

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

Commission file number 1-7685

AVERY DENNISON CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State of Incorporation)

150 North Orange Grove Boulevard

Pasadena, California

(Address of Principal Executive Offices)

95-1492269

(I.R.S. Employer Identification No.)

91103

(Zip Code)

Registrant's telephone number, including area code:

(626) 304-2000

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

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

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

Not applicable.

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of voting and non-voting common equity held by non-affiliates as of July 2, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was \$4,117,015,886.

Number of shares of common stock, \$1 par value, outstanding as of January 28, 2012: 106,411,913.

The following documents are incorporated by reference into the Parts of this report below indicated:

<u>Document</u>	<u>Incorporated by reference into:</u>
Portions of Annual Report to Shareholders for fiscal year ended December 31, 2011	Parts I, II
Portions of Definitive Proxy Statement for Annual Meeting of Stockholders to be held on April 26, 2012	Parts III, IV

[Table of Contents](#)

EVERY DENNISON CORPORATION
FISCAL YEAR 2011 FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
Item 1.	Business 1
Item 1A.	Risk Factors 5
Item 1B.	Unresolved Staff Comments 13
Item 2.	Properties 13
Item 3.	Legal Proceedings 14
Item 4.	Mine Safety Disclosures 14
<u>PART II</u>	
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 15
Item 6.	Selected Financial Data 15
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations 15
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk 15
Item 8.	Financial Statements and Supplementary Data 15
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure 15
Item 9A.	Controls and Procedures 16
Item 9B.	Other Information 16
<u>PART III</u>	
Item 10.	Directors, Executive Officers and Corporate Governance 17
Item 11.	Executive Compensation 19
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 19
Item 13.	Certain Relationships and Related Transactions, and Director Independence 19
Item 14.	Principal Accountant Fees and Services 19
<u>PART IV</u>	
Item 15.	Exhibits and Financial Statement Schedules 20
Signatures	21

PART I

Item 1. BUSINESS.

Company Background

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

Business Overview and Reporting Segments

Our businesses include the production of pressure-sensitive materials, and a variety of tickets, tags, labels other converted products, and office and consumer products. Some pressure-sensitive materials are sold to label printers and converters that “convert” the materials into labels and other products through embossing, printing, stamping and die-cutting. Some are sold by us in converted form as printable media, tapes and reflective sheeting. We also manufacture and sell a variety of office and consumer products, other converted products and items not involving pressure-sensitive components, such as binders, organizing systems, markers, fasteners and business forms, as well as tickets, tags, radio-frequency identification (“RFID”) inlays and labels, and imprinting equipment and related services for retailers and apparel manufacturers.

Our reportable segments in 2011 were:

- Pressure-sensitive Materials; and
- Retail Branding and Information Solutions.

In 2011, we entered into an agreement to sell our Office and Consumer Products business to 3M Company (“3M”) for gross cash proceeds of \$550 million, subject to adjustment in accordance with the terms of the agreement. The transaction is subject to customary closing conditions and regulatory approvals. This business is reported as a discontinued operation in this Form 10-K.

In addition to our reporting segments, we have other specialty converting businesses comprised of several businesses that produce specialty tapes and highly engineered labels including RFID inlays and labels, and other converted products.

In 2011, the Pressure-sensitive Materials segment and Retail Branding and Information Solutions segment contributed approximately 66% and 25%, respectively, of our total sales.

In 2011, international operations constituted a substantial majority of our business, representing approximately 73% of our sales. As of December 31, 2011, we operated approximately 200 manufacturing and distribution facilities worldwide, employed over 30,000 persons, and conducted business in over 60 countries.

Pressure-sensitive Materials Segment

Our Pressure-sensitive Materials segment manufactures and sells Fasson[®]-, JAC[®]-, and Avery Dennison[®]-brand pressure-sensitive label and packaging materials, Avery[®]- and Avery Dennison[®]-brand graphics and graphic films, Avery Dennison[®]-brand reflective products, and performance polymers (largely used to manufacture pressure-sensitive materials). The business of this segment tends not to be seasonal, except for certain outdoor graphics and reflective products and operations in Western Europe. Pressure-sensitive materials consist primarily of papers, plastic films, metal foils and fabrics, which are coated with Company-developed and purchased adhesives, and then laminated with specially coated backing papers and films. They are sold in roll or

[Table of Contents](#)

sheet form with either solid or patterned adhesive coatings, and are available in a wide range of face materials, sizes, thicknesses and adhesive properties. These label and packaging materials are sold worldwide to label printers and converters for labeling, decorating, fastening, electronic data processing and special applications in the home and personal care, beer and beverage, durables, pharmaceutical, wine and spirits, and food market segments.

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

Because self-adhesive materials are easy to apply without the need for adhesive activation, the use of self-adhesive materials can provide cost savings compared with other materials that require heat- or moisture-activated adhesives. When used in package decoration applications, the visual appeal of self-adhesive materials often helps foster increased sales of the product on which the materials are applied. Self-adhesive materials provide consistent and versatile adhesion and are available in a large selection of materials in nearly any size, shape and color.

Our graphics solutions consist of a variety of films and other products sold to the architectural, commercial sign, digital printing, and other related market segments. We also sell durable cast and reflective films to the construction, automotive, and fleet transportation market segments; scrim-reinforced vinyl material for banner sign applications; and reflective films for traffic and safety applications. Our graphics and reflective businesses are organized on a worldwide basis to serve the expanding commercial graphic arts market segment, including wide-format digital printing applications. We also manufacture and sell proprietary weather-resistant films that are used for outdoor applications.

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

In this segment, our larger competitors for label and packaging materials are Raflatac, a subsidiary of UPM-Kymmene, and Morgan Adhesives, a division of Bemis Company, Inc. For graphics and reflective products, our largest competitor is 3M Company. We believe that entry of competitors into the field of pressure-sensitive adhesives and materials is limited by technical knowledge and capital requirements. We believe that our technical knowledge, relative size and scale of operations, ability to serve our customers with a broad line of quality products and service programs, distribution and brand strength, and development and commercialization of new products are among the more significant factors in maintaining and further developing our competitive position.

Retail Branding and Information Solutions Segment

Our Retail Branding and Information Solutions segment designs, manufactures and sells a wide variety of brand identification and information management products for retailers, apparel manufacturers, distributors and industrial customers on a worldwide basis. The business of this segment tends to be seasonal, with higher volume generally in advance of the fall (back-to-school), spring, and holiday shipping periods.

Our brand identification products include woven and printed labels, graphic tags and barcode tags. Our information management products include price tickets, carton labels, RFID tags and printing applications. Services include supply chain and security management, and retail store efficiency. Our solution-enabling products include printers, fastening and application devices, and security management products.

In this segment, our competitors include SML Group and Checkpoint Systems. We believe that our ability to serve our customers consistently wherever they manufacture with comprehensive brand identification and information management solutions, and our global distribution network, reliable service, and product quality and consistency are the key advantages in maintaining and further developing our competitive position.

Other specialty converting businesses

Other specialty converting businesses include our performance tapes, designed and engineered solutions, and RFID businesses. These businesses manufacture and sell specialty tapes, highly engineered films, RFID inlays and labels, pressure-sensitive postage stamps and other converted products. These businesses are generally not seasonal, except for certain automotive products due to plant shutdowns by automotive manufacturers.

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

Our designed and engineered solutions business manufactures custom pressure-sensitive labels and multi-layer film constructions for durable goods, electronics and consumer packaged goods. These products are sold primarily to original equipment manufacturers, tier suppliers and packaging converters. For the automotive market segment, the businesses manufacture custom pressure-sensitive and heat-seal labels, pressure-sensitive films and engineered fasteners, which are sold primarily to original equipment manufacturers and their suppliers. Businesses within our designed and engineered solutions division include our performance films business, which produces a variety of decorative and functional films designed for injection mold applications that are sold primarily to the automotive industry; our business media business, which designs and markets customized products for printing and information workflow applications; and our security printing business, which manufactures and sells self-adhesive battery labels to a battery manufacturer and self-adhesive stamps to the U.S. Postal Service. In addition, we sell specialty print-receptive films to the industrial label market segment and proprietary wood grain and other patterns of film laminates for housing exteriors.

Our RFID business manufactures RFID inlays and labels for use in the Retail Branding and Information Solutions segment and other end market segments.

We compete with a number of diverse businesses. Our largest competitor for this group of businesses is 3M in the performance tapes business. We believe that entry of competitors into these specialty converting businesses is limited by capital and technical requirements. We believe that our ability to serve our customers with quality, cost effective products and newly-developed and commercialized products are among the more significant factors in developing and maintaining our competitive position.

Office and Consumer Products

Our Office and Consumer Products business manufactures and sells a wide range of Avery®-branded printable media and other products. This business tends to be seasonal, with higher volume related to the back-to-school season. In 2011, we signed a definitive agreement with 3M under which 3M agreed to purchase the Office and Consumer Products business. The results of this business have been classified as discontinued operations in our Consolidated Statements of Operations.

This business's sales are concentrated in a few major customers, primarily office products superstores, mass market distributors and wholesalers. The loss of one or more of these customers could have a material adverse effect on the business's financial results. We manufacture and sell a wide range of Avery®-branded products for office, school and home uses, including printable media, such as copier, ink-jet and laser printer labels, related computer software, ink-jet and laser printer card and index products, and organization, filing and presentation products, such as binders, dividers and sheet protectors. We also offer a wide range of other stationery products, including writing instruments, markers, adhesives and specialty products under brand names such as Avery®, Marks-A-Lot® and HI-LITER®. The array of our product offerings varies by geographic market.

In this business, our larger competitors include 3M, Acco Brands Corporation, Esselte Corporation and manufacturers of private-label brands. We believe that the more significant factors in maintaining and further developing our competitive position include our brand strength, customer relationships, service excellence, large

[Table of Contents](#)

installed base of software that facilitates the use of many of our products, ability to serve our customers with a broad line of quality products, and development and commercialization of new products.

Segment Financial Information

Certain financial information on our reporting segments and other specialty converting businesses for the three years ended December 31, 2011 appears in Note 12, "Segment Information," in the Notes to Consolidated Financial Statements contained in our 2011 Annual Report to Shareholders (our "2011 Annual Report") and is incorporated herein by reference.

Foreign Operations

Certain financial information about our geographic areas for the three years ended December 31, 2011 appears in Note 12, "Segment Information," in the Notes to Consolidated Financial Statements contained in our 2011 Annual Report and is incorporated herein by reference.

Research and Development

Many of our current products are the result of our research and development efforts. Our expenses for research, design and testing of new products and applications by our operating units and the Avery Research Center located in Pasadena, California and the Philip M. Neal Asia Pacific Research Center in Kunshan, China (the "Research Centers") were \$92.4 million in 2011, \$85.6 million in 2010, and \$78.9 million in 2009.

Our operating units' research efforts are directed primarily toward developing new products and operating techniques and improving product performance, often in close association with customers. The Research Centers support our operating units' patent and product development work, and focuses on improving adhesives, materials and coating processes, as well as related product applications and ventures. These efforts often focus on projects relating to printing and coating technologies, as well as adhesive, release and ink chemistries.

Patents, Trademarks and Licenses

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

Manufacturing and Environmental Matters

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

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

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

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

[Table of Contents](#)

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

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

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed with, or furnished to, the Securities and Exchange Commission (“SEC”) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge in the “Investors” section of our website at www.averydennison.com as soon as reasonably practicable after electronic filing with or furnishing to the SEC. We make available on our website our (i) Amended and Restated Certificate of Incorporation, (ii) Amended and Restated Bylaws, (iii) Corporate Governance Guidelines, (iv) Code of Conduct, which applies to our directors, officers and employees, (v) Code of Ethics for the Chief Executive Officer and Senior Financial Officers, (vi) the charters of the Audit, Compensation and Executive Personnel, and Governance and Social Responsibility Committees of our Board of Directors, (vii) Audit Committee Complaint Procedures for Accounting and Auditing Matters, and (viii) Categorical Independence Standards. These materials are also available free of charge in print to stockholders who request them by writing to: Secretary, Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, California 91103.

Item 1A. RISK FACTORS.

Our ability to attain our goals and objectives is materially dependent on numerous factors and risks, including but not limited to, the following:

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

We conduct business in over 60 countries and our domestic and international operations are strongly influenced by matters beyond our control, including changes in political, social, economic and labor conditions, tax laws (including U.S. taxes on foreign subsidiaries), and international trade regulations (including tariffs), as well as the impact of these changes on the underlying demand for our products.

Changes in economic conditions in the regions in which we conduct business could negatively impact our customers, suppliers and business.

A decline in economic activity in the United States and other regions of the world can result in a material adverse effect on our business, including, among other things, reduced consumer spending, declines in asset valuations, diminished liquidity and credit availability, significant volatility in securities prices, rating downgrades, and fluctuations in foreign currency exchange rates. The most recent declines in economic conditions in the United States, Europe, and Asia adversely affected our customers, suppliers and businesses similar to ours. These declines resulted in a variety of negative effects, including reduction in revenues, increased costs, lower gross margin percentages, increased allowances for doubtful accounts and/or write-offs of accounts receivable, and required recognition of impairments of capitalized assets, including goodwill and other intangibles. A decline in economic conditions, including the ongoing macroeconomic challenges in the United States and Europe and the debt crisis in certain countries in the European Union, could also have other material adverse effects on our business, results of operations, financial condition and cash flows. We are not able to predict the duration and severity of adverse economic conditions in the U.S. and other countries, and there can be no assurance that there will not be further declines in economic activity.

[Table of Contents](#)

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

The pricing environment for raw materials used in a number of our businesses continues to be challenging and volatile. Additionally, energy costs remain volatile and unpredictable. Inflationary and other increases in the costs of raw materials, labor and energy have occurred in the past, recurred in 2010 and 2011, and are expected to recur. Our performance depends in part on our ability to pass on these cost increases to customers by raising the selling prices for our products and by effecting productivity improvements. Depending on market dynamics and the terms of customer contracts, our ability to recover these costs through increased pricing may be limited. Also, it is important for us to obtain timely delivery of materials, equipment, and other resources from suppliers, and to make timely delivery to customers. It is possible that any of our supplier relationships could be interrupted due to natural and other disasters or other events, or be terminated in the future. A disruption to our supply chain could adversely affect our sales and profitability, and any sustained interruption in our receipt of adequate supplies could have a material adverse effect on our business, results of operations and financial condition.

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

We intend to continue efforts to reduce costs in many of our operations through facility closures and square footage reductions, headcount reductions, organizational restructuring, process standardization, and manufacturing relocation, by using a variety of tools, including Enterprise Lean Sigma and Kaizen events, to increase productivity. However, the success of these efforts is not assured and lower levels of productivity could reduce profitability. In addition, cost reduction actions could expose us to additional production risk and loss of sales.

We are affected by competitive conditions and customer preferences. If we do not compete effectively, we could lose market share and experience falling prices, adversely affecting our financial results.

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

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

Foreign currency exchange rates, and fluctuations in those rates, may affect our reported sales and profitability.

In 2011, approximately 73% of our sales were from international operations. Fluctuations in currencies can cause transaction, translation and other losses to us, which could negatively impact our sales and profitability. Margins on sales of our products in foreign countries could be materially and adversely affected by foreign currency exchange rate fluctuations.

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

Additionally, there are ongoing concerns regarding the short- and long-term stability of the euro and its ability to serve as a single currency for a variety of individual countries. These concerns could lead individual countries to revert, or threaten to revert, to their former local currencies, which could lead to the dislocation or dissolution of the euro. If this were to occur, the assets we hold in a country that re-introduces its local currency

[Table of Contents](#)

could be significantly devalued. Furthermore, the dislocation or dissolution of the euro could cause significant volatility and disruption in the global economy, which could adversely impact our financial results, including the availability and cost of supplies and materials, the demand and pricing strategy for our products given the introduction of additional currencies, and our ability to obtain financing at reasonable costs. Finally, if it were to become necessary for us to conduct business in additional currencies, we could be subject to additional earnings volatility as amounts in these currencies are translated into U.S. dollars.

We have acquired companies and may continue to acquire other companies. Acquisitions come with significant risks and uncertainties, including those related to integration, technology and personnel. In addition, divestitures of any of our businesses or product lines could have a material adverse effect on our business, results of operations and financial condition.

To grow our product lines and expand into new markets, we have made acquisitions, including our acquisitions of Paxar Corporation in June 2007 and DM Label Group in April 2008, and may do so in the future. Various risks, uncertainties, and costs are associated with acquisitions. Effective integration of systems, controls, objectives, personnel, product lines, market segments, customers, suppliers, and production facilities and cost savings can be difficult to achieve, and the results of integration actions are uncertain, particularly given our geographically dispersed organization. In addition, we may not be able to retain key personnel of an acquired company and we may not be able to successfully execute integration strategies or achieve projected performance targets for the business segment into which an acquired company is integrated. Both before and after the closing of an acquisition, our business and those of the acquired company or companies may suffer due to uncertainty or diversion of management attention. There can be no assurance that any acquisitions will be successful and contribute to our profitability and we may not be able to identify new acquisition opportunities in the future.

We continually evaluate the performance of our businesses and may determine to sell a business or product line. Divestitures may result in significant write-offs or impairments of assets, including goodwill and other intangible assets. Divestitures may involve additional risks, including separation of operations, products and personnel, diversion of management attention, disruption to our other businesses and loss of key employees. On December 30, 2011, we agreed to sell our Office and Consumer Products business to 3M Company. We may be unable to close the transaction in a timely manner, or at all, because of delays in carving-out the Office and Consumer Products business or failure to obtain regulatory approvals or satisfy other closing requirements, any of which could result in substantial additional costs or could unfavorably affect the ultimate value of the sale. In addition, we may be unable to realize any accounting or tax benefits from the transaction, which could unfavorably affect the ultimate value of the sale. The divestiture and provision of transition services may also disrupt our ongoing business, distract management, divert resources and create challenges in maintaining our current customer service levels, business standards, controls and procedures. We may not successfully manage these or other risks we may confront in divesting a business or product line, which could have a material adverse effect on our business, results of operations and financial condition.

Our customer base is diversified, but in certain portions of our business, industry concentration has increased the importance, and decreased the number, of significant customers.

Sales of our Office and Consumer Products business in the United States are concentrated in a few major customers, principally office product superstores, mass market distributors and wholesalers. The business risk associated with this concentration, including increased credit risks for these and other customers, and the possibility of related bad debt write-offs, could negatively affect our margins and profits.

Possible increased difficulty in the collection of receivables as a result of economic conditions or other market factors could have a material effect on our results from operations and cash provided by operating activities.

Although we have processes to administer credit granted to customers and believe our allowance for doubtful accounts is adequate, we have experienced, and in the future may experience, losses as a result of our inability to collect our accounts receivable. The financial difficulties of a customer could result in reduced business with that customer. We may also assume higher credit risk relating to receivables of a customer

[Table of Contents](#)

experiencing financial difficulty. If these developments occur, our inability to shift sales to other customers or to collect on our trade accounts receivable from major customers could substantially reduce our income and have a material adverse effect on our results of operations and cash flows from operating activities.

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

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

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

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

Changes in our tax rates could affect our future results.

Our future effective tax rate could be affected by changes in the mix of earnings in countries with differing statutory tax rates, expirations of tax holidays, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws and regulations or their interpretation. We are subject to the regular examination of our income tax returns by various tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for taxes. There can be no assurance that the outcomes from these examinations will not have a material adverse effect on our financial condition and operating results.

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

Our estimate of the potential outcome of uncertain tax issues is subject to our assessment of relevant risks, facts, and circumstances existing at that time. We use these assessments to determine the adequacy of our provision for income taxes and other tax-related accounts. Our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may materially impact our effective tax rate and/or our financial results.

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

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

Proposed changes in U.S. tax legislation could materially impact our financial results.

Currently, the majority of our revenue is generated from customers located outside of the U.S., and a substantial portion of our assets and our employees are located outside of the U.S. We have not accrued income taxes and foreign withholding taxes on undistributed earnings for most non-U.S. subsidiaries, because those

[Table of Contents](#)

earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. Certain proposals could substantially increase our tax expense, which would substantially reduce our income and have a material adverse effect on our results of operations and cash flows from operating activities.

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

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

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

Significant disruption to our information technology infrastructure could adversely impact our operations, sales, customer relations, and financial results.

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

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

Additionally, we rely on services provided by third-party vendors for a significant portion of our information technology support, development and implementation, which may make our operations vulnerable to these third parties' failure to perform adequately.

[Table of Contents](#)

Miscalculation of our infrastructure needs could adversely impact our financial results.

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

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

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

Because our products are sold by third parties, our financial results depend in part on the financial health of these parties.

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

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

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

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

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

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

Our overall level of indebtedness and credit ratings are significant factors in our ability to raise short-term and long-term financing. Higher debt levels could negatively impact our ability to meet other business needs or opportunities and could result in higher financing costs. The credit ratings assigned to us also impact the interest rates on our commercial paper and other borrowings. If our credit ratings are downgraded, our financial flexibility could decrease and the cost to borrow would increase. At December 31, 2011, our variable rate borrowings were \$225.6 million. Fluctuations in interest rates can increase borrowing costs and have a material adverse impact on our business, results of operations and financial condition.

[Table of Contents](#)

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

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

The level of our pension assets is significant and subject to market, interest and credit risk that may reduce its value.

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

Our share price may be volatile.

Changes in our stock price may affect our access to, or cost of financing from, capital markets and may affect our stock-based compensation arrangements, among other things. Our stock price, which has at times experienced substantial volatility, is influenced by changes in the overall stock market and demand for equity securities in general. Other factors, including our financial performance, on a standalone basis and relative to our peers and competitors, and market expectations for our future performance, the level of perceived growth of our industries, and other company-specific factors, can also materially impact our share price. There can be no assurance that our stock price will be less volatile in the future.

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

Goodwill is initially recorded at fair value and is not amortized, but is reviewed for impairment at least annually (or more frequently, if impairment indicators are present). In assessing the carrying value of goodwill, we make estimates and assumptions about sales, operating margins, growth rates, and discount rates based on our business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors. Goodwill valuations have been calculated using an income approach based on the present value of future cash flows of each reporting unit. We could be required to evaluate the carrying value of goodwill prior to the annual assessment if we experience disruptions to the business, unexpected significant declines in operating results, divestiture of a significant component of our business or sustained market capitalization declines. These types of events and the resulting analyses resulted in a significant goodwill impairment charge in 2009 related to our Retail Branding and Information Solutions segment and could result in other goodwill impairment charges in the future. Impairment charges could substantially affect our financial results in the periods of such charges, as did the one in 2009.

Table of Contents

Potential adverse developments in legal proceedings, investigations and other legal, compliance and regulatory matters, including those involving product and trade compliance, anti-bribery and other matters, could impact us materially.

Our financial results could be materially and adversely impacted by an unfavorable outcome to pending or future litigation and investigations, and other legal, compliance and regulatory matters, including, but not limited to, product and trade compliance and anti-bribery matters. See “Legal Proceedings” (Part I, Item 3). There can be no assurance that any investigation or litigation outcome will be favorable.

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

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

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

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

We need to comply with numerous environmental, health, and safety laws. The costs of complying with these laws could adversely impact our financial results.

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

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

During 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the United States. Certain of the provisions that could most

[Table of Contents](#)

significantly increase our healthcare costs in the near term include the removal of annual plan limits, the changes in rules regarding eligibility for dependents and the mandate that health plans cover 100% of preventative care. In addition, our healthcare costs could increase if the new legislation and accompanying regulations require us to cover more employees than we do currently or pay penalty amounts in the event that employees do not elect our offered coverage. While much of the cost of the recent healthcare legislation enacted is expected to occur in or after 2014 due to provisions of the legislation being phased in over time, changes to our healthcare cost structure could have a material adverse impact on our business and operating costs.

The risks described above are not exhaustive. If any of the above risks actually occur, our business, results of operations, cash flows or financial condition could suffer, which might cause the value of our securities to decline.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 2. PROPERTIES.

As of December 31, 2011, we operated approximately 40 principal manufacturing facilities in excess of 100,000 square feet. The locations of such principal facilities and the operating segments for which they presently are used are as follows:

Pressure-sensitive Materials Segment

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

Retail Branding and Information Solutions Segment

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

Other specialty converting businesses

Domestic	Schererville, Indiana; Painesville, Ohio; and Clinton, South Carolina
Foreign	Turnhout, Belgium; Vinhedo, Brazil; and Kunshan, China

Office and Consumer Products

Domestic	Chicopee, Massachusetts; and Meridian, Mississippi
Foreign	Oberlaidern, Germany; and Tijuana, Mexico

In addition to our principal manufacturing facilities described above, our other principal facilities include our corporate headquarters facility and research center in Pasadena, California, and our divisional offices located in Brea, California; Framingham, Massachusetts; Mentor, Ohio; Kunshan, China; and Leiden, the Netherlands.

We own all of our principal properties identified above, except for certain facilities in Vinhedo, Brazil; Brea, California; Panyu and Shenzhen, China; Oberlaidern and Sprockhovel, Germany; Greensboro, North Carolina; Mentor, Ohio; and Taichung, Taiwan, which are leased.

[Table of Contents](#)

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

Item 3. LEGAL PROCEEDINGS.

As of December 31, 2011, 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 cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

We have accrued liabilities for sites where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. Because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate these sites could be higher than the liabilities accrued by us; however, we are unable to reasonably estimate a range of potential expenses. If information becomes available that allows us to reasonably estimate the range of potential expenses in an amount higher or lower than what we have accrued, we will adjust our environmental liabilities accordingly. In addition, we could identify additional sites for cleanup in the future. The range of expense for remediation of any future-identified sites will be assessed as they arise; until then, a range of expense for such remediation cannot be determined.

As of December 31, 2011, our estimated accrued liability associated with environmental remediation was \$40.6 million. See also Note 8, “Contingencies,” in the Notes to Consolidated Financial Statements of our 2011 Annual Report, which is incorporated herein by reference.

We and our subsidiaries 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 accrued by us; however, we are unable to reasonably estimate a range of potential expenses. If information becomes available that allows us to reasonably estimate the range of potential expenses in an amount higher or lower than what we have accrued, we will adjust our 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, management believes that the impact of the resolution of these matters is not, individually or in the aggregate, material to our financial position, results of operations or cash flows.

Item 4. MINE SAFETY DISCLOSURES

None.

PART II

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

Market for Registrant's Common Equity and Related Stockholder Matters

The information called for by subsections (a) of this Item appears under "Corporate Information — Stock and Dividend Data" in our 2011 Annual Report and is incorporated herein by reference.

Issuer Purchases of Equity Securities

On February 2, 2011, we announced that our Board of Directors authorized the repurchase of up to 5 million additional shares of our outstanding common stock on January 27, 2011. Additionally, approximately 1 million shares remain available for repurchase under an authorization by the Board of Directors on October 26, 2006, which we announced on that date. The balance of shares available for repurchase under these authorizations as of December 31, 2011 was approximately 6 million.

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

Neither we nor our "affiliated purchasers" (as defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934) repurchased any registered equity securities during the fourth quarter of 2011.

Item 6. SELECTED FINANCIAL DATA.

Selected financial data for each of our last five fiscal years appears under "Five-year Summary" in our 2011 Annual Report and is incorporated herein by reference.

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

The information called for by this Item is contained under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2011 Annual Report and is incorporated herein by reference.

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

The information called for by this Item is contained under "Market-Sensitive Instruments and Risk Management" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2011 Annual Report and is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information called for by this Item is contained in our 2011 Annual Report (including the Consolidated Financial Statements and the Notes thereto, Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting, and the Report of Independent Registered Public Accounting Firm) and is incorporated herein by reference.

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

None.

Item 9A. CONTROLS AND PROCEDURES.

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

Management's Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act). Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based upon the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Company's management concluded that its internal control over financial reporting was effective as of December 31, 2011. (See Management's Report on Internal Control Over Financial Reporting in our 2011 Annual Report.)

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in the Report of Independent Registered Public Accounting Firm contained in our 2011 Annual Report, which is incorporated herein by reference.

Changes in Internal Control over Financial Reporting. There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION.

None.

PART III

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

The information concerning directors and corporate governance called for by this Item is incorporated herein by reference from the definitive proxy statement for our Annual Meeting of Stockholders to be held on April 26, 2012 (our “2012 Proxy Statement”), which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report. The information concerning executive officers called for by this Item appears on the next page of this report. The information concerning any late filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference from our 2012 Proxy Statement.

