012, respectively. This expense was included in Marketing, general and administrative expense in the unaudited Consolidated Statements of Income.

As of June 29, 2013, we had approximately \$51 million of unrecognized compensation expense from continuing operations related to unvested stock-based awards, which is expected to be recognized over the remaining weighted-average period of approximately three years.

### *Cash 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.

LTI Units are service-based awards that generally vest ratably over a four-year period. 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. The settlement value is calculated based on 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.

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Cash-based awards also include certain performance and market-leveraged LTI Units granted 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 cash-based awards was \$1.6 million and \$4.3 million for the three and six months ended June 29, 2013, respectively, and \$.8 million and \$.9 million for the three and six months ended June 30, 2012, respectively. This expense was included in Marketing, general and administrative expense in the unaudited Consolidated Statements of Income and the related liability was included in Other current liabilities in the unaudited Condensed Consolidated Balance Sheets.

**Note 9. Cost Reduction Actions**

***2012 Program***

During the six months ended June 29, 2013, we recorded \$15.9 million in restructuring charges, net of reversals, related to our 2012 Program, which consisted of severance and related costs for the reduction of approximately 630 positions, lease and other contract cancellation costs, and asset impairment charges. Of the 630 positions, approximately five employees remained employed with us as of June 29, 2013.

In 2012, we recorded \$57.7 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 expect to complete this program in 2013.

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

During the six months ended June 29, 2013, restructuring charges and payments, including those for discontinued operations, were as follows:

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| (In millions)                               | Accrual at<br>December<br>29, 2012 | Charges<br>(Reversals),<br>net | Cash<br>Payments | Non-cash<br>Impairment | Foreign<br>Currency<br>Translation | Accrual at<br>June 29,<br>2013 |
|---------------------------------------------|------------------------------------|--------------------------------|------------------|------------------------|------------------------------------|--------------------------------|
| <b>2012 Program</b>                         |                                    |                                |                  |                        |                                    |                                |
| Severance and related costs                 | \$ 20.7                            | \$ 12.2                        | \$ (26.0)        | \$                     | \$ (.1)                            | \$ 6.8                         |
| Lease and other contract cancellation costs | .1                                 | .6                             | (.5)             |                        |                                    | .2                             |
| Asset impairment charges                    |                                    | 3.1                            |                  | (3.1)                  |                                    |                                |
| <b>2011 Actions</b>                         |                                    |                                |                  |                        |                                    |                                |
| Severance and related costs                 | .1                                 |                                | (.1)             |                        |                                    |                                |
|                                             | \$ 20.9                            | \$ 15.9                        | \$ (26.6)        | \$ (3.1)               | \$ (.1)                            | \$ 7.0                         |

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The table below shows the total amount of costs incurred by reportable segment and other businesses in connection with the 2012 Program for the periods shown below. Restructuring costs in continuing operations are included in Other (income) expense, net in the unaudited Consolidated Statements of Income.

| (In millions)                                                         | Three Months Ended |               | Six Months Ended |               |
|-----------------------------------------------------------------------|--------------------|---------------|------------------|---------------|
|                                                                       | June 29, 2013      | June 30, 2012 | June 29, 2013    | June 30, 2012 |
| <b>Restructuring costs by reportable segment and other businesses</b> |                    |               |                  |               |
| Pressure-sensitive Materials                                          | \$ 1.7             | \$ 8.6        | \$ 5.3           | \$ 10.8       |
| Retail Branding and Information Solutions                             | 6.0                | .9            | 10.3             | 5.9           |
| Other specialty converting businesses                                 |                    | .6            |                  | .6            |
| Corporate                                                             | .1                 | .1            | .3               | .1            |
| Continuing operations                                                 | 7.8                | 10.2          | 15.9             | 17.4          |
| Discontinued operations                                               |                    | .3            |                  | .4            |
|                                                                       | \$ 7.8             | \$ 10.5       | \$ 15.9          | \$ 17.8       |

**Note 10. Financial Instruments**

We enter into foreign exchange hedge contracts to reduce our risk from exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in certain foreign currencies that arise primarily as a result of our operations outside the U.S. We enter into interest rate contracts to help manage our exposure to certain interest rate fluctuations. We also enter into natural gas futures contracts to hedge certain price fluctuations for a portion of our anticipated domestic purchases. The maximum length of time for which we hedge our exposure to the variability in future cash flows for forecasted transactions is 48 months.

As of June 29, 2013, the aggregate U.S. dollar equivalent notional value of our outstanding commodity contracts and foreign exchange contracts was \$3.6 million and \$1.7 billion, respectively.

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

The following table provides the balances and locations of derivatives as of June 29, 2013:

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

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|                            |                      |        |                           |        |
|----------------------------|----------------------|--------|---------------------------|--------|
| Foreign exchange contracts | Other current assets | \$ 6.2 | Other current liabilities | \$ 6.9 |
| Commodity contracts        | Other current assets |        | Other current liabilities | .4     |
|                            |                      | \$ 6.2 |                           | \$ 7.3 |

The following table provides the balances and 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 current liabilities                           | \$ 2.8     |
| Commodity contracts        | Other current assets   |            | Other current liabilities                           | .9         |
| Commodity contracts        |                        |            | Long-term retirement benefits and other liabilities | .1         |
|                            |                        | \$ 10.0    |                                                     | \$ 3.8     |

**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 material net impact to income.



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

| (In millions)              | Location of Gain (Loss) in Income             | Three Months Ended |               | Six Months Ended |               |
|----------------------------|-----------------------------------------------|--------------------|---------------|------------------|---------------|
|                            |                                               | June 29, 2013      | June 30, 2012 | June 29, 2013    | June 30, 2012 |
| Foreign exchange contracts | Cost of products sold                         | \$ (1.4)           | \$ (.1)       | \$ .3            | \$ (.6)       |
| Foreign exchange contracts | Marketing, general and administrative expense | 10.4               | (9.7)         | (17.3)           | (1.4)         |
|                            |                                               | \$ 9.0             | \$ (9.8)      | \$ (17.0)        | \$ (2.0)      |

**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)              | Location of Gain (Loss) in Income             | Three Months Ended |               | Six Months Ended |               |
|----------------------------|-----------------------------------------------|--------------------|---------------|------------------|---------------|
|                            |                                               | June 29, 2013      | June 30, 2012 | June 29, 2013    | June 30, 2012 |
| Foreign exchange contracts | Cost of products sold                         | \$ 1.2             | \$ (.7)       | \$ 1.5           | \$ (2.8)      |
| Foreign exchange contracts | Marketing, general and administrative expense | (.4)               | .2            | (.1)             | (.8)          |
|                            |                                               | \$ .8              | \$ (.5)       | \$ 1.4           | \$ (3.6)      |

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 | Three Months Ended |               | Six Months Ended |               |
|---------------|-----------------------------------|--------------------|---------------|------------------|---------------|
|               |                                   | June 29, 2013      | June 30, 2012 | June 29, 2013    | June 30, 2012 |
|               |                                   |                    |               |                  |               |

The amount of gain or loss recognized in income related to the ineffective portion of, and the amounts excluded from, effectiveness testing for cash flow hedges and derivatives not designated as hedging instruments were not significant for the three and six months ended June 29, 2013 and June 30, 2012, respectively.

As of June 29, 2013, we expect a net loss of approximately \$.3 million to be reclassified from Accumulated other comprehensive loss to earnings within the next 12 months. See Note 13, Comprehensive Income, for more information.

