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2014 10-K

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

FORM 10-K

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

For the fiscal year ended January 3, 2015

Commission file number 1-7685

AVERY DENNISON CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. 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 of this chapter) 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 June 28, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was \$4,822,071,471.

Number of shares of common stock, \$1 par value, outstanding as of January 31, 2015, the end of the registrant's most recent fiscal month: 90,494,421.

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

<u>Document</u>	<u>Incorporated by reference into:</u>
Portions of Annual Report to Shareholders for fiscal year ended January 3, 2015	Parts I, II
Portions of Definitive Proxy Statement for Annual Meeting of Stockholders to be held on April 23, 2015	Parts III, IV

AVERY DENNISON CORPORATION
FISCAL YEAR 2014 ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. BUSINESS

Company Background

Avery Dennison Corporation ("Avery Dennison," the "Company," "Registrant," or "Issuer," 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 Reportable Segments

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

Our reportable segments in 2014 were:

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

In 2014, the PSM and RBIS segments contributed approximately 74% and 25%, respectively, of our total sales.

In 2014, international operations constituted a substantial majority of our business, representing approximately 76% of our sales. As of January 3, 2015, we operated approximately 180 manufacturing and distribution facilities worldwide, employed over 25,000 persons, and had operations in over 50 countries.

On July 1, 2013, we completed the sale our Office and Consumer Products ("OCP") and Designed and Engineered Solutions ("DES") businesses to CCL Industries Inc. We continue to be subject to indemnification obligations, including for breaches of certain representations, warranties and covenants, under the terms of the purchase agreement. In addition, the tax liability associated with the sale is subject to completion of tax return filings in the jurisdictions where we operated the OCP and DES businesses. The OCP and DES businesses are reported as discontinued operations in this Form 10-K.

Pressure-sensitive Materials Segment

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

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

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

Because self-adhesive materials are easy to apply without the need for adhesive activation, the use of self-adhesive materials can provide cost savings compared with other materials that require heat- or moisture-activated adhesives. When used in package decoration applications, the visual appeal of self-adhesive materials can help increase sales of the products on which the materials are applied. Self-adhesive materials are also used to convey a variety of variable information, such as bar codes for mailing or weight and price information for packaged meats and other foods. Self-adhesive materials provide consistent and versatile adhesion and are available in a large selection of materials in nearly every size, shape and color. Our graphics and reflective products include a variety of films and other products that are 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; and reflective films for traffic and safety applications. We provide sign shops, commercial printers and designers a broad range of pressure-sensitive materials to enable the creation of impactful and informative brand and decorative graphics. We have an array of pressure-sensitive vinyl and specialty materials designed for digital imaging, screen printing and sign cutting applications.

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

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

In the PSM segment, our larger competitors in label and packaging materials include Raflatrac, a subsidiary of UPM-Kymmene Corporation; MACTac; Ritrama, Inc.; Flexcon Corporation, Inc.; and various regional firms. For graphics and reflective products, our largest competitors are 3M Company ("3M") and the Orafol Group. For performance tapes, our primary competitors include 3M, Tesa-SE, and Nitto Denko Corporation. We believe that entry of competitors into the field of pressure-sensitive adhesives and materials is limited by technical knowledge and capital requirements. We believe that our technical expertise, relative size and scale of operations, ability to serve our customers with a broad line of quality products and service programs, distribution and brand strength, and new product innovation are among the more significant advantages in maintaining and further developing our competitive position.

Retail Branding and Information Solutions Segment

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

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

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

Vancive Medical Technologies Segment

Our Vancive segment manufactures an array of pressure-sensitive adhesive products for surgical, wound care, ostomy, and electromedical applications. These products are sold primarily to medical supply and device manufacturers and healthcare providers. Vancive's recent advances include the development of Metria™ wearable sensors and Benehold™ proprietary adhesive technology.

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

Segment Financial Information

Certain financial information on our reporting segments for fiscal years 2014, 2013, and 2012 appears in Note 15, "Segment Information," in the Notes to Consolidated Financial Statements contained in our 2014 Annual Report to Shareholders (our "2014 Annual Report") and is incorporated herein by reference.

Foreign Operations

Certain financial information about our sales by geographic area for fiscal years 2014, 2013, and 2012 appears in Note 15, "Segment Information," in the Notes to Consolidated Financial Statements contained in our 2014 Annual Report and is incorporated herein by reference.

Working Capital

Certain financial information about our working capital for fiscal years 2014, 2013, and 2012 appears in the "Financial Condition" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2014 Annual Report and is incorporated herein by reference.

Research and Development

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

Our expenses for research and development were \$102.6 million in 2014, \$96 million in 2013, and \$98.6 million in 2012.

Patents, Trademarks and Licenses

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

Manufacturing and Environmental Matters

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

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

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

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

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

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

Available Information

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

Item 1A. RISK FACTORS

The factors and risks discussed below, as well as the matters that are generally set forth in this Annual Report on Form 10-K and the documents incorporated herein by reference, could materially adversely

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

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

In 2014, approximately 76% of our sales were from international operations. We have operations in over 50 countries and our domestic and international operations are strongly influenced by matters beyond our control, including changes in political, social, economic and labor conditions, tax laws (including U.S. taxes on foreign earnings), and international trade regulations (including tariffs), as well as the impact of these changes on the underlying demand for our products.

A decline in economic activity in the U.S. and other regions of the world could result in a material adverse effect on our business as a result of, among other things, reduced consumer spending, declines in asset valuations, diminished liquidity and credit availability, volatility in securities prices, credit rating downgrades, and fluctuations in foreign currency exchange rates, such as the recent decline in the value of the euro. Declines in economic conditions in the U.S., Europe, and Asia could materially adversely affect our customers, suppliers and businesses similar to ours. These declines could result in a variety of negative effects, including lower revenues, increased costs, lower gross margin percentages, increased allowances for doubtful accounts and/or write-offs of accounts receivable, and required recognition of impairments of capitalized assets, including goodwill and other intangibles. A decline in economic conditions, such as the recent macroeconomic challenges in the U.S. and Europe, the slowdown in the growth of the Chinese economy and the debt crisis in certain countries in the European Union, or business and operational disruptions or delays caused by political, social or economic instability and unrest, such as the ongoing significant civil, political and economic disturbances in Russia, Ukraine and the surrounding areas, could also have other material adverse effects on our business. The current political situation in Ukraine, the sanctions imposed against Russia by certain European nations and the U.S. and Russia's response to these sanctions may further increase the economic uncertainty in the affected regions and lead to further fluctuation in the value of foreign currencies used in these regions, such as the euro and the ruble. In addition, uncertainty regarding the stability of global credit and financial markets could cause volatility and disruption in the global and U.S. economies, which could materially adversely impact our business, including the availability and cost of supplies and materials and our ability to obtain financing at reasonable costs. We are not able to predict the duration and severity of adverse economic conditions in the U.S. and other countries.