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

The information concerning our Audit Committee called for by this Item is incorporated by reference from our 2012 Proxy Statement, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF AVERY DENNISON ⁽¹⁾

Name	Age	Served as Executive Officer since		Former Positions and Offices with Avery Dennison
Dean A. Scarborough ⁽²⁾ Chairman, President and Chief Executive Officer	56	August 1997	2005-2010 2000-2005	President and Chief Executive Officer President and Chief Operating Officer
Mitchell R. Butier Senior Vice President and Chief Financial Officer	40	March 2007	2007-2010 2004-2006	Vice President, Controller and Chief Accounting Officer Vice President, Finance, Retail Branding and Information Solutions
Lori J. Bondar Vice President, Controller and Chief Accounting Officer	51	June 2010	2008-2010 2005-2008 2004-2005	Vice President, Controller Consultant, Palomar Consulting Group ⁽³⁾ Chief Financial Officer, Acetex Corporation ⁽³⁾
Anne Hill Senior Vice President and Chief Human Resources Officer	52	May 2007	2004-2006	Vice President, Global Human Resources, Chiron Corporation ⁽³⁾
Susan C. Miller Senior Vice President, General Counsel and Secretary	52	March 2008	2008-2009 2007-2008 1998-2006	Senior Vice President and General Counsel Vice President and General Counsel Assistant General Counsel
Karyn E. Rodriguez Vice President and Treasurer	52	June 2001	1999-2001	Assistant Treasurer, Corporate Finance and Investments
Timothy G. Bond Group Vice President, Office and Consumer Products	54	March 2008	2007-2008 2003-2006	Vice President and General Manager, Office and Consumer Products Vice President and General Manager, Office and Consumer Products North America
Timothy S. Clyde Group Vice President, Specialty Materials	49	February 2001	2001-2007	Group Vice President, Office and Consumer Products
R. Shawn Neville Group Vice President, Retail Branding and Information Solutions	49	June 2009	2008-2009 2004-2008	Chief Executive Officer, Boathouse Sports ⁽³⁾ President, Keds Division, Collective Brands, Inc. ⁽³⁾
Donald A. Nolan Group Vice President, Label and Packaging Materials	51	March 2008	2005-2007	Senior Vice President, Global Packaging and Automotive Coatings, Valspar Corporation ⁽³⁾

⁽¹⁾ All officers are elected to serve a one-year term and until their successors are duly elected and qualified.

⁽²⁾ Mr. Scarborough was first elected Chairman, President and Chief Executive Officer effective April 22, 2010.

⁽³⁾ Business experience during past five years prior to service with the Company.

[Table of Contents](#)

Item 11. EXECUTIVE COMPENSATION.

The information called for by this Item is incorporated by reference from our 2012 Proxy Statement, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

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

The information called for by this Item is incorporated by reference from our 2012 Proxy Statement, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

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

The information called for by this Item is incorporated by reference from our 2012 Proxy Statement, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information called for by this Item is incorporated by reference from our 2012 Proxy Statement, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements, Financial Statement Schedule and Exhibits

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

(3) Exhibits filed as a part of this report are listed in the Exhibit Index, which follows the financial statements and schedules referred to above. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K is identified as such on the Exhibit Index.

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

(c) The financial statement schedules required by Regulation S-X, which are excluded from our 2011 Annual Report by Rule 14a-3(b)(1) and which are required to be filed in this report, are set forth on the accompanying Index to Financial Statements and Financial Statement Schedule and are incorporated herein by reference.

SIGNATURES

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

AVERY DENNISON CORPORATION

By /s/ MITCHELL R. BUTIER
Mitchell R. Butier
Senior Vice President and
Chief Financial Officer

Dated: February 24, 2012

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Dean A. Scarborough</u> Dean A. Scarborough	Chairman, President and Chief Executive Officer	February 24, 2012
<u>/s/ Mitchell R. Butier</u> Mitchell R. Butier	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 24, 2012
<u>/s/ Lori J. Bondar</u> Lori J. Bondar	Vice President and Controller, and Chief Accounting Officer (Principal Accounting Officer)	February 24, 2012

POWER OF ATTORNEY

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Bradley A. Alford</u> Bradley A. Alford	Director	February 24, 2012
<u>/s/ Peter K. Barker</u> Peter K. Barker	Director	February 24, 2012
<u>/s/ Rolf Börjesson</u> Rolf Börjesson	Director	February 24, 2012
<u>/s/ John T. Cardis</u> John T. Cardis	Director	February 24, 2012
<u>/s/ Ken C. Hicks</u> Ken C. Hicks	Director	February 24, 2012
<u>/s/ Peter W. Mullin</u> Peter W. Mullin	Director	February 24, 2012
<u>/s/ Charles H. Noski</u> Charles H. Noski	Director	February 24, 2012
<u>/s/ David E. I. Pyott</u> David E. I. Pyott	Director	February 24, 2012
<u>/s/ Patrick T. Siewert</u> Patrick T. Siewert	Director	February 24, 2012
<u>/s/ Julia A. Stewart</u> Julia A. Stewart	Director	February 24, 2012

AVERY DENNISON CORPORATION

[INDEX TO FINANCIAL STATEMENTS AND FINANCIAL](#)

STATEMENT SCHEDULE

Data incorporated by reference from the attached portions of the 2011 Annual Report to Shareholders of Avery Dennison Corporation:

Consolidated Financial Statements:

Consolidated Balance Sheets at December 31, 2011 and January 1, 2011

Consolidated Statements of Operations for 2011, 2010 and 2009

Consolidated Statements of Shareholders' Equity for 2011, 2010 and 2009

Consolidated Statements of Cash Flows for 2011, 2010 and 2009

Notes to Consolidated Financial Statements

Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Except for the Consolidated Financial Statements, Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm thereon listed above, and certain information referred to in Items 1, 5, 6, 7, and 7A of this report, the information for which is included in the Company's 2011 Annual Report to Shareholders and incorporated herein by reference, the Company's 2011 Annual Report to Shareholders is not to be deemed "filed" as part of this report.

Data submitted herewith:

[Report of Independent Registered Public Accounting Firm on Financial Statement Schedule](#)

S-2

[Schedule II — Valuation and Qualifying Accounts and Reserves](#)

S-3

[Consent of Independent Registered Public Accounting Firm](#)

S-4

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

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

To the Board of Directors
of Avery Dennison Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 24, 2012 appearing in the 2011 Annual Report to Shareholders of Avery Dennison Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California
February 24, 2012

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In millions)

	Balance at Beginning of Year	Additions		Deductions From Reserves ^(a)	Balance at End of Year
		Charged to Costs and Expenses	From Acquisitions		
2011					
Allowance for doubtful accounts	\$ 38.9	\$ 6.3	\$ —	\$ (11.2)	\$ 34.0
Allowance for sales returns	12.5	10.5	—	(13.7)	9.3
Inventory reserve	59.2	22.0	—	(26.1)	55.1
Valuation allowance for deferred tax assets	115.6	8.1	—	(.9)	122.8
2010					
Allowance for doubtful accounts	\$ 41.3	\$ 6.7	\$ —	\$ (9.1)	\$ 38.9
Allowance for sales returns	14.9	9.6	—	(12.0)	12.5
Inventory reserve	65.4	17.5	—	(23.7)	59.2
Valuation allowance for deferred tax assets	115.4	2.5	—	(2.3)	115.6
2009					
Allowance for doubtful accounts	\$ 41.8	\$ 11.5	\$.4	\$ (12.4)	\$ 41.3
Allowance for sales returns	15.5	7.8	.3	(8.7)	14.9
Inventory reserve	64.6	23.1	2.3	(24.6)	65.4
Valuation allowance for deferred tax assets	109.2	4.0	—	2.2	115.4

^(a) Deductions from reserves include currency translation adjustments for all periods and classification of Office and Consumer Products business balances (where applicable) to “held for sale” in 2011.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-38905, 333-64558, 333-103204, 333-120239, and 333-169954) and Form S-8 (File Nos. 33-54411, 33-58921, 33-63979, 333-38707, 333-38709, 333-107370, 33-107371, 333-107372, 333-109814, 333-124495, 333-143897, 333-152508, 333-166832, 333-166836, and 333-166837) of Avery Dennison Corporation of our report dated February 24, 2012 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 24, 2012 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California

February 24, 2012

AVERY DENNISON CORPORATION

EXHIBIT INDEX
For the Year Ended December 31, 2011

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
2.1	Purchase Agreement, dated as of December 21, 2011, by and among 3M Company, those subsidiaries of 3M to be designated pursuant to Section 5.8 thereof, Registrant, and those subsidiaries of Registrant listed on Annex A thereof	2.1	Current Report on Form 8-K, filed January 3, 2012
3.1(i)	Amended and Restated Certificate of Incorporation, as filed on April 28, 2011 with the Office of Delaware Secretary of State	3.1	Current Report on Form 8-K, filed April 28, 2011
3.1(ii)	Amended and Restated Bylaws, dated as of April 28, 2011	3.2	Current Report on Form 8-K, filed April 28, 2011
4.1	Indenture, dated as of March 15, 1991, between Registrant and Security Pacific National Bank, as Trustee (the "1991 Indenture")	4.1	Registration Statement on Form S-3 (File No. 33-39491), filed March 19, 1991
4.2	First Supplemental Indenture, dated as of March 16, 1993, between Registrant and BankAmerica National Trust Company, as successor Trustee (the "Supplemental Indenture")	4.4	Registration Statement on Form S-3 (File No. 33-59642), filed March 17, 1993
4.3	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series C" under the 1991 Indenture, as amended by the Supplemental Indenture	4.7	Current Report on Form 8-K, filed May 12, 1995
4.4	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series D" under the 1991 Indenture, as amended by the Supplemental Indenture	4.8	Current Report on Form 8-K, filed December 16, 1996
4.5	Indenture, dated as of July 3, 2001, between Registrant and Chase Manhattan Bank and Trust Company, National Association, as trustee ("2001 Indenture")	4.1	Registration Statement on Form S-3 (File No. 333-64558), filed July 3, 2001
4.6	Officers' Certificate establishing two series of Securities entitled "4.875% Notes due 2013" and "6.000% Notes due 2033" under the 2001 Indenture	4.2	Current Report on Form 8-K, filed January 16, 2003
4.7	4.875% Notes Due 2013	4.3	Current Report on Form 8-K, filed January 16, 2003

Table of Contents

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
4.8	6.000% Notes Due 2033	4.4	Current Report on Form 8-K, filed January 16, 2003
4.9	Indenture, dated as of September 25, 2007, among ADOP Company, Registrant and The Bank of New York Trust Company, N.A. (“Bank of NY”)	99.1	Current Report on Form 8-K, filed October 1, 2007
4.10	6.625% Guaranteed Notes due 2017	99.1	Current Report on Form 8-K, filed October 1, 2007
4.11	Indenture, dated as of November 20, 2007, between Registrant and Bank of NY	4.2	Current Report on Form 8-K, filed November 20, 2007
4.12	First Supplemental Indenture, dated as of November 20, 2007, between Registrant and Bank of NY	4.3	Current Report on Form 8-K, filed November 20, 2007
4.13	Remarketing Agreement, dated as of September 27, 2010, between Registrant and the Remarketing Agent named therein	1.1	Current Report on Form 8-K, filed November 15, 2010
4.14	Second Supplemental Indenture, dated as of April 13, 2010, between Avery Dennison and The Bank of NY Trust Company, as Trustee	4.2	Current Report on Form 8-K, filed April 13, 2010
4.15	Form of 5.375% Senior Notes due 2020	4.3	Current Report on Form 8-K, filed April 13, 2010
10.1	Credit Agreement, dated as of February 8, 2008, among Avery Dennison Office Products Company, Registrant, Bank of America, N.A. and Banc of America Securities LLC and JP Morgan Securities Inc (“ADOPC Credit Agreement”)	10.2	Second Quarterly Report for 2008 on Form 10-Q, filed August 7, 2008
10.2	Second Amendment to ADOPC Credit Agreement	99.3	Current Report on Form 8-K, filed January 27, 2009
10.3	Second Amended and Restated Credit Agreement, dated as of December 22, 2011, by and among Registrant, Bank of America, N.A., Citibank, N.A. and JPMorgan Chase Bank, N.A. and the other lenders party thereto	10.2.2	Current Report on Form 8-K, filed December 23, 2011
10.4*	Retention Agreement with D.R. O’Bryant	10.8.6	First Quarterly Report for 2005 on Form 10-Q, filed May 12, 2005
10.5*	Amendment to Retention Agreement with D.R. O’Bryant	10.8.4.1	Second Quarterly Report for 2009 on Form 10-Q, filed August 12, 2009

Table of Contents

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
10.6*	Deferred Compensation Plan for Directors	10.3	1981 Annual Report on Form 10-K, filed February 29, 1982
10.7*	Executive Group Life Insurance Plan	10.9	1982 Annual Report on Form 10-K, filed February 25, 1983
10.8*	Amended and Restated Supplemental Executive Retirement Plan (“SERP”)	10.11.1	Second Quarterly Report for 2009 on Form 10-Q, filed August 12, 2009
10.9*	Letter of Grant to D.A. Scarborough under SERP	10.11.2.1	Second Quarterly Report for 2009 on Form 10-Q, filed August 12, 2009
10.10*	Letter Agreement with D.A. Scarborough regarding SERP benefits	10.11.2.1	Current Report on Form 8-K, filed December 15, 2010
10.11*	Letter of Grant to D.R. O’Bryant under SERP	10.11.4.1	Second Quarterly Report for 2009 on Form 10-Q, filed August 12, 2009
10.12*	Letter Agreement with D.R. O’Bryant regarding SERP benefits	10.11.4.1	Current Report on Form 8-K, filed December 15, 2010
10.13*	Complete Restatement and Amendment of Executive Deferred Compensation Plan	10.12	1994 Annual Report on Form 10-K, filed March 30, 1995
10.14*	Amended and Restated Retirement Plan for Directors	10.13.1	2002 Annual Report on Form 10-K, filed March 28, 2003
10.15*	Amended and Restated Director Equity Plan (“Director Plan”)	10.15.1	Current Report on Form 8-K, filed December 11, 2008
10.16*	Form of Non-Employee Director Stock Option Agreement under Director Plan	10.15.1	2003 Annual Report on Form 10-K, filed March 11, 2004
10.17*	Complete Restatement and Amendment of Executive Variable Deferred Compensation Plan (“EVDCP”)	10.16	1994 Annual Report on Form 10-K, filed March 30, 1995
10.18*	Amendment No. 1 to EVDCP	10.16.1	1999 Annual Report on Form 10-K, filed March 30, 2000
10.19*	Complete Restatement and Amendment of Directors Deferred Compensation Plan	10.17	1994 Annual Report on Form 10-K, filed March 30, 1995
10.20*	Complete Restatement and Amendment of Directors Variable Deferred Compensation Plan (“DVDCP”)	10.18	1994 Annual Report on Form 10-K, filed March 30, 1995
10.21*	Amendment No. 1 to DVDCP	10.18.1	1999 Annual Report on Form 10-K, filed March 30, 2000
10.22*	Amended and Restated 2005 Directors Variable Deferred Compensation Plan	10.18.2	First Quarterly Report for 2011 on Form 10-Q, filed May 10, 2011
10.23*	Amended and Restated Stock Option and Incentive Plan (“Equity Plan”)	D	2010 Proxy Statement on Schedule 14A, filed March 19, 2010
10.24*	Forms of NQSO Agreement under Equity Plan	10.19.5	2007 Annual Report on Form 10-K, filed February 27, 2008

Table of Contents

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
10.25*	Forms of Restricted Stock Agreement under Equity Plan	10.19.8	First Quarterly Report for 2005 on Form 10-Q, filed May 12, 2005
10.26*	Forms of Restricted Stock Unit Agreement under Equity Plan	10.19.2	Current Report on Form 8-K, filed December 13, 2006
10.27*	Forms of Equity Awards under Equity Plan	10.19.6	Current Report on Form 8-K, filed April 30, 2008
10.28*	Forms of Equity Awards under Equity Plan	10.19.6	Second Quarterly Report for 2008 on Form 10-Q, filed May 8, 2008
10.29*	Forms of Equity Agreements under Equity Plan	10.19.9	Current Report on Form 8-K, filed December 11, 2008
10.30*	Additional Forms of Equity Agreements under Equity Plan	10.19.10	Current Report on Form 8-K/A, filed December 11, 2008
10.31*	Form of Performance Unit Agreement under Equity Plan	10.19.8	2008 Annual Report on Form 10-K, filed February 25, 2009
10.32*	Amended and Restated 1996 Stock Incentive Plan	10.21.2	2003 Annual Report on Form 10-K, filed March 11, 2004
10.33*	Forms of NQSO Agreement under 1996 Stock Incentive Plan	10. 21.3	2003 Annual Report on Form 10-K, filed March 11, 2004
10.34*	Senior Executive Annual Incentive Plan	D	2009 Proxy Statement on Schedule 14A, filed March 12, 2009
10.35*	Complete Restatement and Amendment of Executive Deferred Retirement Plan (“EDRP”)	10.28	1994 Annual Report on Form 10-K, filed March 30, 1995
10.36*	Amendment No. 1 to EDRP	10.28.1	1999 Annual Report on Form 10-K, filed March 30, 2000
10.37*	Amendment No. 2 to EDRP	10.28.2	2001 Annual Report on Form 10-K, filed March 4, 2002
10.38*	Executive Variable Deferred Retirement Plan, amended and restated (“EVDRP”)	10.31.5	2003 Annual Report on Form 10-K, filed March 11, 2004
10.39*	2004 EVDRP	4.1	Registration Statement on Form S-8 (File No. 333-109814), filed October 20, 2003
10.40*	2005 EVDRP, amended and restated	10.31.2	First Quarterly Report for 2011 on Form 10-Q, filed May 10, 2011
10.41*	Benefits Restoration Plan, amended and restated (“BRP”)	10.32.1	Current Report on Form 8-K/A, filed December 11, 2008
10.42*	First Amendment to BRP	10.32.1	2010 Annual Report on Form 10-K, filed March 1, 2011
10.43*	Common Stock Purchase Agreement	10.2	Current Report on Form 8-K, filed October 25, 1996
10.44*	Amended and Restated Capital Accumulation Plan (“CAP”)	10.34	1999 Annual Report on Form 10-K, filed March 30, 2000

Table of Contents

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
10.45*	Amendment No. 1 to CAP	10.34.2	1999 Annual Report on Form 10-K, filed March 30, 2000
10.46*	Key Executive Change of Control Severance Plan	10.35	First Quarterly Report for 2011 on Form 10-Q, filed May 10, 2011
10.47*	Executive Severance Plan	10.36	First Quarterly Report for 2011 on Form 10-Q, filed May 10, 2011
12**	**Computation of Ratio of Earnings to Fixed Charges	N/A	N/A
13**	**Portions of Annual Report to Stockholders for fiscal year ended December 31, 2011	N/A	N/A
21**	**List of Subsidiaries	N/A	N/A
23**	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (see page S-4)	N/A	N/A
24	Power of Attorney (see page 22)	N/A	N/A
31.1**	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	N/A	N/A
31.2**	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	N/A	N/A
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	N/A	N/A
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	N/A	N/A
101INS***	XBRL Instance Filing	N/A	N/A
101SCH***	XBRL Extension Schema Filing	N/A	N/A
101CAL***	XBRL Extension Calculation Linkbase Filing	N/A	N/A
101LAB***	XBRL Extension Label Linkbase Filing	N/A	N/A
101PRE***	XBRL Extension Presentation Linkbase Filing	N/A	N/A
101DEF***	XBRL Extension Definition Linkbase Filing	N/A	N/A

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

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

** Filed herewith.

*** Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other filing under the Securities Act or the Exchange Act, except as may be expressly set forth by specific reference in such filings.



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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Earnings:			
Income (loss) from continuing operations before taxes	\$232.9	\$239.0	\$(926.6)
Add: Fixed charges from continuing operations ⁽¹⁾	105.6	110.1	119.0
Amortization of capitalized interest	3.5	3.4	3.3
Less: Capitalized interest	<u>(4.8)</u>	<u>(3.9)</u>	<u>(4.2)</u>
	<u>\$337.2</u>	<u>\$348.6</u>	<u>\$(808.5)</u>
Fixed charges from continuing operations: ⁽¹⁾			
Interest expense	\$ 71.0	\$ 76.3	\$ 84.9
Capitalized interest	4.8	3.9	4.2
Interest portion of leases	29.8	29.9	29.9
	<u>\$105.6</u>	<u>\$110.1</u>	<u>\$119.0</u>
Ratio of Earnings to Fixed Charges ⁽²⁾	<u>3.2</u>	<u>3.2</u>	<u>—</u>

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

⁽²⁾ For the year ended January 2, 2010, the Company's earnings were not sufficient to cover fixed charges by \$807.6. The loss primarily reflected the non-cash goodwill and other indefinite-lived intangible asset impairment charges of \$832 and loss on extinguishment of debt of approximately \$21 recorded in the first quarter of 2009, and legal settlements of \$41 recorded in 2009.

	<u>Segment</u>	<u>Segment</u>	<u>Segment</u>	<u>Segment</u>
BUSINESSES	Pressure-sensitive Materials Label and Packaging Materials Graphics and Reflective Solutions	Retail Branding and Information Solutions Apparel Solutions Printer Systems Fastener	Other specialty converting businesses Performance Tapes Designed and Engineered Solutions Automotive Solutions Medical Solutions RFID	Office and Consumer Products* Office and Consumer Products
SALES (in millions)	\$3,972	\$1,501	\$554	\$760
% OF SALES*	66%	25%	9%	
GLOBAL BRANDS	Avery Dennison®	Avery Dennison®	Avery Dennison®	Avery®
PRODUCTS/SOLUTIONS	Pressure-sensitive labeling materials, packaging materials and solutions, roll-fed sleeve, performance polymer adhesives and engineered films, graphic imaging media and reflective materials	Creative services, brand embellishments, graphic tickets, tags and labels, sustainable packaging, inventory visibility and loss prevention solutions, data management services, price tickets, printers and scanners, fasteners, brand protection and security solutions	Pressure-sensitive tapes, adhesives and labels, skin-contact adhesives, diaper tapes, industrial adhesives, automotive paint protection and exterior films, information, warning, safety and security labels, functional packaging valves and vents, architectural and engineered films, surgical, wound care, ostomy and securement products, medical barrier films, wearable sensor technology, point-of-purchase and display tags, self-adhesive postage stamps, RFID inlays	Self-adhesive labels, binders, sheet protectors, dividers, online templates and printing, writing instruments, T-shirt transfers, do-it-yourself card products
MARKET SEGMENTS	Food, beverage, spirits, household products, pharmaceuticals, health and beauty, durables, fleet, vehicle/automotive, architectural/retail, promotional/advertising, traffic, safety, transportation original equipment manufacturing	Apparel manufacturing and retail supply chain, food service and supply chain, hard goods and supply chain, pharmaceutical supply chain, logistics	Automotive, transportation, consumer packaging, medical and healthcare, personal care, electronics, durable goods, architectural, graphic arts, general industrial, building and construction, logistics, retail point-of-purchase, retail apparel, security printing	Professional, personal and on-the-go organization and identification, education
CUSTOMERS	label converters, package designers, packaging engineers and manufacturers, industrial manufacturers, printers, distributors, designers, advertising agencies, government agencies, sign manufacturers, graphic vendors	Apparel brands, manufacturers and retailers, food service, grocery and pharmaceutical supply chains, consumer goods brands, manufacturers and retailers, automotive manufacturers, transportation companies	Industrial and original equipment manufacturers, medical products and device manufacturers, clinicians and nurses, converters, packagers, consumer products companies	Office products superstores, major retailers, distributors, wholesalers, office professionals, school administrators, small business owners, consumers
LEADERS	Donald A. Nolan, Group Vice President, Roll Materials Timothy S. Clyde, Group Vice President, Specialty Materials	R. Shawn Neville, Group Vice President	Timothy S. Clyde, Group Vice President, Specialty Materials	Timothy G. Bond, Group Vice President

* The results of the Office and Consumer Products business have been classified as discontinued operations. The percentage of sales calculations exclude sales from this business.

SAFE HARBOR STATEMENT

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

Certain risks and uncertainties are discussed in more detail under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and include, but are not limited to, risks and uncertainties relating to: 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; ability of the Company to generate sustained productivity improvement; ability of the Company to achieve and sustain targeted cost reductions; impact of competitive products and pricing; loss of significant contract(s) or customer(s); collection of receivables from customers; selling prices; business mix shift; changes in tax laws and regulations and uncertainties associated with interpretations of such laws and regulations; outcome of tax audits; timely development and market acceptance of new products, including sustainable or sustainably-sourced products; investment in development activities and new production facilities; fluctuations in foreign currency exchange rates and other risks associated with foreign operations; integration of acquisitions and completion of pending dispositions; amounts of future dividends and share repurchases; customer and supplier concentrations; successful implementation of new manufacturing technologies and installation of manufacturing equipment; disruptions in information technology systems; successful installation of new or upgraded information technology systems; volatility of financial markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; ability of the Company to obtain adequate financing arrangements and maintain access to capital; fluctuations in interest and tax rates; fluctuations in pension, insurance and employee benefit costs; impact of legal and regulatory proceedings, including with respect to environmental, health and safety; changes in governmental laws and regulations; changes in political conditions; impact of epidemiological events on the economy and the Company's customers and suppliers; acts of war, terrorism, and natural disasters; and other factors.

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

The Company's forward-looking statements represent judgment only on the dates such statements were made. By making these forward-looking statements, the Company assumes no duty to update them to reflect new, changed or unanticipated events or circumstances, other than as may be required by law.

FIVE-YEAR SUMMARY

(Dollars in millions, except % and per share amounts)	5-Year Compound Growth Rate	2011		2010		2009 ⁽¹⁾		2008		2007	
		Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
For the Year											
Net sales	5.5%	\$ 6,026.3	100.0	\$ 5,782.0	100.0	\$ 5,186.2	100.0	\$ 5,865.7	100.0	\$ 5,392.2	100.0
Gross profit	6.3	1,521.4	25.2	1,513.8	26.2	1,256.4	24.2	1,360.7	23.2	1,323.2	24.5
Marketing, general and administrative expense	7.8	1,170.9	19.4	1,178.9	20.4	1,088.1	21.0	1,118.1	19.1	978.6	18.1
Goodwill and indefinite-lived intangible asset impairment charges	N/A	—	—	—	—	832.0	16.0	—	—	—	—
Interest expense	5.1	71.0	1.2	76.3	1.3	84.9	1.6	115.8	2.0	105.2	2.0
Other expense, net ⁽²⁾	4.5	46.6	.8	19.6	.3	178.0	3.4	24.0	.4	55.3	1.0
Income (loss) from continuing operations before taxes	.7	232.9	3.9	239.0	4.1	(926.6)	(17.9)	102.8	1.8	184.1	3.4
Provision for (benefit from) income taxes	37.1	78.5	1.3	(2.8)	—	(92.0)	(1.8)	(50.0)	(.9)	11.7	.2
Income (loss) from continuing operations	(5.9)	154.4	2.6	241.8	4.2	(834.6)	(16.1)	152.8	2.6	172.4	3.2
Income from discontinued operations, net of tax	N/A	35.7	N/A	75.1	N/A	87.9	N/A	113.3	N/A	131.1	N/A
Net income (loss)	(12.6)	190.1	3.2	316.9	5.5	(746.7)	(14.4)	266.1	4.5	303.5	5.6
Per Share Information											
Income (loss) per common share from continuing operations	(6.9)%	\$ 1.46		\$ 2.29		\$ (8.06)		\$ 1.55		\$ 1.76	
Income (loss) per common share from continuing operations, assuming dilution	(7.0)	1.45		2.27		(8.06)		1.55		1.74	
Income (loss) per common share from discontinued operations	(27.1)	.34		.71		.85		1.15		1.33	
Income (loss) per common share from discontinued operations, assuming dilution	(27.4)	.33		.70		.85		1.15		1.33	
Net income (loss) per common share	(13.6)	1.80		3.00		(7.21)		2.70		3.09	
Net income (loss) per common share, assuming dilution	(13.7)	1.78		2.97		(7.21)		2.70		3.07	
Dividends per common share	(8.6)	1.00		.80		1.22		1.64		1.61	
Weighted-average common shares outstanding (in millions)	1.2	105.8		105.8		103.6		98.4		98.1	
Weighted-average common shares outstanding, assuming dilution (in millions)	1.2	106.8		106.8		103.6		98.7		98.9	
Book value per share at fiscal year end	(2.0)	\$ 15.60		\$ 15.61		\$ 12.94		\$ 17.78		\$ 20.22	
Market price per share at fiscal year end	(15.8)	28.68		42.34		36.49		31.53		53.41	
Market price per share range		23.97 to 43.11		30.79 to 42.49		17.26 to 40.02		25.02 to 53.14		49.69 to 69.67	
At End of Year											
Working capital (deficit) ⁽³⁾		\$ 571.7		\$ 120.1		\$ (134.5)		\$ (127.6)		\$ (419.3)	
Property, plant and equipment, net ⁽³⁾		1,079.4		1,262.9		1,354.7		1,493.0		1,591.4	
Total assets		4,972.7		5,099.4		5,002.8		6,035.7		6,244.8	
Long-term debt ⁽³⁾		954.2		956.2		1,088.7		1,544.8		1,145.0	
Total debt ⁽³⁾		1,181.3		1,337.2		1,624.3		2,209.8		2,255.8	
Shareholders' equity		1,658.5		1,645.7		1,362.6		1,750.0		1,989.4	
Number of employees		30,400		32,100		31,300		35,700		37,300	
Other Information											
Depreciation expense ⁽⁴⁾		\$ 157.8		\$ 161.7		\$ 174.0		\$ 187.6		\$ 162.3	
Research and development expense ⁽⁴⁾		92.4		85.6		78.9		81.0		82.5	
Effective tax rate ⁽⁴⁾		33.7%		-1.2%		9.9%		-48.6%		6.4%	
Return on average shareholders' equity		11.1		21.6		(55.7)		13.1		16.5	
Return on average total capital		7.6		12.8		(20.6)		8.8		10.6	

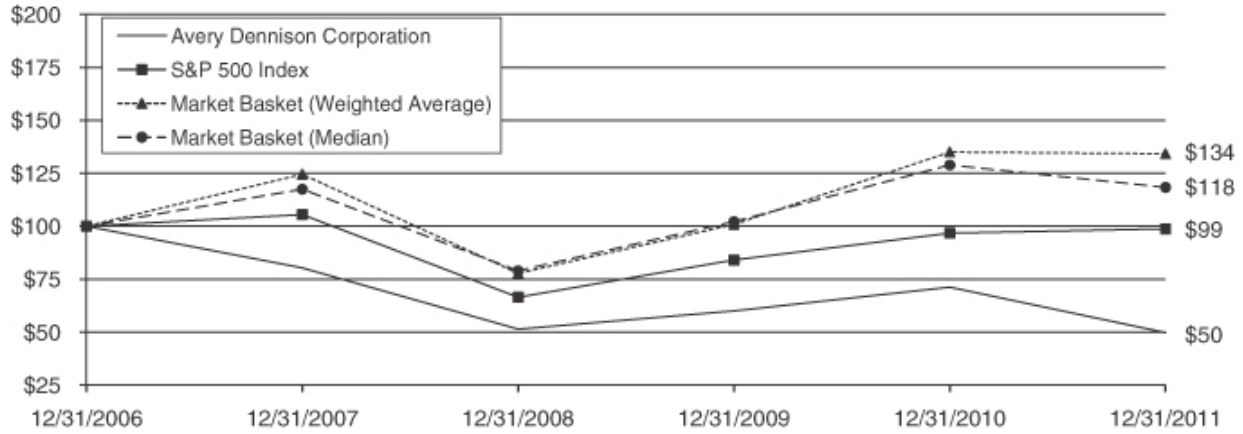
Certain prior period amounts have been restated to reflect the presentation of discontinued operations. See Note 1, "Summary of Significant Accounting Policies," for further information.