**Note 11. Taxes Based on Income**

The effective tax rate for continuing operations was 35.3% and 27.8% for the three and six months ended June 29, 2013, respectively, and 33.3% and 31.1% for the three and six months ended June 30, 2012, respectively. The effective tax rate for the three months ended June 29, 2013 reflects a discrete tax expense of \$1.4 million and, for the six months ended June 29, 2013, the effective tax rate reflects net discrete tax benefits of \$8.9 million. The net discrete tax benefits relate to changes in tax law, including a \$4.2 million benefit attributable to the retroactive reinstatement of the federal research and development tax credit and a net \$3.7 million benefit for revaluation of deferred tax balances due to changes in certain foreign statutory tax rates. For the three and six months ended June 30, 2012, the effective tax rate included discrete tax benefits of \$2.7 million and \$6.4 million, respectively, for releases of certain tax reserves due to lapses of applicable statutory periods and adjustments to foreign income taxes.

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

| (In millions)                                  | Three Months Ended |               | Six Months Ended |               |
|------------------------------------------------|--------------------|---------------|------------------|---------------|
|                                                | June 29, 2013      | June 30, 2012 | June 29, 2013    | June 30, 2012 |
| Income from continuing operations before taxes | \$ 109.5           | \$ 73.6       | \$ 190.6         | \$ 135.9      |
| Provision for income taxes                     | 38.7               | 24.5          | 53.0             | 42.2          |
| Effective tax rate                             | 35.3%              | 33.3%         | 27.8%            | 31.1%         |

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

It is reasonably possible that, during the next 12 months, we may realize a decrease in our gross uncertain tax positions and related interest and penalties of approximately \$13 million, primarily as a result of closing tax years.

## **Note 12. Net Income Per Share**

Net income per common share was computed as follows:

| (In millions, except per share amounts)                                               | Three Months Ended |                  | Six Months Ended |                  |
|---------------------------------------------------------------------------------------|--------------------|------------------|------------------|------------------|
|                                                                                       | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013 | June 30,<br>2012 |
| (A) Income from continuing operations                                                 | \$ 70.8            | \$ 49.1          | \$ 137.6         | \$ 93.7          |
| (B) (Loss) income from discontinued operations, net of tax                            | (2.0)              | 15.1             | (11.0)           | 14.4             |
| (C) Net income available to common shareholders                                       | \$ 68.8            | \$ 64.2          | \$ 126.6         | \$ 108.1         |
| (D) Weighted-average number of common shares outstanding                              | 99.3               | 103.4            | 99.7             | 104.6            |
| Dilutive shares (additional common shares issuable under employee stock-based awards) | 1.5                | .9               | 1.6              | .7               |
| (E) Weighted-average number of common shares outstanding, assuming dilution           | 100.8              | 104.3            | 101.3            | 105.3            |
| Net income per common share:                                                          |                    |                  |                  |                  |
| Continuing operations (A) ÷ (D)                                                       | \$ .71             | \$ .47           | \$ 1.38          | \$ .89           |
| Discontinued operations (B) ÷ (D)                                                     | (.02)              | .15              | (.11)            | .14              |

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|                                                          |        |        |         |         |
|----------------------------------------------------------|--------|--------|---------|---------|
| Net income per common share (C) ÷ (D)                    | \$ .69 | \$ .62 | \$ 1.27 | \$ 1.03 |
| Net income per common share, assuming dilution:          |        |        |         |         |
| Continuing operations (A) ÷ (E)                          | \$ .70 | \$ .47 | \$ 1.36 | \$ .89  |
| Discontinued operations (B) ÷ (E)                        | (.02)  | .15    | (.11)   | .14     |
| Net income per common share, assuming dilution (C) ÷ (E) | \$ .68 | \$ .62 | \$ 1.25 | \$ 1.03 |

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 5 million shares and 6 million shares for the three and six months ended June 29, 2013, respectively, and approximately 11 million shares and 12 million shares for the three and six months ended June 30, 2012, respectively.

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**Note 13. Comprehensive Income**

The changes in Accumulated other comprehensive loss (net of tax) for the six month period ended June 29, 2013 were as follows:

| (In millions)                                                          | Net Gain<br>(Loss) on<br>Derivative<br>Instruments<br>Designated as<br>Cash Flow and<br>Firm<br>Commitment<br>Hedges | Net Actuarial<br>Gain (Loss),<br>Prior Service<br>Cost and Net<br>Transition<br>Assets, Less<br>Amortization | Foreign<br>Currency<br>Translation<br>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 | 1.0                                                                                                                  |                                                                                                              | (56.5)                                           | (55.5)     |
| Amounts reclassified into net income, net of tax                       | (.1)                                                                                                                 | 8.6                                                                                                          |                                                  | 8.5        |
| Net current-period other comprehensive income (loss), net of tax       | .9                                                                                                                   | 8.6                                                                                                          | (56.5)                                           | (47.0)     |
| Balance as of June 29, 2013                                            | \$ (1.1)                                                                                                             | \$ (447.9)                                                                                                   | \$ 124.0                                         | \$ (325.0) |

The effects of amounts reclassified from Accumulated other comprehensive loss to income from continuing operations were as follows:

| (in millions)                                 | Three Months Ended<br>June 29, 2013 | Six Months Ended<br>June 29, 2013 | Affected Line Item in the<br>Statement Where Net<br>Income is Presented |
|-----------------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------------------------------------------|
| Gains (losses) on cash flow hedges:           |                                     |                                   |                                                                         |
| Foreign exchange contracts                    | \$ .3                               | \$ .8                             | Cost of products sold                                                   |
| Commodity contracts                           | (.2)                                | (.7)                              | Cost of products sold                                                   |
| Interest rate contracts                       |                                     |                                   | Interest expense                                                        |
|                                               | .1                                  | .1                                | Total before tax                                                        |
|                                               | .1                                  | .1                                | Income tax expense<br>Net of tax                                        |
| Amortization of defined benefit pension items | (5.9)                               | (12.0)                            | (a)                                                                     |
|                                               | 2.0                                 | 4.0                               | Benefit from income taxes                                               |
|                                               | (3.9)                               | (8.0)                             | Net of tax                                                              |
| Total reclassifications for the period        | \$ (3.9)                            | \$ (8.0)                          | Total, net of tax                                                       |

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

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During the three months ended June 29, 2013, we reclassified \$.6 million (net of tax) from Accumulated other comprehensive loss to (Loss) income from discontinued operations, net of tax, related to the settlement losses in the BRP. Refer to Note 6, Pension and Other Postretirement Benefits, for more information.

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

| (In millions)                                                        | Three Months Ended |               | Six Months Ended |               |
|----------------------------------------------------------------------|--------------------|---------------|------------------|---------------|
|                                                                      | June 29, 2013      | June 30, 2012 | June 29, 2013    | June 30, 2012 |
| Net actuarial loss, prior service cost and net transition asset      | \$ 2.3             | \$ 1.3        | \$ 4.3           | \$ 2.6        |
| Effective portion of gains or losses on cash flow hedges             | .3                 | .7            | .6               | 1.4           |
| Income tax expense related to components of other comprehensive loss | \$ 2.6             | \$ 2.0        | \$ 4.9           | \$ 4.0        |

**Note 14. Fair Value Measurements**

*Recurring Fair Value Measurements*

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of June 29, 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>                 |         |                                           |                                               |                                                 |
| Available for sale securities | \$ 17.7 | \$ 8.1                                    | \$ 9.6                                        | \$                                              |
| Derivative assets             | 6.2     |                                           | 6.2                                           |                                                 |
| <b>Liabilities</b>            |         |                                           |                                               |                                                 |
| Derivative liabilities        | \$ 7.3  | \$ .4                                     | \$ 6.9                                        | \$                                              |

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>                 |         |                                           |                                               |                                                 |
| Available for sale securities | \$ 18.6 | \$ 9.3                                    | \$ 9.3                                        | \$                                              |

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|                        |        |        |
|------------------------|--------|--------|
| Derivative assets      | 10.0   | 10.0   |
| <b>Liabilities</b>     |        |        |
| Derivative liabilities | \$ 3.8 | \$ 2.8 |

Available for sale 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 June 29, 2013, available for sale securities of \$.2 million and \$17.5 million were included in Cash and cash equivalents and Other current assets, respectively, in the unaudited Condensed Consolidated Balance Sheets. As of December 29, 2012, available for sale securities of \$.9 million and \$17.7 million were included in Cash and cash equivalents and Other current assets, respectively, in the unaudited Condensed Consolidated Balance Sheets. Derivatives that are exchange-traded are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy. Derivatives measured based on inputs that are readily available in public markets are classified within Level 2 of the valuation hierarchy.