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

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

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

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

The pricing environment for raw materials used in our businesses could become challenging and volatile. Additionally, energy costs can be volatile and unpredictable. Inflationary and other increases in the costs of raw materials, labor and energy have occurred in the past, and could recur. In addition, rules adopted by the SEC pursuant to Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requiring disclosure concerning the use of certain minerals that are mined from the Democratic Republic of Congo and adjoining countries ("Conflict Mineral Rules"). In an effort to minimize adverse disclosures, we could make alternative sourcing and supply decisions for materials used in certain of our products, which could materially adversely affect our pricing terms, particularly if suppliers incur significant additional costs and expenses in making the determinations required to support this disclosure or if the number of suppliers offering minerals identified as "conflict free" is limited. Our performance depends in part on our ability to pass on cost increases for raw materials to customers by raising the selling prices for our products and our ability to improve productivity. Depending on market dynamics and the terms of customer contracts, our ability to recover these costs by increasing prices 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 have a material adverse effect on our sales and profitability, and any sustained interruption in our receipt of adequate supplies could have a material adverse effect on our business.

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

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

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

We manufacture most of our products, but we also occasionally use third-party manufacturers for specialty jobs or capacity overflow. Outsourcing manufacturing reduces 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.

Our operations and activities outside of the U.S. may subject us to risks different from and potentially greater than those associated with our domestic operations.

A substantial portion of our employees and assets are located outside of the U.S., and for the year ended January 3, 2015, approximately 76% of our sales were generated from customers located outside of the U.S. International operations and activities involve risks that are different from and potentially greater than the risks we face with respect to our domestic operations, including our less extensive knowledge of and relationships with contractors, suppliers, distributors and customers in certain of these markets; changes in foreign political, regulatory and economic conditions, including nationally, regionally and locally; challenges of complying with a wide variety of foreign laws and regulations, including those relating to sales, corporate governance, operations, taxes, employment and legal proceedings; establishing effective controls and procedures to regulate our international operations and to monitor compliance with U.S. laws and regulations such as the Foreign Corrupt Practices Act and similar foreign laws and regulations

including the United Kingdom's Bribery Act of 2010; materially adverse effects of changes in exchange rates for foreign currencies; challenges with respect to the repatriation of foreign earnings; differences in lending practices; challenges of complying with applicable export and import control laws and regulations; and differences in languages, cultures and time zones.

The realization of any of these risks or the failure to comply with any of these laws or regulations could expose us to liabilities and have a material adverse effect on our business.

Our reputation, sales, and earnings could be materially adversely affected if the quality of our products and services does not meet customer expectations. In addition, product liability claims or regulatory actions could materially adversely affect our financial results or reputation.

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

Claims for losses or injuries purportedly caused by some of our products arise in the ordinary course of our business. In addition to the risk of substantial monetary judgments and penalties which could have a material adverse effect on our business, product liability claims or regulatory actions could result in negative publicity that could harm our reputation in the marketplace and the value of our brands. We also could be required to recall and possibly discontinue the sale of potentially defective or unsafe products, which could result in adverse publicity and significant expenses. Although we maintain product liability insurance coverage, potential product liability claims are subject to a deductible or could be excluded under the terms of the policy.

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

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

Our growth strategy includes increased concentration in emerging markets, which could create greater exposure to unstable political conditions, civil unrest, economic volatility and other risks applicable to international operations.

An increasing percentage of our sales are derived from emerging markets, including countries in Asia, Latin America and Eastern Europe. The profitable growth of our business in emerging markets is a significant focus of our long-term growth strategy. If we are unable to successfully expand our business in emerging markets or achieve the return on capital we expect as a result of our investments in these countries, our financial performance could be materially adversely affected. In addition to the risks applicable to our international operations, factors that could have a material adverse effect on our operations in these developing and emerging markets include the lack of well-established or reliable legal systems and possible disruptions due to unstable political conditions, civil unrest or economic volatility. These factors could result in decreased consumer purchasing power, reduced demand for our products or an impaired ability to achieve our long-term growth strategy, thereby having a material adverse effect on our business.

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

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

Miscalculation of our infrastructure needs could have a material adverse effect on our business.

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

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

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

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

With approximately 76% of our sales for the fiscal year ending January 3, 2015 arising from foreign sales, we are subject to fluctuations in foreign currencies which can cause transaction, translation and other losses, and could negatively impact our sales and profitability. Margins on sales of our products in foreign countries could be materially 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 material adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place.

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

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

To grow our product lines and expand into new markets, we have made acquisitions in the past and may do so in the future. Various risks, uncertainties, and costs are associated with acquisitions. Effective integration of systems, controls, objectives, personnel, product lines, market segments, customers, suppliers, and production facilities and cost savings can be difficult to achieve, and the results of integration actions are uncertain, particularly given our geographically dispersed organization. In addition, we may not be able to retain key personnel of an acquired company or successfully execute integration strategies and achieve projected performance targets for the business segment into which an acquired

company is integrated. Both before and after the closing of an acquisition, our business and those of the acquired company or companies may suffer due to uncertainty or diversion of management attention. There can be no assurance that any acquisitions will be successful and contribute to our profitability and we may not be able to identify new acquisition opportunities in the future.

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

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

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

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

Changes in our tax rates could affect our future results.

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

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

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

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

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

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

In 2014, approximately 76% of our sales were generated from customers located outside of the U.S., and a substantial portion of our assets and employees were located outside of the U.S. We have not accrued income taxes and foreign withholding taxes on unrepatriated earnings for most non-U.S. subsidiaries, because we intend to indefinitely reinvest in the operations of those subsidiaries. Our results of operations and cash flows from operating activities may be materially adversely affected if tax rules regarding unrepatriated earnings change, if changes in our domestic cash needs require us to repatriate foreign earnings for which no tax provisions have been made, or if the U.S. international tax rules change as part of comprehensive tax reform or other tax legislation.

Significant disruption to the information technology infrastructure that stores our information could materially adversely affect our business.

We rely on the efficient and uninterrupted operation of a large and complex information technology infrastructure to link our global business. Like other information technology systems, ours is susceptible to a number of risks including, but not limited to, damage or interruptions resulting from a variety of causes such as obsolescence, natural disasters, power failures, human error, viruses, social engineering, phishing, or other malicious attacks and data security breaches. We upgrade and install new systems, which, if installed or programmed incorrectly or on a delayed timeframe, could cause delays or cancellations of customer orders, impede the manufacture or shipment of products, or disrupt the processing of transactions. We have implemented certain measures to mitigate our risk related to system and network disruptions, but if a disruption were to occur, we could incur significant losses and remediation costs that could have a material adverse effect on our business. Additionally, we rely on services provided by third-party vendors for a significant portion of our information technology support, development and implementation, which makes our operations vulnerable to a failure by any one of these vendors to perform adequately or maintain effective internal controls.

Security breaches could compromise our information and expose us to liability, which could cause our business and reputation to suffer.

We maintain information necessary to conduct our business in digital form, which is stored in data centers and on our networks and third-party cloud services, including confidential and proprietary information as well as personal information regarding our customers and employees. The secure maintenance of this information is critical to our operations. 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. Our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Additionally, 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.

Any such breach or attack could compromise our network, the network of a third party to whom we have disclosed confidential, proprietary or personal information, a data center where we have stored such information or a third-party cloud service provider, and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, disrupt our operations, damage our reputation, impair our ability to conduct business, or result in the loss or diminished value of profitable opportunities and the loss of revenue as a result of unlicensed use of our intellectual property. Contractual provisions with third parties, including

cloud service providers, may limit our ability to recover these losses. If personal information of our customers or employees were misappropriated, our reputation with our customers and employees could be injured, resulting in loss of business or morale, and we could incur costs to compensate our customers and employees or pay damages or fines as a result of litigation or regulatory actions arising out of any such incident.