- (1) Results for 2009 reflected a 53-week period.
- (2) Included pretax charges for severance and related costs, asset impairment charges, lease cancellation costs, and other items.
- (3) Amounts for 2011 are related to continuing operations only.
- (4) Amounts are related to continuing operations only.

STOCKHOLDER RETURN PERFORMANCE

The following graph compares the Company's cumulative stockholder return on its common stock, including the reinvestment of dividends, with the return on the Standard & Poor's 500 Stock Index (the "S&P 500 Index"), the average return (weighted by market capitalization) of the Standard & Poor's Materials and Industrials subsets (the "Market Basket"), and the median return of the Market Basket, in each case for the five-year period ending December 31, 2011.

Comparison of Five-Year Cumulative Total Return as of December 31, 2011



Total Return Analysis⁽¹⁾

	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Avery Dennison Corporation	\$100.00	\$ 80.33	\$51.42	\$ 60.01	\$ 71.24	\$ 49.76
S&P 500 Index	\$100.00	\$105.49	\$66.47	\$ 84.06	\$ 96.74	\$ 98.76
Market Basket (Weighted Average) ⁽²⁾	\$100.00	\$124.55	\$77.76	\$100.86	\$135.00	\$134.20
Market Basket (Median)	\$100.00	\$117.47	\$78.97	\$102.21	\$128.89	\$118.35

(1) Assumes \$100 invested on December 31, 2006 and the reinvestment of dividends.

(2) Average weighted by market capitalization.

Stock price performance reflected in the above graph is not necessarily indicative of future price performance.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

ORGANIZATION OF INFORMATION

"Management's Discussion and Analysis of Financial Condition and Results of Operations" provides a narrative concerning our financial performance and condition, and should be read in conjunction with the accompanying financial statements. It includes the following sections:

Non-GAAP Financial Measures	15
Forward-looking Statements	15
Overview and Outlook	15
Analysis of Results of Operations	17
Results of Operations by Segment	19
Financial Condition	21
Critical Accounting Policies and Estimates	26
Recent Accounting Requirements	30
Market-Sensitive Instruments and Risk Management	30

NON-GAAP FINANCIAL MEASURES

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, or GAAP. Our discussion of financial results includes several non-GAAP financial measures 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, the comparable GAAP financial measures. These non-GAAP financial measures are intended to supplement our 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.

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.

We use the following non-GAAP financial measures:

- *Organic sales change* refers to the change in sales excluding the estimated impact of currency translation, acquisitions, divestitures and, where applicable, the extra week in the fiscal year. The estimated impact of foreign currency translation is calculated on a constant currency basis, with prior-period results translated at current period average exchange rates to remove the effect of foreign currency fluctuations.
- *Free cash flow* refers to cash flow from operations, less net payments for capital expenditures, software and other deferred charges, plus net proceeds from sale (purchase) of investments. Free cash flow excludes mandatory debt service requirements and other uses of cash that do not directly or immediately support the underlying business (such as discretionary debt reductions, dividends, share repurchases, and certain effects of acquisitions and divestitures).
- *Operational working capital* refers to trade accounts receivable and inventories, net of accounts payable. This non-GAAP financial measure excludes cash and cash equivalents, short-term debt, deferred taxes, other current assets and other current liabilities, as well as current assets and current liabilities of held-for-sale businesses.
- *EBITDA* refers to earnings from continuing operations before interest, taxes, depreciation and amortization ("EBITDA").
- *Net debt to EBITDA ratio* refers to total debt less cash and cash equivalents, divided by EBITDA.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this discussion are "forward-looking statements" and are subject to certain risks and uncertainties. Refer to our "Safe Harbor Statement" at the beginning of this report.

OVERVIEW AND OUTLOOK

Overview

Fiscal Year

Normally, each fiscal year consists of 52 weeks, but every fifth or sixth year consists of 53 weeks. Our 2009 fiscal year consisted of a 53-week period, with the extra week reflected in the first quarter.

Changes in Segment and Business Names

Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for information regarding the name changes of certain of our segments and businesses in 2011.

Divestitures

In December 2011, we signed a definitive agreement to sell our Office and Consumer Products ("OCP") business to 3M Company ("3M") for gross cash proceeds of \$550 million, subject to adjustment in accordance with the terms of the agreement. The transaction is subject to customary closing conditions and regulatory approvals, and is expected to be completed in the second half of 2012. We intend to use the net proceeds for short-term debt repayment, pension contributions, and share repurchases. We have classified the operating results of this business, together with certain costs associated with the divestiture transaction, as discontinued operations in the Consolidated Statements of Operations for all periods presented. Assets and liabilities of this business are segregated in the Consolidated Balance Sheet at year-end 2011.

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

as "held for sale." The discontinued operation, which comprised substantially all of our previously reported OCP segment, had sales of approximately \$760 million in 2011, \$809 million in 2010, and \$845 million in 2009. The operating results of the retained portion of this previously reported OCP segment, which are not significant, are included in our other specialty converting businesses for all periods presented.

In 2011, we received proceeds totaling \$21.5 million from the sale of two product lines, one from our Performance Films business (\$21 million) and the other from our Label and Packaging Materials business (\$5 million). In connection with the sale of the product line from our Performance Films business, we recognized a gain of \$5.6 million in 2011 (included in "Other expense, net" in the Consolidated Statements of Operations).

Sales

Our sales from continuing operations increased 4% in 2011 and 11% in 2010. Sales on an organic basis increased 2% in 2011 as pricing more than offset modest volume decline.

Estimated change in sales due to:	2011	2010	2009
Organic sales change	2%	12%	(9)%
Extra week in fiscal year	—	(1)	1
Foreign currency translation	3	1	(4)
Reported sales change ⁽¹⁾	4%	11%	(12)%

(1) Totals may not sum due to rounding.

Income (Loss) from Continuing Operations

Income from continuing operations decreased from approximately \$242 million in 2010 to approximately \$154 million in 2011.

Factors affecting the change in income from continuing operations in 2011 compared to 2010 included:

Positive factors:

- Pricing actions
- Cost savings from restructuring and productivity improvement initiatives
- Lower employee-related costs
- Impact of foreign currency translation
- Lower interest expense
- Gain on sale of a product line

Negative factors:

- Raw material inflation
- Higher tax expense due to one-time benefit from discrete tax events in the prior year
- Lower volume
- Higher costs associated with restructuring
- Higher investments in growth and infrastructure
- OCP divestiture-related costs

Cost Reduction Actions

2011 Actions

In 2011, we recorded approximately \$45 million in restructuring charges, consisting of severance and related costs for the reduction of approximately 910 positions, asset impairment charges, and lease cancellation costs. We anticipate approximately \$55 million in annualized savings from these restructuring actions, with approximately one-fourth of the benefit realized in 2011 and the remainder expected to be realized by the end of 2012.

Q3 2010 — Q4 2010 Actions

In the second half of 2010, we recorded approximately \$10 million in restructuring charges, consisting of severance and related costs for the reduction of approximately 725 positions, asset impairment charges, and lease cancellation costs. We anticipate approximately \$12 million in annualized savings from these restructuring actions to be realized by the end of 2012.

Q4 2008 — Q2 2010 Program

In the fourth quarter of 2008, we initiated a restructuring program that generated approximately \$180 million in annualized savings. We realized actual savings, net of transition costs, of approximately \$75 million in 2009 and an incremental \$72 million in 2010. The remainder of the savings was realized in 2011.

We recorded approximately \$150 million in restructuring charges (of which \$105 million represents cash charges) related to this restructuring program, consisting of severance and related costs, asset impairment charges, and lease cancellation costs. Severance and related costs were related to approximately 4,350 positions.

Refer to Note 10, "Cost Reduction Actions," to the Consolidated Financial Statements for more information.

Free Cash Flow

Free cash flow refers to funds available for uses of cash that do not directly or immediately support our underlying businesses, such as dividends, debt reductions, acquisitions, and share repurchases. We believe that this non-GAAP financial measure provides meaningful supplemental information to assist investors in their financial analysis of the Company.

(In millions)	2011	2010	2009
Net cash provided by operating activities	\$ 422.7	\$ 486.7	\$ 569.0
Purchase of property, plant and equipment, net	(105.0)	(83.5)	(69.7)
Purchase of software and other deferred charges	(26.0)	(25.1)	(30.6)
Proceeds from sale (purchase) of investments, net ⁽¹⁾	.3	.8	(.5)
Free cash flow	\$ 292.0	\$ 378.9	\$ 468.2

(1) Net proceeds from sale (purchase) of investments related to net purchases/sales of securities held by our captive insurance company in 2011, 2010 and 2009, and sales of other investments in 2010.

Free cash flow in 2011 reflected income from operations, the timing of collection of trade accounts receivable, the amount and timing of payments for inventory purchases, and the collection of

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

value-added tax receivables. These factors were partially offset by payments of 2010 employee bonuses, payments for severance and other costs related to various restructuring actions and programs, capital expenditures, as well as contributions to our pension plans.

Free cash flow in 2010 reflected income from operations, the amount and timing of payments for inventory purchases, and improved accounts receivable collection efforts. These factors were more than offset by higher accounts receivable and inventory levels due to the increase in sales, payments of severance and other costs related to various restructuring programs, payment of 2009 employee bonuses and trade rebates, as well as net spending on property, plant, and equipment and spending on software and other deferred charges.

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

Dividend

In January 2012, we announced an 8% increase in the first quarter 2012 dividend to \$0.27 per share from our previous quarterly dividend of \$0.25 per share.

Outlook

Certain factors that we believe may contribute to results for 2012 compared to results for 2011 are listed below.

We expect sales on an organic basis and earnings from continuing operations to increase in 2012.

We expect contributions to our pension plans (both domestic and international) of at least \$75 million in 2012, which excludes any additional contributions we may make using the net proceeds from the OCP sale.

We anticipate restructuring costs to continue in the next few years as we continue our cost reduction initiatives. For 2012, we estimate restructuring costs and other items of approximately \$25 million.

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

We anticipate our capital and software expenditures in 2012 to be approximately \$150 million.

We expect the sale of OCP to be completed in the second half of 2012. We expect to recognize a gain on the sale, the magnitude of which will be impacted by, among other things, pre- and post-closing adjustments to gross proceeds, taxes and additional transaction costs through closing.

ANALYSIS OF RESULTS OF OPERATIONS

Income (Loss) From Continuing Operations Before Taxes:

(In millions)	2011	2010	2009
Net sales	\$ 6,026.3	\$ 5,782.0	\$ 5,186.2
Cost of products sold	4,504.9	4,268.2	3,929.8
Gross profit	1,521.4	1,513.8	1,256.4
Marketing, general and administrative expense	1,170.9	1,178.9	1,088.1
Goodwill and indefinite-lived intangible asset impairment charges	—	—	832.0
Interest expense	71.0	76.3	84.9
Other expense, net	46.6	19.6	178.0
Income (loss) from continuing operations before taxes	\$ 232.9	\$ 239.0	\$ (926.6)

As a Percent of Sales:

	%	%	%
Gross profit	25.2	26.2	24.2
Marketing, general and administrative expense	19.4	20.4	21.0
Income (loss) from continuing operations before taxes	3.9	4.1	(17.9)

Sales

Sales increased approximately 4% in 2011 and 11% in 2010.

The increase in 2011 reflected higher sales on an organic basis and the favorable impact of foreign currency translation. On an organic basis, sales grew in 2011 as the benefits from pricing actions in our Pressure-sensitive Materials segment more than offset volume declines experienced across the Company.

The increase in 2010 reflected higher sales on an organic basis and the favorable impact of foreign currency translation, partially offset by the estimated impact of the extra week in the first quarter of 2009. On an organic basis, the sales growth in 2010 reflected higher volume driven by increased demand across all major regions, led by double-digit growth in the Pressure-sensitive Materials and Retail Branding and Information Solutions segments.

Gross Profit Margin

Gross profit margin in 2011 declined compared to 2010, as raw material inflation, lower volume, and higher employee-related costs were mostly offset by benefits from pricing actions and cost savings related to restructuring and productivity improvement initiatives.

Gross profit margin in 2010 improved compared to 2009, reflecting increased volume and the benefits from restructuring and productivity improvement initiatives, partially offset by raw material inflation and higher employee-related costs.

Marketing, General and Administrative Expense

Marketing, general and administrative expense in 2011 was flat compared to 2010, as lower employee-related costs and cost savings from restructuring and productivity improvement initiatives were offset by the negative impact of foreign currency translation and higher investments in growth and infrastructure.

The increase in marketing, general and administrative expense in 2010 compared to 2009 primarily reflected higher employee-related costs, higher investments in growth and infrastructure, and

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

lower spending in 2009 due to adverse global economic conditions. These increases were partially offset by savings from restructuring and productivity improvement initiatives.

Interest Expense

Interest expense decreased 7%, or approximately \$5 million, in 2011, and 10%, or approximately \$9 million, in 2010, in each case due primarily to retirements and repayments of certain indebtedness.

Other Expense, net

(In millions, pretax)

	2011	2010	2009
Restructuring costs:			
Severance and related costs	\$ 35.5	\$ 10.0	\$ 78.5
Asset impairment and lease cancellation charges	9.0	2.7	37.3
Other items:			
Gain on sale of a product line	(5.6)	—	—
Gain on sale of investments	—	(.5)	—
Loss from debt extinguishments	.7	4.0	21.2
Loss from curtailment of domestic pension obligations	—	2.5	—
Legal settlements	(1.2)	.9	41.0
OCP divestiture-related costs	8.2	—	—
Other expense, net	\$ 46.6	\$ 19.6	\$ 178.0

Refer to Note 10, "Cost Reduction Actions," to the Consolidated Financial Statements for more information regarding costs associated with restructuring.

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

Net Income (Loss) and Earnings per Share:

(In millions, except per share amounts)

	2011	2010	2009
Income (loss) from continuing operations before taxes	\$ 232.9	\$ 239.0	\$ (926.6)
Provision for (benefit from) income taxes	78.5	(2.8)	(92.0)
Income (loss) from continuing operations	154.4	241.8	(834.6)
Income from discontinued operations, net of tax	35.7	75.1	87.9
Net income (loss)	\$ 190.1	\$ 316.9	\$ (746.7)
Net income (loss) per common share	\$ 1.80	\$ 3.00	\$ (7.21)
Net income (loss) per common share, assuming dilution	1.78	2.97	(7.21)
Net income (loss) as a percent of sales	3.2%	5.5%	(14.4)%
Effective tax rate for continuing operations	33.7%	(1.2)%	9.9%

Provision for (Benefit from) Income Taxes

The effective tax rate for continuing operations was approximately 34% for 2011 compared with approximately (1%) for 2010. The 2011 effective tax rate for continuing operations reflected \$8.3 million of expense for increases in valuation allowances and \$2.8 million of expense from the settlement of a foreign tax audit. The 2010 effective tax rate reflected \$45.5 million of benefit from net operating losses resulting from the local statutory write-down of certain investments in Europe due to a decline in their value. The decline in value established a net operating loss asset subject to recapture. As a result of a legal entity restructuring, the liability for the recapture was eliminated, causing us to recognize a discrete tax benefit in the fourth quarter. We do not expect events of this nature to occur frequently since the recognition of the tax effects of declines in values of subsidiaries requires specific tax planning and restructuring actions, and we have no plans to pursue such actions.

The 2010 effective tax rate also reflected \$17.7 million of net benefit from normally-occurring releases and accruals of certain tax reserves, which were in part due to reductions in our tax positions for prior years from settlements with taxing jurisdictions and lapses of applicable statutory periods. Net operating losses, including the net operating losses which resulted from the local statutory write-down of certain investments in Europe referenced above, may offset future taxable income, thereby lowering cash tax payments over the coming years.

Refer to Note 11, "Taxes on Income," to the Consolidated Financial Statements for more information.

Income from Discontinued Operations, Net of Tax

Income from discontinued operations, net of tax, included the earnings of our OCP business and certain costs associated with the divestiture transaction. Income from discontinued operations included net sales from this business of approximately \$760 million in 2011, \$809 million in 2010, and \$845 million in 2009.

Refer to Note 2, "Discontinued Operations and Sale of Product Lines," to the Consolidated Financial Statements for more information.

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

RESULTS OF OPERATIONS BY SEGMENT

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

Pressure-sensitive Materials Segment

(In millions)	2011	2010	2009
Net sales including intersegment sales	\$ 4,141.6	\$ 3,874.4	\$ 3,525.0
Less intersegment sales	(170.0)	(157.0)	(147.1)
Net sales	\$ 3,971.6	\$ 3,717.4	\$ 3,377.9
Operating income ⁽¹⁾	312.8	307.0	174.0
(1) Included costs associated with restructuring in all years, legal settlement costs in 2011 and 2009, and loss from curtailment of domestic pension obligations and net gain on legal settlements in 2010	\$ 16.9	\$ 7.1	\$ 75.9

Net Sales

Sales in our Pressure-sensitive Materials segment increased approximately 7% in 2011 and 10% in 2010.

In 2011, the increase reflected sales growth on an organic basis and the favorable impact of foreign currency translation. On an organic basis, sales grew approximately 4% in 2011, reflecting the benefit from pricing actions.

In our Label and Packaging Materials business, sales on an organic basis increased in 2011 at a mid-single digit rate, driven primarily by pricing actions taken across all of our geographic regions to offset raw material inflation.

In our Graphics and Reflective Solutions business, sales on an organic basis increased in 2011 at a mid-single digit rate, driven primarily by higher volume.

In 2010, the increase reflected sales growth on an organic basis and the favorable impact of foreign currency translation, partially offset by the estimated impact of the extra week in the first quarter of 2009. On an organic basis, sales grew 11% in 2010, reflecting higher volume driven by increased demand.

In our Label and Packaging Materials business, sales on an organic basis increased in 2010 at a low-double digit rate, reflecting growth in all of our geographic regions.

In our Graphics and Reflective Solutions business, sales on an organic basis increased in 2010 at a high-single digit rate, reflecting increased promotional spending by customers and our new product launches.

Operating Income

Increased operating income in 2011 reflected the benefit from pricing actions, cost savings from restructuring and productivity improvement initiatives, and lower employee-related costs, partially offset by raw material inflation, lower volume, higher costs associated with restructuring, and higher investments in growth and infrastructure.

Increased operating income in 2010 reflected higher volume, lower net legal settlement costs, cost savings from restructuring and productivity improvement initiatives, the benefits from pricing, and lower costs associated with restructuring, partially offset by raw material inflation, higher employee-related costs, and higher investments in growth and infrastructure.

Retail Branding and Information Solutions Segment

(In millions)	2011	2010	2009
Net sales including intersegment sales	\$ 1,503.1	\$ 1,524.1	\$ 1,322.8
Less intersegment sales	(2.3)	(2.0)	(1.6)
Net sales	\$ 1,500.8	\$ 1,522.1	\$ 1,321.2
Operating income (loss) ⁽¹⁾⁽²⁾	49.9	59.9	(905.1)
(1) Included costs associated with restructuring in all years, a gain on legal settlement in 2011, and loss from curtailment of domestic pension obligations and net legal settlement costs in 2010	\$ 18.2	\$ 5.8	\$ 51.7
(2) Included goodwill and indefinite-lived intangible asset impairment charges in 2009	\$ -	\$ -	\$ 832.0

Net Sales

Sales in our Retail Branding and Information Solutions segment decreased approximately 1% in 2011 and increased approximately 15% in 2010.

In 2011, the decrease reflected a sales decline on an organic basis, partially offset by the favorable impact of foreign currency translation. On an organic basis, sales declined approximately 3% due to lower unit demand from retailers and brands in the U.S. and Europe, reflecting caution about consumer spending.

In 2010, sales on reported and organic bases increased 15% compared to 2009, as the favorable impact of foreign currency translation was offset by the estimated impact of the extra week in the first quarter of 2009. The sales growth reflected increased demand due in part to significant inventory reductions by apparel retailers during 2009, as well as new programs with key brands and retailers.

Operating Income (Loss)

Decreased operating income in 2011 primarily reflected lower volume, higher costs associated with restructuring, raw material inflation, and higher investments in growth and infrastructure, partially offset by cost savings from restructuring and productivity improvement initiatives, lower employee-related costs, and the benefit from pricing actions.

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

Increased operating income in 2010 primarily reflected the absence of the goodwill and indefinite-lived intangible asset impairment charges recorded in the prior year. Operating income also increased due to the benefits of higher volume, cost savings from restructuring and productivity improvement initiatives, and lower costs associated with restructuring, partially offset by higher employee-related costs.

Other specialty converting businesses

(In millions)	2011	2010	2009
Net sales including intersegment sales	\$ 593.4	\$ 573.2	\$ 502.9
Less intersegment sales	(39.5)	(30.7)	(15.8)
Net sales	\$ 553.9	\$ 542.5	\$ 487.1
Operating loss ⁽¹⁾	(6.9)	(.4)	(45.3)
(1) Included costs associated with restructuring in all years, a gain on sale of a product line in 2011, and loss from curtailment of domestic pension obligations in 2010	\$ 2.6	\$ 3.2	\$ 29.2

Net Sales

Sales in our other specialty converting businesses increased approximately 2% in 2011 and 11% in 2010.

In 2011, the increase reflected sales growth on an organic basis and the favorable impact of foreign currency translation. On an organic basis, sales grew approximately 1%.

In 2010, the increase reflected sales growth on an organic basis, partially offset by the unfavorable impact of foreign currency translation and the estimated impact of the extra week in the first quarter of 2009. On an organic basis, sales grew approximately 12%, reflecting increased demand for products for automotive applications, which had been down sharply in 2009.

Operating Loss

Increased operating loss for these businesses in 2011 reflected raw material inflation, higher costs associated with restructuring, higher investments in growth and infrastructure, and lower volume, partially offset by the benefit from pricing actions, a gain on sale of a product line, and lower employee-related costs.

Decreased operating loss for these businesses in 2010 reflected lower costs associated with restructuring, higher volume, and cost savings from restructuring and productivity improvement initiatives, partially offset by raw material inflation and higher employee-related costs.

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

FINANCIAL CONDITION

Liquidity

Cash Flow from Operating Activities:

(In millions)	2011	2010	2009
Net income (loss)	\$ 190.1	\$ 316.9	\$ (746.7)
Depreciation and amortization	246.5	247.6	267.3
Provision for doubtful accounts	16.8	16.3	19.3
Goodwill and indefinite-lived intangible asset impairment charges	—	—	832.0
Asset impairment, gain on sale of product line, and net loss on sale/disposal of assets	9.9	5.1	48.0
Loss from debt extinguishments	.7	4.0	21.2
Stock-based compensation	39.6	35.2	25.8
Other non-cash expense and loss	38.1	43.6	22.0
Other non-cash income and gain	(2.0)	(.5)	(8.7)
Trade accounts receivable	(43.6)	(87.6)	95.7
Inventories	(22.2)	(35.6)	133.3
Other current assets	29.4	(39.8)	40.6
Accounts payable	31.3	76.5	(14.5)
Accrued liabilities	(94.9)	30.0	(37.9)
Income taxes (deferred and accrued)	36.6	(60.2)	(90.7)
Other assets	1.5	(12.2)	2.3
Long-term retirement benefits and other liabilities	(55.1)	(52.6)	(40.0)
Net cash provided by operating activities	\$ 422.7	\$ 486.7	\$ 569.0

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").

In 2011, cash flow provided by operating activities reflected income from operations, the timing of collection of trade accounts receivable, the amount and timing of payments for inventory purchases, and the collection of value-added tax receivables. These factors were partially offset by payments of 2010 employee bonuses, payments for severance and other costs related to various restructuring actions, as well as contributions to our pension plans.

In 2010, cash flow provided by operating activities reflected income from operations, the amount and timing of payments for inventory purchases, and improved accounts receivable collection efforts. These factors were more than offset by higher accounts receivable and inventory levels to support sales, and payments of severance and other costs related to various restructuring actions, payments of 2009 employee bonuses and trade rebates.

Cash Flow from Investing Activities:

(In millions)	2011	2010	2009
Purchase of property, plant and equipment, net	\$ (105.0)	\$ (83.5)	\$ (69.7)
Purchase of software and other deferred charges	(26.0)	(25.1)	(30.6)
Proceeds from sale of product lines	21.5	—	—
Proceeds from sale (purchase) of investments, net	.3	.8	(.5)
Other	5.0	—	(5.0)
Net cash used in investing activities	\$ (104.2)	\$ (107.8)	\$ (105.8)

Capital and Software Spending

In 2011 and 2010, we invested in various capital projects companywide.

Information technology investments in 2011 and 2010 included customer service and standardization initiatives.

Proceeds from Sale of Product Lines

In 2011, we received proceeds totaling \$21.5 million from the sale of two product lines, one in our Performance Films business (\$21 million) and the other in our Label and Packaging Materials business (\$.5 million).

Cash Flow from Financing Activities:

(In millions)	2011	2010	2009
Net change in borrowings and payments of debt	\$ (147.9)	\$ (189.8)	\$ (300.6)
Dividends paid	(106.5)	(88.7)	(134.9)
Purchase of treasury stock	(13.5)	(108.7)	—
Proceeds from exercise of stock options, net	3.9	2.5	.6
Other	(7.5)	(6.8)	2.2
Net cash used in financing activities	\$ (271.5)	\$ (391.5)	\$ (432.7)

Borrowings and Repayment of Debt

Short-term variable rate domestic borrowings from commercial paper issuances were \$149.4 million at year end 2011 (weighted-average interest rate of .4%), compared to \$298 million at year end 2010 (weighted-average interest rate of .4%).

At year end 2011, our borrowings outstanding under foreign short-term lines of credit were \$76.2 million (weighted-average interest rate of 12.9%), compared to \$81.8 million at year end 2010 (weighted-average interest rate of 10.6%).

The decrease in outstanding commercial paper and foreign short-term borrowings reflected positive cash flow from improved working capital.

We had medium-term notes of \$50 million outstanding at both year end 2011 and 2010.

In December 2011, we amended and restated our revolving credit facility (the "Revolver") with certain domestic and foreign banks, which reduced the amount available thereunder from \$1 billion to \$675 million. The amendment extended the Revolver's maturity date to December 22, 2016, modified the minimum interest coverage financial covenant level, and adjusted pricing to reflect market conditions. In conjunction with the amendment, we

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

recorded a debt extinguishment loss of \$7.7 million (included in "Other expense, net" in the Consolidated Statements of Operations) related to the unamortized debt issuance costs for the original Revolver.