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**Note 15. Commitments and Contingencies*****Legal Proceedings***

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

***Environmental***

As of June 29, 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 thirteen 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 remediation costs will be determined pursuant to agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

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

The activity for the six months ended June 29, 2013 related to environmental liabilities was as follows:

|                              |         |
|------------------------------|---------|
| (In millions)                |         |
| Balance at December 29, 2012 | \$ 32.5 |
| Charges                      | 2.5     |
| Payments                     | (3.3)   |
| Balance at June 29, 2013     | \$ 31.7 |

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As of June 29, 2013 approximately \$9 million of the balance was classified as short-term.

### *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 June 29, 2013, the outstanding amount guaranteed was approximately \$16 million.

As of June 29, 2013, Avery Dennison Corporation guaranteed approximately \$373 million in lines of credit with various financial institutions, and up to approximately \$9 million of certain of our subsidiaries' obligations to their suppliers, including those that are part of discontinued operations.

Unused letters of credit (primarily standby) outstanding with various financial institutions, including those for discontinued operations, were approximately \$93 million at June 29, 2013.

### *Commitments*

In May 2013, we entered into a 7-year lease commitment for approximately \$10 million for building space in Glendale, California to serve as our new corporate headquarters. We expect to commence the lease during the first half of 2014.

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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 \$16 million at June 29, 2013, which was included in Long-term retirement benefits and other liabilities in the unaudited Condensed Consolidated Balance Sheets.

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**Note 16. Segment Information**

We realigned our segment reporting to reflect a new operating structure in the fourth quarter of 2012. Prior period amounts have been reclassified to conform to current period presentation.

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

| (In millions)                                                                 | Three Months Ended |               | Six Months Ended |               |
|-------------------------------------------------------------------------------|--------------------|---------------|------------------|---------------|
|                                                                               | June 29, 2013      | June 30, 2012 | June 29, 2013    | June 30, 2012 |
| <b>Net sales to unaffiliated customers</b>                                    |                    |               |                  |               |
| Pressure-sensitive Materials                                                  | \$ 1,113.9         | \$ 1,080.5    | \$ 2,211.9       | \$ 2,145.5    |
| Retail Branding and Information Solutions                                     | 419.6              | 390.9         | 802.3            | 751.0         |
| Other specialty converting businesses                                         | 18.8               | 19.0          | 37.0             | 36.9          |
| Net sales to unaffiliated customers                                           | \$ 1,552.3         | \$ 1,490.4    | \$ 3,051.2       | \$ 2,933.4    |
| <b>Intersegment sales</b>                                                     |                    |               |                  |               |
| Pressure-sensitive Materials                                                  | \$ 16.5            | \$ 15.5       | \$ 33.0          | \$ 31.1       |
| Retail Branding and Information Solutions                                     | .6                 | 1.1           | 1.0              | 1.7           |
| Other specialty converting businesses                                         | .3                 | .2            | 1.0              | .2            |
| Intersegment sales                                                            | \$ 17.4            | \$ 16.8       | \$ 35.0          | \$ 33.0       |
| <b>Income from continuing operations before taxes</b>                         |                    |               |                  |               |
| Pressure-sensitive Materials                                                  | \$ 117.5           | \$ 94.0       | \$ 222.4         | \$ 194.1      |
| Retail Branding and Information Solutions                                     | 23.6               | 22.7          | 38.2             | 28.8          |
| Other specialty converting businesses                                         | (2.8)              | (3.4)         | (5.5)            | (6.6)         |
| Corporate expense                                                             | (14.0)             | (21.1)        | (37.5)           | (43.5)        |
| Interest expense                                                              | (14.8)             | (18.6)        | (27.0)           | (36.9)        |
| Income from continuing operations before taxes                                | \$ 109.5           | \$ 73.6       | \$ 190.6         | \$ 135.9      |
| <b>Other (income) expense, net by reportable segment and other businesses</b> |                    |               |                  |               |
| Pressure-sensitive Materials                                                  | \$ 1.7             | \$ 8.0        | \$ 5.3           | \$ 10.2       |
| Retail Branding and Information Solutions                                     | 6.0                | .9            | 9.0              | 5.9           |
| Other specialty converting businesses                                         |                    | .6            |                  | .6            |
| Corporate                                                                     | (8.0)              | 1.7           | (7.1)            | 2.1           |
| Other (income) expense, net                                                   | \$ (.3)            | \$ 11.2       | \$ 7.2           | \$ 18.8       |
| <b>Other (income) expense, net by type</b>                                    |                    |               |                  |               |
| Restructuring costs:                                                          |                    |               |                  |               |
| Severance and related costs                                                   | \$ 5.4             | \$ 9.8        | \$ 12.2          | \$ 15.5       |
| Asset impairment charges and lease and other contract cancellation costs      | 2.4                | .4            | 3.7              | 1.9           |
| Other items:                                                                  |                    |               |                  |               |
| Gain on sale of assets                                                        | (10.9)             |               | (12.2)           |               |
| Gain on sale of product line                                                  |                    | (.6)          |                  | (.6)          |
| Legal settlement                                                              | 2.5                |               | 2.5              |               |
| Divestiture-related costs (1)                                                 | .3                 | 1.6           | 1.0              | 2.0           |
| Other (income) expense, net                                                   | \$ (.3)            | \$ 11.2       | \$ 7.2           | \$ 18.8       |

(1) Represents the portion in continuing operations

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**Note 17. Recent Accounting Requirements**

In March 2013, the Financial Accounting Standards Board ( FASB ) issued new accounting guidance clarifying the accounting for the release of cumulative translation adjustment 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. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. We do not anticipate that this adoption will have a significant impact on our financial position, results of operations, cash flows, or disclosures.

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

**ORGANIZATION OF INFORMATION**

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

|                                                                                    |    |
|------------------------------------------------------------------------------------|----|
| <u>Non-GAAP Financial Measures</u>                                                 | 21 |
| <u>Overview and Outlook</u>                                                        | 22 |
| <u>Analysis of Results of Operations for the Second Quarter</u>                    | 23 |
| <u>Results of Operations by Reportable Segment for the Second Quarter</u>          | 25 |
| <u>Analysis of Results of Operations for the Six Months Year-to-Date</u>           | 26 |
| <u>Results of Operations by Reportable Segment for the Six Months Year-to-Date</u> | 28 |
| <u>Financial Condition</u>                                                         | 30 |
| <u>Recent Accounting Requirements</u>                                              | 34 |

**NON-GAAP FINANCIAL MEASURES**

Our unaudited Condensed 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 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. These non-GAAP financial measures are intended to supplement the presentation of our financial results that are prepared in accordance with GAAP. 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. The accounting effects of these events, activities or decisions, which are included in the GAAP financial measures, may make it difficult to assess our underlying performance in a single period. 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 business, 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.