From time to time, we have experienced unauthorized intrusions into our network, and although these intrusions did not have a material adverse effect on our business, this may not be the case going forward. Following these attacks, we have taken additional steps designed to improve the security of our networks and computer systems. Despite these defensive measures, there can be no assurance that we are adequately protecting our information, that third parties to whom we have disclosed such information or with whom we have stored such information (in data centers and on the cloud) are taking similar precautions, or that we will not continue to experience future intrusions.

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

There is significant competition to recruit and retain skilled employees. Due to expansion to additional geographies and our ongoing productivity efforts and recent employee restructuring actions, it may be difficult for us to recruit and retain sufficient numbers of highly-skilled employees. If we fail to retain sufficient numbers of highly-skilled employees, we could experience disruption in our businesses and difficulties managing our operations and implementing our business strategy.

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

Our share price may be volatile.

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

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

Our overall level of indebtedness and credit ratings are significant factors in our ability to obtain short- and long-term financing. Higher debt levels could negatively impact our ability to meet other business needs and could result in higher financing costs. The credit ratings assigned to us also impact the interest rates paid. A downgrade of our short-term credit ratings below our current levels could impact our ability to access the commercial paper markets and increase our borrowing costs. If our access to commercial paper markets were to become limited and we were required to obtain short-term funding

under our revolving credit facility or our other credit facilities, we would face increased exposure to variable interest rates.

An increase in interest rates could have a material adverse effect on our business.

In 2014, our average variable rate borrowings were approximately \$203 million. Increases in short-term interest rates would directly impact the amount of interest we pay. An assumed 50 basis point move in interest rates affecting our variable-rate borrowings (10% of our weighted-average interest rate on floating rate debt) would have increased interest expense by approximately \$1 million on variable rate borrowings in 2014. Fluctuations in interest rates can increase borrowing costs and have a material adverse effect on our business.

In recent years, extraordinary monetary policy actions of the U.S. Federal Reserve and other central banking institutions, including the utilization of quantitative easing, were taken to create and maintain a low interest rate environment. Changes in these monetary policy positions, including but not limited to an elimination of quantitative easing over time, or market expectation of such changes, may result in significantly higher long-term interest rates the transition to which may be abrupt. Such a transition may, among other things, reduce the availability and/or increase the costs of obtaining new debt and refinancing existing indebtedness, and negatively impact the market price of our common stock.

Our current and future debt covenants may limit our flexibility.

Our credit facilities and the indentures governing our notes contain, and any of our future indebtedness likely would contain, restrictive covenants that impose operating and financial restrictions on us. Among other things, these covenants restrict our ability to incur additional indebtedness, incur certain liens on our assets, make certain investments, sell our assets or merge with third parties, and enter into certain transactions. We are also required to maintain specified financial ratios under certain conditions. These restrictive covenants and ratios in our existing debt agreements and any future financing agreements may limit or prohibit us from engaging in certain activities and transactions that may be in our long-term best interests and could place us at a competitive disadvantage relative to our competitors, which could materially adversely affect our business.

Additional financings may dilute the holdings of our current shareholders.

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

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

We evaluate the assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension plan and other postretirement benefit plans in consultation with outside actuaries. In the event that we were to determine that changes were warranted in the assumptions used, such as the discount rate, expected long-term rate of return, or health care costs, our future pension and projected postretirement benefit expenses and funding requirements could increase or decrease. Because of changing market conditions or changes in the participant population, the actuarial assumptions that we

use may differ from actual results, which could have a significant impact on our pension and postretirement liability and related costs. Funding obligations for each plan are determined based on the value of assets and liabilities on a specific date as required under applicable government regulations. Future pension funding requirements, and the timing of funding payments, could also be affected by future legislation or regulation.

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

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

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

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

Unfavorable developments in legal proceedings, investigations and other legal, compliance and regulatory matters, including those involving product and trade compliance, and other matters, could impact us in a materially adverse manner.

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

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

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

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

We are required to comply with the anti-corruption laws and regulations of the U.S. government and various international jurisdictions, such as the U.S. Foreign Corrupt Practices Act and the United Kingdom's Bribery Act of 2010. If we fail to comply with anti-corruption laws, we could be subject to substantial civil and criminal penalties, including regulatory fines, monetary damages and incarceration for responsible employees and managers. In addition, if our distributors or agents fail to comply with these laws, we may also be materially adversely affected through reputational harm and penalties.

We are required to comply with global environmental, health, and safety laws. The costs of complying with these laws could materially adversely affect our business.

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

We are subject to governmental export and import control laws and regulations in certain jurisdictions where we do business that could subject us to liability or impair our ability to compete in these markets.

Certain of our products are subject to export control laws and regulations and may be exported only with an export license or through an applicable export license exception. If we fail to comply with export licensing, customs regulations, economic sanctions or other laws, we could be subject to substantial civil and criminal penalties, including economic sanctions against us, incarceration for responsible employees and managers, and the possible loss of export or import privileges. In addition, if our distributors fail to obtain appropriate import, export or re-export licenses or permits, we may also be materially adversely affected through reputational harm and penalties. Obtaining the necessary export license for a particular sale may be time consuming and expensive and could result in the delay or loss of sales opportunities.

Furthermore, export control laws and economic sanctions prohibit the shipment of certain products to embargoed or sanctioned countries, governments and persons. While we train our employees to comply with these regulations, we cannot guarantee that a violation will not occur. A prohibited shipment could have negative consequences, including government investigations, penalties, fines, civil and criminal sanctions and reputational harm. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could decrease our ability to export or sell our products internationally. Any limitation on our ability to export or sell our products could materially adversely affect our business.

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

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

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

We have obtained and applied for U.S. and foreign trademark registrations and patents, and will continue to evaluate whether to register additional trademarks and apply for additional patents. 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 are subject to risks associated with the availability and coverage of various types of insurance.

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

Healthcare reform legislation could have a material adverse effect 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 U.S. Certain of the provisions that could most significantly increase our healthcare costs in the near term include the removal of annual plan limits, the changes in rules regarding eligibility for dependents and the mandate that health plans cover 100% of preventative care. In addition, our healthcare costs could increase if we are required to cover more employees than we do currently or pay penalty amounts in the event that employees do not elect our offered coverage. The complexities and ramifications of the new legislation are significant, and have begun being implemented through a phased approach that is expected to conclude in 2018. At this time, the effects of health care reform and the resulting impact on our operations are not fully known. Changes to our healthcare cost structure could have a material adverse effect on our business.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

As of January 3, 2015, we operated approximately 35 principal manufacturing facilities in excess of 100,000 square feet. The locations of these principal facilities and the reportable segments or businesses for which they presently are used are as follows:

Pressure-sensitive Materials Segment

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

Retail Branding and Information Solutions Segment

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

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

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

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

Item 3. LEGAL PROCEEDINGS

As of January 3, 2015, 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 fourteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of our liability has been agreed. We are participating with other PRPs at such sites and anticipate that our share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

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

As of January 3, 2015, our estimated accrued liability associated with environmental remediation was \$26.2 million.