In March 2009, we completed an exchange of approximately 6.6 million units (or 75.15%) of our HiMEDS units. We issued approximately 6.5 million shares of our common stock and paid approximately \$43 million in cash for the exchanged HiMEDS units with a carrying value of approximately \$331 million. As a result of this exchange, we recorded a debt extinguishment loss of approximately \$21 million (included in "Other expense, net" in the Consolidated Statements of Operations) in the first quarter of 2009, which included a write-off of \$9.6 million related to unamortized debt issuance costs. In November 2010, we completed the remarketing of our remaining HiMEDS senior notes in accordance with the original terms of the HiMEDS units by purchasing approximately \$109 million of these senior notes. In aggregate, this remarketing resulted in the extinguishment of approximately \$109 million of senior notes and the issuance of approximately 2.1 million shares of our common stock. As a result of this remarketing, we recorded a debt extinguishment loss of \$2.8 million (included in "Other expense, net" in the Consolidated Statements of Operations), which consisted of a write-off related to unamortized debt issuance costs.

In April 2010, we issued \$250 million of senior notes bearing an interest rate of 5.375% per year, due April 2020. Approximately \$248 million in proceeds from the offering, net of underwriting discounts and offering expenses, were used, together with commercial paper borrowings, to repay the \$325 million in indebtedness outstanding under a credit agreement of one of our wholly-owned subsidiaries (the "Credit Facility") in May 2010. In the second quarter of 2010, we recorded a debt extinguishment loss of \$1.2 million related to unamortized debt issuance costs from the Credit Facility.

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

Refer to "Capital Resources" below for further information on the 2011 and 2010 borrowings and repayment of debt.

Dividend Payments

Our annual dividend per share was \$1.00 in 2011 compared to \$.80 in 2010.

In January 2012, we announced a first quarter 2012 dividend of \$.27 per share, representing an 8% increase from our previous quarterly dividend of \$.25 per share.

Share Repurchases

The Board of Directors authorizes repurchases of shares of our outstanding common stock. Repurchased shares may be reissued under our stock option and incentive plans or used for other corporate purposes. We repurchased approximately 2.7 million shares totaling \$108.7 million during the fourth quarter of 2010 to offset the impact of dilution on earnings per share associated with the issuance of approximately 2.1 million shares of our common stock as a result of the remarketing of our remaining HiMEDS senior notes in November 2010. Additionally, in December 2010, we executed the repurchase of approximately .3 million shares for \$13.5 million which settled in January 2011.

On January 27, 2011, our Board of Directors authorized the repurchase of an additional 5 million shares of our stock. As of December 31, 2011, approximately 6 million shares were available for repurchase under this and prior Board authorizations.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

Goodwill decreased approximately \$182 million during 2011, which primarily reflected the reclassification of "Goodwill" associated with the OCP business to "Assets held for sale" (\$166 million), as well as the impact of foreign currency translation.

Other intangibles resulting from business acquisitions, net, decreased approximately \$68 million during 2011, which reflected current year amortization expense (\$34 million), the reclassification of "Other intangibles resulting from business acquisitions" associated with the OCP business to "Assets held for sale" (\$33 million), as well as the impact of foreign currency translation.

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

Other assets decreased approximately \$17 million during 2011, which reflected amortization expense of software and other deferred charges (\$41 million), a decrease in long-term pension assets (\$4 million), the reclassification of "Other Assets" to "Assets held for sale" associated with the OCP business (\$4 million), a reclassification to "Current deferred and payable income taxes" (\$1 million), and the impact of foreign currency translation (\$1 million). These decreases were partially offset by purchases of software and other deferred charges (\$26 million), an increase in the cash surrender value of our corporate-owned life insurance (\$4 million), and the capitalization of refinancing costs associated with the Revolver, net of the write-off of previous unamortized financing costs (\$2 million).

Refer to Note 2, "Discontinued Operations and Sale of Product Lines," to the Consolidated Financial Statements for more information.

Shareholders' Equity Accounts

Our shareholders' equity was \$1.66 billion at year end 2011, compared to \$1.65 billion at year end 2010. The increase in our shareholders' equity reflected net income and full utilization of the remaining shares held in our Employee Stock Benefit Trust ("ESBT"). These increases were partially offset by dividend payments, a decrease in "Accumulated other comprehensive loss," the impact of foreign currency translation, and an increase of our treasury stock (see below for more information). See "Dividend Payments" and "Share Repurchases."

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

The ESBT terminated in July 2011 upon the utilization of the remaining balance of shares held therein, and we began funding a portion of our employee-related expenses using shares of our common stock held in treasury.

The value of the ESBT decreased by approximately \$73 million in 2011, reflecting the full utilization of shares held therein to settle a portion of our employee benefit obligations (\$31 million). These shares were included as "Treasury stock at cost" in the Consolidated Balance Sheets. The decrease was also attributable to the use of these shares to settle exercises of stock options and releases of restricted stock units (\$16 million) and fund our match of participant contributions in our U.S. defined contribution plan (\$16 million), as well as a decrease in the market value of shares held in the ESBT (\$10 million).

The value of our treasury stock increased by approximately \$33 million in 2011, reflecting shares from our ESBT used to settle a portion of our employee benefit obligations (\$31 million) and share repurchase activity which settled in January 2011 (\$14 million). These increases were partially offset by the use of treasury shares to settle exercises of stock options and vesting of restricted stock units, and to fund our match of participant contributions in our U.S. defined contribution plan (\$12 million). See "Share Repurchases" above for more information.

Accumulated other comprehensive loss increased by approximately \$120 million during 2011 due primarily to increased net actuarial losses in our pension and other postretirement plans as a result of lower discount rates, partially offset by the current year amortization of net pension transition obligations and prior service cost (\$73 million). Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information. The increase was also attributable to the impact of foreign currency translation (\$49 million), partially offset by a net gain on derivative instruments designated as cash flow and firm commitment hedges (\$2 million).

Impact of Foreign Currency Translation:

(In millions)	2011	2010	2009
Change in net sales	\$ 145	\$ 23	\$ (234)
Change in net income	9	(3)	(6)

In 2011, international operations generated approximately 73% of our net sales. Our future results are subject to changes in political and economic conditions in the regions in which we operate and the impact of fluctuations in foreign currency exchange and interest rates.

The effect of currency translation on sales in 2011 primarily reflected a positive impact from sales denominated in euros, as well as in the currencies of China and Australia.

Translation gains and losses for operations in hyperinflationary economies, if any, are included in net income in the period incurred. Operations are treated as being in a hyperinflationary economy based on the cumulative inflation rate over the past three years. In 2011, 2010 and 2009, we had no operations in hyperinflationary economies.

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 may enter into foreign exchange forward, option and swap contracts, where available and appropriate.

Analysis of Selected Financial Ratios

We utilize certain financial ratios to assess our financial condition and operating performance, as discussed below.

Operational Working Capital Ratio

Working capital (current assets minus current liabilities), as a percent of net sales, increased in 2011 due to a decrease in short-term and the current portion of long-term debt, a decrease in accrued payroll and benefits and accrued liabilities, partially offset by a decrease in net accounts receivable.

Operational working capital, as a percent of net sales, is reconciled with working capital below. We use this non-GAAP financial measure as a tool to assess our working capital 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 and timing, and therefore, may increase the volatility of the working capital ratio from period to period. Additionally, the items excluded from this measure are not necessarily indicative of the underlying trends of our operations and are not significantly influenced by the day-to-day activities that are managed at the operating level. Refer to "Non-GAAP Financial Measures." Our objective is to minimize our investment in operational working capital, as a percentage of sales, by reducing this ratio to maximize cash flow and return on investment.

Operational Working Capital:

(In millions)	2011	2010
(A) Working capital (current assets minus current liabilities)	\$ 271.3	\$ 120.1
Reconciling items:		
Cash and cash equivalents	(178.0)	(127.5)
Current deferred and refundable income taxes and other current assets	(233.7)	(308.4)
Short-term and current portion of long-term debt	227.1	381.0
Current deferred and payable income taxes and other current accrued liabilities	529.0	702.6
(B) Operational working capital	\$ 615.7	\$ 767.8
(C) Net sales	\$ 6,026.3	\$ 6,512.7 ⁽¹⁾
Working capital, as a percent of net sales (A) ÷ (C)	4.5%	1.8%
Operational working capital, as a percent of net sales (B) ÷ (C)	10.2%	11.8%

(1) Net sales for 2010 was not restated for discontinued operations.

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

As a percent of net sales, operational working capital in 2011 decreased compared to 2010. 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 63 days in 2011 compared to 57 days in 2010, calculated using a four-quarter average accounts receivable balance divided by the average daily sales for the year. The change from prior year in the average number of days sales outstanding primarily reflected the impact of discontinued operations associated with the OCP business which approximated five days. The change from prior year was also attributable to the timing of collections.

Inventory Ratio

Average inventory turnover was 7.8 in 2011 compared to 8.6 in 2010, calculated using the annual cost of sales divided by a four-quarter average inventory balance. The change from prior year in the average inventory turnover was primarily due to the effect of discontinued operations associated with the OCP business which impacted the average inventory turnover by approximately one and the continued focus on improvements in inventory management.

Accounts Payable Ratio

The average number of days payable outstanding was 61 days in 2011 compared to 58 days in 2010, calculated using a four-quarter average accounts payable balance divided by the average daily cost of products sold for the year. The change from prior year in the average number of days payable outstanding was primarily due to the impact of discontinued operations associated with the OCP business which approximated four days, partially offset by the timing of payments to vendors.

Net Debt to EBITDA Ratio

We believe the net debt to EBITDA ratio is a meaningful measurement because investors view it as an indicator of our leverage position.

(Dollars in millions)	2011	2010	2009
Income (loss) from continuing operations	\$ 154.4	\$ 241.8	\$ (834.6)
Reconciling items:			
Interest expense	71.0	76.3	84.9
Provision for (benefit from) income taxes	78.5	(2.8)	(92.0)
Depreciation	157.8	161.7	174.0
Amortization	76.7	72.6	77.1
EBITDA	\$ 538.4	\$ 549.6	\$ (590.6)
Total debt	\$ 1,181.3	\$ 1,337.2	\$ 1,624.3
Less cash and cash equivalents	(178.0)	(127.5)	(138.1)
Net debt	\$ 1,003.3	\$ 1,209.7	\$ 1,486.2
Net debt to EBITDA ratio	1.9	2.2	n/m⁽¹⁾

(1) The net debt to EBITDA ratio was not meaningful for 2009 as EBITDA was negative. EBITDA in 2009 included \$832 in charges related to the impairment of goodwill and indefinite-lived intangibles.

In 2011, the net debt to EBITDA ratio was lower compared to 2010 primarily due to a decrease in commercial paper borrowings and the impact of provision for (benefit from) income taxes, partially offset by lower net income from continuing operations.

In 2010, the net debt to EBITDA ratio improved compared to 2009 primarily due to the impact of goodwill and indefinite-lived intangible asset impairment charges recorded in the prior year, repayment of debt, and an increase in net income from continuing operations.

Financial Covenants

Our various loan agreements in effect at year end require that we maintain specified financial covenant ratios of total debt and interest expense in relation to certain measures of income. As of December 31, 2011, we were in compliance with these financial covenants.

Fair Value of Debt

The fair value of our long-term debt is estimated primarily based on the credit spread above U.S. Treasury securities on notes with similar rates, credit rating, and remaining maturities. At year end, the fair value of our total debt, including short-term borrowings, was \$1.22 billion in 2011 and \$1.39 billion in 2010. 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. Refer to Note 1, "Summary of Significant Accounting Policies" to the Consolidated Financial Statements for further information.

Capital Resources

Capital resources include cash flows from operations, cash and cash equivalents and debt financing. At year end 2011, we had cash and cash equivalents of approximately \$178 million held in accounts at third-party financial institutions.

Our cash balances are held in numerous locations throughout the world. At December 31, 2011, 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.

In December 2011, we amended and restated the Revolver, which reduced the amount available thereunder from \$1 billion to \$675 million. The amendment extended the Revolver's maturity date to December 22, 2016, modified the minimum interest coverage financial covenant level, and adjusted pricing to reflect market conditions. Based upon our current outlook for our business and market conditions, we believe that the Revolver, in addition to the

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

uncommitted bank lines of credit maintained in the countries in which we operate, will provide the liquidity to fund our operations during 2012. No balances were outstanding under the Revolver as of December 31, 2011.

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

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

Capital from Debt

Our total debt decreased by approximately \$156 million in 2011 to \$1.18 billion compared to \$1.34 billion at year end 2010, reflecting a decrease in commercial paper borrowings. Refer to "Borrowings and Repayment of Debt" above for more information.

We have \$1.6 million of debt maturities due in 2012.

We had standby letters of credit with an aggregate contract amount outstanding totaling \$36.1 million and \$41.1 million at the end of 2011 and 2010, respectively. The aggregate contract amount of outstanding standby letters of credit approximated fair value.

Our uncommitted lines of credit were approximately \$452 million at year end 2011 and may be cancelled by the banks or us at any time.

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 are available to meet our short-term funding requirements, if necessary. When determining a credit rating, the rating agencies place significant weight on our competitive position, business outlook, consistency of cash flows, debt level and liquidity, geographic dispersion and management team. We remain committed to retaining an investment grade rating.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Contractual Obligations at End of Year 2011:

(In millions)	Payments Due by Period						
	Total	2012	2013	2014	2015	2016	Thereafter
Short-term lines of credit	\$ 226.6	\$ 226.6	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt	949.2	-	250.0	-	5.0	-	694.2
Long-term capital leases	6.6	1.6	1.9	1.6	.8	.1	.6
Interest on long-term debt ⁽¹⁾	450.1	54.9	43.3	42.8	42.6	42.4	224.1
Operating leases	220.0	64.0	46.3	29.4	21.4	13.6	45.3
Pension and postretirement benefit payments (unfunded plans)	71.5	7.5	6.9	6.3	5.9	5.4	39.5
Total contractual obligations	\$ 1,924.0	\$ 354.6	\$ 348.4	\$ 80.1	\$ 75.7	\$ 61.5	\$ 1,003.7

(1) Interest on floating rate debt was estimated using the index rate in effect as of December 31, 2011.

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

The table above does not include:

- Purchase obligations or open purchase orders at year end — It is impracticable for us to either obtain such information or provide a reasonable estimate due to the decentralized nature of our purchasing systems. In addition, purchase orders are generally at fair value and are cancelable without penalty.
- Cash funding requirements for pension benefits payable to certain eligible current and future retirees under our funded plans — Benefits paid by our funded pension plans are paid through a trust or trust equivalent. Cash funding requirements for our funded plans, which can be significantly impacted by earnings on investments, the discount rate, changes in the plans, and funding laws and regulations, are not included in this table as we are not able to estimate required contributions to the trust or trust equivalent. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for expected contributions to our plans.
- Unfunded termination indemnity benefits to certain employees outside of the U.S. — These benefits are subject to applicable agreements, local laws and regulations. We have not incurred significant costs related to performance under these types of arrangements.
- Unrecognized tax benefit reserves of approximately \$120.3 million, excluding interest and penalties, of which approximately \$7.7 million may become payable during

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

2012. The resolution of the balance, including the timing of payments, is contingent upon various unknown factors and cannot be reasonably estimated. Refer to Note 11, "Taxes Based on Income," to the Consolidated Financial Statements for further information on unrecognized tax benefits.

- Obligations associated with a commercial facility located in Mentor, Ohio, used primarily for the headquarters and research center of our Label and Packaging Materials division. The facility consists generally of land, buildings, equipment and office furnishings. 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 an option to purchase the facility at an amount equivalent to the value of the Guarantee. We also have an option to remarket the facility at an amount at least equivalent to the Guarantee if the value of the facility is above a certain threshold. However, if the value of the facility is below the threshold, we may be required to pay the lessor an amount equivalent to the residual value guarantee. Refer to Note 7, "Commitments," to the Consolidated Financial Statements for more information.

Subsequent to year end 2011, we entered into a 15-year lease commitment in the Netherlands for an aggregate amount of approximately \$60 million. We expect to commence the lease in 2014.

Legal Proceedings

We and our subsidiaries 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 accrued by us; however, we are unable to reasonably estimate a range of potential expenses. If information becomes available that allows us to reasonably estimate the range of potential expenses in an amount higher or lower than what we have accrued, we will adjust our 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, management believes that the impact of the resolution of these matters is not, individually or in the aggregate, material to our financial position, results of operations or cash flows.

Environmental Matters

As of December 31, 2011, 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 cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

We have accrued liabilities for sites where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. Because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate these sites could be higher than the liabilities accrued by us; however, we are unable to reasonably estimate a range of potential expenses. If information becomes available that allows us to reasonably estimate the range of potential expenses in an amount higher or lower than what we have accrued, we will adjust our environmental liabilities accordingly. In addition, we could identify additional sites for cleanup in the future. The range of expense for remediation of any future-identified sites will be assessed as they arise; until then, a range of expense for such remediation cannot be determined.

The activity in 2011 and 2010 related to environmental liabilities was as follows:

(In millions)	2011	2010
Balance at beginning of year	\$ 46.3	\$ 51.5
Accruals	.4	(1.2)
Payments	(6.1)	(4.0)
Balance at end of year	\$ 40.6	\$ 46.3

At year end 2011, approximately \$10 million of the total balance was classified as short-term.

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.

Other

We participate in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. These advances are guaranteed by us. At year end 2011, we had guaranteed approximately \$17 million.

At year end 2011, we guaranteed up to approximately \$10 million of certain of our foreign subsidiaries' obligations to their suppliers, as well as approximately \$412 million of certain of our subsidiaries' lines of credit with various financial institutions.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions for the reporting period and as of the financial statement date.

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

These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expense. Actual results could differ from those estimates.

Critical accounting policies are those that are important to the portrayal of our financial condition and results, and which require us to make difficult, subjective and/or complex judgments. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. We believe that critical accounting policies include accounting for revenue recognition, sales returns and allowances, accounts receivable allowances, inventory and inventory reserves, long-lived asset impairments, goodwill, fair value measurements, pension and postretirement benefits, income taxes, stock-based compensation, restructuring costs, litigation and environmental matters, and business combinations.

Revenue Recognition

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

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

Sales Returns and Allowances

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

Accounts Receivable Allowances

We are required to make judgments as to the collectability of accounts receivable based on established aging policy, historical experience and future expectations. The allowances for doubtful accounts represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. We record these allowances based on estimates related to the following factors: (i) customer-specific allowances; (ii) amounts based upon an aging schedule; and (iii) an estimated amount, based on our historical experience, for issues not yet identified. No single customer represented 10% or more of our net sales in, or trade accounts receivable at year end of, 2011 or 2010. However, during 2011, our ten largest customers by net sales represented 10% of our net sales. As of December 31, 2011, our ten largest customers by trade accounts receivable represented 12% of our trade accounts receivable. These customers were primarily concentrated in the Pressure-sensitive Materials segment. The financial position and operations of these customers are monitored on an ongoing basis.

Inventory and Inventory Reserves

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

Impairment of Long-lived Assets

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

Goodwill and Indefinite-lived Intangible Assets

Our reporting units are composed of either a discrete business or an aggregation of businesses with similar economic characteristics. Our reporting units for the purpose of performing the impairment tests for goodwill consist of label and packaging materials; retail branding and information solutions; office and consumer products; graphics and reflective solutions; industrial products; and business media. For the purpose of performing the required impairment tests, we primarily apply a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. We perform our annual impairment test of goodwill during the fourth quarter.

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

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

We estimate the fair value of our reporting units using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various assumptions about sales, operating margins, growth rates and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based on our forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period.

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

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

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

Fair Value Measurements

We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability.

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

Pension and Postretirement Benefits

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

Discount Rate

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

Long-term Return on Assets

We determine the long-term rate of return assumption for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, taking into consideration that assets with higher volatility typically generate a greater return over the long run. Additionally, current market conditions, such as interest rates, are evaluated and peer data is reviewed to check for reasonability and appropriateness.

Healthcare Cost Trend Rate

Our practice is to fund the cost of postretirement benefits on a cash basis. For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012. This rate is expected to decrease to approximately 5% by 2018.

Income Taxes

Deferred tax assets and liabilities reflect temporary differences between the amount of assets and liabilities for financial and tax reporting purposes. These amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is recorded to reduce our deferred tax assets to the amount that is more likely

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

than not to be realized. Changes in tax laws or accounting standards and methods may affect recorded deferred taxes in future periods.

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

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

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified. Investment tax credits are accounted for in the period earned in accordance with the flow-through method.

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

We do not believe there is a reasonable likelihood that there will be a material change in the tax-related balances or valuation allowance balances. However, due to the complexity of some of these uncertainties, the ultimate resolution may be materially different from the current estimate.

Stock-Based Compensation

Valuation of Stock Options

Our stock-based compensation expense is based on the estimated fair value of awards expected to vest, amortized on a straight-line basis over the requisite service period.

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

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

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

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

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

Certain of the assumptions used above are based on management's estimates. If factors change and require us to change our assumptions and estimates, our stock-based compensation expense could be significantly different in the future.

The fair value of restricted stock units is determined based on the closing price of our common stock as of the date of grant, as adjusted for foregone dividends. In addition, the fair value of certain stock-based awards that are subject to performance metrics based on market conditions is determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected volatility assumptions and other assumptions appropriate for determining fair value, to estimate the probability of satisfying the market condition target stipulated in the award.

We have not capitalized costs associated with stock-based compensation.

Accounting for Income Taxes for Stock-based Compensation

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

Restructuring Costs

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

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

Litigation and Environmental Matters

We and our subsidiaries are involved in various lawsuits, claims, inquiries and other regulatory and compliance matters, most of which are routine to the nature of our business. When it is probable that a loss will be incurred and where a range of the loss can be estimated, the best estimate within the range — or, if the most likely amount cannot be determined, the low end of the range — is accrued. The ultimate resolution of these claims could affect future results of operations should our exposure be materially different from our estimates or should liabilities be incurred that were not previously accrued.

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

Asset Retirement Obligations

We recognize a liability for the fair value of conditional asset retirement obligations based on estimates determined through present value techniques. An asset retirement is 'conditional' when the timing and (or) method of settlement of the retirement obligation is conditional upon a future event that may or may not be within our control. Our asset retirement obligations primarily relate to lease restoration costs.

Business Combinations

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

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

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

RECENT ACCOUNTING REQUIREMENTS

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

MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

Risk Management

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

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

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

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

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

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

Foreign Exchange Value-At-Risk

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

In both 2011 and 2010, the VAR was estimated using a variance-covariance methodology. The currency correlation was based on one-year historical data obtained from one of our domestic banks. A 95% confidence level was used for a one-day time horizon.

The estimated maximum potential one-day loss in earnings for our foreign exchange positions and contracts was approximately \$1.3 million at year end 2011 and \$.8 million at year end 2010.

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

Interest Rate Sensitivity

An assumed 20 basis point move in interest rates affecting our variable-rate borrowings (10% of our weighted-average interest rate on floating rate debt) would have had an estimated \$1 million effect on our 2011 earnings.

An assumed 19 basis point move in interest rates affecting our variable-rate borrowings (10% of our weighted-average interest rate on floating rate debt) would have had an estimated \$1 million effect on our 2010 earnings.

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 178.0	\$ 127.5
Trade accounts receivable, less allowances of \$43.3 and \$51.4 at end of year 2011 and 2010, respectively	877.1	996.1
Inventories, net	475.1	519.9
Current deferred and refundable income taxes	117.4	144.7
Assets held for sale	454.9	—
Other current assets	116.3	163.7
Total current assets	2,218.8	1,951.9
Property, plant and equipment, net	1,079.4	1,262.9
Goodwill	759.3	940.8
Other intangibles resulting from business acquisitions, net	161.2	228.9
Non-current deferred income taxes	322.3	266.0
Other assets	431.7	448.9
	\$4,972.7	\$5,099.4
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 227.1	\$ 381.0
Accounts payable	736.5	748.2
Accrued payroll and employee benefits	145.7	259.7
Accrued trade rebates	65.8	126.0
Current deferred and payable income taxes	81.8	53.2
Liabilities held for sale	154.5	—
Other accrued liabilities	235.7	263.7
Total current liabilities	1,647.1	1,831.8
Long-term debt	954.2	956.2
Long-term retirement benefits and other liabilities	587.1	541.1
Non-current deferred and payable income taxes	125.8	124.6
Commitments and contingencies (see Notes 7 and 8)		
Shareholders' equity:		
Common stock, \$1 par value per share, authorized — 400,000,000 shares at end of year 2011 and 2010; issued — 124,126,624 shares at end of year 2011 and 2010; outstanding — 106,269,919 shares and 105,391,940 shares at end of year 2011 and 2010, respectively	124.1	124.1
Capital in excess of par value	778.6	768.0
Retained earnings	1,810.5	1,727.9
Employee stock benefit trust, 1,784,741 shares at end of year 2010	—	(73.2)
Treasury stock at cost, 17,841,705 shares and 16,934,943 shares at end of year 2011 and 2010, respectively	(791.5)	(758.2)
Accumulated other comprehensive loss	(263.2)	(142.9)
Total shareholders' equity	1,658.5	1,645.7
	\$4,972.7	\$5,099.4

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

	2011	2010	2009
Net sales	\$6,026.3	\$5,782.0	\$5,186.2
Cost of products sold	4,504.9	4,268.2	3,929.8
Gross profit	1,521.4	1,513.8	1,256.4
Marketing, general and administrative expense	1,170.9	1,178.9	1,088.1
Goodwill and indefinite-lived intangible asset impairment charges	—	—	832.0
Interest expense	71.0	76.3	84.9
Other expense, net	46.6	19.6	178.0
Income (loss) from continuing operations before taxes	232.9	239.0	(926.6)
Provision for (benefit from) income taxes	78.5	(2.8)	(92.0)
Income (loss) from continuing operations	154.4	241.8	(834.6)
Income from discontinued operations, net of tax	35.7	75.1	87.9
Net income (loss)	\$ 190.1	\$ 316.9	\$ (746.7)

Per share amounts:

Net income (loss) per common share:			
Continuing operations	\$ 1.46	\$ 2.29	\$ (8.06)
Discontinued operations	.34	.71	.85
Net income (loss) per common share	\$ 1.80	\$ 3.00	\$ (7.21)
Net income (loss) per common share, assuming dilution:			
Continuing operations	\$ 1.45	\$ 2.27	\$ (8.06)
Discontinued operations	.33	.70	.85
Net income (loss) per common share, assuming dilution	\$ 1.78	\$ 2.97	\$ (7.21)
Dividends	\$ 1.00	\$.80	\$ 1.22

Average shares outstanding:

Common shares	105.8	105.8	103.6
Common shares, assuming dilution	106.8	106.8	103.6

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in millions, except per share amounts)	Common stock, \$1 par value	Capital in excess of par value	Retained earnings	Cost of unallocated ESOP shares	Employee stock benefit trust	Treasury stock	Accumulated other comprehensive (loss) income	Total
Fiscal year ended 2008	\$ 124.1	\$ 642.9	\$ 2,381.3	\$ (1.2)	\$ (246.9)	\$ (867.7)	\$(282.5)	\$ 1,750.0
Comprehensive income:								
Net loss			(746.7)					(746.7)
Other comprehensive income (loss):								
Foreign currency translation adjustment							103.4	103.4
Effective portion of gains or losses on cash flow hedges, net of tax of \$2.9							4.8	4.8
Net actuarial loss, prior service cost and net transition asset, net of tax of \$6.2							29.1	29.1
Other comprehensive income							137.3	137.3
Total comprehensive loss								(609.4)
Issuance of 6,459,088 shares for treasury in conjunction with HIMEDS conversion		16.0				296.9		312.9
Employee stock benefit trust transfer of 686,500 shares to treasury					25.0	(25.0)		—
Stock issued under option plans, including \$8.2 of tax and dividends paid on stock held in stock trust		28.1			14.7			42.8
Dividends: \$1.22 per share			(134.9)					(134.9)
ESOP transactions, net				1.2				1.2
Employee stock benefit trust market value adjustment		35.9			(35.9)			—
Fiscal year ended 2009	\$ 124.1	\$ 722.9	\$ 1,499.7	\$ —	\$ (243.1)	\$ (595.8)	\$(145.2)	\$ 1,362.6
Comprehensive income:								
Net income			316.9					316.9
Other comprehensive income:								
Foreign currency translation adjustment							18.1	18.1
Effective portion of gains or losses on cash flow hedges, net of tax of \$1.2							2.0	2.0
Net actuarial loss, prior service cost and net transition asset, net of tax of \$(3.3)							(17.8)	(17.8)
Other comprehensive income							2.3	2.3
Total comprehensive income								319.2
Issuance of 2,133,656 shares for treasury in conjunction with HIMEDS remarketing						109.3		109.3
Repurchase of 2,683,243 shares for treasury						(108.7)		(108.7)
Employee stock benefit transfer of 4,316,894 shares to treasury					163.0	(163.0)		—
Stock issued under stock option plans, including \$4.4 of tax and dividends paid on stock held in stock trust		29.8			22.2			52.0
Dividends: \$.80 per share			(88.7)					(88.7)
Employee stock benefit trust market value adjustment		15.3			(15.3)			—
Fiscal year ended 2010	\$ 124.1	\$ 768.0	\$ 1,727.9	\$ —	\$ (73.2)	\$ (758.2)	\$(142.9)	\$ 1,645.7
Comprehensive income:								
Net income			190.1					190.1
Other comprehensive income:								
Foreign currency translation adjustment							(49.5)	(49.5)
Effective portion of gains or losses on cash flow hedges, net of tax of \$1.3							2.1	2.1
Net actuarial loss, prior service cost and net transition asset, net of tax of \$(40)							(72.9)	(72.9)
Other comprehensive loss							(120.3)	(120.3)
Total comprehensive income								69.8
Repurchase of 316,757 shares for treasury						(13.5)		(13.5)
Employee stock benefit transfer of 954,536 shares to treasury					31.4	(31.4)		—
Stock issued under stock option plans, including \$(.7) of tax and dividends paid on stock held in stock trust		20.7	(1.0)		31.7	11.6		63.0
Dividends: \$1.00 per share			(106.5)					(106.5)
Employee stock benefit trust market value adjustment		(10.1)			10.1			—
Fiscal year ended 2011	\$ 124.1	\$ 778.6	\$ 1,810.5	\$ —	\$ —	\$ (791.5)	\$(263.2)	\$ 1,658.5