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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. 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 pension plan contributions from divestiture proceeds. We believe that free cash flow assists investors in evaluating the funds available for other corporate purposes, such as dividends, debt reduction, acquisitions, and repurchases of common stock.
- *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 ratio from period to period. Additionally, the excluded items are not significantly influenced by our day-to-day activities managed at the operating level and may not reflect the underlying trends in our operations.



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**OVERVIEW AND OUTLOOK****Overview***Divestitures*

On January 29, 2013, we entered into an agreement to sell our OCP and DES businesses to CCL Industries Inc. ( CCL ).

On July 1, 2013, subsequent to the end of the second quarter of 2013, we and CCL amended certain provisions of the agreement, primarily related to working capital, employee matters and indemnification and completed the sale for a total purchase price of \$500 million in cash, subject to customary closing adjustments expected to be finalized by October 1, 2013. The completion of this transaction will be reflected in our financial statements in the third quarter of 2013.

The operating results of the DES business, which were previously reported in other specialty converting businesses, have been classified as discontinued operations in the unaudited Consolidated Statements of Income for all periods presented.

*Sales*

Our sales increased 4% in both the second quarter and first six months of 2013 compared to the same periods last year.

|                                         | Three Months Ended |               | Six Months Ended |               |
|-----------------------------------------|--------------------|---------------|------------------|---------------|
|                                         | June 29, 2013      | June 30, 2012 | June 29, 2013    | June 30, 2012 |
| <b>Estimated change in sales due to</b> |                    |               |                  |               |
| Organic sales change                    | 5%                 | 4%            | 4%               | 1%            |
| Foreign currency translation            | (1)                | (4)           |                  | (3)           |
| Reported sales change (1)               | 4%                 | (1)%          | 4%               | (2)%          |

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

*Income from Continuing Operations*

Income from continuing operations increased approximately \$22 million and \$44 million in the second quarter and first six months of 2013, respectively, compared to the same periods last year. Major factors affecting changes in income from continuing operations in the first six months of 2013 compared to the same period last year included:

Positive factors:

- Benefits from productivity initiatives, including savings from restructuring actions
- Higher volume
- Lower interest expense

Negative factors:

- Higher employee-related costs
- Higher income taxes

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

**Cost Reduction Actions**

*2012 Program*

During the six months ended June 29, 2013, we recorded \$15.9 million in restructuring charges, net of reversals, related to our 2012 Program, which consisted of severance and related costs for the reduction of approximately 630 positions, lease and other contract cancellation costs, and asset impairment charges.

In 2012, we recorded \$57.7 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.

As of the end of the second quarter of 2013, implemented actions related to our 2012 Program are expected to yield \$105 million in annualized savings. We realized \$20 million of these savings in 2012, and we expect the majority of the remainder of these savings to be realized in 2013.

We expect to incur \$15 million in restructuring costs, net of gain on sale of assets, related to our 2012 Program in 2013. We expect to complete this program in 2013.

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Refer to Note 9, Cost Reduction Actions, to the unaudited Condensed Consolidated Financial Statements for further information.

**Free Cash Flow**

| (In millions)                                       | Six Months Ended |               |
|-----------------------------------------------------|------------------|---------------|
|                                                     | June 29, 2013    | June 30, 2012 |
| Net cash provided by operating activities           | \$ 46.7          | \$ 41.0       |
| Purchases of property, plant and equipment          | (49.9)           | (43.3)        |
| Purchases of software and other deferred charges    | (24.6)           | (19.9)        |
| Proceeds from sale of property, plant and equipment | 25.8             | 3.4           |
| Sales of investments, net                           | .1               | 4.2           |
| Free cash flow                                      | \$ (1.9)         | \$ (14.6)     |

Free cash flow in the first six months of 2013 increased compared to the same period last year primarily due to the timing of collection of accounts receivable, higher proceeds from sale of property, plant and equipment, and higher net income, partially offset by the amount and timing of payments for inventory purchases and lower incentive compensation paid in 2012 for the 2011 performance year. See Analysis of Results of Operations and Liquidity below for more information.

**2013 Outlook**

Certain factors that we believe may contribute to results for 2013 are listed below:

- We expect sales on an organic basis and earnings from continuing operations to increase compared to 2012.
- We expect contributions to our pension plans (both domestic and international) of at least \$60 million.
- We estimate restructuring costs, net of gain on sale of assets, of approximately \$15 million.
- We anticipate our capital and software expenditures to be approximately \$175 million.

- We expect interest expense to be approximately \$60 million.
- We intend to use the net proceeds from the sale of our OCP and DES businesses to repurchase shares and reduce indebtedness, which we expect will include an additional pension plan contribution.

**ANALYSIS OF RESULTS OF OPERATIONS FOR THE SECOND QUARTER**

**Income from Continuing Operations Before Taxes**

| (In millions)                                  | Three Months Ended |               |
|------------------------------------------------|--------------------|---------------|
|                                                | June 29, 2013      | June 30, 2012 |
| Net sales                                      | \$ 1,552.3         | \$ 1,490.4    |
| Cost of products sold                          | 1,134.8            | 1,102.3       |
| Gross profit                                   | 417.5              | 388.1         |
| Marketing, general and administrative expense  | 293.5              | 284.7         |
| Interest expense                               | 14.8               | 18.6          |
| Other (income) expense, net                    | (.3)               | 11.2          |
| Income from continuing operations before taxes | \$ 109.5           | \$ 73.6       |
| <i>As a Percent of Net Sales:</i>              |                    |               |
| Gross profit                                   | 26.9%              | 26.0%         |
| Marketing, general and administrative expense  | 18.9               | 19.1          |
| Income from continuing operations before taxes | 7.1                | 4.9           |

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*Net Sales*

Sales increased approximately 4% in the second quarter of 2013 compared to the same period last year, reflecting higher sales on an organic basis, partially offset by the unfavorable impact of currency translation. On an organic basis, sales grew 5%, driven by higher volume.

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

*Gross Profit Margin*

Gross profit margin for the second quarter of 2013 improved compared to the same period last year, primarily reflecting benefits from productivity initiatives and 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 materials input costs was modest as commodity costs were relatively stable during the period.

*Marketing, General and Administrative Expense*

The increase in marketing, general and administrative expense in the second quarter of 2013 compared to the same period last year was primarily due to higher employee-related costs, partially offset by savings from restructuring.

*Other (Income) Expense, net*

| (In millions)                                                            | Three Months Ended |               |
|--------------------------------------------------------------------------|--------------------|---------------|
|                                                                          | June 29, 2013      | June 30, 2012 |
| <b>Other (income) expense, net by type</b>                               |                    |               |
| Restructuring costs:                                                     |                    |               |
| Severance and related costs                                              | \$ 5.4             | \$ 9.8        |
| Asset impairment charges and lease and other contract cancellation costs | 2.4                | .4            |
| Other items:                                                             |                    |               |
| Gain on sale of assets                                                   | (10.9)             |               |
| Gain on sale of product line                                             |                    | (.6)          |
| Legal settlement                                                         | 2.5                |               |
| Divestiture-related costs (1)                                            | .3                 | 1.6           |
| Other (income) expense, net                                              | \$ (.3)            | \$ 11.2       |
| (1) Represents the portion in continuing operations                      |                    |               |

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

### Net Income and Earnings per Share

| (In millions, except per share amounts)                               | <b>Three Months Ended</b> |                      |
|-----------------------------------------------------------------------|---------------------------|----------------------|
|                                                                       | <b>June 29, 2013</b>      | <b>June 30, 2012</b> |
| Income from continuing operations before taxes                        | \$ 109.5                  | \$ 73.6              |
| Provision for income taxes                                            | 38.7                      | 24.5                 |
| Income from continuing operations                                     | \$ 70.8                   | \$ 49.1              |
| (Loss) income from discontinued operations, net of tax                | (2.0)                     | 15.1                 |
| Net income                                                            | \$ 68.8                   | \$ 64.2              |
| Net income per common share                                           | \$ .69                    | \$ .62               |
| Net income per common share, assuming dilution                        | \$ .68                    | \$ .62               |
| <br>Net income as a percent of sales                                  | <br>4.4%                  | <br>4.3%             |
| <br>Percent change (as compared to the same period in prior year) in: |                           |                      |
| Net income                                                            | 7.2%                      | N/A(1)               |
| Net income per common share                                           | 11.3%                     | N/A(1)               |
| Net income per common share, assuming dilution                        | 9.7%                      | N/A(1)               |

(1) Not available because 2011 quarterly results were not restated to reflect the classification of the DES business as discontinued operations.