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

See also Note 8, "Contingencies," in the Notes to Consolidated Financial Statements of our 2014 Annual Report, which is incorporated herein by reference.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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

(a) The information called for by Item 201 of Regulation S-K appears under "Corporate Information — Stock and Dividend Data" in our 2014 Annual Report and is incorporated herein by reference. We did not sell any unregistered securities during the fourth quarter of 2014.

(b) Not applicable.

(c) Repurchases of Equity Securities by Issuer

Repurchases by us or our "affiliated purchasers" (as defined in Rule 10b-18(a)(3) of the Exchange Act) of registered equity securities in the three fiscal months of the fourth quarter of 2014 are listed in the following table.

Period ⁽¹⁾	Total number of shares purchased ⁽²⁾	Average price paid per share	Total number of shares purchased as part of publicly announced plans ⁽²⁾⁽³⁾	Approximate dollar value of shares that may yet be purchased under the plans ⁽⁴⁾
September 28, 2014 – October 25, 2014	1,324	\$43.40	1,324	
October 26, 2014 – November 29, 2014	741	46.72	741	
November 30, 2014 – January 3, 2015	324	50.22	324	
Total	2,389	\$45.35	2,389	\$599.5

(1) The periods shown are our fiscal periods during the fourteen-week quarter ended January 3, 2015.

(2) Shares in thousands.

(3) On July 25, 2013, our Board of Directors authorized the repurchase of shares of our common stock in the aggregate amount of up to \$400 million (exclusive of any fees, commissions or other expenses related to such purchases), in addition to any outstanding shares authorized under any previous Board authorization. This authorization will remain in effect until the shares authorized thereby have been repurchased. On December 4, 2014, our Board of Directors authorized the repurchase of shares of our common stock in the aggregate amount of up to \$500 million (exclusive of any fees, commissions or other expenses related to such purchases), in addition to any outstanding shares authorized under any previous Board authorization. This authorization will remain in effect until the shares authorized thereby have been repurchased.

(4) Dollars in millions.

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

Item 6. SELECTED FINANCIAL DATA

Selected financial data for each of our last five fiscal years appears under "Five-year Summary" in our 2014 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 2014 Annual Report and incorporated herein by reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this Item is contained under "Market-Sensitive Instruments and Risk Management" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2014 Annual Report and incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this Item is contained in our 2014 Annual Report (including the Consolidated Financial Statements and the Notes thereto, Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting, and the Report of Independent Registered Public Accounting Firm) and incorporated herein by reference.

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

None.

Item 9A. CONTROLS AND PROCEDURES

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

Management's Report on Internal Control Over Financial Reporting. We are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act). Under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of January 3, 2015. (See Management's Report on Internal Control Over Financial Reporting in our 2014 Annual Report and incorporated herein by reference.)

Management's assessment of the effectiveness of our internal control over financial reporting as of January 3, 2015 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 2014 Annual Report, which is also incorporated herein by reference.

Changes in Internal Control over Financial Reporting. We periodically assess our internal control environment. In 2014, we completed a phased implementation of a new financial system, primarily for our

North American and European pressure-sensitive materials businesses, medical solutions business and our corporate accounting function. In 2014, we also completed a phased outsourcing of transaction processing and accounting activities to a new third-party service provider. As part of the transition process, we reviewed the related internal controls and determined that the design of the controls surrounding these processes satisfied our control objectives. Where appropriate, we made changes to affected internal controls and tested their operating effectiveness. During 2014, we began a phased implementation of a new transactional system in our RBIS segment that is expected to continue through 2017. Processes affected by this implementation include, among other things, order management, pricing, shipping, general accounting and planning. As with the implementations completed in 2014, we are reviewing related internal controls and make changes where appropriate. Except for these changes, there have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information concerning directors and corporate governance called for by this Item is incorporated herein by reference from the definitive proxy statement for our Annual Meeting of Stockholders to be held on April 23, 2015, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report (our "2015 Proxy Statement"). The information concerning executive officers called for by this Item appears on the next page of this report. The information concerning any late filings under Section 16(a) of the Exchange Act is incorporated by reference from our 2015 Proxy Statement.

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

The information called for by this Item concerning our audit committee is incorporated by reference from our 2015 Proxy Statement.

EXECUTIVE OFFICERS OF AVERY DENNISON⁽¹⁾

Name	Age	Served as Executive Officer since		Former Positions within Past Five Years / Prior Offices with Avery Dennison
Dean A. Scarborough	59	August 1997	2010-2014	Chairman, President and Chief Executive Officer
Chairman and Chief Executive Officer			2005-2010	Executive Officer
			2000-2005	President and Chief Executive Officer
				President and Chief Operating Officer
Mitchell R. Butier	43	March 2007	2010-2014	Senior Vice President and Chief Financial Officer
President, Chief Operating Officer and			2007-2010	Vice President, Controller and Chief Accounting Officer
Chief Financial Officer			2004-2006	Accounting Officer
				Vice President, Finance, Retail Branding and Information Solutions
Lori J. Bondar	54	June 2010	2008-2010	Vice President, Controller
Vice President, Controller and Chief Accounting Officer				
Anne Hill	55	May 2007	2007-2011	Senior Vice President and Chief Human Resources Officer
Senior Vice President and Chief Human Resources and Communications Officer				
Susan C. Miller	55	March 2008	2008-2009	Senior Vice President and General Counsel
Senior Vice President,			2007-2008	Vice President and General Counsel
General Counsel and Secretary			1998-2006	Assistant General Counsel
R. Shawn Neville	52	June 2009	2008-2009	Chief Executive Officer, Boathouse Sports
President, Retail Branding and Information Solutions				

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

Item 11. EXECUTIVE COMPENSATION

The information called for by this Item is incorporated by reference from our 2015 Proxy Statement.

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

The information called for by this Item is incorporated by reference from our 2015 Proxy Statement.

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

The information called for by this Item is incorporated by reference from our 2015 Proxy Statement.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by this Item is incorporated by reference from our 2015 Proxy Statement.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedule and Exhibits

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

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

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

(c) The financial statement schedules required by Regulation S-X, which are excluded from our 2014 Annual Report by Rule 14a-3(b)(1) and are required to be filed in this report, are set forth on the accompanying Index to Financial Statements and Financial Statement Schedule and incorporated herein by reference.