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	2011	2010	2009
Operating Activities			
Net income (loss)	\$ 190.1	\$ 316.9	\$ (746.7)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	168.0	172.9	187.6
Amortization	78.5	74.7	79.7
Provision for doubtful accounts	16.8	16.3	19.3
Goodwill and indefinite-lived intangible asset impairment charges	-	-	832.0
Asset impairment, gain on sale of product line of \$5.6 in 2011, and net loss on sale/disposal of assets of \$2.7, \$2.8, and \$9.4 in 2011, 2010, and 2009, respectively	9.9	5.1	48.0
Loss from debt extinguishments	.7	4.0	21.2
Stock-based compensation	39.6	35.2	25.8
Other non-cash expense and loss	38.1	43.6	22.0
Other non-cash income and gain	(2.0)	(.5)	(8.7)
Changes in assets and liabilities and other adjustments:			
Trade accounts receivable	(43.6)	(87.6)	95.7
Inventories	(22.2)	(35.6)	133.3
Other current assets	29.4	(39.8)	40.6
Accounts payable	31.3	76.5	(14.5)
Accrued liabilities	(94.9)	30.0	(37.9)
Taxes on income	37.6	(12.0)	.3
Deferred taxes	(1.0)	(48.2)	(91.0)
Other assets	1.5	(12.2)	2.3
Long-term retirement benefits and other liabilities	(55.1)	(52.6)	(40.0)
Net cash provided by operating activities	422.7	486.7	569.0
Investing Activities			
Purchase of property, plant and equipment, net	(105.0)	(83.5)	(69.7)
Purchase of software and other deferred charges	(26.0)	(25.1)	(30.6)
Proceeds from sale of product lines	21.5	-	-
Proceeds from sale (purchase) of investments, net	.3	.8	(.5)
Other	5.0	-	(5.0)
Net cash used in investing activities	(104.2)	(107.8)	(105.8)
Financing Activities			
Net decrease in borrowings (maturities of 90 days or less)	(146.4)	(98.4)	(192.3)
Additional borrowings (maturities longer than 90 days)	-	249.8	-
Payments of debt (maturities longer than 90 days)	(1.5)	(341.2)	(108.3)
Dividends paid	(106.5)	(88.7)	(134.9)
Purchase of treasury stock	(13.5)	(108.7)	-
Proceeds from exercise of stock options, net	3.9	2.5	.6
Other	(7.5)	(6.8)	2.2
Net cash used in financing activities	(271.5)	(391.5)	(432.7)
Effect of foreign currency translation on cash balances	3.5	2.0	2.1
Increase (decrease) in cash and cash equivalents	50.5	(10.6)	32.6
Cash and cash equivalents, beginning of year	127.5	138.1	105.5
Cash and cash equivalents, end of year	\$ 178.0	\$ 127.5	\$ 138.1

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Avery Dennison Corporation (the "Company") is an industry leader that develops innovative identification and decorative solutions for businesses and consumers worldwide. The Company's products include pressure-sensitive labeling technology and materials; graphics imaging media; retail branding and information solutions; radio-frequency identification ("RFID") inlays and tags; organization and identification products for offices and consumers; specialty tapes; and a variety of specialized labels for automotive, industrial and durable goods applications.

Principles of Consolidation

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

Financial Presentation

As further discussed in Note 2, "Discontinued Operations and Sale of Product Lines," the Company has classified results of its Office and Consumer Products ("OCP") business, together with certain costs associated with the divestiture transaction, as discontinued operations in the Consolidated Statements of Operations for all periods presented. The assets and liabilities of the business were classified as "held for sale" in the Consolidated Balance Sheets as of year end 2011. This business comprises substantially all of the Company's previously reported OCP segment. The operating results of the retained portion of this previously reported OCP segment, which are not significant, are included in other specialty converting businesses for all periods presented.

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

Segment Reporting

The Company has determined that it has the following two reportable segments for financial reporting purposes:

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

Certain operating segments are aggregated or combined based on materiality, quantitative factors, and similar qualitative economic characteristics, including primary products, production processes, customers, and distribution methods. Operating segments that do not exceed the quantitative thresholds or are not considered for aggregation are reported in a category entitled "other specialty converting businesses," which is comprised of several businesses that produce specialty tapes and highly engineered labels, including RFID inlays and labels and other converted products.

During the first quarter of fiscal 2011, the Company changed the names of certain of its segments and businesses. The Company's Retail Information Services segment was changed to Retail Branding and Information Solutions. Within the Company's Pressure-sensitive Materials segment, the names of the Roll Materials business and Graphics and Reflective Products business were changed to Label and Packaging Materials and Graphics and Reflective Solutions, respectively.

Refer to Note 12, "Segment Information," for further information.

Fiscal Year

Normally, each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks. The Company's 2011 and 2010 fiscal years consisted of 52-week periods ending December 31, 2011 and January 1, 2011, respectively. The Company's 2009 fiscal year consisted of a 53-week period ending January 2, 2010, with the extra week reflected in the first quarter.

Use of Estimates

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

Cash and Cash Equivalents

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

(In millions)	2011	2010	2009
Interest, net of capitalized amounts	\$ 65.0	\$ 69.7	\$ 78.3
Income taxes, net of refunds	70.5	94.5	47.5

In 2011, 2010, and 2009, non-cash activities included accruals for capital expenditures of \$9.5 million, \$12.4 million, and \$8.2 million, respectively, due to the timing of payments. The Company released 1 million common shares totaling \$31.4 million and 4.3 million common shares totaling \$163 million, respectively, from the Company's Employee Stock Benefit Trust ("ESBT"), to fulfill a portion of the Company's employee benefit obligations during the first two quarters of 2011 and full year 2010. These shares were included as "Treasury stock at cost" in the Consolidated Balance Sheets.

Accounts Receivable

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

- i Customer-specific allowances;
- i Amounts based upon an aging schedule; and
- i An estimated amount, based on the Company's historical experience.

No single customer represented 10% or more of the Company's net sales in, or trade accounts receivable at year end of, 2011 or 2010. However, during 2011, the ten largest customers by net sales represented 10% of the Company's net sales. As of December 31, 2011, the ten largest customers by trade accounts receivable represented 12% of the Company's trade accounts receivable. These customers were primarily concentrated in the Pressure-sensitive Materials segment. The Company does not generally require its customers to provide collateral.

Inventories

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

Inventories at end of year were as follows:

(In millions)	2011	2010
Raw materials	\$ 216.2	\$ 243.3
Work-in-progress	136.4	130.5
Finished goods	177.6	205.3
Inventories at lower of FIFO cost or market (approximates replacement cost)	530.2	579.1
Inventory reserves	(55.1)	(59.2)
Inventories, net	\$ 475.1	\$ 519.9

Property, Plant and Equipment

Major classes of property, plant and equipment are stated at cost and were as follows:

(In millions)	2011	2010
Land	\$ 56.5	\$ 65.1
Buildings and improvements	662.9	738.1
Machinery and equipment	2,108.1	2,325.7
Construction-in-progress	40.5	57.3
Property, plant and equipment	2,868.0	3,186.2
Accumulated depreciation	(1,788.6)	(1,923.3)
Property, plant and equipment, net	\$ 1,079.4	\$ 1,262.9

Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets ranging from two to forty-five years for buildings and improvements and two to fifteen years for machinery and equipment. Leasehold improvements are depreciated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

over the shorter of the useful life of the asset or the term of the associated leases. Maintenance and repair costs are expensed as incurred; renewals and betterments are capitalized. Upon the sale or retirement of assets, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting gain or loss included in net income. There were no significant capital lease assets at year end 2011 and 2010.

Software

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

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

(In millions)	2011	2010
Cost	\$ 368.4	\$ 381.7
Accumulated amortization	(237.0)	(238.7)
	\$ 131.4	\$ 143.0

Impairment of Long-lived Assets

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

Goodwill and Other Intangibles Resulting from Business Acquisitions

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

The Company's reporting units for the purpose of performing the impairment tests for goodwill consist of label and packaging materials; retail branding and information solutions; office and consumer products; graphics and reflective solutions; industrial products; and business media. In performing the required impairment tests, the Company primarily applies a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. The Company performs its annual impairment test of goodwill during the fourth quarter.

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

The Company estimates the fair value of its reporting units using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires the Company to make various assumptions about sales, operating margins, growth rates and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based on the Company's forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period.

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

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

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

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

Foreign Currency

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

Gains and losses resulting from foreign currency transactions are included in income in the period incurred. Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency) decreased net income by \$5.3 million, \$6.5 million, and \$2.6 million in 2011, 2010 and 2009, respectively.

The Company had no operations in hyperinflationary economies in fiscal years 2011, 2010, and 2009.

Financial Instruments

The Company enters into certain foreign exchange hedge contracts to reduce its 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 its operations outside the U.S. The Company enters into certain interest rate contracts to help manage its exposure to interest rate fluctuations. The Company also enters into certain natural gas and other commodity futures contracts to hedge price fluctuations for a portion of its anticipated domestic purchases. The maximum length of time for which the Company hedges its exposure to the variability in future cash flows for forecasted transactions is 12 to 24 months.

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

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

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

See also Note 5, "Financial Instruments."

Fair Value Measurements

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

The Company determines fair value based on a three-tier fair value hierarchy, which it uses to prioritize the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions to determine the best estimate of fair value.

Treasury Shares

In the second half of 2011, the Company began funding a portion of its employee-related expenses using shares of the Company's common stock held in treasury. The Company elected to record net gains or losses associated with its use of treasury shares to retained earnings.

Revenue Recognition

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

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

Advertising Costs

Advertising costs included in "Marketing, general and administrative expense" were approximately \$9.7 million in 2011, \$10.8 million in 2010, and \$8 million in 2009. The Company's policy is to expense advertising costs as incurred.

Research and Development

Research and development costs are related to research, design and testing of new products and applications and are expensed as incurred. Research and development expense was \$92.4 million in 2011, \$85.6 million in 2010, and \$78.9 million in 2009.

Pension and Postretirement Benefits

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

Product Warranty

The Company provides for an estimate of costs that may be incurred under its basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of the product. Factors that affect the Company's warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy the Company's warranty obligation and availability of insurance coverage. Because these factors are impacted by actual experience and future expectations, the Company assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. The Company's liability associated with product warranty was \$1 million and \$1.7 million at year end 2011 and 2010, respectively.

Stock-Based Compensation

The Company's stock-based compensation expense is based on the estimated fair value of awards expected to vest, amortized on a straight-line basis over the requisite service period.

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

The fair value of restricted stock units is determined based on the closing price of the Company's common stock as of the date of grant, as adjusted for foregone dividends. In addition, the fair value of certain stock-based awards that are subject to performance metrics based on market conditions is determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected volatility assumptions and other assumptions appropriate for determining fair value, to estimate the probability of satisfying the market condition target stipulated in the award.

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

See also Note 9, "Shareholders' Equity and Stock-Based Compensation."

Environmental Expenditures

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

Asset Retirement Obligations

The Company recognizes a liability for the fair value of conditional asset retirement obligations based on estimates determined through present value techniques. An asset retirement is 'conditional' when the timing and (or) method of settlement of the retirement obligation is conditional upon a future event that may or may not be within the control of the Company. The Company's asset retirement obligations primarily relate to lease restoration costs. The Company's estimated liability associated with asset retirement obligations was \$10.3 million and \$8 million at year end 2011 and 2010, respectively.

Restructuring Costs

The Company has compensation plans that provide eligible employees with severance in the event of an involuntary termination due to qualifying cost reduction actions. Severance is calculated using a benefit formula under the plans. Accordingly, the provisions for such amounts and other related exit costs (including lease cancellation costs and asset impairment charges) are recorded when they are probable and estimable. In the absence of a plan or established local practice for overseas jurisdictions, liabilities for restructuring costs are recognized when incurred. See also Note 10, "Cost Reduction Actions."

Taxes on Income

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

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

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

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

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

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

The Company does not believe there is a reasonable likelihood that there will be a material change in the tax-related balances or valuation allowance balances. However, due to the complexity of some of these uncertainties, the ultimate resolution may be materially different from the current estimate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

See also Note 11, "Taxes Based on Income."

Net Income (Loss) Per Share

Net income (loss) per common share amounts were computed as follows:

(In millions, except per share amounts)	2011	2010	2009
(A) Income (loss) from continuing operations	\$ 154.4	\$ 241.8	\$ (834.6)
(B) Income from discontinued operations, net of tax	35.7	75.1	87.9
(C) Net income (loss) available to common shareholders	\$ 190.1	\$ 316.9	\$ (746.7)
(D) Weighted-average number of common shares outstanding	105.8	105.8	103.6
Dilutive shares (additional common shares issuable under employee stock-based awards)	1.0	1.0	-
(E) Weighted-average number of common shares outstanding, assuming dilution	106.8	106.8	103.6
Net income (loss) per common share:			
Continuing operations (A) ÷ (D)	\$ 1.46	\$ 2.29	\$ (8.06)
Discontinued operations (B) ÷ (D)	.34	.71	.85
Net income (loss) per common share (C) ÷ (D)	\$ 1.80	\$ 3.00	\$ (7.21)
Net income (loss) per common share, assuming dilution:			
Continuing operations (A) ÷ (E)	\$ 1.45	\$ 2.27	\$ (8.06)
Discontinued operations (B) ÷ (E)	.33	.70	.85
Net income (loss) per common share, assuming dilution (C) ÷ (E)	\$ 1.78	\$ 2.97	\$ (7.21)

Certain employee stock-based awards were not included in the computation of net income (loss) per common share, assuming dilution, because they would not have had a dilutive effect. Employee stock-based awards excluded from the computation totaled approximately 11 million shares and 9 million shares in 2011 and 2010, respectively.

In 2009, the effect of normally dilutive securities (for example, stock-based awards) was not dilutive because the Company generated a net operating loss. Employee stock-based awards excluded from the computation totaled approximately 11 million shares in 2009.

Comprehensive Income (Loss)

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

The components of "Accumulated other comprehensive loss" (net of tax, with the exception of the foreign currency translation adjustment) in the Consolidated Balance Sheets were as follows:

(In millions)	2011	2010
Foreign currency translation adjustment	\$ 137.8	\$ 187.3
Net actuarial loss, prior service cost and net transition assets, less amortization, net of tax benefits of \$192.7 and \$152.7 at year end 2011 and 2010, respectively	(394.1)	(321.2)
Net loss on derivative instruments designated as cash flow and firm commitment hedges, net of tax benefits of \$4.1 and \$5.4 at year end 2011 and 2010, respectively	(6.9)	(9.0)
Accumulated other comprehensive loss	\$ (263.2)	\$ (142.9)

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

(In millions)	2011	2010
Beginning accumulated derivative loss	\$ (9.0)	\$ (11.0)
Net loss reclassified to earnings	6.4	12.3
Net change in the revaluation of hedging transactions	(4.3)	(10.3)
Ending accumulated derivative loss	\$ (6.9)	\$ (9.0)

Business Combinations

The Company records the assets acquired and liabilities assumed from acquired businesses at fair value, and the Company makes estimates and assumptions to determine fair value.

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

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

Recent Accounting Requirements

In December 2011, the Financial Accounting Standards Board ("FASB") issued disclosure requirements about offsetting assets and liabilities which require a company to disclose information about offsetting and related arrangements to enable readers of its financial statements to understand the effect of those arrangements on its financial position. These disclosures are required to be applied retrospectively for all prior periods presented and are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those fiscal years. The Company does not expect adoption of this standard to have a material impact on its financial condition, results of operations, cash flows, or disclosures.

In September 2011, the FASB issued updated guidance that simplifies goodwill impairment testing by allowing a qualitative review to assess whether a quantitative impairment analysis is necessary as a first step to the testing. Under this guidance, a company will not be required to calculate the fair value of a reporting unit that contains recorded goodwill unless it concludes, based on the qualitative assessment, that it is more likely than not that the fair value of that reporting unit is less than its book value. If a decline in fair value is deemed more likely than not to have occurred, then the quantitative goodwill impairment test that is provided under generally accepted accounting principles in the United States of America, or GAAP, must be completed; otherwise, goodwill is deemed not to be impaired and no further testing is required until the next annual test date (or sooner if conditions or events before that date raise concerns of potential impairment in the reporting unit). The amended goodwill impairment guidance does not affect the manner in which a company estimates fair value. The new standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its financial condition, results of operations, cash flows, or disclosures.

The FASB issued in June 2011, and amended in December 2011, a standard requiring entities to present net income and other comprehensive income in either a single continuous statement or in two, but consecutive, statements of net income and other comprehensive income. Under both alternatives, an entity is required to present each component of net income and other comprehensive income, their respective totals, and totals for comprehensive income. This standard eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendment is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of this guidance to have a material impact on its financial condition, results of operations, cash flows, or disclosures.

In May 2011, the FASB amended fair value measurement and disclosure guidance. The amended guidance clarified existing fair value measurement guidance, revised certain measurement guidance and expanded disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of this guidance to have a material impact on its financial condition, results of operations, cash flows, or disclosures.

Transactions with Related Persons

From time to time, the Company enters into transactions in the normal course of business with related persons. Management believes that such transactions are on terms that would have been obtained from unaffiliated third persons.

One of the Company's directors, Peter W. Mullin, is the chairman, chief executive officer and majority stockholder in various entities (collectively referred to as the "Mullin Companies") that previously provided executive compensation, benefit consulting and insurance agency services to the Company. In October 2008, the assets of the Mullin Companies were sold to a subsidiary of Prudential Financial, Inc. ("Prudential"). During 2011, the Company paid premiums to insurance carriers for life insurance originally placed by the Mullin Companies in connection with its various employee benefit plans. Mr. Mullin received approximately \$.09 million, \$.09 million, and \$.09 million in 2011, 2010, and 2009, respectively, from the commissions earned by Prudential from those insurance carriers. Mr. Mullin's share of the commissions was determined in accordance with the terms of a commission sharing agreement entered into between Mr. Mullin and Prudential at the time of the sale. In addition, substantially all of the life insurance policies the Company originally placed through the Mullin Companies were issued by insurance carriers that participated in reinsurance agreements with M Life Insurance Company ("M Life"), a wholly-owned subsidiary of M Financial Holdings, Inc., a company in which the Mullin Companies own a minority interest and for which Mr. Mullin serves as chairman. Mr. Mullin received approximately \$.09 million, \$.13 million and none in 2011, 2010, and 2009, respectively, from the net reinsurance gains of M Life. A portion of the reinsurance gains received by Mr. Mullin are subject to forfeiture in certain circumstances.

NOTE 2. DISCONTINUED OPERATIONS AND SALE OF PRODUCT LINES

Discontinued Operations

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

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

The operating results of these discontinued operations were as follows:

(In millions)	2011	2010	2009
Net sales	\$ 760.4	\$ 809.3	\$ 845.3
Income before taxes	\$ 64.9	\$ 112.3	\$ 135.7
Provision for income taxes	29.2	37.2	47.8
Income from discontinued operations, net of tax	\$ 35.7	\$ 75.1	\$ 87.9

Net sales from the Company's continuing operations to the OCP business were \$85.6 million, \$78.6 million, and \$78.8 million, during 2011, 2010, and 2009, respectively. These sales have been included in "Net sales" in the Consolidated Statements of Operations.

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

(In millions)	2011
Assets:	
Trade accounts receivable, net	\$ 117.7
Inventories, net	50.9
Other current assets	5.9
Total current assets	174.5
Property, plant and equipment, net	74.2
Goodwill	166.0
Other intangibles resulting from business acquisitions, net	32.9
Other assets	7.3
	\$ 454.9
Liabilities:	
Short-term debt	\$ 1.1
Accounts payable	34.7
Accrued payroll and employee benefits	10.9
Accrued trade rebates	64.5
Other current liabilities	29.7
Total current liabilities	140.9
Non-current liabilities	13.6
	\$ 154.5

Sale of Product Lines

In 2011, the Company received proceeds totaling \$21.5 million from the sale of two product lines, one from its Performance Films business (\$21 million) and the other from its Label and Packaging Materials business (\$.5 million). In connection with the sale of the product line from the Performance Films business, the Company recognized a gain of \$5.6 million in 2011 (included in "Other expense, net" in the Consolidated Statements of Operations).

NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Results from the Company's annual impairment test in the fourth quarter of 2011 indicated that no impairment had occurred in 2011.

In connection with the preparation of its first quarter 2009 financial statements, the Company determined that there was a need to initiate an interim impairment test of goodwill and indefinite-lived intangible assets ("goodwill impairment"). The factors considered included both a sustained decline in the Company's stock price and a decline in the Company's 2009 revenue projections for the retail branding and information solutions reporting unit, following lower than expected revenues in March 2009, which continued in April 2009. The peak season for the retail branding and information solutions reporting unit has traditionally been March through the end of the second quarter.

In the first quarter of 2009, the Company recorded non-cash impairment charges of \$832 million for the retail branding and information solutions reporting unit, of which \$820 million was related to goodwill and \$12 million was related to indefinite-lived intangible assets.

The primary factors contributing to the \$832 million of non-cash impairment charges relative to the Company's goodwill impairment test in the fourth quarter of 2008 were the assumed increase in the discount rate, the reduced assumptions for revenue growth through 2013, and the associated cash flow impact from these reduced projections. The change in these factors reflected worsening economic projections and market conditions.

Goodwill

Changes in the net carrying amount of goodwill for 2011 and 2010, by reportable segment and other businesses, were as follows:

(In millions)	Pressure-sensitive Materials	Retail Branding and Information Solutions	Other specialty converting businesses	Discontinued operations	Total
Goodwill	\$ 351.4	\$ 1,242.8	\$ 3.6	\$ 173.0	\$ 1,770.8
Accumulated impairment losses ⁽¹⁾	—	(820.0)	—	—	(820.0)
Balance as of January 2, 2010	351.4	422.8	3.6	173.0	950.8
Acquisitions	—	.7	—	—	.7
Translation adjustments	(5.4)	(.3)	(.1)	(4.9)	(10.7)
Balance as of January 1, 2011	346.0	423.2	3.5	168.1	940.8
Acquisition adjustments	—	(.5)	—	—	(.5)
Translation adjustments	(9.3)	(3.6)	—	(2.1)	(15.0)
Discontinued operations ⁽²⁾	—	—	—	(166.0)	(166.0)
Balance as of December 31, 2011	\$ 336.7	\$ 419.1	\$ 3.5	\$ —	\$ 759.3
Goodwill	\$ 336.7	\$ 1,239.1	\$ 3.5	\$ —	\$ 1,579.3
Accumulated impairment losses ⁽¹⁾	—	(820.0)	—	—	(820.0)
Balance as of December 31, 2010	\$ 336.7	\$ 419.1	\$ 3.5	\$ —	\$ 759.3

(1) The Company recorded a non-cash impairment charge of \$820 for the retail branding and information solutions reporting unit in the first quarter of 2009.

(2) In connection with the divestiture of the Company's OCP business, the goodwill balance was classified in the Consolidated Balance Sheet at year end 2011 as "Assets held for sale." See Note 2, "Discontinued Operations and Sale of Product Lines," for more information.

Indefinite-Lived Intangible Assets

In the first quarter of 2009, the Company recorded a non-cash impairment charge of \$12 million related to indefinite-lived intangible assets resulting from business acquisitions, consisting of trade names and trademarks. At December 31, 2011 and January 1, 2011, the carrying value of these indefinite-lived intangible assets was \$18 million.

Finite-Lived Intangible Assets

The following table sets forth the Company's finite-lived intangible assets resulting from business acquisitions at December 31, 2011 and January 1, 2011, which continue to be amortized:

(In millions)	2011 ⁽¹⁾			2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 233.2	\$ 117.2	\$ 116.0	\$ 291.9	\$ 119.2	\$ 172.7
Patents and other acquired technology	49.0	29.7	19.3	53.6	28.1	25.5
Trade names and trademarks	25.4	21.5	3.9	44.8	38.0	6.8
Other intangibles	12.2	8.2	4.0	14.4	8.5	5.9
Total	\$ 319.8	\$ 176.6	\$ 143.2	\$ 404.7	\$ 193.8	\$ 210.9

(1) The finite-lived intangible assets related to the Company's OCP business were classified in the Consolidated Balance Sheet at year end 2011 as "Assets held for sale." See Note 2, "Discontinued Operations and Sale of Product Lines," for more information.

Amortization expense for finite-lived intangible assets resulting from business acquisitions was \$30.3 million for 2011, \$29.8 million for 2010, and \$30 million for 2009.

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

(In millions)	Estimated Amortization Expense
2012	\$ 29.8
2013	28.3
2014	24.6
2015	21.1
2016	19.5

As of December 31, 2011, the weighted-average amortization periods from the date of acquisition and weighted-average remaining useful lives of finite-lived intangible assets were as follows:

(In years)	Weighted-average amortization periods from the date of acquisition	Weighted- average remaining useful life
Customer relationships	11	5
Patents and other acquired technology	13	5
Trade names and trademarks	12	6
Other intangibles	6	3

NOTE 4. DEBT

Short-term variable rate domestic borrowings from commercial paper issuances were \$149.4 million (weighted-average interest rate of .4%) at December 31, 2011 and \$298 million (weighted-average interest rate of .4%) at January 1, 2011.

The Company had \$76.2 million (weighted-average interest rate of 12.9%) and \$81.8 million (weighted-average interest rate of 10.6%) of borrowings outstanding under foreign short-term lines of credit at December 31, 2011 and January 1, 2011, respectively.

Uncommitted lines of credit were approximately \$452 million at December 31, 2011 and may be cancelled at any time by the Company or the banks.

Unutilized available short-term financing arrangements totaled \$1.05 billion at December 31, 2011.

Commitment fees related to the Company's committed lines of credit in 2011, 2010, and 2009, were \$2.5 million, \$2.6 million, and \$2.3 million, respectively.

Long-term debt and its respective weighted-average interest rates at December 31, 2011 consisted of the following:

(In millions)	2011	2010
Medium-term notes:		
Series 1995 at 7.5% — due 2015 through 2025	\$ 50.0	\$ 50.0
Long-term notes:		
Senior notes due 2013 at 4.9%	250.0	250.0
Senior notes due 2017 at 6.6%	249.2	249.2
Senior notes due 2020 at 5.4%	249.8	249.8
Senior notes due 2033 at 6.0%	150.0	150.0
Other long-term borrowings	6.8	8.4
Less amount classified as current	(1.6)	(1.2)
Total long-term debt	\$ 954.2	\$ 956.2

The Company's medium-term notes have maturities from 2015 through 2025 and accrue interest at various fixed rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Year	(In millions)
2012 (classified as current)	\$ 1.6
2013	251.9
2014	1.6
2015	5.8
2016	.1
2017 and thereafter	694.8

In December 2011, the Company amended and restated its revolving credit facility (the "Revolver") with certain domestic and foreign banks, which reduced the amount available thereunder from \$1 billion to \$675 million. The amendment extended the Revolver's maturity date to December 22, 2016, modified the minimum interest coverage financial covenant level, and adjusted pricing to reflect market conditions. The maturity date may be extended for one-year periods under certain circumstances as set forth in the agreement. Commitments under the Revolver may be increased by up to \$250 million, subject to lender approval and customary requirements. Financing available under the Revolver will be as a commercial paper back-up facility and to finance other corporate requirements. In conjunction with the amendment, the Company recorded a debt extinguishment loss of \$0.7 million (included in "Other expense, net" in the Consolidated Statements of Operations) related to the unamortized debt issuance costs for the original Revolver. No balances were outstanding under the Revolver as of December 31, 2011.