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*Provision for Income Taxes*

The effective tax rate for continuing operations was 35.3% and 33.3% for the three months ended June 29, 2013 and June 30, 2012, respectively. The effective tax rate for the three months ended June 29, 2013 reflects a discrete tax expense of \$1.4 million for revaluation of deferred tax balances due to changes in certain foreign statutory tax rates. The effective tax rate for the three months ended June 30, 2012 included a discrete tax benefit of \$2.7 million for adjustments to foreign income taxes. Refer to Note 11, Taxes Based on Income, to the unaudited Condensed Consolidated Financial Statements for further information.

Our effective tax rate can potentially have wide variances from quarter to quarter, resulting from interim reporting requirements, the recognition of discrete events and the timing of repatriation of earnings.

*Loss from Discontinued Operations, Net of Tax*

The loss from discontinued operations, net of tax, in the second quarter of 2013 compared to the income from discontinued operations, net of tax, in the same period last year reflected lower net sales, loss on a contract, curtailment and settlement losses associated with the Avery Dennison Pension Plan and Benefit Restoration Plan, and higher divestiture-related costs, partially offset by the cessation of depreciation and amortization following the classification of the assets of the DES business as held for sale. Refer to Note 6, Pension and Other Postretirement Benefits, to the unaudited Condensed Consolidated Financial Statements for further information on the pension curtailment and settlement losses.

The loss from discontinued operations, net of tax, also reflected the elimination of certain corporate cost allocations for both the three months ended June 29, 2013 and June 30, 2012.

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

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

**Pressure-sensitive Materials Segment**

| (In millions)                          | Three Months Ended |               |
|----------------------------------------|--------------------|---------------|
|                                        | June 29, 2013      | June 30, 2012 |
| Net sales including intersegment sales | \$ 1,130.4         | \$ 1,096.0    |
| Less intersegment sales                | (16.5)             | (15.5)        |
| Net sales                              | \$ 1,113.9         | \$ 1,080.5    |

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|                                                                                                          |        |        |
|----------------------------------------------------------------------------------------------------------|--------|--------|
| Operating income (1)                                                                                     | 117.5  | 94.0   |
| (1) Included costs associated with restructuring in both years, and gain on sale of product line in 2012 | \$ 1.7 | \$ 8.0 |

### *Net Sales*

Sales in our Pressure-sensitive Materials segment grew 3% in the second quarter of 2013 compared to the same period last year, due to higher sales on an organic basis, partially offset by the unfavorable impact of currency translation. On an organic basis, sales grew 4% due to higher volume.

In our Label and Packaging Materials business, sales on an organic basis increased at a mid-single digit rate in the three months ended June 29, 2013. Combined sales on an organic basis for our Graphics, Reflective, and Performance Tapes businesses increased at a low-single digit rate in the three months ended June 29, 2013.

### *Operating Income*

Higher operating income in the three months ended June 29, 2013 primarily reflected the benefits from productivity initiatives and restructuring savings. The net impact of pricing and changes in raw materials input costs was modest as commodity costs were relatively stable during the period.



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Avery Dennison Corporation

**Retail Branding and Information Solutions Segment**

| (In millions)                                                  | Three Months Ended |               |
|----------------------------------------------------------------|--------------------|---------------|
|                                                                | June 29, 2013      | June 30, 2012 |
| Net sales including intersegment sales                         | \$ 420.2           | \$ 392.0      |
| Less intersegment sales                                        | (.6)               | (1.1)         |
| Net sales                                                      | \$ 419.6           | \$ 390.9      |
| Operating income (1)                                           | 23.6               | 22.7          |
| (1) Included costs associated with restructuring in both years | \$ 6.0             | \$ .9         |

*Net Sales*

Sales in our Retail Branding and Information Solutions segment increased 7% in the second quarter of 2013 compared to the same period last year, due to higher sales on an organic basis, partially offset by the unfavorable impact of currency translation. On an organic basis, sales grew 8%, primarily due to higher volume from increased demand from U.S. and European retailers and brands.

*Operating Income*

Higher operating income in the three months ended June 29, 2013 primarily reflected benefits from productivity initiatives and restructuring savings and higher volume, partially offset by both higher employee-related and restructuring costs.

**Other specialty converting businesses**

| (In millions)                                            | Three Months Ended |               |
|----------------------------------------------------------|--------------------|---------------|
|                                                          | June 29, 2013      | June 30, 2012 |
| Net sales including intersegment sales                   | \$ 19.1            | \$ 19.2       |
| Less intersegment sales                                  | (.3)               | (.2)          |
| Net sales                                                | \$ 18.8            | \$ 19.0       |
| Operating loss (1)                                       | (2.8)              | (3.4)         |
| (1) Included costs associated with restructuring in 2012 | \$                 | \$ .6         |

*Net Sales*

Sales in our other specialty converting businesses decreased 1% in the second quarter of 2013 compared to the same period last year, reflecting the impact of a prior-year product line divestiture, partially offset by higher sales on an organic basis. On an organic basis, sales grew 6% due to higher volume in our medical business.

*Operating Loss*

Lower operating loss in the three months ended June 29, 2013 primarily reflected lower restructuring costs.

**ANALYSIS OF RESULTS OF OPERATIONS FOR THE SIX MONTHS YEAR-TO-DATE****Income from Continuing Operations Before Taxes**

| (In millions)                                  | Six Months Ended |               |
|------------------------------------------------|------------------|---------------|
|                                                | June 29, 2013    | June 30, 2012 |
| Net sales                                      | \$ 3,051.2       | \$ 2,933.4    |
| Cost of products sold                          | 2,232.0          | 2,168.2       |
| Gross profit                                   | 819.2            | 765.2         |
| Marketing, general and administrative expense  | 594.4            | 573.6         |
| Interest expense                               | 27.0             | 36.9          |
| Other expense, net                             | 7.2              | 18.8          |
| Income from continuing operations before taxes | \$ 190.6         | \$ 135.9      |
| <i>As a Percent of Net Sales:</i>              |                  |               |
| Gross profit                                   | 26.8%            | 26.1%         |
| Marketing, general and administrative expense  | 19.5             | 19.6          |
| Income from continuing operations before taxes | 6.2              | 4.6           |

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*Net Sales*

Sales increased approximately 4% in the first six months of 2013 compared to the same period last year, on both a reported and organic basis, driven by higher volume.

Refer to Results of Operations by Reportable Segment for the Six Months Year-to-Date for further information.

*Gross Profit Margin*

Gross profit margin for the first six months of 2013 improved compared to the same period last year, primarily reflecting benefits from productivity initiatives and 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 materials input costs was modest as commodity costs were relatively stable during the period.