SIGNATURES

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

AVERY DENNISON CORPORATION

By: /s/ Mitchell R. Butier

Mitchell R. Butier
President, Chief Operating Officer
and Chief Financial Officer

Dated: February 25, 2015

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Dean A. Scarborough <hr/> Dean A. Scarborough	Chairman and Chief Executive Officer	February 25, 2015
/s/ Mitchell R. Butier <hr/> Mitchell R. Butier	President, Chief Operating Officer and Chief Financial Officer (Principal Financial Officer)	February 25, 2015
/s/ Lori J. Bondar <hr/> Lori J. Bondar	Vice President, Controller, and Chief Accounting Officer (Principal Accounting Officer)	February 25, 2015

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 25, 2015
<u>/s/ Anthony K. Anderson</u> Anthony K. Anderson	Director	February 25, 2015
<u>/s/ Peter K. Barker</u> Peter K. Barker	Director	February 25, 2015
<u>/s/ Rolf L. Börjesson</u> Rolf L. Börjesson	Director	February 25, 2015
<u>/s/ Ken C. Hicks</u> Ken C. Hicks	Director	February 25, 2015
<u>/s/ David E. I. Pyott</u> David E. I. Pyott	Director	February 25, 2015
<u>/s/ Patrick T. Siewert</u> Patrick T. Siewert	Director	February 25, 2015

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Julia A. Stewart</u> Julia A. Stewart	Director	February 25, 2015
<u>/s/ Martha N. Sullivan</u> Martha N. Sullivan	Director	February 25, 2015

AVERY DENNISON CORPORATION
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL
STATEMENT SCHEDULE

Data incorporated by reference from the attached portions of the 2014 Annual Report to Shareholders of Avery Dennison Corporation:

Consolidated Financial Statements:

Consolidated Balance Sheets as of January 3, 2015 and December 28, 2013
Consolidated Statements of Income for 2014, 2013 and 2012
Consolidated Statements of Comprehensive Income for 2014, 2013 and 2012
Consolidated Statements of Shareholders' Equity for 2014, 2013 and 2012
Consolidated Statements of Cash Flows for 2014, 2013 and 2012
Notes to Consolidated Financial Statements
Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting
Report of Independent Registered Public Accounting Firm

Except for the Consolidated Financial Statements, Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm listed above, and certain information referred to in Items 1, 5, 6, 7, and 7A of this report that is expressly incorporated herein by reference, our 2014 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 25, 2015 appearing in the 2014 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 25, 2015

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

	Balance at Beginning of Year	Net Additions Charged to Costs and Expenses	Deductions From Reserves^(a)	Balance at End of Year
2014				
Allowance for doubtful accounts	\$ 21.4	\$ 6.3	\$ (6.9)	\$ 20.8
Allowance for sales returns	10.2	14.4	(14.9)	9.7
2013				
Allowance for doubtful accounts	31.1	5.1	(14.8)	21.4
Allowance for sales returns	13.7	11.2	(14.7)	10.2
2012				
Allowance for doubtful accounts	34.0	3.4	(6.3)	31.1
Allowance for sales returns	9.3	14.5	(10.1)	13.7

(a) Deductions from reserves include currency translation adjustments for all periods and the sale of the DES business in 2013.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-191228 and 333-169954) and Form S-8 (File Nos. 33-54411, 33-58921, 33-63979, 333-38707, 333-38709, 333-107370, 333-107371, 333-107372, 333-109814, 333-124495, 333-143897, 333-152508, 333-166832, 333-166836, 333-166837, 333-181221, and 333-197631) of Avery Dennison Corporation of our report dated February 25, 2015 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 25, 2015 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California
February 25, 2015

AVERY DENNISON CORPORATION

EXHIBIT INDEX

For the Year Ended January 3, 2015

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

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
4.5	Indenture, dated as of July 3, 2001, between Registrant and Chase Manhattan Bank and Trust Company, National Association, as trustee ("2001 Indenture")	4.1	Registration Statement on Form S-3 (File No. 333-64558), filed July 3, 2001
4.6	Officers' Certificate establishing two series of Securities entitled "4.875% Notes due 2013" and "6.000% Notes due 2033" under the 2001 Indenture	4.2	Current Report on Form 8-K, filed January 16, 2003
4.7	6.000% Notes Due 2033	4.4	Current Report on Form 8-K, filed January 16, 2003
4.8	Indenture, dated as of September 25, 2007, among Avery Dennison Office Products Company ("ADOPC"), Registrant and The Bank of New York Trust Company, N.A., as Trustee ("Bank of NY")	99.1	Current Report on Form 8-K, filed October 1, 2007
4.9	6.625% Guaranteed Notes due 2017	99.1	Current Report on Form 8-K, filed October 1, 2007
4.10	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
4.11	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
4.12	Second Supplemental Indenture, dated as of April 13, 2010, between Registrant and Bank of NY	4.2	Current Report on Form 8-K, filed April 13, 2010
4.13	Form of 5.375% Senior Notes due 2020	4.3	Current Report on Form 8-K, filed April 13, 2010
4.14	Third Supplemental Indenture, dated as of April 8, 2013, between Registrant and Bank of NY	4.2	Current Report on Form 8-K, filed April 8, 2013
4.15	Form of 3.35% Senior Notes due 2023	4.3	Current Report on Form 8-K, filed April 8, 2013
10.1	Amended and Restated Credit Agreement, dated as of February 8, 2008, among ADOPC, Registrant, Bank of America, N.A. and Banc of America Securities LLC and JP Morgan Securities Inc ("ADOPC Credit Agreement")	10.1	Quarterly Report on Form 10-Q, filed August 7, 2008

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
10.2	Second Amendment, dated as of January 23, 2009, to ADOPC Credit Agreement	99.4	Current Report on Form 8-K, filed January 27, 2009
10.3	Third Amended and Restated Credit Agreement, dated as of October 3, 2014, by and among Registrant, Bank of America, N.A., Citibank, N.A. and JPMorgan Chase Bank, N.A. and the other lenders party thereto	10.1	Current Report on Form 8-K, filed October 3, 2014
10.4*	Deferred Compensation Plan for Directors	10.3	1981 Annual Report on Form 10-K, filed February 29, 1982
10.5*	Executive Group Life Insurance Plan	10.9	1982 Annual Report on Form 10-K, filed February 25, 1983
10.6*	Amended and Restated Supplemental Executive Retirement Plan ("SERP")	10.11.1	Quarterly Report on Form 10-Q, filed August 12, 2009
10.7*	Letter of Grant to D.A. Scarborough under SERP	10.11.2.1	Quarterly Report on Form 10-Q, filed August 12, 2009
10.8*	Letter Agreement with D.A. Scarborough regarding SERP benefits	10.11.2.1	Current Report on Form 8-K, filed December 15, 2010
10.9*	Complete Restatement and Amendment of Executive Deferred Compensation Plan	10.12	1994 Annual Report on Form 10-K, filed March 30, 1995
10.10*	Amended and Restated Retirement Plan for Directors	10.13.1	2002 Annual Report on Form 10-K, filed March 28, 2003
10.11*	Amended and Restated Director Equity Plan ("Director Plan")	10.15.1	Current Report on Form 8-K, filed December 11, 2008
10.12*	Form of Non-Employee Director Stock Option Agreement under Director Plan	10.15.1	2003 Annual Report on Form 10-K, filed March 11, 2004
10.13*	Complete Restatement and Amendment of Executive Variable Deferred Compensation Plan ("EVDCP")	10.16	1994 Annual Report on Form 10-K, filed March 30, 1995
10.14*	Amendment No. 1 to EVDCP	10.16.1	1999 Annual Report on Form 10-K, filed March 30, 2000
10.15*	Complete Restatement and Amendment of Directors Deferred Compensation Plan	10.17	1994 Annual Report on Form 10-K, filed March 30, 1995