In March 2009, the Company completed an exchange of approximately 6.6 million units (or 75.15%) of its HiMEDS units. The Company issued approximately 6.5 million shares of its common stock and paid approximately \$43 million in cash for the exchanged HiMEDS units with a carrying value of approximately \$331 million. As a result of this exchange, the Company recorded a debt extinguishment loss of approximately \$21 million (included in "Other expense, net" in the Consolidated Statements of Operations) in the first quarter of 2009, which included a write-off of \$9.6 million related to unamortized debt issuance costs. In November 2010, the Company completed the remarketing of its remaining HiMEDS senior notes in accordance with the original terms of the HiMEDS units by purchasing approximately \$109 million of these senior notes. In aggregate, this remarketing resulted in the extinguishment of approximately \$109 million of senior notes and the issuance of approximately 2.1 million shares of the Company's common stock. As a result of this remarketing, the Company recorded a debt extinguishment loss of \$2.8 million (included in "Other expense, net" in the Consolidated Statements of Operations), which consisted of a write-off related to unamortized debt issuance costs.

In April 2010, the Company issued \$250 million of senior notes bearing an interest rate of 5.375% per year, due April 2020. Approximately \$248 million in proceeds from the offering, net of underwriting discounts and offering expenses, were used, together with commercial paper borrowings, to repay the \$325 million in indebtedness outstanding under a credit agreement of a wholly-owned subsidiary of the Company ("the Credit Facility") in May 2010. In the second quarter of 2010, the Company recorded a debt extinguishment loss of \$1.2 million related to unamortized debt issuance costs from the Credit Facility.

The Company's various loan agreements in effect at year end require that it maintain specified financial covenant ratios of total debt and interest expense in relation to certain measures of income. As of December 31, 2011, the Company was in compliance with its financial covenants.

The Company's total interest costs in 2011, 2010, and 2009 were \$75.8 million, \$80.2 million, and \$89.1 million, respectively, of which \$4.8 million, \$3.9 million, and \$4.2 million, respectively, were capitalized as part of the cost of assets.

The fair value of the Company's long-term debt is estimated primarily based on the credit spread above U.S. Treasury securities on notes with similar rates, credit rating, and remaining maturities. The fair value of the Company's total debt, including short-term borrowings, was \$1.22 billion at December 31, 2011 and \$1.39 billion at January 1, 2011. 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. Refer to Note 1, "Summary of Significant Accounting Policies."

The Company had standby letters of credit with an aggregate contract amount outstanding totaling \$36.1 million and \$41.1 million at December 31, 2011 and January 1, 2011, respectively. The aggregate contract amount of outstanding standby letters of credit approximated fair value.

NOTE 5. FINANCIAL INSTRUMENTS

As of December 31, 2011, the aggregate U.S. dollar equivalent notional value of the Company's outstanding commodity contracts and foreign exchange contracts was \$8.7 million and \$1.20 billion, respectively.

The Company recognizes all derivative instruments as either assets or liabilities at fair value in the Consolidated Balance Sheets. The Company designates 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.

In April 2010, the Company entered into a contract to lock in the Treasury rate component of the interest rate on its \$250 million debt issuance, which is discussed in Note 4, "Debt." On April 9, 2010, the contract settled at a loss of \$.3 million, which is being amortized into interest expense over the term of the related debt.

The following table provides the balances and locations of derivatives as of December 31, 2011:

(In millions)	Asset		Liability	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	\$ 6.5	Other current liabilities	\$ 15.7
Commodity contracts			Long-term retirement benefits and other liabilities	2.9
		\$ 6.5		\$ 18.6

The following table provides the balances and locations of derivatives as of January 1, 2011:

(In millions)	Asset		Liability	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	\$ 16.8	Other current liabilities	\$ 7.9
Commodity contracts	Other current assets	.1	Other current liabilities	2.4
		\$ 16.9		\$ 10.3

Fair Value Hedges

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

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

(In millions)	Location of Gain (Loss) in Income	2011	2010
Foreign exchange contracts	Cost of products sold	\$.5	\$ (3.4)
Foreign exchange contracts	Marketing, general and administrative expense	(13.0)	40.2
		\$ (12.5)	\$ 36.8

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.

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

(In millions)	2011	2010
Foreign exchange contracts	\$ (.9)	\$ (6.0)
Commodity contracts	(3.4)	(4.0)
Interest rate contracts	-	(.3)
	\$ (4.3)	\$ (10.3)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(In millions)	Location of Loss in Income	2011	2010
Foreign exchange contracts	Cost of products sold	\$.9	\$ (4.0)
Commodity contracts	Cost of products sold	(2.9)	(4.6)
Interest rate contracts	Interest expense	(4.2)	(4.8)
		\$ (6.2)	\$ (13.4)

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 was not significant in 2011 and 2010.

As of December 31, 2011, a net loss of approximately \$7 million was expected to be reclassified from "Accumulated other comprehensive loss" to earnings within the next 12 months.

NOTE 6. PENSION AND OTHER POSTRETIREMENT BENEFITS**Defined Benefit Plans**

The Company sponsors a number of defined benefit plans covering eligible U.S. employees and employees in certain other countries. The Company makes contributions to these plans that are sufficient to meet the minimum funding requirements of applicable laws and regulations, plus additional amounts, if any, that management determines to be appropriate. Benefits payable to employees are based primarily on years of service and their compensation during their employment with the Company. Certain benefits provided by one of the Company's U.S. defined benefit plans may be paid, in part, from an employee stock ownership plan. While the Company has not expressed any intent to terminate these plans, the Company may do so at any time, subject to applicable laws and regulations.

The Company is also obligated to pay unfunded termination indemnity benefits to certain employees outside of the U.S. These benefits are subject to applicable agreements, local laws and regulations. The Company has not incurred significant costs related to performance under these types of arrangements and their associated liabilities are not included in the disclosures below.

Effective December 31, 2011, benefits for the Company's U.K. defined benefit plan were frozen. Benefits under these plans stopped accruing; however, pension benefits accrued through December 31, 2011 were preserved and will be paid out (for employees fully vested at the time of retirement or other qualified event) under the terms of the plan. No curtailment loss was incurred by the Company in connection with the freezing of this plan.

Effective December 31, 2010, benefits for three of the Company's U.S. defined benefit plans — the Avery Dennison Pension Plan ("ADPP"), the Benefit Restoration Plan ("BRP"), and the Supplemental Executive Retirement Plan ("SERP") — were frozen. Benefits under these plans stopped accruing; however, pension benefits accrued through December 31, 2010 were preserved and will be paid out (for employees fully vested at the time of retirement or other qualified event) under the terms of their respective plans. As a result of freezing the ADPP and BRP, the Company recognized a curtailment loss of \$2.4 million in 2010, recorded in "Other expense, net" in the Consolidated Statements of Operations. No curtailment gain or loss was recognized from freezing the SERP, as future service continues to impact the plan's benefits and the determination of the value is not known until retirement of the participants. In connection with the freezing of the SERP, the Company granted an aggregate of approximately .2 million of stock options to the active SERP participants, which resulted in approximately \$2.2 million of pretax stock-based compensation expense in the fourth quarter of 2010. This expense reflected the immediate recognition of compensation cost associated with those stock options granted to employees who are retirement eligible, as defined in the Company's stock option and incentive plan. Refer to Note 9, "Shareholders' Equity and Stock-based Compensation."

Plan Assets

Assets of the Company's ADPP are invested in a diversified portfolio that consists primarily of equity and fixed income securities. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, including growth, value, and both small and large capitalization stocks. The Company's target plan asset investment allocation in the U.S. is 65% in equity securities and 35% in fixed income securities and cash, subject to periodic fluctuations in these respective asset classes. The investment objective of the plans is to maximize the total rate of return (income and appreciation) within the limits of prudent risk-taking and Section 404 of the Employee Retirement Income Security Act of 1974, as amended. The plans are diversified across asset classes, striving to achieve an optimal balance between risk and return and between income and capital appreciation. Because many of the pension liabilities are long-term, the investment horizon is also long-term, but the investment plan must also ensure adequate near-term liquidity to meet benefit payments.

Assets of the Company's international plans are invested in accordance with local accepted practices and include equity securities, fixed income securities, insurance contracts and cash. Asset allocations and investments vary by country and plan. The Company's target plan asset investment allocation for its international plans combined is 41% in equity securities, 45% in fixed income securities and cash, and 14% in insurance contracts and other investments, subject to periodic fluctuations in these respective asset classes.

The weighted-average asset allocations for the Company's defined benefit pension plans at end of year 2011 and 2010, by asset category, were as follows:

	2011		2010	
	U.S.	Int'l	U.S.	Int'l
Equity securities	64%	35%	70%	47%
Fixed income securities and cash	36	52	30	43
Insurance contracts and other investments	–	13	–	10
Total	100%	100%	100%	100%

Fair Value Measurements

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

Cash is valued at nominal value. Money market funds are valued at a net asset value ("NAV"). Mutual funds are valued at fair value as determined by quoted market prices, based upon the NAV of shares held by the plans at year end. Pooled funds, which include real estate pooled funds and multi-asset common trust funds, are comprised of shares or units in funds that are not publicly traded and are valued at net unit value, as determined by the fund's trustees based on the underlying securities in the trust. Equities are valued at the closing price reported on the active market on which the individual securities are traded. Real estate investment trusts are valued based on quoted prices in active markets. Debt securities consist primarily of treasury securities and corporate bonds, which are valued using bid prices; observable market inputs to determine these prices include reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids and offers. Insurance contracts are valued at book value, which approximates fair value and is calculated using the prior year balance plus or minus investment returns and changes in cash flows.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table sets forth, by level within the fair value hierarchy, the U.S. plans' assets at fair value as of year end 2011:

(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)
Assets:				
Cash	\$.1	\$.1	\$ —	\$ —
Fixed income securities				
Treasury securities	94.9	94.9	—	—
Money market funds	18.0	—	18.0	—
Pooled funds — U.S. bonds	60.6	—	60.6	—
Agency securities	4.8	—	4.8	—
Corporate debt securities	20.4	—	20.4	—
Asset-backed securities	9.8	—	9.8	—
Government debt securities	3.2	—	3.2	—
Total fixed income securities	211.7	94.9	116.8	—
Equity securities				
Equities — U.S. growth	33.7	33.7	—	—
Equities — U.S. value	80.8	80.8	—	—
Equities — international	16.7	16.7	—	—
Mutual fund — international	11.2	11.2	—	—
Pooled funds — U.S. equities	192.3	—	192.3	—
Pooled funds — international	13.8	—	13.8	—
Total equity securities	348.5	142.4	206.1	—
Total U.S. plan assets at fair value	\$560.3	\$ 237.4	\$ 322.9	\$ —
Other payables⁽¹⁾	(9.1)			
Total U.S. plan assets	\$551.2			

(1) Included accrued receivables and pending broker settlements at year end 2011.

The following table sets forth, by level within the fair value hierarchy, the international plans' assets at fair value as of year end 2011:

(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)
Assets:				
Cash	\$ 11.7	\$ 11.7	\$ —	\$ —
Fixed income securities				
Mutual funds	.3	.3	—	—
Pooled funds — European bonds	211.9	—	211.9	—
Pooled funds — Global bonds	8.4	—	8.4	—
Total fixed income securities	220.6	.3	220.3	—
Equity securities				
Pooled funds — global	55.7	—	55.7	—
Pooled funds — European region	42.2	—	42.2	—
Pooled funds — Asia Pacific region	10.4	—	10.4	—
Pooled funds — U.S.	9.9	—	9.9	—
Pooled funds — emerging markets	14.7	—	14.7	—
Pooled funds — real estate investment trusts	20.5	—	20.5	—
Total equity securities	153.4	—	153.4	—
Other investments				
Pooled funds — other	28.7	—	28.7	—
Insurance contracts	26.5	—	—	26.5
Total other investments	55.2	—	28.7	26.5
Total international plan assets at fair value	\$440.9	\$ 12.0	\$ 402.4	\$ 26.5
Other assets ⁽¹⁾	.4			
Total international plan assets	\$441.3			

(1) Included accrued receivables and pending broker settlements at year end 2011.

The following table presents a reconciliation of Level 3 assets held during the year ended December 31, 2011:

(In millions)	Level 3 assets
	Insurance Contracts
Balance at January 1, 2011	\$ 27.3
Net realized and unrealized gain	.7
Purchases	3.5
Settlements	(3.4)
Transfer to assets held for sale	(1.6)
Impact of changes in foreign currency exchange rates	—
Balance at December 31, 2011	\$ 26.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table sets forth, by level within the fair value hierarchy, the U.S. plans' assets at fair value as of year end 2010:

(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)
Assets:				
Cash	\$.2	\$.2	\$ —	\$ —
Fixed income securities				
Money market funds	56.3	—	56.3	—
Pooled funds — U.S. bonds	109.3	—	109.3	—
Total fixed income securities	165.6	—	165.6	—
Equity securities				
Equities — U.S. growth	84.1	84.1	—	—
Equities — U.S. value	83.1	83.1	—	—
Equities — international	19.0	19.0	—	—
Mutual fund — international	12.7	12.7	—	—
Pooled funds — U.S. equities	140.4	—	140.4	—
Pooled funds — international	34.6	—	34.6	—
Total equity securities	373.9	198.9	175.0	—
Total U.S. plan assets at fair value	\$539.7	\$ 199.1	\$ 340.6	\$ —
Other assets ⁽¹⁾	.3			
Total U.S. plan assets	\$540.0			

(1) Included accrued receivables and pending broker settlements at year end 2010.

The following table sets forth, by level within the fair value hierarchy, the international plans' assets at fair value as of year end 2010:

(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)
Assets:				
Cash	\$ 4.1	\$ 4.1	\$ -	\$ -
Fixed income securities				
Mutual funds	.3	.3	-	-
Pooled funds — European bonds	179.4	-	179.4	-
Total fixed income securities	179.7	.3	179.4	-
Equity securities				
Pooled funds — global	79.3	-	79.3	-
Pooled funds — European region	63.8	-	63.8	-
Pooled funds — Asia Pacific region	12.2	-	12.2	-
Pooled funds — U.S.	11.9	-	11.9	-
Pooled funds — emerging markets	9.3	-	9.3	-
Pooled funds — real estate investment trusts	21.7	-	21.7	-
Total equity securities	198.2	-	198.2	-
Other investments				
Pooled funds — other	16.7	-	16.7	-
Insurance contracts	27.3	-	-	27.3
Total other investments	44.0	-	16.7	27.3
Total international plan assets at fair value	\$426.0	\$ 4.4	\$ 394.3	\$ 27.3
Other assets ⁽¹⁾	.6			
Total international plan assets	\$426.6			

(1) Included accrued receivables and pending broker settlements at year end 2010.

The following table presents a reconciliation of Level 3 assets held during the year ended January 1, 2011:

(In millions)	Level 3 assets
	Insurance Contracts
Balance at January 2, 2010	\$ 26.9
Net realized and unrealized gain	.8
Net purchases, sales and settlements	(.3)
Impact of changes in foreign currency exchange rates	(.1)
Balance at January 1, 2011	\$ 27.3

Postretirement Health Benefits

The Company provides postretirement health benefits to certain U.S. retired employees up to the age of 65 under a cost-sharing arrangement, and provides supplemental Medicare benefits to certain U.S. retirees over the age of 65. The Company's policy is to fund the cost of the postretirement benefits on a cash basis. While the Company has not expressed any intent to terminate postretirement health benefits, the Company may do so at any time.

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

Plan Assumptions*Discount Rate*

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

Long-term Return on Assets

The Company determines the long-term rate of return assumption for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, taking into consideration that assets with higher volatility typically generate a greater return over the long run. Additionally, current market conditions, such as interest rates, are evaluated and peer data is reviewed to check for reasonability and appropriateness.

Healthcare Cost Trend Rate

The Company's practice is to fund the cost of postretirement benefits on a cash basis. For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012. This rate is expected to decrease to approximately 5% by 2018.

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(In millions)	One-percentage- point increase	One-percentage- point decrease
Effect on total of service and interest cost components	\$.02	\$(-.02)
Effect on postretirement benefit obligation	.5	(.4)

Plan Balance Sheet Reconciliations

The following provides a reconciliation of benefit obligations, plan assets, funded status of the plans and accumulated other comprehensive loss:

Plan Benefit Obligations

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2011		2010		2011	2010
	U.S.	Int'l	U.S.	Int'l		
Change in projected benefit obligation:						
Projected benefit obligation at beginning of year	\$ 744.8	\$ 504.7	\$ 693.6	\$ 465.8	\$ 38.7	\$ 37.0
Service cost	.3	11.6	23.8	9.8	1.3	1.5
Interest cost	40.2	26.8	40.1	24.5	1.7	1.9
Participant contribution	—	4.7	—	4.1	1.2	1.2
Amendments ⁽¹⁾	—	—	.8	.1	(34.1)	—
Actuarial loss	88.5	17.0	56.3	50.3	7.0	1.9
Plan transfer ⁽²⁾	2.0	—	2.0	.3	—	—
Benefits paid	(40.0)	(21.2)	(37.8)	(19.5)	(3.4)	(4.8)
Pension curtailment	—	(2.8)	(34.0)	(.8)	—	—
Pension settlements ⁽³⁾	—	(.5)	—	(8.2)	—	—
Foreign currency translation	—	(9.2)	—	(21.7)	—	—
Transfer of obligations to held for sale	—	(11.6)	—	—	—	—
Projected benefit obligation at end of year	\$ 835.8	\$ 519.5	\$ 744.8	\$ 504.7	\$ 12.4	\$ 38.7
Accumulated benefit obligation at end of year	\$ 834.2	\$ 487.0	\$ 742.3	\$ 474.9		

(1) Amendments to U.S. postretirement health benefits represented changes to premium subsidy and retiree eligibility.

(2) Plan transfer for the U.S. represented a transfer from the Company's savings plan.

(3) Pension settlements in 2010 represented settlement events in Canada, Belgium, Korea, Taiwan, and France.

Plan Assets

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2011		2010		2011	2010
	U.S.	Int'l	U.S.	Int'l		
Change in plan assets:						
Plan assets at beginning of year	\$ 540.0	\$ 426.6	\$ 467.7	\$ 402.1	\$ —	\$ —
Actual return on plan assets	.7	19.7	54.7	44.1	—	—
Plan transfer ⁽¹⁾	2.0	—	2.0	.1	—	—
Employer contribution	48.5	21.8	53.4	24.5	2.2	3.6
Participant contribution	—	4.7	—	4.1	1.2	1.2
Benefits paid	(40.0)	(21.2)	(37.8)	(19.5)	(3.4)	(4.8)
Pension settlements ⁽²⁾	—	(.5)	—	(8.2)	—	—
Foreign currency translation	—	(8.2)	—	(20.6)	—	—
Transfer of assets to held for sale	—	(1.6)	—	—	—	—
Plan assets at end of year	\$ 551.2	\$ 441.3	\$ 540.0	\$ 426.6	\$ —	\$ —

(1) Plan transfer for the U.S. represented a transfer from the Company's savings plan.

(2) Pension settlements in 2010 represented settlement events in Canada, Belgium, Korea, Taiwan, and France.

Funded Status

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2011		2010		2011	2010
	U.S.	Int'l	U.S.	Int'l		
Funded status of the plans:						
Non-current assets	\$ —	\$ 35.6	\$ —	\$ 40.0	\$ —	\$ —
Current liabilities	(3.7)	(2.6)	(3.3)	(2.9)	(2.9)	(2.7)
Non-current liabilities	(280.9)	(111.2)	(201.5)	(115.2)	(9.5)	(36.0)
Plan assets less than benefit obligations	\$ (284.6)	\$ (78.2)	\$ (204.8)	\$ (78.1)	\$ (12.4)	\$ (38.7)

	Pension Benefits						U.S. Postretirement Health Benefits		
	2011		2010		2009		2011	2010	2009
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Weighted-average assumptions used for determining year end obligations:									
Discount rate	4.75%	4.80%	5.50%	5.24%	6.00%	5.72%	3.75%	5.25%	5.50%
Rate of increase in future compensation levels	-	2.79	-	2.95	3.59	2.99	-	-	-

The amount in non-current pension assets represents the net assets of the Company's overfunded plans, which consist of a few international plans. The amounts in current and non-current pension liabilities represent the net obligation of the Company's underfunded plans, which consist of all U.S. and several international plans.

For U.S. and international plans combined, the projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were \$1.11 billion and \$713.8 million, respectively, at year end 2011 and \$1.02 billion and \$693.3 million, respectively, at year end 2010.

For U.S. and international plans combined, the accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$1.09 billion and \$703.2 million, respectively, at year end 2011 and \$1 billion and \$693.3 million, respectively, at year end 2010.

Accumulated Other Comprehensive Loss

The following table sets forth the pretax amounts recognized in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets:

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits	
	2011		2010		2009		2011	2010
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l		
Net actuarial loss (gain)	\$480.2	\$ (.1)	\$355.1	\$ (.7)	\$	\$	\$ 31.0	\$ 25.8
Prior service cost (credit)	1.8	3.3	2.2	3.8			(48.2)	(16.5)
Net transition obligation	-	118.4	-	104.2			-	-
Net amount recognized in accumulated other comprehensive loss	\$482.0	\$121.6	\$357.3	\$107.3	\$	\$	\$ (17.2)	\$ 9.3

The following table sets forth the pretax amounts recognized in "Other comprehensive income (loss)":

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2011		2010		2009		2011	2010	2009
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Net actuarial loss (gain)	\$133.6	\$18.1	\$15.9	\$30.1	\$25.1	\$(52.7)	\$ 7.0	\$ 1.9	\$ 5.3
Prior service cost (credit)	-	-	.8	.2	-	(.3)	(34.1)	-	-
Net amount recognized in other comprehensive income (loss)	\$133.6	\$18.1	\$16.7	\$30.3	\$25.1	\$(53.0)	\$(27.1)	\$ 1.9	\$ 5.3

Plan Income Statement Reconciliations

The following table sets forth the components of net periodic benefit cost recorded in income from continuing operations:

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2011		2010		2009		2011	2010	2009
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Service cost	\$.3	\$ 10.5	\$ 19.1	\$ 8.6	\$ 15.5	\$ 10.9	\$ 1.3	\$ 1.2	\$.8
Interest cost	40.2	26.3	32.2	23.8	31.7	25.0	1.7	1.6	1.6
Expected return on plan assets	(45.7)	(24.9)	(38.9)	(25.7)	(39.7)	(26.6)	—	—	—
Recognized net actuarial loss	8.5	4.0	16.2	2.3	7.6	2.0	1.9	1.3	1.2
Amortization of prior service cost	.4	.4	.6	.4	.7	.5	(2.5)	(1.6)	(1.6)
Amortization of transition asset	—	(.5)	—	(.5)	—	(.6)	—	—	—
Recognized (gain) loss on curtailment	—	(.2)	2.4	(.9)	—	—	—	—	—
Recognized (gain) loss on settlement ⁽¹⁾	—	(.1)	—	.4	.7	.2	—	—	—
Net periodic benefit cost	\$ 3.7	\$ 15.5	\$ 31.6	\$ 8.4	\$ 16.5	\$ 11.4	\$ 2.4	\$ 2.5	\$ 2.0

(1) Represented settlement events in Belgium and Korea in 2010.

The following table sets forth the weighted-average assumptions used for determining net periodic cost:

	Pension Benefits						U.S. Postretirement Health Benefits		
	2011		2010		2009		2011	2010	2009
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Discount rate	5.50%	5.24%	6.00% ⁽¹⁾	5.72%	6.60%	5.74%	5.25%	5.50%	6.60%
Expected long-term rate of return on plan assets	8.00	5.48	8.75	6.23	8.75	6.51	—	—	—
Rate of increase in future compensation levels	—	2.95	3.59	2.99	3.59	2.59	—	—	—

(1) The ADPP and BRP were remeasured on August 1, 2010 at 5.40% to reflect the plan freezes effective December 31, 2010.

Plan Contributions

In 2012, the Company expects to contribute approximately \$55 million to its U.S. pension plans. The Company also expects to contribute approximately \$20 million to its international pension plans, bringing its total expected contribution to its U.S. and international pension plans to approximately \$75 million.

The Company also expects to contribute approximately \$3 million to its postretirement benefit plan in 2012.

Future Benefit Payments

Benefit payments, which reflect expected future service, are as follows:

(In millions)	Pension Benefits		U.S. Postretirement Health Benefits
	U.S.	Int'l	
2012	\$ 43.3	\$ 17.7	\$ 3.0
2013	44.8	18.5	2.6
2014	46.1	19.8	2.0
2015	47.5	20.9	1.5
2016	48.8	22.9	1.1
2017 — 2021	272.5	137.6	2.4

Estimated Amortization Amounts in Accumulated Other Comprehensive Loss

The Company's estimates of fiscal year 2012 amortization of amounts included in accumulated other comprehensive loss are as follows:

(In millions)	Pension Benefits		U.S. Postretirement Health Benefits
	U.S.	Int'l	
Net actuarial loss	\$13.7	\$3.3	\$ 2.4
Prior service cost (credit)	.4	.4	(4.8)
Net transition asset	—	(.5)	—
Net amount to be recognized	\$14.1	\$3.2	\$ (2.4)

Defined Contribution Plans

The Company sponsors various defined contribution plans worldwide, with the largest plan being the Avery Dennison Corporation Savings Plan ("Savings Plan"), a 401(k) plan covering its U.S. employees. Employees hired after December 31, 2008, who were no longer eligible to participate in the Company's defined benefit pension plans and early retiree medical plan, received an enhanced Company matching contribution in the Savings Plan through December 31, 2010. Effective January 1, 2011, the Company increased and made uniform its matching contribution for all participants in the Savings Plan in connection with the freeze of the ADPP and BRP on December 31, 2010.

The Company recognized expense of \$21.6 million, \$10.2 million and \$7.7 million in 2011, 2010, and 2009, respectively, related to its match of participant contributions to its U.S. defined contribution plan. These contributions were funded using shares of the Company's common stock held in the ESBT prior to its termination. The ESBT terminated on July 21, 2011 as a result of the utilization of the remaining shares held therein, and thereafter, the Company began funding these contributions using shares of the Company's common stock held in treasury.

Other Retirement Plans

The Company has deferred compensation plans which permit eligible employees and directors to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns specified and variable rates of return. As of year end 2011 and 2010, the Company had accrued \$130.9 million and \$135.3 million, respectively, for its obligations under these plans. These obligations are funded by corporate-owned life insurance contracts and standby letters of credit. As of year end 2011 and 2010, these obligations were secured by standby letters of credit of \$16 million. To assist in the funding of these plans, the Company has purchased corporate-owned life insurance contracts. Proceeds from the insurance policies are payable to the Company upon the death of covered participants. The cash surrender value of these policies, net of outstanding loans, included in "Other assets" in the Consolidated Balance Sheet, was \$186.1 million and \$181.7 million at year end 2011 and 2010, respectively.

The Company's deferred compensation (gain) expense was \$(4.0) million, \$4.4 million, and \$5.6 million for 2011, 2010, and 2009, respectively. A portion of the interest on certain Company contributions may be forfeited by participants if their employment is terminated before age 55 other than by reason of death, disability or retirement.

NOTE 7. COMMITMENTS

Minimum annual rental commitments on operating leases having initial or remaining non-cancelable lease terms of one year or more are as follows:

Year	(In millions)	
2012	\$	64.0
2013		46.3
2014		29.4
2015		21.4
2016		13.6
2017 and thereafter		45.3
Total minimum lease payments	\$	220.0

Operating leases relate primarily to office and warehouse space, and equipment for electronic data processing and transportation. The terms of these leases do not impose significant restrictions or unusual obligations, except as noted below. There were no significant capital lease obligations at year end 2011 and 2010.

On September 9, 2005, the Company completed a ten-year lease financing for a commercial facility located in Mentor, Ohio, used primarily for the headquarters and research center of its Label and Packaging Materials division. The facility consists generally of land, buildings, equipment and office furnishings. The Company leases 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, the Company has an option to purchase the facility at an amount equivalent to the value of the Guarantee. The Company also has an option to remarket the facility at an amount at least equivalent to the Guarantee if the value of the facility is above a certain threshold. However, if the value of the facility is below the threshold, the Company may be required to pay the lessor an amount equivalent to the residual value guarantee. During the second quarter of 2011, the Company 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 \$6 million at December 31, 2011 and included in "Long-term retirement benefits and other liabilities" in the Consolidated Balance Sheets.

Rent expense for operating leases, which includes maintenance and insurance costs and property taxes, was approximately \$85 million in 2011, \$85 million in 2010, and \$86 million in 2009.