*Marketing, General and Administrative Expense*

The increase in marketing, general and administrative expense in the first six months of 2013 compared to the same period last year was primarily due to higher employee-related costs, partially offset by savings from restructuring.

*Other Expense, net*

| (In millions)                                                            | Six Months Ended |               |
|--------------------------------------------------------------------------|------------------|---------------|
|                                                                          | June 29, 2013    | June 30, 2012 |
| <b>Other expense, net by type</b>                                        |                  |               |
| Restructuring costs:                                                     |                  |               |
| Severance and related costs                                              | \$ 12.2          | \$ 15.5       |
| Asset impairment charges and lease and other contract cancellation costs | 3.7              | 1.9           |
| Other items:                                                             |                  |               |
| Gain on sale of assets                                                   | (12.2)           |               |
| Gain on sale of product line                                             |                  | (.6)          |
| Legal settlement                                                         | 2.5              |               |
| Divestiture-related costs (1)                                            | 1.0              | 2.0           |
| Other expense, net                                                       | \$ 7.2           | \$ 18.8       |
| (1) Represents the portion in continuing operations                      |                  |               |

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

### Net Income and Earnings per Share

| (In millions, except per share amounts)                           | <b>Six Months Ended</b> |                      |
|-------------------------------------------------------------------|-------------------------|----------------------|
|                                                                   | <b>June 29, 2013</b>    | <b>June 30, 2012</b> |
| Income from continuing operations before taxes                    | \$ 190.6                | \$ 135.9             |
| Provision for income taxes                                        | 53.0                    | 42.2                 |
| Income from continuing operations                                 | \$ 137.6                | \$ 93.7              |
| (Loss) income from discontinued operations, net of tax            | (11.0)                  | 14.4                 |
| Net income                                                        | \$ 126.6                | \$ 108.1             |
| Net income per common share                                       | \$ 1.27                 | \$ 1.03              |
| Net income per common share, assuming dilution                    | \$ 1.25                 | \$ 1.03              |
| <br>                                                              |                         |                      |
| Net income as a percent of sales                                  | 4.1%                    | 3.7%                 |
| <br>                                                              |                         |                      |
| Percent change (as compared to the same period in prior year) in: |                         |                      |
| Net income                                                        | 17.1%                   | N/A(1)               |
| Net income per common share                                       | 23.3%                   | N/A(1)               |
| Net income per common share, assuming dilution                    | 21.4%                   | N/A(1)               |

(1) Not available because 2011 quarterly results were not restated to reflect the classification of the DES business as discontinued operations.

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*Provision for Income Taxes*

The effective tax rate for continuing operations was 27.8% and 31.1% for the six months ended June 29, 2013 and June 30, 2012, respectively. The effective tax rate for the six months ended June 29, 2013 reflects net discrete tax benefits of \$8.9 million that relate to changes in tax law, including a \$4.2 million benefit attributable to the retroactive reinstatement of the federal research and development tax credit and a \$3.7 million net benefit for revaluation of deferred tax balances due to changes in certain foreign statutory tax rates. The effective tax rate for the six months ended June 30, 2012 included discrete tax benefits of \$6.4 million for releases of certain tax reserves due to lapses of applicable statutory periods and adjustments to foreign income taxes. Refer to Note 11, Taxes Based on Income, to the unaudited Condensed Consolidated Financial Statements for further information.

Our effective tax rate can potentially have wide variances from quarter to quarter, resulting from interim reporting requirements, the recognition of discrete events and the timing of repatriation of earnings.

*Loss from Discontinued Operations, Net of Tax*

The loss from discontinued operations, net of tax, in the first six months of 2013 compared to the income from discontinued operations, net of tax, in the same period last year reflected lower net sales, loss on a contract, curtailment and settlement losses associated with the Avery Dennison Pension Plan and Benefit Restoration Plan, and higher divestiture-related costs, partially offset by the cessation of depreciation and amortization following the classification of the assets of the DES business as held for sale. Refer to Note 6, Pension and Other Postretirement Benefits, for further information on the pension curtailment and settlement losses.

The loss from discontinued operations, net of tax, also reflected the elimination of certain corporate cost allocations for both the six months ended June 29, 2013 and June 30, 2012.

**RESULTS OF OPERATIONS BY REPORTABLE SEGMENT FOR THE SIX MONTHS YEAR-TO-DATE**

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

**Pressure-sensitive Materials Segment**

| (In millions)                          | Six Months Ended |               |
|----------------------------------------|------------------|---------------|
|                                        | June 29, 2013    | June 30, 2012 |
| Net sales including intersegment sales | \$ 2,244.9       | \$ 2,176.6    |
| Less intersegment sales                | (33.0)           | (31.1)        |

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|                                                                                                          |            |            |
|----------------------------------------------------------------------------------------------------------|------------|------------|
| Net sales                                                                                                | \$ 2,211.9 | \$ 2,145.5 |
| Operating income (1)                                                                                     | 222.4      | 194.1      |
| (1) Included costs associated with restructuring in both years, and gain on sale of product line in 2012 | \$ 5.3     | \$ 10.2    |

### *Net Sales*

Sales in our Pressure-sensitive Materials segment grew 3% in the first six months of 2013 compared to the same period last year, on both a reported and organic basis. Sales grew due to higher volume, partially offset by the unfavorable impact of currency translation.

In our Label and Packaging Materials business, sales on an organic basis increased at a mid-single digit rate in the six months ended June 29, 2013. Combined sales on an organic basis for our Graphics, Reflective, and Performance Tapes businesses increased slightly in the six months ended June 29, 2013.

### *Operating Income*

Higher operating income in the six months ended June 29, 2013 primarily reflected the benefits from productivity initiatives and restructuring savings, partially offset by higher employee-related costs. The net impact of pricing and changes in raw materials input costs was modest as commodity costs were relatively stable during the period.

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**Retail Branding and Information Solutions Segment**

| (In millions)                                                                                      | <b>Six Months Ended</b> |                      |
|----------------------------------------------------------------------------------------------------|-------------------------|----------------------|
|                                                                                                    | <b>June 29, 2013</b>    | <b>June 30, 2012</b> |
| Net sales including intersegment sales                                                             | \$ 803.3                | \$ 752.7             |
| Less intersegment sales                                                                            | (1.0)                   | (1.7)                |
| Net sales                                                                                          | \$ 802.3                | \$ 751.0             |
| Operating income (1)                                                                               | 38.2                    | 28.8                 |
| (1) Included costs associated with restructuring in both years, and gain on sale of assets in 2013 | \$ 9.0                  | \$ 5.9               |

*Net Sales*

Sales in our Retail Branding and Information Solutions segment increased 7% in the first six months of 2013 compared to the same period last year, on both a reported and organic basis. Sales grew primarily due to higher volume from increased demand from U.S. and European retailers and brands, including strong growth in our radio-frequency identification business.

*Operating Income*

Higher operating income in the six months ended June 29, 2013 primarily reflected the benefits from productivity initiatives and restructuring savings and higher volume, partially offset by higher employee-related costs.

**Other specialty converting businesses**

| (In millions)                                            | <b>Six Months Ended</b> |                      |
|----------------------------------------------------------|-------------------------|----------------------|
|                                                          | <b>June 29, 2013</b>    | <b>June 30, 2012</b> |
| Net sales including intersegment sales                   | \$ 38.0                 | \$ 37.1              |
| Less intersegment sales                                  | (1.0)                   | (.2)                 |
| Net sales                                                | \$ 37.0                 | \$ 36.9              |
| Operating loss (1)                                       | (5.5)                   | (6.6)                |
| (1) Included costs associated with restructuring in 2012 | \$                      | \$ .6                |

*Net Sales*

Sales in our other specialty converting businesses in the first six months of 2013 were comparable to the same period last year, reflecting higher sales on an organic basis, partially offset by the impact of a prior-year product line divestiture. On an organic basis, sales grew 9% due to higher volume in our medical business.