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
10.16*	Complete Restatement and Amendment of Directors Variable Deferred Compensation Plan ("DVDCP")	10.18	1994 Annual Report on Form 10-K, filed March 30, 1995
10.17*	Amendment No. 1 to DVDCP	10.18.1	1999 Annual Report on Form 10-K, filed March 30, 2000
10.18*	Amended and Restated 2005 Directors Variable Deferred Compensation Plan	10.18.2	Quarterly Report on Form 10-Q, filed May 10, 2011
10.19*	Amended and Restated Stock Option and Incentive Plan ("Equity Plan")	A	2012 Proxy Statement on Schedule 14A, filed March 9, 2012
10.20*†	First Amendment to Equity Plan	N/A	N/A
10.21*	Forms of NQSO Agreement under Equity Plan	10.19.5	2007 Annual Report on Form 10-K, filed February 27, 2008
10.22*	Forms of Equity Awards under Equity Plan	10.19.6	Current Report on Form 8-K, filed April 30, 2008
10.23*	Forms of Equity Agreements under Equity Plan	10.10.19.9	Current Report on Form 8-K, filed December 11, 2008
10.24*	Additional Forms of Equity Agreements under Equity Plan	10.19.10	Current Report on Form 8-K/A, filed December 11, 2008
10.25*	Senior Executive Annual Incentive Plan	A	2014 Proxy Statement on Schedule 14A, filed March 7, 2014
10.26*†	Annual Incentive Plan	N/A	N/A
10.27*	Complete Restatement and Amendment of Executive Deferred Retirement Plan ("EDRP")	10.28	1994 Annual Report on Form 10-K, filed March 30, 1995
10.28*	Amendment No. 1 to EDRP	10.28.1	1999 Annual Report on Form 10-K, filed March 30, 2000
10.29*	Amendment No. 2 to EDRP	10.28.2	2001 Annual Report on Form 10-K, filed March 4, 2002
10.30*	Executive Variable Deferred Retirement Plan, amended and restated ("EVDRP")	10.31.5	2003 Annual Report on Form 10-K, filed March 11, 2004
10.31*	2004 EVDRP	4.1	Registration Statement on Form S-8 (File No. 333-109814), filed October 20, 2003
10.32*	2005 EVDRP, amended and restated	10.1	Quarterly Report on Form 10-Q, filed May 7, 2013
10.33*	Benefit Restoration Plan, amended and restated ("BRP")	10.32.1	Current Report on Form 8-K/A, filed December 11, 2008

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
10.34*	First Amendment to BRP	10.32.1	2010 Annual Report on Form 10-K, filed February 28, 2011
10.35*	Amended and Restated Capital Accumulation Plan ("CAP")	10.34	1999 Annual Report on Form 10-K, filed March 30, 2000
10.36*	Amendment No. 1 to CAP	10.34.2	1999 Annual Report on Form 10-K, filed March 30, 2000
10.37*	Key Executive Change of Control Severance Plan	10.35	Quarterly Report on Form 10-Q, filed May 10, 2011
10.38*	Executive Severance Plan	10.36	Quarterly Report on Form 10-Q, filed May 10, 2011
10.39*	Long-Term Incentive Unit Plan	10.43	2012 Annual Report on Form 10-K, filed February 27, 2013
10.40*	Form of Restricted Stock Unit Agreement	10.38	2013 Annual Report on Form 10-K, filed February 26, 2014
10.41*	Form of Performance Unit Agreement	10.39	2013 Annual Report on Form 10-K, filed February 26, 2014
10.42*	Form of Market-Leveraged Stock Unit Agreement	10.40	2013 Annual Report on Form 10-K, filed February 26, 2014
10.43*	Form of Long-Term Incentive Unit Agreement	10.41	2013 Annual Report on Form 10-K, filed February 26, 2014
10.44*	Form of Performance Long-Term Incentive Unit Agreement	10.42	2013 Annual Report on Form 10-K, filed February 26, 2014
10.45*	Form of Director Restricted Stock Unit Agreement	10.43	2013 Annual Report on Form 10-K, filed February 26, 2014
10.46*†	Offer Letter to Anne Bramman	N/A	N/A
12†	Computation of Ratio of Earnings to Fixed Charges	N/A	N/A
13†	Portions of Annual Report to Shareholders for fiscal year ended January 3, 2015	N/A	N/A
21†	List of Subsidiaries	N/A	N/A
23†	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (see page S-4)	N/A	N/A
24†	Power of Attorney (see Signatures — Power of Attorney)	N/A	N/A

<u>Exhibit No.</u>	<u>Exhibit Name</u>	<u>Originally Filed as Exhibit No.</u>	<u>Filing⁽¹⁾</u>
31.1†	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	N/A	N/A
31.2†	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	N/A	N/A
32.1†	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	N/A	N/A
32.2†	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	N/A	N/A
101INS	XBRL Instance Filing	N/A	N/A
101SCH	XBRL Extension Schema Filing	N/A	N/A
101CAL	XBRL Extension Calculation Linkbase Filing	N/A	N/A
101LAB	XBRL Extension Label Linkbase Filing	N/A	N/A
101PRE	XBRL Extension Presentation Linkbase Filing	N/A	N/A
101DEF	XBRL Extension Definition Linkbase Filing	N/A	N/A

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

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

† Filed herewith.

**First Amendment to the
Avery Dennison Corporation
Stock Option and Incentive Plan**

This First Amendment to the Avery Dennison Corporation Stock Option and Incentive Plan (this “Amendment”) is adopted as of December 4, 2014 (the “Amendment Date”) by the Board of Directors (the “Board”) of Avery Dennison Corporation (the “Company”) for the purpose of amending the Avery Dennison Corporation Stock Option and Incentive Plan (as it may be amended and/or restated from time to time, the “Plan”). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Plan.

WHEREAS, the Company maintains the Plan as approved by the Board’s Compensation and Executive Personnel Committee on February 22, 2012, ratified by the Board on February 23, 2012 and approved by the Company’s stockholders on April 26, 2012;

WHEREAS, the Company desires to amend the Plan pursuant to Section 11.4 of the Plan; and

WHEREAS, this Amendment, together with the Plan (as in effect immediately prior to the Amendment Date), constitutes the entire Plan as amended through the Amendment Date.

NOW, THEREFORE, effective as of the Amendment Date, the Plan is hereby amended as follows:

1. The following is hereby added to the end of Section 4.5(g):

Notwithstanding anything herein to the contrary, in no event may any Incentive Stock Option be granted under the Plan after the tenth (10th) anniversary of the effective date as set forth in Section 11.13 (or, if earlier, the date of the most recent stockholder approval of the Plan).

2. The following is hereby added as Section 5.3 of the Plan:

5.3 Automatic Exercise of Options

(a) Expiration of Option Term: Automatic Exercise of In-The-Money Options. Unless otherwise provided by the Committee (in an Award Agreement or otherwise) or as otherwise directed by an Optionee in writing to the Company, each vested and exercisable Option granted on or after December 4, 2014 and outstanding on the Automatic Exercise Date with an exercise price per share of Common Stock that is less than the Fair Market Value per share of Common Stock as of such date shall automatically and without further action by the Optionee or the Company be exercised on the Automatic Exercise Date. In the sole discretion of the Committee, payment of the exercise price of any such Option granted on or after December 4, 2014 shall be made pursuant to Section 5.2(c)(iv) or 5.2(c)(v) and the Company or any Subsidiary shall deduct or withhold an amount sufficient to satisfy all taxes associated with such exercise in accordance with Section 11.7. Unless otherwise determined by the Committee,

this Section 5.3(a) shall not apply to an Option if the Optionee incurs a Termination of Service on or before the Automatic Exercise Date. For the avoidance of doubt, no Option with an exercise price per share of Common Stock that is equal to or greater than the Fair Market Value per share of Common Stock on the Automatic Exercise Date shall be exercised pursuant to this Section 5.3 and the provisions of this Section 5.3(a) shall not apply to any Option granted under the Plan prior to December 4, 2014.