Subsequent to year end 2011, the Company entered into a 15-year lease commitment in the Netherlands for an aggregate amount of approximately \$60 million. The Company expects to commence the lease in 2014.

NOTE 8. CONTINGENCIES

Legal Proceedings

The Company and its subsidiaries are involved in various lawsuits, claims, inquiries, and other regulatory and compliance matters, most of which are routine to the nature of the Company's business. The Company has 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 accrued by the Company; however, the Company is unable to reasonably estimate a range of potential expenses. If information becomes available that allows the Company to reasonably estimate the range of potential expenses in an amount higher or lower than what it has accrued, the Company will adjust its 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, management believes that the impact of the resolution of these matters is not, individually or in the aggregate, material to the Company's financial position, results of operations or cash flows.

Environmental Matters

As of December 31, 2011, the Company has 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 the Company's liability has been agreed. The Company is participating with other PRPs at such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

The Company has accrued liabilities for sites where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. Because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate these sites could be higher than the liabilities accrued by the Company; however, the Company is unable to reasonably estimate a range of potential expenses. If information becomes available that allows the Company to reasonably estimate the range of potential expenses in an amount higher or lower than what it has accrued, the Company will adjust its environmental liabilities accordingly. In addition, the Company could identify additional sites for cleanup in the future. The range of expense for remediation of any future-identified sites will be assessed as they arise; until then, a range of expense for such remediation cannot be determined.

The activity in 2011 and 2010 related to environmental liabilities was as follows:

(In millions)	2011	2010
Balance at beginning of year	\$ 46.3	\$ 51.5
Accruals	.4	(1.2)
Payments	(6.1)	(4.0)
Balance at end of year	\$ 40.6	\$ 46.3

As of December 31, 2011, approximately \$10 million of the total balance was classified as short-term.

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.

Other

The Company participates in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. These advances are guaranteed by the Company. At December 31, 2011, the Company had guaranteed approximately \$17 million.

As of December 31, 2011, the Company guaranteed up to approximately \$10 million of certain foreign subsidiaries' obligations to their suppliers, as well as approximately \$412 million of certain subsidiaries' lines of credit with various financial institutions.

NOTE 9. SHAREHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Common Stock and Common Stock Repurchase Program

The Company's Certificate of Incorporation authorizes five million shares of \$1 par value preferred stock (none outstanding), with respect to which the Board of Directors may fix the series and terms of issuance, and 400 million shares of \$1 par value voting common stock.

In 1996, the Company established the ESBT to help meet the Company's future obligations under employee benefit and compensation plans, including stock plans, 401(k) plans, and other employee benefit plans by contributing common stock of the Company. The Board of Directors previously authorized the issuance of up to 18 million shares to be used for the issuance of stock options and the funding of other Company obligations arising from various employee benefit plans. During the first two quarters of 2011 and full year 2010, approximately

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 million and 4.3 million ESBT shares with a fair value of \$31.4 million and \$163 million, respectively, were released by the ESBT upon the settlement of a portion of the Company's employee benefit obligations. These shares were included as "Treasury stock at cost" in the Consolidated Balance Sheets. The ESBT terminated on July 21, 2011 upon the utilization of the remaining balance of shares held therein, and the Company began using shares of the Company's common stock held in treasury to settle exercises and releases of stock-based awards.

The Board of Directors authorizes the Company to repurchase shares of the Company's outstanding common stock. Repurchased shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. In 2011 and 2010, the Company repurchased approximately .3 million and 2.7 million shares totaling \$13.5 million and \$108.7 million, respectively. On January 27, 2011, the Board of Directors authorized the Company to repurchase an additional 5 million shares of the Company's stock. As of December 31, 2011, approximately 6 million shares were available for repurchase under this and prior Board authorizations.

Stock-Based Compensation

The Company maintains various stock option and incentive plans and grants its annual stock-based compensation awards to eligible employees in February and non-employee directors in April. Awards granted to retirement-eligible employees vest in full upon retirement; awards to these employees are treated as though the awards were fully vested at the date of grant.

The stock-based compensation expense is based on the estimated fair value of awards expected to vest, amortized on a straight-line basis over the requisite service period. Net income for 2011, 2010, and 2009 included pretax stock-based compensation expense, which related to stock options, performance units ("PUs"), restricted stock units ("RSUs") and restricted stock, of \$37.1 million, \$31.4 million, and \$23.2 million, respectively. These expenses were included in "Marketing, general and administrative expense." The total recognized tax benefit related to these stock-based compensation expenses for 2011, 2010, and 2009 was \$13.6 million, \$11.9 million, and \$8.5 million, respectively. No stock-based compensation cost was capitalized for the years ended 2011, 2010, and 2009, respectively.

Stock Options

Stock options granted to non-employee directors and employees may be granted at no less than 100% of the fair market value of the Company's common stock on the date of the grant. Options generally vest ratably over a three-year period for non-employee directors and over a four-year period for employees. Prior to fiscal year 2010, options granted to non-employee directors generally vested ratably over a two-year period. Options expire ten years from the date of grant.

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

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

Expected stock price volatility for options represents an average of the implied and historical volatility.

Expected dividend yield was based on the current annual dividend divided by the 12-month average of the Company's monthly stock price prior to grant.

Expected option term was determined based on historical experience under the Company's stock option and incentive plan.

The weighted-average fair value per share of options granted during 2011 was \$9.45, compared to \$8.76 for the year ended 2010 and \$6.57 for the year ended 2009.

The underlying weighted-average assumptions used were as follows:

	2011	2010	2009
Risk-free interest rate	2.22%	2.61%	2.76%
Expected stock price volatility	30.70%	31.99%	41.51%
Expected dividend yield	2.76%	2.51%	3.83%
Expected option term	6.2 years	6.0 years	6.1 years

The following table sets forth stock option information related to the Company's stock option plans during 2011:

	Number of options (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at January 1, 2011	11,568.4	\$ 47.06	5.75	\$ 62.0
Granted	1,550.3	39.08		
Exercised	(169.1)	23.23		
Forfeited or expired	(1,603.9)	51.71		
Outstanding at December 31, 2011	11,345.7	\$ 46.27	5.67	\$ 12.0
Options vested and expected to vest at December 31, 2011	10,962.6	46.66	5.58	11.5
Options exercisable at December 31, 2011	7,611.9	\$ 51.98	4.44	\$ 6.2

The total intrinsic value of stock options exercised was \$2.9 million in 2011, \$1.9 million in 2010, and \$.2 million in 2009. Cash received by the Company from the exercise of these stock options was approximately \$3.9 million in 2011, \$2.5 million in 2010, and \$.6 million in 2009. The tax benefit associated with these exercised options was \$.9 million in 2011, \$.6 million in 2010, and \$.1 million in 2009. The intrinsic value of the stock options is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

As of December 31, 2011, the Company had approximately \$17 million of unrecognized compensation cost related to unvested stock option awards granted under the Company's plans. The unrecognized compensation expense is expected to be recognized over the remaining weighted-average requisite service period of approximately two years.

Performance Units

Since the second quarter of 2008, the Company has granted PUs to certain eligible employees of the Company. These PUs are payable in shares of the Company's common stock at the end of a three-year cliff vesting period provided that certain performance metrics are achieved at the end of the period. Over the performance period, the number of shares of the Company's common stock issued will be adjusted upward or downward based upon the probability of achievement of performance metrics. The actual number of shares issued can range from 0% to 200% of the target shares at the time of grant.

The following table summarizes information about awarded PUs:

	Number of PUs (in thousands)	Weighted-average grant-date fair value
Unvested at January 1, 2011	918.1	\$ 24.52
Granted at target	341.0	42.10
Forfeited	(351.4)	34.86
Unvested at December 31, 2011	907.7	\$ 27.20

The Company did not achieve the performance metrics threshold for the 2008-2010 performance period, and accordingly, the PUs granted in 2008 were cancelled in the first quarter of 2011.

As of December 31, 2011, the Company had approximately \$13 million of unrecognized compensation cost related to these PUs, which reflects the Company's current expectation of meeting certain performance metrics. The unrecognized compensation expense is expected to be recognized over the remaining weighted-average requisite service period of approximately two years.

Restricted Stock Units and Restricted Stock

RSU's are granted under the Company's stock option and incentive plan and vest ratably over a period of 3 to 5 years provided that employment continues for 3 to 5 years after the date of the award. If the condition is not met, unvested RSUs are forfeited.

Certain RSUs granted from 2005 through 2008 included dividend equivalents in the form of additional RSUs, which are equivalent to the amount of the dividend paid or property distributed on a single share of common stock multiplied by the number of RSUs in the employee's account that are eligible to receive dividend equivalents. Starting in fiscal year 2008, the Company ceased granting RSUs with dividend equivalents.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes information about awarded RSUs:

	Number of RSUs (in thousands)	Weighted-average grant-date fair value
Unvested at January 1, 2011	1,127.9	\$ 30.00
Granted	599.3	36.04
Vested	(435.4)	36.06
Forfeited	(172.6)	31.03
Unvested at December 31, 2011	1,119.2	\$ 31.26

During 2005, the Company made one grant of 30,000 shares of restricted stock, which vests in two equal installments; the first installment vested in 2009 and the second will vest in 2012.

As of December 31, 2011, the Company had approximately \$21 million and \$.1 million of unrecognized compensation cost related to unvested RSUs and restricted stock, respectively. The unrecognized compensation expense is expected to be recognized over the remaining weighted-average requisite service period of approximately two years for RSUs and half a year for restricted stock.

NOTE 10. COST REDUCTION ACTIONS
2011 Actions

In 2011, the Company recorded approximately \$45 million in restructuring charges, consisting of severance and related costs for the reduction of approximately 910 positions, asset impairment charges, and lease cancellation costs. At December 31, 2011, approximately 80 employees impacted by these actions remain with the Company.

Q3 2010 — Q4 2010 Actions

In the second half of 2010, the Company recorded approximately \$10 million in restructuring charges, consisting of severance and related costs for the reduction of approximately 725 positions, asset impairment charges, and lease cancellation costs. At December 31, 2011, no employees impacted by these actions remain with the Company.

Q4 2008 — Q2 2010 Program

The Company recorded approximately \$150 million in restructuring charges (of which \$105 million represents cash charges) related to this restructuring program, consisting of severance and related costs, asset impairment charges, and lease cancellation costs. Severance and related costs were related to approximately 4,350 positions. At December 31, 2011, no employees impacted by these actions remain with the Company.

Severance and lease cancellation costs under these restructuring actions were recorded to "Other current liabilities" in the Consolidated Balance Sheets. Asset impairments were based on the estimated market value of the assets. Restructuring charges and payments/settlements during 2011 and 2010 were as follows:

(In millions)	Accrual at January 1, 2011	2011 Charges	2011 Cash Payments	2011 Non-cash Settlements	Currency translation	Accrual at December 31, 2011
Prior restructuring actions	\$.1	\$.1	\$ (.2)	\$ —	\$ —	\$ —
Q4 2008 — Q2 2010						
Severance and related costs	2.4	(2.1)	(1.0)	—	.7	—
Lease cancellation costs	.6	—	(.6)	—	—	—
Q3 2010 — Q4 2010						
Severance and related costs	7.6	—	(7.3)	—	(.1)	.2
Lease cancellation costs	1.1	(.1)	(1.0)	—	—	—
2011						
Severance and related costs	—	37.4	(24.4)	—	(.3)	12.7
Lease cancellation costs	—	2.9	(1.1)	—	—	1.8
Asset impairment	—	7.0	—	(7.0)	—	—
	\$ 11.8	\$ 45.2	\$ (35.6)	\$ (7.0)	\$.3	\$ 14.7

(In millions)	Accrual at January 2, 2010	2010 Charges	2010 Cash Payments	2010 Non-cash Settlements	Currency translation	Accrual at January 1, 2011
Prior restructuring actions	\$ 2.4	\$ (.2)	\$ (2.1)	\$ —	\$ —	\$.1
Q4 2008 — Q2 2010						
Severance and related costs	33.0	5.5	(33.6)	—	(2.5)	2.4
Lease cancellation costs	1.5	—	(.9)	—	—	.6
Asset impairment	—	1.2	—	(1.2)	—	—
Q3 2010 — Q4 2010						
Severance and related costs	—	9.9	(2.4)	—	.1	7.6
Lease cancellation costs	—	1.2	(.1)	—	—	1.1
Asset impairment	—	1.4	—	(1.4)	—	—
	\$ 36.9	\$ 19.0	\$ (39.1)	\$ (2.6)	\$ (2.4)	\$ 11.8

The table below shows the total amount of costs incurred by reportable segment and other businesses in connection with these restructuring actions during the last three years. Restructuring costs in continuing operations are included in "Other expense, net" in the Consolidated Statements of Operations.

(In millions)	2011	2010	2009
Restructuring costs by segment:			
Pressure-sensitive Materials	\$ 16.4	\$ 5.8	\$ 34.8
Retail Branding and Information Solutions	19.9	4.0	51.7
Other specialty converting businesses	8.2	2.9	29.3
Continuing operations	\$ 44.5	\$ 12.7	\$ 115.8
Discontinued operations	\$.7	\$ 6.3	\$ 13.3
	\$ 45.2	\$ 19.0	\$ 129.1

NOTE 11. TAXES BASED ON INCOME

Taxes based on income (loss) were as follows:

(In millions)	2011	2010	2009
Current:			
U.S. federal tax	\$.6	\$ (39.2)	\$ (54.0)
State taxes	(1.0)	(6.9)	(2.9)
International taxes	79.2	87.7	52.6
	78.8	41.6	(4.3)
Deferred:			
U.S. federal tax	(9.9)	(14.4)	(44.6)
State taxes	(1.4)	7.5	(7.0)
International taxes	11.0	(37.5)	(36.1)
	(.3)	(44.4)	(87.7)
Provision for (benefit from) income taxes	\$ 78.5	\$ (2.8)	\$ (92.0)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The principal items accounting for the difference in taxes as computed at the U.S. statutory rate, and as recorded, were as follows:

(In millions)	2011	2010	2009
Computed tax at 35% of income (loss) before taxes	\$ 81.5	\$ 83.6	\$ (324.3)
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	(2.3)	(1.3)	(12.2)
Foreign earnings taxed at different rates	2.5	(58.8)	(2.4)
Valuation allowance	8.3	2.5	4.0
Goodwill and indefinite-lived intangible asset impairment	—	—	276.4
Deferred compensation assets	(5.1)	(7.9)	(30.5)
U.S. federal tax credits (R&D and low-income housing)	(4.6)	(3.8)	(2.8)
Tax contingencies and audit settlements	1.6	(17.7)	7.2
Other items, net	(3.4)	.6	(7.4)
Provision for (benefit from) income taxes	\$ 78.5	\$ (2.8)	\$ (92.0)

Consolidated income (loss) before taxes from continuing U.S. and international operations was as follows:

(In millions)	2011	2010	2009
U.S.	\$ (64.6)	\$ (45.7)	\$ (518.0)
International	297.5	284.7	(408.6)
Income (loss) from continuing operations before taxes	\$ 232.9	\$ 239.0	\$ (926.6)

The effective tax rate for continuing operations was approximately 34% for 2011 compared with approximately (1%) for 2010. The 2011 effective tax rate for continuing operations reflected \$8.3 million of expense for increases to valuation allowances and \$2.8 million of expense from the settlement of a foreign tax audit.

The 2010 effective tax rate reflected \$45.5 million of benefit from net operating losses resulting from the local statutory write-down of certain investments in Europe due to a decline in their value. The decline in value established a net operating loss asset subject to recapture. As a result of a legal entity restructuring, the liability for the recapture was eliminated, causing the Company to recognize a discrete tax benefit in the fourth quarter. The Company does not expect events of this nature to occur frequently since the recognition of the tax effects of declines in values of subsidiaries requires specific tax planning and restructuring actions, and the Company has no plans to pursue such actions. The 2010 effective tax rate also reflected \$17.7 million of net benefit from normally-occurring releases and accruals of certain tax reserves, which were in part due to reductions in the Company's tax positions for prior years due to settlements with taxing jurisdictions and lapses of applicable statutory periods. Net operating losses, including the net operating losses which resulted from the local statutory write-down of certain investments in Europe referenced above, may offset future taxable income, thereby lowering cash tax payments over the coming years.

Income taxes have not been provided on certain undistributed earnings of foreign subsidiaries of approximately \$1.3 billion and \$1.2 billion at December 31, 2011 and January 1, 2011, respectively, because the earnings are considered to be indefinitely reinvested. It is not practicable to estimate the amount of tax that would be payable upon distribution of these earnings. Deferred taxes have been accrued for earnings that are not considered indefinitely reinvested. The repatriation accrual for the year ended December 31, 2011 and January 1, 2011 is \$18.1 million and \$15.3 million, respectively.

Deferred income taxes reflect the temporary differences between the amounts at which assets and liabilities are recorded for financial reporting purposes and the amounts utilized for tax purposes. The primary components of the temporary differences that gave rise to the Company's deferred tax assets and liabilities were as follows:

(In millions)	2011	2010
Accrued expenses not currently deductible	\$ 62.2	\$ 69.7
Net operating losses	352.3	348.5
Tax credit carryforwards	129.8	111.4
Capital loss carryforward	11.7	13.5
Postretirement and post employment benefits	102.7	108.6
Pension costs	127.5	104.2
Inventory reserves	11.9	11.6
Other assets	3.7	7.5
Valuation allowance	(122.8)	(115.6)
Total deferred tax assets ⁽¹⁾	679.0	659.4
Depreciation and amortization	(168.7)	(188.1)
Repatriation accrual	(18.1)	(15.3)
Foreign operating loss recapture	(119.0)	(122.0)
Other liabilities	(9.8)	(6.6)
Total deferred tax liabilities ⁽¹⁾	(315.6)	(332.0)
Total net deferred tax assets	\$ 363.4	\$ 327.4

(1) Reflected gross amount before jurisdictional netting of deferred tax assets and liabilities.

A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized. When establishing a valuation allowance, the Company considers future sources of taxable income such as "future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards" and "tax planning strategies."

Net operating loss carryforwards of foreign subsidiaries at December 31, 2011 and January 1, 2011 were \$1.13 billion and \$1.14 billion, respectively. If unused, foreign net operating losses of \$51.8 million will expire between 2012 and 2015, and \$119.2 million will expire after 2015. Net operating losses of \$955.7 million can be carried forward indefinitely. Based on current projections, certain indefinite-lived foreign net operating losses may take approximately 50 years to be fully utilized. Tax credit carryforwards of both domestic and foreign subsidiaries at December 31, 2011 and January 1, 2011 totaled \$129.8 million and \$111.4 million, respectively. If unused, tax credit carryforwards of \$5.9 million will expire between 2012 and 2014, \$87.2 million will expire between 2015 and 2019, and \$28.5 million will expire after 2019. Tax credit carryforwards of \$8.2 million can be carried forward indefinitely. The Company has established a valuation allowance for the net operating loss and credit carryforwards not expected to be utilized. The valuation allowance at December 31, 2011 and January 1, 2011 was \$122.8 million and \$115.6 million, respectively.

The Company has been granted tax holidays in several jurisdictions including Bangladesh, China, Thailand and Vietnam. The tax holidays expire between 2012 and 2016. These tax holidays benefit the Company's consolidated effective tax rate on continuing operations by less than 2%.

Unrecognized Tax Benefits

On December 31, 2011, the Company's unrecognized tax benefits totaled \$120.3 million, including \$78.5 million of unrecognized tax benefits which, if recognized, would reduce the annual effective income tax rate. As of January 1, 2011, the Company's unrecognized tax benefits totaled \$127.2 million, including \$81.2 million of unrecognized tax benefits which, if recognized, would reduce the annual effective income tax rate.

Where applicable, the Company recognizes potential accrued interest and penalties related to unrecognized tax benefits from its global operations in income tax expense. The Company recognized an expense of \$2.7 million and a benefit of \$2.6 million of interest and penalties in the Consolidated Statements of Operations in 2011 and 2010, respectively. The Company has accrued for \$23.6 million and \$20.9 million of interest and penalties, net of tax benefit, in the Consolidated Balance Sheets at December 31, 2011 and January 1, 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is set forth below:

(In millions)	2011	2010
Balance at beginning of year	\$ 127.2	\$ 151.7
Additions based on tax positions related to the current year	19.7	17.4
Additions for tax position of prior years	2.6	7.0
Reductions for tax positions of prior years:		
Changes in judgment	(2.3)	-
Settlements	(5.5)	(7.9)
Lapses of applicable statute	(19.2)	(36.7)
Changes due to translation of foreign currencies	(2.2)	(4.3)
Balance at end of year	\$ 120.3	\$ 127.2

The amount of income taxes the Company pays is subject to ongoing audits by taxing jurisdictions around the world. The Company's estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Company believes that it has adequately provided for reasonably foreseeable outcomes related to these matters. However, the Company's future results may include favorable or unfavorable adjustments to its estimated tax liabilities in the period the assessments are made or resolved, which may impact the Company's effective tax rate. The Company and its U.S. subsidiaries have completed the Internal Revenue Service's Compliance Assurance Process Program through 2010. The Company is subject to routine tax examinations in other jurisdictions. With some exceptions, the Company and its subsidiaries are no longer subject to examinations by tax authorities for years prior to 2005.

It is reasonably possible that during the next 12 months, the Company may realize a decrease in its gross uncertain tax positions by approximately \$15.7 million, primarily as the result of cash payments and closing tax years. The Company anticipates that it is reasonably possible that cash payments of up to \$7.7 million relating to gross uncertain tax positions could be paid within the next 12 months.

NOTE 12. SEGMENT INFORMATION

The accounting policies of the segments are described in Note 1, "Summary of Significant Accounting Policies." Intersegment sales are recorded at or near market prices and are eliminated in determining consolidated sales. The Company evaluates performance based on income from operations before interest expense and taxes. General corporate expenses are also excluded from the computation of income from operations for the segments.

The Company does not disclose total assets by reportable segment since the Company does not produce and review such information internally. The Company does not disclose revenues from external customers for each product because it is impracticable to do so. As the Company's reporting structure is not organized by country, results by individual country are not provided because it is impracticable to do so.

Financial information by reportable segment and other businesses from continuing operations is set forth below. In 2011, the Company modified its approach to allocating certain corporate costs to its reportable segments to better reflect the costs required to support operations within segment results. Prior year amounts have been restated to conform with the new methodology.

(In millions)	2011	2010	2009
Net sales to unaffiliated customers:			
Pressure-sensitive Materials	\$ 3,971.6	\$ 3,717.4	\$ 3,377.9
Retail Branding and Information Solutions	1,500.8	1,522.1	1,321.2
Other specialty converting businesses	553.9	542.5	487.1
Net sales to unaffiliated customers	\$ 6,026.3	\$ 5,782.0	\$ 5,186.2
Intersegment sales:			
Pressure-sensitive Materials	\$ 170.0	\$ 157.0	\$ 147.1
Retail Branding and Information Solutions	2.3	2.0	1.6
Other specialty converting businesses	39.5	30.7	15.8
Intersegment sales	\$ 211.8	\$ 189.7	\$ 164.5
Income (loss) from continuing operations before taxes:			
Pressure-sensitive Materials	\$ 312.8	\$ 307.0	\$ 174.0
Retail Branding and Information Solutions	49.9	59.9	(905.1)
Other specialty converting businesses	(6.9)	(.4)	(45.3)
Corporate expense	(51.9)	(51.2)	(65.3)
Interest expense	(71.0)	(76.3)	(84.9)
Income (loss) from continuing operations before taxes	\$ 232.9	\$ 239.0	\$ (926.6)

Capital expenditures:			
Pressure-sensitive Materials	\$ 65.3	\$ 50.2	\$ 41.5
Retail Branding and Information Solutions	20.9	28.2	19.6
Other specialty converting businesses	13.5	22.7	7.6
Corporate	1.6	1.8	1.3
Capital expenditures ⁽¹⁾	\$ 101.3	\$ 102.9	\$ 70.0
Depreciation expense:			
Pressure-sensitive Materials	\$ 77.6	\$ 77.8	\$ 86.2
Retail Branding and Information Solutions	53.8	53.2	58.3
Other specialty converting businesses	22.6	26.7	25.6
Corporate	3.8	4.0	3.9
Depreciation expense	\$ 157.8	\$ 161.7	\$ 174.0
Other expense, net by segment:			
Pressure-sensitive Materials	\$ 16.9	\$ 7.1	\$ 75.9
Retail Branding and Information Solutions	18.2	5.8	51.7
Other specialty converting businesses	2.6	3.2	29.2
Corporate	8.9	3.5	21.2
Other expense, net	\$ 46.6	\$ 19.6	\$ 178.0
Other expense, net by type:			
Restructuring costs:			
Severance and related costs	\$ 35.5	\$ 10.0	\$ 78.5
Asset impairment and lease cancellation charges	9.0	2.7	37.3
Other items:			
Gain on sale of a product line	(5.6)	—	—
Gain on sale of an investment	—	(.5)	—
Loss from debt extinguishments	.7	4.0	21.2
Loss from curtailment of domestic pension obligations	—	2.5	—
Legal settlements	(1.2)	.9	41.0
OCP divestiture-related costs	8.2	—	—
Other expense, net	\$ 46.6	\$ 19.6	\$ 178.0

(1) Included capital expenditures accrued but not paid of \$9.5 in 2011, \$12.4 in 2010, and \$8.2 in 2009. Capital expenditures refer to purchases of property, plant and equipment.

Revenues in the Company's continuing operations by geographic area are set forth below. Revenues are attributed to geographic areas based on the location to which the product is shipped. Export sales from the United States to unaffiliated customers are not a material factor in the Company's business.

(In millions)	2011	2010	2009
Net sales to unaffiliated customers:			
U.S.	\$ 1,636.1	\$ 1,602.5	\$ 1,484.7
Europe	2,007.8	1,896.7	1,813.1
Asia	1,533.5	1,474.9	1,198.8
Latin America	489.8	468.4	379.9
Other international	359.1	339.5	309.7
Net sales	\$ 6,026.3	\$ 5,782.0	\$ 5,186.2

Property, plant and equipment, net in the Company's U.S. and international operations are set forth below.

(In millions)	2011	2010	2009
Property, plant and equipment, net:			
U.S.	\$ 370.5	\$ 488.4	\$ 509.3
International	708.9	774.5	845.4
Property, plant and equipment, net	\$ 1,079.4	\$ 1,262.9	\$ 1,354.7

NOTE 13. QUARTERLY FINANCIAL INFORMATION (Unaudited)

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2011				
Net sales	\$1,526.5	\$1,544.8	\$1,500.4	\$1,454.6
Gross profit	399.5	396.4	366.9	358.6
Income from continuing operations	36.9	53.1	35.4	29.0
Income (loss) from discontinued operations	7.9	20.2	14.4	(6.8)
Net income	44.8	73.3	49.8	22.2
Net income (loss) per common share:				
Continuing operations	.35	.50	.33	.27
Discontinued operations	.08	.19	.14	(.06)
Net income per common share	.43	.69	.47	.21
Net income (loss) per common share, assuming dilution:				
Continuing operations	.35	.50	.33	.27
Discontinued operations	.07	.19	.14	(.06)
Net income per common share, assuming dilution	.42	.69	.47	.21
2010				
Net sales	\$1,397.0	\$1,492.8	\$1,429.6	\$1,462.6
Gross profit	371.0	407.4	371.3	364.1
Income from continuing operations	37.0	57.5	47.4	99.9
Income from discontinued operations	17.7	26.3	16.8	14.3
Net income	54.7	83.8	64.2	114.2
Net income per common share:				
Continuing operations	.35	.54	.45	.94
Discontinued operations	.17	.25	.16	.14
Net income per common share	.52	.79	.61	1.08
Net income per common share, assuming dilution:				
Continuing operations	.35	.54	.44	.93
Discontinued operations	.16	.24	.16	.13
Net income per common share, assuming dilution	.51	.78	.60	1.06

"Other expense, net" is presented by type for each quarter below:

(In millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2011				
Restructuring costs:				
Severance and related costs	\$ 2.7	\$ 7.2	\$ 14.6	\$ 11.0
Asset impairment and lease cancellation charges	3.3	.1	.3	5.3
Other items:				
Gain on sale of a product line	–	–	–	(5.6)
Loss from debt extinguishments	–	–	–	.7
Legal settlements	(1.7)	–	.5	–
OCP divestiture-related costs	–	1.0	2.7	4.5
Other expense, net	\$ 4.3	\$ 8.3	\$ 18.1	\$ 15.9
2010				
Restructuring costs:				
Severance and related costs	\$ 4.0	\$ 2.0	\$ 1.2	\$ 2.8
Asset impairment and lease cancellation charges	.2	.6	1.3	.6
Other items:				
Gain on sale of an investment	–	(.5)	–	–
Loss from debt extinguishments	–	1.2	–	2.8
Loss from curtailment of domestic pension obligations	–	–	2.5	–
Legal settlements	1.4	(.5)	–	–
Other expense, net	\$ 5.6	\$ 2.8	\$ 5.0	\$ 6.2

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 December 31, 2011:

(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)
Assets:				
Available for sale securities	\$12.4	\$ 4.2	\$ 8.2	\$ –
Derivative assets	6.5	–	6.5	–
Liabilities:				
Derivative liabilities	\$18.6	\$ 2.9	\$ 15.7	\$ –

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of January 1, 2011:

(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)
Assets:				
Available for sale securities	\$12.2	\$ 2.9	\$ 9.3	\$ –
Derivative assets	16.9	.1	16.8	–
Liabilities:				
Derivative liabilities	\$10.3	\$ 2.4	\$ 7.9	\$ –

Available for sale securities include fixed income securities (primarily U.S. government and corporate debt securities) measured at fair value using quoted prices/bids. 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. Available for sale securities are included in "Other current assets" in the Consolidated Balance Sheets.