*Operating Loss*

Lower operating loss in the six months ended June 29, 2013 primarily reflected lower restructuring costs.



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**FINANCIAL CONDITION****Liquidity****Cash Flow from Operating Activities**

| (In millions)                                                   | <b>Six Months Ended</b> |                      |
|-----------------------------------------------------------------|-------------------------|----------------------|
|                                                                 | <b>June 29, 2013</b>    | <b>June 30, 2012</b> |
| Net income                                                      | \$ 126.6                | \$ 108.1             |
| Depreciation and amortization                                   | 103.3                   | 110.6                |
| Provision for doubtful accounts and sales returns               | 9.5                     | 9.4                  |
| Asset impairment and net (gain) loss on sale/disposal of assets | (9.2)                   | 6.3                  |
| Stock-based compensation                                        | 17.6                    | 21.4                 |
| Other non-cash items, net                                       | 28.2                    | 21.0                 |
| Changes in assets and liabilities and other adjustments         | (229.3)                 | (235.8)              |
| Net cash provided by operating activities                       | \$ 46.7                 | \$ 41.0              |

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](#) ).

During the six months ended June 29, 2013, cash flow provided by operating activities increased compared to the same period last year primarily due to the timing of collection of accounts receivable and higher net income, partially offset by the amount and timing of payments for inventory purchases and lower incentive compensation paid in 2012 for the 2011 performance year.

**Cash Flow for Investing Activities**

| (In millions)                                    | <b>Six Months Ended</b> |                      |
|--------------------------------------------------|-------------------------|----------------------|
|                                                  | <b>June 29, 2013</b>    | <b>June 30, 2012</b> |
| Purchases of property, plant and equipment       | \$ (49.9)               | \$ (43.3)            |
| Purchases of software and other deferred charges | (24.6)                  | (19.9)               |
| Proceeds from sale of product line               | .8                      | .8                   |
| Proceeds from sale of property and equipment     | 25.8                    | 3.4                  |
| Sales of investments, net                        | .1                      | 4.2                  |
| Other                                            | .8                      | .8                   |
| Net cash used in investing activities            | \$ (47.8)               | \$ (54.8)            |

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### *Capital and Software Spending*

During the six months ended June 29, 2013 and 2012, we invested in new equipment primarily in Asia and the U.S.

During the six months ended June 29, 2013, information technology investments primarily included standardization initiatives. During the six months ended June 30, 2012, information technology investments included customer service and standardization initiatives.

### *Proceeds from Sale of Property 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 (income) expense, net in the unaudited Consolidated Statements of Income. In conjunction with the sale, we entered into a short-term leaseback arrangement with the buyer. The initial term of the lease is nine months with two optional three-month extensions. Refer to Note 15, Commitments and Contingencies, in the unaudited Condensed Consolidated Financial Statements for information regarding the lease of our new corporate headquarters.

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**Cash Flow for Financing Activities**

| (In millions)                                 | Six Months Ended |               |
|-----------------------------------------------|------------------|---------------|
|                                               | June 29, 2013    | June 30, 2012 |
| Net change in borrowings and payments of debt | \$ 171.9         | \$ 194.4      |
| Dividends paid                                | (55.7)           | (56.3)        |
| Share repurchases                             | (148.9)          | (142.2)       |
| Proceeds from exercise of stock options, net  | 32.4             | 4.7           |
| Other                                         | (8.1)            | (2.2)         |
| Net cash used in financing activities         | \$ (8.4)         | \$ (1.6)      |

*Borrowings and Repayment of Debt*

During the six months ended June 29, 2013, our commercial paper borrowings were used to fund share repurchase activity given the seasonality of our cash flow during the year. A portion of these borrowings were repaid using the net proceeds from the \$250 million of senior notes issuance, as discussed below. Refer to *Share Repurchases* below 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, as discussed above, were used to repay a portion of the indebtedness outstanding under our commercial paper program.

*Dividend Payments*

Our dividend per share was \$.56 in the first six months of 2013 compared to \$.54 per share in the same period in the prior year.

On April 25, 2013, we increased our quarterly dividend (payable in the three months ended June 29, 2013) to \$.29 per share, representing a 7% increase from our previous quarterly dividend of \$.27 per share.

*Share Repurchases*

During the six months ended June 29, 2013, we repurchased approximately 3.5 million shares of our common stock at an aggregate cost of \$148.9 million.

On July 26, 2012, our Board of Directors authorized the repurchase of 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). As of June 29, 2013, shares of our common stock in

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the aggregate amount of approximately \$189 million remained authorized for repurchase under this Board authorization.

On July 25, 2013, subsequent to the end of the second quarter of 2013, our Board of Directors authorized the repurchase of additional shares of our common stock in the aggregate amount of up to \$400 million (exclusive of any fees, commissions or other expenses related to such purchases).

### **Analysis of Selected Balance Sheet Accounts**

#### *Long-lived Assets*

In the six months ended June 29, 2013, goodwill decreased approximately \$17 million to \$748 million, which reflected the impact of foreign currency translation (\$13 million) and the reclassification of Goodwill associated with the DES business to Assets held for sale (\$4 million).

In the six months ended June 29, 2013, other intangibles resulting from business acquisitions, net, decreased by \$16 million to \$109 million, which reflected amortization expense (\$15 million) and the impact of foreign currency translation (\$1 million).

Refer to Note 4, Goodwill and Other Intangibles Resulting from Business Acquisitions, to the unaudited Condensed Consolidated Financial Statements for more information.

In the six months ended June 29, 2013, other assets increased by approximately \$22 million to \$479 million, which reflected an increase in software and other deferred charges, net of amortization expense (\$14 million), an increase in the cash surrender value of corporate-owned life insurance (\$9 million), and the capitalization of financing costs related to the issuance of the senior notes discussed above (\$2 million), partially offset by the reclassification of Other assets associated with the DES business to Assets held for sale (\$3 million).

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*Shareholders Equity Accounts*

In the six months ended June 29, 2013, our shareholders equity decreased by \$66 million to \$1.51 billion, which primarily reflected the effect of stock repurchases, dividend payments, and the unfavorable impact of foreign currency translation, partially offset by net income.

In the six months ended June 29, 2013, the balance of our treasury stock increased by approximately \$82 million to \$1.06 billion, which reflected share repurchase activity (\$149 million), partially offset by the use of treasury shares to settle exercises of stock options and vesting of restricted stock units and performance units (\$55 million), and the funding of our contributions to our U.S. defined contribution plan (\$12 million).

**Impact of Foreign Currency Translation**

| (In millions)                               | Six Months Ended |               |
|---------------------------------------------|------------------|---------------|
|                                             | June 29, 2013    | June 30, 2012 |
| Change in net sales                         | \$ (5)           | \$ (87)       |
| Change in income from continuing operations | 1                | (4)           |

International operations generated approximately 74% of our net sales during the six months ended June 29, 2013. 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 the first six months of 2013 compared to the same period last year primarily reflected the unfavorable impact from sales in Brazil and South Africa, partially offset by the favorable impact from sales in China and the European Union.

**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 same 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**

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

### *Working Capital (Deficit) and Operational Working Capital Ratios*

Working capital (deficit) (current assets minus current liabilities and net assets held for sale), as a percent of annualized net sales, increased in the first six months of 2013 compared to the same period last year, 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 and net trade accounts receivable.