(b) For purposes of the Plan, “Automatic Exercise Date” shall mean, with respect to an Option or a Stock Appreciation Right, the last business day of the applicable Option Term or Stock Appreciation Right Term that was initially established by the Committee for such Option or Stock Appreciation Right.

3. The following is hereby added as Section 6.3 of the Plan:

6.3 Automatic Exercise of Stock Appreciation Rights

Expiration of Stock Appreciation Right Term: Automatic Exercise of In-The-Money Stock Appreciation Rights. Unless otherwise provided by the Committee (in an Award Agreement or otherwise) or as otherwise directed by a Stock Appreciation Right holder in writing to the Company, each vested and exercisable Stock Appreciation Right granted on or after December 4, 2014 and outstanding on the Automatic Exercise Date with an exercise price per share of Common Stock that is less than the Fair Market Value per share of Common Stock as of such date shall automatically and without further action by the Stock Appreciation Right holder or the Company be exercised on the Automatic Exercise Date. In the sole discretion of the Committee, the Company or any Subsidiary shall deduct or withhold an amount sufficient to satisfy all

taxes associated with such exercise in accordance with Section 11.7. Unless otherwise determined by the Committee, this Section 6.3 shall not apply to a Stock Appreciation Right if the Stock Appreciation Right holder incurs a Termination of Service on or before the Automatic Exercise Date. For the avoidance of doubt, no Stock Appreciation Right with an exercise price per share of Common Stock that is equal to or greater than the Fair Market Value per share of Common Stock on the Automatic Exercise Date shall be exercised pursuant to this Section 6.3 and the provisions of this Section 6.3 shall not apply to any Stock Appreciation Rights granted under the Plan prior to December 4, 2014.

4. Section 7.1 of the Plan is hereby removed and replaced in its entirety with the following:

7.1 Administration

Shares of Restricted Stock, Stock Payments and Deferred Stock and Awards of Restricted Stock Units, Performance Stock, Performance Units or Deferred Stock Units may be awarded either alone or in addition to other Awards granted under the Plan. The Committee or the Company shall determine the Awardees to whom and the time or times at which grants of Restricted Stock, Restricted Stock Units,

Performance Stock, Performance Units, Stock Payments, Deferred Stock and/or Deferred Stock Units will be awarded, the number of shares to be awarded to any Awardee, the conditions for vesting, the time or times within which such Awards may be subject to forfeiture and any other terms and conditions of the Awards, in addition to those contained in Article 7.3. The total number of shares of Restricted Stock, any Stock Payments and Deferred Stock and the total number of shares represented by Restricted Stock Units, Performance Stock, Performance Units, Deferred Stock Units and Dividend Equivalents granted under the Plan shall not exceed 7,000,000.

Notwithstanding any provision in the Plan to the contrary, and subject to Section 11.5, (i) the maximum number of shares of Common Stock under (or represented by) any one form of Award other than Options and Stock Appreciation Rights (including, without limitation, Restricted Stock, Stock Payments, Deferred Stock, Restricted Stock Units, Performance Stock, Performance Units, Deferred Stock Units and Dividend Equivalents) that may be granted to any one person during any calendar year shall be 200,000, (ii) the maximum aggregate number of shares of Common Stock with respect to one or more Awards (other than Options and Stock Appreciation Rights), whether or not the same form of Award, that may be granted to any one person during any calendar year shall be 400,000 and (iii) the maximum aggregate amount that may be paid in cash to any one person during any calendar year with respect to one or more Awards payable in cash shall be \$10,000,000.

* * * * *

Executed on the Amendment Date.

AVERY DENNISON CORPORATION

/s/ Dean A. Scarborough

By: Dean A. Scarborough

Its: Chairman and Chief Executive Officer

**AVERY DENNISON CORPORATION
AMENDED AND RESTATED ANNUAL INCENTIVE PLAN**

WHEREAS, Avery Dennison Corporation (the “Company”) wishes to amend and restate the Amended and Restated Annual Incentive Plan, effective as of January 1, 2014, by adopting this Amended and Restated Annual Incentive Plan (“AIP” or the “Plan”), effective as of January 1, 2015 (the “Effective Date”); and

WHEREAS, this Plan was approved by the Compensation and Executive Personnel Committee of the Company’s Board of Directors (the “Committee”) pursuant to Section 6(c) of the Plan.

NOW, THEREFORE, this Plan is hereby amended and restated, effective as of the Effective Date, as follows:

1. PURPOSE

The purposes of the Plan are as follows:

- a. To attract and retain the best possible employee talent;
- b. To permit employees of the Company to share in its success;
- c. To promote the success of the Company; and
- d. To link employee rewards to individual and Company performance.

2. DEFINITIONS

- a. Administrator. “Administrator” means (i) with respect to the “executive officers”¹ of the Company, the Committee and (ii) with respect to all other Participants, the Chief Executive Officer of the Company.
- b. Annual Rate of Pay. “Annual Rate of Pay” means the annual rate of pay as recorded in HR PeopleSoft or such other payroll system determined appropriate by the Administrator (or such other definition as may be appropriate from time to time as a result of or in connection with country-specific requirements).
- c. Base Compensation. “Base Compensation” means Base Salary or Annual Rate of Pay, as appropriate.
- d. Base Salary. “Base Salary” means, with respect to a salaried employee designated as a Participant in any Plan Year, the annual base salary applicable to the Participant as of the end of such Plan Year. For the avoidance of doubt, “Base Salary” shall include amounts earned in the applicable Plan Year the payment of which is deferred to a future year but shall not include amounts earned in prior years the payment of which is deferred to the applicable Plan Year, and “Base Salary” shall also not include any variable bonus, commission, incentive or retention payments, stock options or other long-term incentive compensation vehicles, or other forms of

¹ As defined by applicable regulations of the Securities and Exchange Commission.

employee benefits such as vacation, insurance, health or medical benefits, disability benefits, workers’ compensation, supplemental unemployment benefits, and post-employment or retirement benefits (including but not limited to compensation, pension, health, medical or life insurance). If a participant goes from full-time to part-time (or part-time to full-time) status during a Plan Year, the Base Salary used for his or her AIP calculation will be separated into full- and part-time components based on the number of month associated with each status.

- e. Business Unit. “Business Unit” means a group, division or Subsidiary of the Company.
- f. Code. “Code” means the Internal Revenue Code of 1986, as amended.
- g. Delegate. “Delegate” means any one of the following officers of the Company to which the Company’s Chief Executive Officer may delegate his authority as provided in this Plan: (i) the President and Chief Operating Officer; (ii) the Senior Vice President and Chief Financial Officer; (iii) the Senior Vice President and Chief Human Resources Officer; or (iv) the Vice President, Total Rewards.
- h. Disability. “Disability” means permanent and total disability as defined in Section 22(c)3 of the Code.
- i. Financial Performance Objective. “Financial Performance Objective” means one of the defined pre-established financial performance objectives as determined, within the first 90 days of the beginning of each Plan Year, by the Administrator. For each Financial Performance Objective, the Administrator will set threshold, target and maximum levels for measuring achievement.
- j. Participant. “Participant” means any employee of the Company or any of its Subsidiaries who has been designated as a participant in the Plan in accordance with Article 3.