Non-recurring Fair Value Measurements

Long-lived assets with carrying amounts totaling \$4.4 million were written down to their fair value of \$1.3 million, resulting in an impairment charge of \$3.1 million during 2011, which was included in "Other expense, net" in the Consolidated Statements of Operations. Of the \$1.3 million, \$1.1 million was primarily based on Level 2 inputs and \$0.2 million was primarily based on Level 3 inputs. These assets were in the Retail Branding and Information Solutions and Pressure-sensitive Materials segments, as well as in other specialty converting businesses.

Long-lived assets with carrying amounts totaling \$3.4 million were written down to their fair values of \$2.4 million, resulting in an impairment charge of \$1.0 million during 2010, which was included in "Other expense, net" in the Consolidated Statements of Operations. The \$2.4 million fair value write-down was based on Level 2 inputs. These assets were in the Retail Branding and Information Solutions and Pressure-sensitive Materials segments, as well as in other specialty converting businesses.

Long-lived assets with carrying amounts totaling \$27.2 million were written down to their fair values totaling \$9.5 million, resulting in impairment charges of \$17.7 million during 2009. These charges were included in "Other expense, net" in the Consolidated Statements of Operations. Of the \$9.5 million, \$6.5 million was primarily based on Level 2 inputs and \$3 million was primarily based on Level 3 inputs. These assets were in the Retail Branding and Information Solutions and Pressure-sensitive Materials segments.

Goodwill with a carrying amount of \$1.21 billion was written down to its estimated implied fair value of \$415 million, resulting in a non-cash impairment charge of \$820 million in the first quarter of 2009. Additionally, certain indefinite-lived assets with a carrying value of approximately \$30 million were written down to their estimated implied fair value of \$18 million, resulting in a non-cash impairment charge of \$12 million in the first quarter of 2009. The fair value measurements related to these assets were primarily based on discounted cash flows projections which are considered Level 3 inputs. These charges were included in "Goodwill and indefinite-lived intangible asset impairment charges" in the Consolidated Statements of Operations. Refer to Note 3, "Goodwill and Other Intangibles Resulting from Business Acquisitions," for further information.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements and accompanying information were prepared by and are the responsibility of management. The statements were prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts that are based on management's best estimates and judgments.

Oversight of management's financial reporting and internal accounting control responsibilities is exercised by the Board of Directors, through the Audit Committee, which is comprised solely of independent directors. The Committee meets periodically with financial management, internal auditors and the independent registered public accounting firm to obtain reasonable assurance that each is meeting its responsibilities and to discuss matters concerning auditing, internal accounting control and financial reporting. The independent registered public accounting firm and the Company's internal audit department have free access to meet with the Audit Committee without management's presence.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company's evaluation under the framework in *Internal Control — Integrated Framework*, management has concluded that internal control over financial reporting was effective as of December 31, 2011. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Dean A. Scarborough

Dean A. Scarborough
Chairman, President and
Chief Executive Officer

/s/ Mitchell R. Butier

Mitchell R. Butier
Senior Vice President
and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Avery Dennison Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at December 31, 2011 and January 1, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP
Los Angeles, California
February 24, 2012

Corporate Information

Counsel

Latham & Watkins LLP
Los Angeles, California

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Los Angeles, California

Transfer Agent — Registrar

Computershare Trust Co., N.A.
P. O. Box 43078
Providence, Rhode Island 02940-3078
(877) 498-8861
(800) 952-9245 (TDD/TTY)
www.computershare.com/investor

Annual Meeting

The Annual Meeting of Stockholders will be held at 1:30 p.m. on April 26, 2012 in the Miller Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California 91103.

The DirectSERVICE™ Investment Program

Shareholders of record may reinvest their cash dividends in additional shares of Avery Dennison common stock at market price. Investors may also invest optional cash payments of up to \$12,500 per month in Avery Dennison common stock at market price. Avery Dennison investors not yet participating in the program, as well as brokers and custodians who hold Avery Dennison common stock for clients, may obtain a copy of the program by writing to The DirectSERVICE™ Investment Program, c/o Computershare Trust Co., Inc. (include a reference to Avery Dennison in the correspondence), P.O. Box 43078, Providence, RI 02940-3078, calling (877) 498-8861, or logging onto their website at <http://www.computershare.com/investor>.

Direct Deposit of Dividends

Avery Dennison shareholders may deposit quarterly dividend checks directly into their checking or savings accounts. For more information, call Avery Dennison's transfer agent and registrar, Computershare Trust Co. at (877) 498-8861.

Other Information

The Company is including, as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for fiscal year 2011 filed with the Securities and Exchange Commission ("SEC"), certificates of the Chief Executive Officer and Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and the Company submitted to the New York Stock Exchange ("NYSE") the Company's annual written affirmation on April 28, 2011, along with the Chief Executive Officer's certificate that he is not aware of any violation by the Company of NYSE's corporate governance listing standards.

A copy of the Company's Annual Report on Form 10-K, as filed with the SEC, will be furnished to shareholders and interested investors free of charge upon written request to the Secretary of the Company. Copies may also be obtained from the "Investors" section of the Company's website at www.averydennison.com.

Corporate Headquarters

Avery Dennison Corporation
Miller Corporate Center
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Pasadena, California 91103
Phone: (626) 304-2000
Fax: (626) 792-7312

Mailing Address:

P.O. Box 7090
Pasadena, California 91109-7090

Stock and Dividend Data

Common shares of Avery Dennison are listed on the NYSE.
Ticker symbol: AVY

	2011		2010	
	High	Low	High	Low
Market Price ⁽¹⁾				
First Quarter	\$ 42.40	\$ 38.78	\$ 40.07	\$ 30.79
Second Quarter	43.11	36.33	41.39	31.32
Third Quarter	39.59	25.06	38.04	31.67
Fourth Quarter	28.77	23.97	42.49	35.80

(1) Prices shown represent closing prices on the NYSE

	2011	2010
Dividends per Common Share		
First Quarter	\$.25	\$.20
Second Quarter	.25	.20
Third Quarter	.25	.20
Fourth Quarter	.25	.20
Total	\$ 1.00	\$.80
Number of shareholders of record as of year end	7,181	7,610

SUBSIDIARY ⁽¹⁾	JURISDICTION IN WHICH ORGANIZED
ADC PHILIPPINES, INC.	PHILIPPINES
ADESPAN S.R.L.	ITALY
ADESPAN U.K. LIMITED	UNITED KINGDOM
ADHIPRESS BANGLADESH LTD.	BANGLADESH
ADHIPRESS (HONG KONG) LTD.	HONG KONG
ADVANCE FAR INVESTMENTS LIMITED	BRITISH VIRGIN ISLANDS
ALKAHN HONG KONG LABELS LTD.	HONG KONG
AMERICAN TRIM PRODUCTS (ASIA) LIMITED	HONG KONG
ARTISTIC INTERNATIONAL (HK) LTD.	HONG KONG
ASTRIA S.R.L.	ITALY
AVERY CORP.	U.S.A.
AVERY DE MEXICO SRL DE CV	MEXICO
AVERY DENNISON HOLDINGS (MALTA) LIMITED	MALTA
AVERY DENNISON AUSTRALIA GROUP HOLDINGS PTY LIMITED	AUSTRALIA
AVERY DENNISON AUSTRALIA INTERNATIONAL HOLDINGS PTY LTD.	AUSTRALIA
AVERY DENNISON AUSTRALIA PTY LTD.	AUSTRALIA
AVERY DENNISON BELGIE BVBA	BELGIUM
AVERY DENNISON BENELUX BVBA	BELGIUM
AVERY DENNISON BULGARIA EOOD	BULGARIA
AVERY DENNISON BV	NETHERLANDS
AVERY DENNISON CANADA CORPORATION	CANADA
AVERY DENNISON CENTRAL EUROPE GMBH	GERMANY
AVERY DENNISON CHILE S.A.	CHILE
AVERY DENNISON COLOMBIA S. A.	COLOMBIA
AVERY DENNISON CONVERTED PRODUCTS DE MEXICO, S.A. DE C.V.	MEXICO
AVERY DENNISON CONVERTED PRODUCTS EL SALVADOR S. A. DE C. V.	EL SALVADOR
AVERY DENNISON COORDINATION CENTER BVBA	BELGIUM
AVERY DENNISON C.A.	VENEZUELA
AVERY DENNISON DE ARGENTINA S.A.	ARGENTINA
AVERY DENNISON DEUTSCHLAND GMBH	GERMANY
AVERY DENNISON DO BRASIL LTDA.	BRAZIL
AVERY DENNISON DOMINICAN REPUBLIC S. A.	DOMINICAN REPUBLIC
AVERY DENNISON EGYPT LLC	EGYPT
AVERY DENNISON ETIKET TICARET LIMITED SIRKETI	TURKEY
AVERY DENNISON EUROPE GMBH	SWITZERLAND
AVERY DENNISON EUROPE HOLDING (DEUTSCHLAND) GMBH & CO KG	GERMANY
AVERY DENNISON FINANCE BELGIUM BVBA	BELGIUM
AVERY DENNISON FINANCE GERMANY GMBH	GERMANY
AVERY DENNISON FINANCE LUXEMBOURG II SARL	LUXEMBOURG
AVERY DENNISON FINANCE LUXEMBOURG S. A. R. L.	LUXEMBOURG
AVERY DENNISON FINANCE LUXEMBOURG III SARL	LUXEMBOURG
AVERY DENNISON FOUNDATION	U.S.A.
AVERY DENNISON FRANCE S.A.S.	FRANCE
AVERY DENNISON G HOLDINGS I LLC	U.S.A.
AVERY DENNISON G HOLDINGS III LLC	U.S.A.
AVERY DENNISON G INVESTMENTS 111 LIMITED	GIBRALTAR
AVERY DENNISON G INVESTMENTS V LIMITED	GIBRALTAR
AVERY DENNISON GROUP DANMARK APS	DENMARK
AVERY DENNISON GROUP SINGAPORE (PTE) LIMITED	SINGAPORE
AVERY DENNISON GULF FZCO	UNITED ARAB EMIRATES
AVERY DENNISON HOLDING AG	SWITZERLAND

EVERY DENNISON HOLDING GMBH	GERMANY
EVERY DENNISON HOLDING LUXEMBOURG S. A. R. L.	LUXEMBOURG
EVERY DENNISON HOLDING & FINANCE THE NETHERLANDS BV	NETHERLANDS
EVERY DENNISON HOLDINGS LLC	U.S.A.
EVERY DENNISON HOLDINGS NEW ZEALAND LIMITED	NEW ZEALAND
EVERY DENNISON HONG KONG BV	NETHERLANDS
EVERY DENNISON HUNGARY LIMITED	HUNGARY
EVERY DENNISON IBERICA, S.A.	SPAIN
EVERY DENNISON INVESTMENT LUXEMBOURG II SARL	LUXEMBOURG
EVERY DENNISON INVESTMENTS LUXEMBOURG S.A.R.L.	LUXEMBOURG
EVERY DENNISON INVESTMENTS LUXEMBOURG III SARL	LUXEMBOURG
EVERY DENNISON INVESTMENTS LUXEMBOURG IV SARL	LUXEMBOURG
EVERY DENNISON INVESTMENTS LUXEMBOURG V SCA	LUXEMBOURG
EVERY DENNISON ITALIA S.R.L.	ITALY
EVERY DENNISON JAPAN K.K.	JAPAN
EVERY DENNISON KAGIT URUNLERI SANAYI TICARET LIMITED SIRKETI	TURKEY
EVERY DENNISON KOREA LIMITED	SOUTH KOREA
EVERY DENNISON LANKA (PRIVATE) LIMITED	SRI LANKA
EVERY DENNISON LUXEMBOURG SALES SARL	LUXEMBOURG
EVERY DENNISON LUXEMBOURG S.A.R.L.	LUXEMBOURG
EVERY DENNISON MANAGEMENT GMBH	GERMANY
EVERY DENNISON MANAGEMENT KGAA	LUXEMBOURG
EVERY DENNISON MANAGEMENT S.A.R.L.	LUXEMBOURG
EVERY DENNISON MATERIALS EUROPE B.V.	NETHERLANDS
EVERY DENNISON MATERIALS EUROPE GMBH	SWITZERLAND
EVERY DENNISON MATERIALS FRANCE S.A.R.L.	FRANCE
EVERY DENNISON MATERIALS GMBH	GERMANY
EVERY DENNISON MATERIALS IRELAND LIMITED	IRELAND
EVERY DENNISON MATERIALS NEDERLAND BV	NETHERLANDS
EVERY DENNISON MATERIALS NEW ZEALAND LIMITED	NEW ZEALAND
EVERY DENNISON MATERIALS PTY LIMITED	AUSTRALIA
EVERY DENNISON MATERIALS ROM SRL	ROMANIA
EVERY DENNISON MATERIALS RUSSIA LLC	RUSSIA
EVERY DENNISON MATERIALS SALES FRANCE S. A. S.	FRANCE
EVERY DENNISON MATERIALS SALES GERMANY GMBH	GERMANY
EVERY DENNISON MATERIALS SDN BHD	MALAYSIA
EVERY DENNISON MATERIALS U.K. LIMITED	UNITED KINGDOM
EVERY DENNISON MAURITIUS LTD.	MAURITIUS
EVERY DENNISON MOROCCO SARL	MOROCCO
EVERY DENNISON NETHERLANDS INVESTMENT 0 BV	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT I BV	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT II B. V.	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT III BV	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT IX BV	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT NORTH AMERICA BV	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT VI BV	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT VII B.V.	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT VIII COOPERATIEF U.A.	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT X B V	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT XI COOPERATIEF U.A.	NETHERLANDS
EVERY DENNISON NORDIC APS	DENMARK
EVERY DENNISON NORGE A/S	NORWAY
EVERY DENNISON NTP A. S.	NORWAY
EVERY DENNISON OFFICE ACCESSORIES U.K. LIMITED	UNITED KINGDOM
EVERY DENNISON OFFICE PRODUCTS COMPANY	U.S.A.
EVERY DENNISON OFFICE PRODUCTS DE MEXICO, S DE R.L. DE C.V.	MEXICO

EVERY DENNISON OFFICE PRODUCTS FRANCE S. A. S.	FRANCE
EVERY DENNISON OFFICE PRODUCTS HOLDINGS COMPANY	U.S.A.
EVERY DENNISON OFFICE PRODUCTS ITALIA S.R.L.	ITALY
EVERY DENNISON OFFICE PRODUCTS MANUFACTURING U.K. LTD.	UNITED KINGDOM
EVERY DENNISON OFFICE PRODUCTS PTY LIMITED	AUSTRALIA
EVERY DENNISON OFFICE PRODUCTS (NZ) LIMITED	NEW ZEALAND
EVERY DENNISON OFFICE PRODUCTS (PTY.) LTD.	SOUTH AFRICA
EVERY DENNISON OVERSEAS CORPORATION	U.S.A.
EVERY DENNISON OVERSEAS CORPORATION (JAPAN BRANCH)	JAPAN
EVERY DENNISON PENSION TRUSTEE LIMITED	UNITED KINGDOM
EVERY DENNISON PERU S. R. L.	PERU
EVERY DENNISON POLSKA SP. Z O.O.	POLAND
EVERY DENNISON PRAHA SPOL. S R. O.	CZECH REPUBLIC
EVERY DENNISON REFLECTIVES DO BRAZIL LTDA.	BRAZIL
EVERY DENNISON RETAIL INFORMATION SERVICES COLOMBIA S. A.	COLOMBIA
EVERY DENNISON RETAIL INFORMATION SERVICES DE MEXICO, S. A. DE C.V.	MEXICO
EVERY DENNISON RETAIL INFORMATION SERVICES DOMINICAN REPUBLIC, S. A.	DOMINICAN REPUBLIC
EVERY DENNISON RETAIL INFORMATION SERVICES EL SALVADOR S. A. DE C. V.	EL SALVADOR
EVERY DENNISON RETAIL INFORMATION SERVICES GUATEMALA, S. A.	GUATEMALA
EVERY DENNISON RETAIL INFORMATION SERVICES LLC	U.S.A.
EVERY DENNISON RETAIL INFORMATION SERVICES UK LTD.	UNITED KINGDOM
EVERY DENNISON RETAIL INFORMATION SERVICES (PTY) LTD	SOUTH AFRICA
EVERY DENNISON RETAIL INFORMATION SERVICES HONDURAS, S. R.L.	HONDURAS
EVERY DENNISON RFID COMPANY	U.S.A.
EVERY DENNISON RIS KOREA LTD.	KOREA
EVERY DENNISON RIS MALAYSIA SDN BHD.	MALAYSIA
EVERY DENNISON RIS TAIWAN LTD.	TAIWAN
EVERY DENNISON RIS VIETNAM CO. LTD.	VIETNAM
EVERY DENNISON R.I.S. FRANCE S. A. S.	FRANCE
EVERY DENNISON R.I.S. IBERIA S.L.	SPAIN
EVERY DENNISON R.I.S. ITALIA S.R.L.	ITALY
EVERY DENNISON R.I.S. POLSKA SP.ZO.O	POLAND
EVERY DENNISON SCANDINAVIA AB	SWEDEN
EVERY DENNISON SCANDINAVIA APS	DENMARK
EVERY DENNISON SCHWEIZ AG	SWITZERLAND
EVERY DENNISON SECURITY PRINTING EUROPE APS	DENMARK
EVERY DENNISON SHARED SERVICES, INC.	U.S.A.
EVERY DENNISON SINGAPORE INVESTMENTS B.V.	NETHERLANDS
EVERY DENNISON SINGAPORE (PTE) LTD	SINGAPORE
EVERY DENNISON SOUTH AFRICA (PROPRIETARY) LIMITED	SOUTH AFRICA
EVERY DENNISON SUOMI OY	FINLAND
EVERY DENNISON SVERIGE AB	SWEDEN
EVERY DENNISON SYSTEMES D'ETIQUETAGE FRANCE S.A.S.	FRANCE
EVERY DENNISON S.R.L.	ROMANIA
EVERY DENNISON TEKSTIL URUNLERI SANAYI VE TICARET LIMITED SIRKETI	TURKEY
EVERY DENNISON TAIWAN LIMITED	TAIWAN
EVERY DENNISON U.K. II LIMITED	UNITED KINGDOM
EVERY DENNISON U.K. LIMITED	UNITED KINGDOM
EVERY DENNISON VERMOGENSVERWALTUNGS GMBH & CO K.G.	GERMANY
EVERY DENNISON ZWECKFORM AUSTRIA GMBH	AUSTRIA
EVERY DENNISON ZWECKFORM OFFICE PRODUCTS EUROPE GMBH	GERMANY
EVERY DENNISON ZWECKFORM OFFICE PRODUCTS MANUFACTURING GMBH	GERMANY
EVERY DENNISON (ASIA) HOLDINGS LIMITED	MAURITIUS
EVERY DENNISON (CHINA) COMPANY LIMITED	CHINA
EVERY DENNISON (FUZHOU) CONVERTED PRODUCTS LIMITED	CHINA
EVERY DENNISON (GUANGZHOU) CONVERTED PRODUCTS LIMITED	CHINA

AVERY DENNISON (GUANGZHOU) CO. LTD.
AVERY DENNISON (HONG KONG) LIMITED
AVERY DENNISON (INDIA) PRIVATE LIMITED
AVERY DENNISON (IRELAND) LIMITED
AVERY DENNISON (KUNSHAN) CO., LIMITED
AVERY DENNISON (MALAYSIA) SDN. BHD.
AVERY DENNISON (QINGDAO) CONVERTED PRODUCTS LIMITED
AVERY DENNISON (SUZHOU) CO. LIMITED
AVERY DENNISON (THAILAND) LTD.
AVERY DENNISON (VIETNAM) LIMITED
AVERY DENNISON, S.A. DE C.V.
AVERY GRAPHIC SYSTEMS, INC.
AVERY GUIDEX LIMITED
AVERY HOLDING LIMITED
AVERY HOLDING S.A.S.
AVERY LLC
AVERY OFFICE PRODUCTS PUERTO RICO L.L.C.
AVERY PACIFIC LLC
AVERY PROPERTIES PTY. LIMITED
BEST COURAGE INTERNATIONAL LIMITED
BONFIRE MANAGEMENT LIMITED
BONNIE NICE INDUSTRIES LTD.
COLLITEX S.R.L.
CREATERO GMBH
DAH MEI LABEL LIMITED
DENNISON COMERCIO, IMPORTACAS E EXPORTACAO LTDA.
DENNISON DEVELOPMENT ASSOCIATES
DENNISON INTERNATIONAL COMPANY
DENNISON MANUFACTURING COMPANY
DM LABELS & RIBBONS LIMITED
DONGGUAN DAH MEI LABEL CO. LIMITED
EDMOND PACKAGING (GUANGZHOU) LTD.
EUSTON FINANCIAL LIMITED
INDUSTRIAL DE MARCAS LTDA
INFODRAGON MANAGEMENT LIMITED
JAC ASIA PACIFIC SDN BHD
JAC CARIBE C.S.Z.
JAC DO BRASIL LTDA.
JAC NEW ZEALAND LIMITED
JAC (U.K.) LIMITED
JACKSTADT FRANCE S.N.C.
JACKSTADT SOUTH AFRICA (PTY) LTD.
JINTEX LIMITED
KUNSHAN DAH MEI WEAVING CO. LTD
L&E AMERICAS SERVICIOS, S. A. DE C.V.
L&E PACKAGING FAR EAST LIMITED
MARKSTAR INTERNATIONAL LTD.
MODERN MARK INTERNATIONAL LIMITED
MONARCH INDUSTRIES, INC.
MONARCH MARKING SYSTEMS HOLDINGS LTD
MONARCH MARKING (S.E.A.) PTE. LTD
MONARCH SERVICE BUREAU LTD.
NAPERVILLE GLOBAL LIMITED
NEW WALES FINANCE LIMITED
NEWCLASSIC INVESTMENT LIMITED
PAXAR BANGLADESH LTD.

CHINA
HONG KONG
INDIA
IRELAND
CHINA
MALAYSIA
CHINA
CHINA
THAILAND
VIETNAM
MEXICO
U.S.A.
UNITED KINGDOM
UNITED KINGDOM
FRANCE
U.S.A.
PUERTO RICO
U.S.A.
AUSTRALIA
BRITISH VIRGIN ISLANDS
BRITISH VIRGIN ISLANDS
HONG KONG
ITALY
GERMANY
HONG KONG
BRAZIL
U.S.A.
U.S.A.
U.S.A.
UNITED KINGDOM
CHINA
CHINA
BRITISH VIRGIN ISLANDS
COLOMBIA
BRITISH VIRGIN ISLANDS
MALAYSIA
DOMINICAN REPUBLIC
BRAZIL
NEW ZEALAND
UNITED KINGDOM
FRANCE
SOUTH AFRICA
JERSEY, CHANNEL ISLANDS
CHINA
MEXICO
HONG KONG
HONG KONG
HONG KONG
U.S.A.
UNITED KINGDOM
SINGAPORE
HONG KONG
BRITISH VIRGIN ISLANDS
BRITISH VIRGIN ISLANDS
BRITISH VIRGIN ISLANDS
BANGLADESH

PAXAR B. V.	NETHERLANDS
PAXAR CANADA CORPORATION	CANADA
PAXAR CORPORATION	U.S.A.
PAXAR CORPORATION PTY LTD.	AUSTRALIA
PAXAR CORPORATION (MALAYSIA) SDN. BHD.	MALAYSIA
PAXAR CORPORATIVO MEXICO S. A. DE C. V.	MEXICO
PAXAR DE COLOMBIA FTZ LTDA.	COLOMBIA
PAXAR DE EL SALVADOR S. A. DE C. V.	EL SALVADOR
PAXAR DE GUATEMALA, S. A.	GUATEMALA
PAXAR DE MEXICO S. A. DE C. V.	MEXICO
PAXAR DE NICARAGUA. S.A.	NICARAGUA
PAXAR DO BRASIL LTDA	BRAZIL
PAXAR EUROPE (1998) LTD.	UNITED KINGDOM
PAXAR FAR EAST LTD.	HONG KONG
PAXAR KOREA LTD.	SOUTH KOREA
PAXAR MOROC SARL	MOROCCO
PAXAR PACKAGING (GUANGZHOU) LTD.	CHINA
PAXAR PAKISTAN (PVT) LTD.	PAKISTAN
PAXAR PERU S. A. C.	PERU
PAXAR PRINTING & PACKAGING (SHANGHAI) LTD.	CHINA
PAXAR SISTEMAS LTDA	BRAZIL
PAXAR SYSTEMS (GUANGZHOU) LTD.	CHINA
PAXAR (CHINA) LTD.	HONG KONG
PAXAR (SINGAPORE) PTE LTD.	SINGAPORE
PAXAR (THAILAND) LIMITED	THAILAND
PT AVERY DENNISON INDONESIA	INDONESIA
PT AVERY DENNISON PACKAGING INDONESIA	INDONESIA
P. T. PACIFIC LABEL INDONESIA	INDONESIA
P. T. PAXAR INDONESIA	INDONESIA
RAXAP ARRENDADORA, S. A. DE C. V.	MEXICO
RAXAP SERVICIOS, S. A. DE C. V.	MEXICO
RF IDENTICS, INC.	U.S.A.
RINKE DIS TISCARET LTD (SIRKETI)	TURKEY
RINKE ETIKET SERVIS SANAYI VE TICARET LTD SIRKETI	TURKEY
RINKE FAR EAST LTD	HONG KONG
RIPRO FAR EAST LTD	HONG KONG
RVL AMERICAS, S DE R.L. DE C.V.	MEXICO
RVL CENTRAL AMERICA, S. A.	GUATEMALA
RVL PACKAGING FAR EAST LIMITED	HONG KONG
RVL PACKAGING SINGAPORE PTE LTD.	SINGAPORE
RVL PHILIPPINES, INC.	PHILIPPINES
RVL PRINTED LABEL FAR EAST LIMITED	HONG KONG
RVL SERVICE, S. DE R. L. DE C. V.	MEXICO
SECURITY PRINTING DIVISION, INC.	U.S.A.
SINGAPORE LACES & LABELS (PTE) LIMITED	SINGAPORE
SKILLFIELD INVESTMENTS LIMITED	BRITISH VIRGIN ISLANDS
SU ZHOU JI ZHONG GARMENTS ACCESSORY CO. LIMITED	CHINA
SUZHOU FENG YI HENG YE DYE CO. ,LTD.	CHINA
TESSITURA ITALIAN ETICHETTE S.R.L.	ITALY
TIADECO PARTICIPACOES, LTDA.	BRAZIL
TIGER EIGHT GROUP LIMITED	BRITISH VIRGIN ISLANDS
UNIVERSAL PACKAGING & DESIGN, LTD.	HONG KONG
WORLDWIDE RISK INSURANCE, INC.	U.S.A.

(1) Each subsidiary listed on this Exhibit 21 is a Consolidated Subsidiary

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION

I, Dean A. Scarborough, certify that:

1. I have reviewed this annual report on Form 10-K of Avery Dennison Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Dean A. Scarborough

Dean A. Scarborough
Chairman, President and Chief Executive Officer

February 24, 2012

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION

I, Mitchell R. Butier, certify that:

1. I have reviewed this annual report on Form 10-K of Avery Dennison Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mitchell R. Butier

Mitchell R. Butier
Senior Vice President and
Chief Financial Officer

February 24, 2012

CERTIFICATION OF CHIEF EXECUTIVE OFFICER*
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2011 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 24, 2012

/s/ Dean A. Scarborough

Dean A. Scarborough
Chairman, President and Chief Executive Officer

* The above certification accompanies the Company's Annual Report on Form 10-K and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.

CERTIFICATION OF CHIEF FINANCIAL OFFICER*
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2011 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 24, 2012

/s/ Mitchell R. Butier

Mitchell R. Butier
Senior Vice President and
Chief Financial Officer

* The above certification accompanies the Company's Annual Report on Form 10-K and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.