Operational working capital, as a percent of annualized net sales, is reconciled with working capital (deficit) below. Our objective is to minimize our investment in operational working capital, as a percentage of sales, to maximize cash flow and return on investment.

| (In millions)                                                                  | <b>Six Months Ended</b> |                           |
|--------------------------------------------------------------------------------|-------------------------|---------------------------|
|                                                                                | <b>June 29, 2013</b>    | <b>June 30, 2012</b>      |
| (A) Working capital (deficit)                                                  | \$ 165.3                | \$ (66.7)                 |
| Reconciling items:                                                             |                         |                           |
| Cash and cash equivalents                                                      | (211.6)                 | (161.4)                   |
| Current deferred and refundable income taxes and other current assets          | (250.5)                 | (225.6)                   |
| Short-term borrowings and current portion of long-term debt and capital leases | 438.2                   | 671.5                     |
| Current deferred and payable income taxes and other current liabilities        | 554.8                   | 498.5                     |
| (B) Operational working capital                                                | \$ 696.2                | \$ 716.3                  |
| (C) Annualized net sales (year-to-date sales, multiplied by two)               | \$ 6,102.4              | \$ 6,031.2 <sup>(1)</sup> |
| Working capital (deficit), as a percent of annualized net sales (A) ÷ (C)      | 2.7%                    | (1.1)%                    |
| Operational working capital, as a percent of annualized net sales (B) ÷ (C)    | 11.4%                   | 11.9%                     |

(1) Annualized net sales for 2012 were not restated to reflect the reclassification of the DES business as discontinued operations.

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As a percent of annualized sales, operational working capital for the first six months of 2013 decreased compared to the same period in the prior year. 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 the first six months of 2013 compared to 59 days in the first six months of 2012, calculated using the two-quarter average trade accounts receivable balance divided by the average daily sales for the first six months of 2013 and 2012, respectively. The current year average number of days sales outstanding reflected the effect of discontinued operations, which increased the average number of days sales outstanding by approximately one day.

*Inventory Ratio*

Average inventory turnover was 8.7 in the first six months of 2013 compared to 8.6 in the first six months of 2012, calculated using the annualized cost of sales (cost of sales for the first six months multiplied by two) divided by the two-quarter average inventory balance for the first six months of 2013 and 2012, respectively. The increase in the average inventory turnover from the prior year primarily reflected our continued focus on inventory management.

*Accounts Payable Ratio*

The average number of days payable outstanding was 67 days in the first six months of 2013 compared to 64 days in the first six months of 2012, calculated using the two-quarter average accounts payable balance divided by the average daily cost of products sold for the first six months of 2013 and 2012, respectively. The increase in the average number of days payable outstanding from prior year was primarily due to the impact of extensions in payment terms with suppliers and the timing of inventory purchases, partially offset by the effect of discontinued operations, which reduced the average number of days payable outstanding by approximately two days.

**Capital Resources**

Capital resources include cash flows from operations, cash and cash equivalents and debt financing. At June 29, 2013, we had cash and cash equivalents of approximately \$212 million held in accounts at third-party financial institutions.

Our cash balances are held in numerous locations throughout the world. At June 29, 2013, substantially all 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 were to repatriate foreign earnings, we may be subject to additional taxes in the U.S.

Our \$675 million revolving credit facility (the 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 June 29, 2013, there was no balance outstanding under the Revolver.

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 increased by approximately \$167 million in the first six months of 2013 to \$1.39 billion compared to \$1.22 billion at year-end 2012, primarily reflecting the funding of our share repurchase activity given the seasonality of our cash flow during the year.

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.



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**Off-Balance Sheet Arrangements, Contractual Obligations, and Other Matters**

Refer to Note 15, Commitments and Contingencies, to the unaudited Condensed Consolidated Financial Statements.

**RECENT ACCOUNTING REQUIREMENTS**

Refer to Note 17, Recent Accounting Requirements, to the unaudited Condensed Consolidated Financial Statements.

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Avery Dennison Corporation

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to the information provided in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission ( SEC ), and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

Our disclosure controls system is based upon a global chain of financial and general business reporting lines that converge in our headquarters in Pasadena, California. As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such time to provide reasonable assurance that information was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

**Changes in Internal Control Over Financial Reporting**

We periodically assesses our overall control environment, including the control environment of acquired businesses.

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Refer to **Legal Proceedings** in Note 15, **Commitments and Contingencies**, to the unaudited Condensed Consolidated Financial Statements in Part 1, Item 1.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors included in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(a) Not Applicable

(b) Not Applicable

(c) Repurchases of Equity Securities by Issuer

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 second quarter of 2013 are listed in the following table.

(Dollars in millions, except per share amounts; shares in thousands)

| <b>Total number of shares purchased</b> | <b>Average price paid per share</b> | <b>Total number of shares purchased as part of publicly announced plans</b> | <b>Approximate dollar value of shares that may yet be purchased</b> |
|-----------------------------------------|-------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------|
|-----------------------------------------|-------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------|

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|                |                | <b>under the plans</b> |    |       |         |          |
|----------------|----------------|------------------------|----|-------|---------|----------|
| March 31, 2013 | April 27, 2013 | 608.3                  | \$ | 42.00 | 608.3   |          |
| April 28, 2013 | May 25, 2013   | 747.0                  | \$ | 42.84 | 747.0   |          |
| May 26, 2013   | June 29, 2013  | 685.3                  | \$ | 43.13 | 685.3   |          |
| Total          |                | 2,040.6                | \$ | 42.69 | 2,040.6 | \$ 189.4 |

On July 25, 2013, subsequent to the end of the second quarter of 2013, our Board of Directors authorized the repurchase of additional shares of our common stock in the aggregate amount of up to \$400 million (exclusive of any fees, commissions or other expenses related to such purchases).

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

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

### ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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**ITEM 5. OTHER INFORMATION**

Not Applicable

**ITEM 6. EXHIBITS**

|                 |                                                                                                                                                                                                                                             |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit 4.1     | Indenture, dated as of November 20, 2007, between the Company and The Bank of New York Trust Company, N.A., as Trustee (previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on November 20, 2007)             |
| Exhibit 4.2     | Third Supplemental Indenture, dated April 8, 2013, between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee (previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on April 8, 2013) |
| Exhibit 4.3     | Form of 3.35% Senior Notes due 2023 (previously filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed on April 8, 2013)                                                                                                    |
| Exhibit 12*     | Computation of Ratio of Earnings to Fixed Charges                                                                                                                                                                                           |
| Exhibit 31.1*   | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                          |
| Exhibit 31.2*   | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                          |
| Exhibit 32.1**  | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                          |
| Exhibit 32.2**  | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                          |
| Exhibit 101.INS | XBRL Instance Document                                                                                                                                                                                                                      |
| Exhibit 101.SCH | XBRL Extension Schema Document                                                                                                                                                                                                              |
| Exhibit 101.CAL | XBRL Extension Calculation Linkbase Document                                                                                                                                                                                                |
| Exhibit 101.LAB | XBRL Extension Label Linkbase Document                                                                                                                                                                                                      |
| Exhibit 101.PRE | XBRL Extension Presentation Linkbase Document                                                                                                                                                                                               |
| Exhibit 101.DEF | XBRL Extension Definition Linkbase Document                                                                                                                                                                                                 |

\* Filed herewith.

\*\* Furnished herewith.

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**SIGNATURES**

Pursuant to the requirements 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.

EVERY DENNISON CORPORATION  
(Registrant)

/s/ Mitchell R. Butier  
Mitchell R. Butier  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

/s/ Lori J. Bondar  
Lori J. Bondar  
Vice President, Controller, and  
Chief Accounting Officer  
(Principal Accounting Officer)

August 6, 2013