- k. Plan Year. “Plan Year” means the fiscal year of the Company.
- l. Person. “Person” means an individual, corporation, partnership, limited liability company, trust, unincorporated association, government or any agency or political subdivision thereof, or any other legal entity.
- m. Retirement. “Retirement” means, unless otherwise determined by the Administrator, a Participant’s termination of active employment with the Company or a Subsidiary thereof, on or after age 55 with 10 or more years of service, provided that, in no event shall a Participant’s termination of employment with the Company or a Subsidiary be deemed a Retirement if such termination of employment results from (or is in connection with) the disaffiliation from the Company or a Subsidiary of all or part of the assets or stock of the Company, a Subsidiary or the Business Unit in which such Participant is employed (including, without limitation, as a result of a public offering, spin-off or sale).
- n. Section 409A. “Section 409A” means Section 409A of the Code and the Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or guidance which may be issued after the Effective Date.
- o. Subsidiary. “Subsidiary” means any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, as well as partnerships and limited liability

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companies in which the Company holds a 33% or more interest.

- p. Target Award. “Target Award” means with respect to a Participant for any Plan Year the AIP opportunity for the Participant in such Plan Year, stated by the Company in writing. The Target Award is expressed as a percentage of the Participant’s Base Compensation in effect at the end of the Plan Year.
- q. Variable Incentive Plan. “Variable Incentive Plan” means any incentive compensation plan, policy or arrangement in which the amount of the payments or benefits thereunder is tied to the attainment of Company, Business Unit and/or individual performance goals, or any other plan, policy or arrangement which is designated as a Variable Incentive Plan by the Administrator in its discretion.

3. PARTICIPATION

Participation in the Plan is limited to employees of the Company and its Subsidiaries who have been designated as Participants by the Administrator or, with respect only to non-executive officers of the Company, a Delegate.

4. ANNUAL AIP OPPORTUNITY

a. AIP Award

Subject to achievement (by the Company or any Business Unit thereof) of any minimum benchmark established by the Administrator for the payment of any awards under the Plan for a given Plan Year, Participants will have the opportunity to earn an annual variable AIP award determined in accordance with this Article 4.

b. AIP Award Payout

i. Subject to Section 4(b)(iv) below, a Participant’s annual AIP award payout will be equal to the product of (A) the Participant’s Target Award, (B) the Participant’s Base Compensation, (C) the Company’s (and, where appropriate, a Business Unit’s) Financial Modifier (as determined below), and (D) the Participant’s Individual Modifier (as determined below).

ii. The Financial Modifier will be a percentage determined based on the Company’s results and/or, as applicable, the results of the respective Business Unit(s) for each Participant, and calculated in relation to the Financial Performance Objectives (with the percentages derived from each Financial Performance Objective weighted in such manner as determined by the person or entity which determined the Financial Performance Objective).

The percentage derived from each Financial Performance Objective (prior to weighing) shall be:

- 1. Zero if the Company or Business Unit(s) achieved less than the threshold performance level for such Financial Performance Objective.
- 2. 50% if the Company or Business Unit(s) achieved the threshold performance level for such Financial Performance Objective.

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- 3. 100% if the Company or Business Unit(s) achieved the target performance level for such Financial Performance

Objective.

4. 200% if the Company or Business Unit(s) achieved at least the maximum performance level for such Financial Performance Objective.

Upon the achievement of between the threshold and the target levels or between the target and the maximum levels for a Financial Performance Objective of the Company or Business Unit(s), the Financial Modifier for such Financial Performance Objective will be determined by means of linear interpolation. The maximum Financial Modifier shall be 200%, for each Financial Performance Objective and in total.

iii. A Participant's Individual Modifier shall be a percentage ranging from 0% to 150% as determined by such Participant's manager based on the Participant's individual performance.

iv. The Administrator may, in its discretion, increase or decrease award amounts that would otherwise be payable under the Plan; provided that the maximum award amount payable under the Plan to any Participant shall be 200% of such Participant's Target Award (his or her Financial Modifier and Individual Modifier combined).

c. AIP Award Determination in Cases of Prior or Subsequent Participation in Another Variable Incentive or Similar Plan or Change in Target Award.

Participants who are eligible to receive an award under another Variable Incentive Plan (e.g., sales incentive plan) during part of the Plan Year and are designated as Participants under the Plan during a portion of the Plan Year may receive an Award under the Plan on a prorated basis as set forth in Section 4(h). Participants who have a change in their Target Award are eligible to receive an award under the Plan that is prorated based on the timing of the change to the Participant's Target Award.

d. AIP Award Determination in Cases of Leave of Absence

If a Participant is on an approved leave of absence (including, without limitation, leaves caused by short-term disability) for more than one month during the Plan Year, then the Participant will continue to participate for that Plan Year; provided that the Administrator may, in its discretion, decrease the award that would otherwise be payable under the Plan.

e. AIP Award Determination in Cases of Disability or Death

A Participant whose employment is terminated prior to the end of the Plan Year as a result of Disability or death will be eligible to receive a prorated award upon such Termination on the basis of 100% Financial Modifier and a 100% Individual Modifier.

f. AIP Award Determination in Cases of Retirement

A Participant whose employment is terminated prior to the end of the Plan Year as a result of Retirement will be eligible to receive a prorated award after the end of the Plan Year based on (i) the Financial Modifier based on the Company's or applicable Business Unit(s)' results for such Plan Year, (ii) an Individual Modifier of 100% and (iii) a fraction, the numerator of which is the number of days in which the Participant was eligible to participate in the Plan during the Plan Year prior to the date of Retirement and the denominator of which is 365.

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g. AIP Award Determination in Cases of Termination

Participants whose employment with the Company or a Subsidiary is terminated prior to end of the Plan Year for any reason other than Retirement, Disability or death shall not be eligible to receive awards under this Plan, as may be amended or supplemented for local legal differences for employees of foreign (non-U.S.) Subsidiaries.

h. AIP Award Determination in Cases of New Participants or Participants in Another Variable Incentive Plan

Participants who become eligible to participate in the Plan prior to the end of the first fiscal quarter of the Plan Year and participate in the Plan for the remainder of such Plan Year will be eligible for a full year AIP opportunity for such Plan Year and Participants who become eligible to participate in the Plan during the fourth fiscal quarter of the Plan Year will not be eligible for an award under the Plan, unless approved by the Administrator or, with respect only to non-executive officers of the Company, a Delegate. Participants who become eligible to participate in the Plan during the second or third fiscal quarters of the Plan Year will be eligible for a prorated award of between 25% and 75% of the full year AIP opportunity, based on the number of months of the Plan Year in which they worked and were eligible to participate in the Plan. Participants must (i) become eligible to participate in the Plan on or prior to the 15th day of a month, and (ii) participate in the Plan through the end of such month, in order to receive credit for such month toward a prorated award.

Participants who are eligible to participate in the Plan at the beginning of the Plan Year, but who subsequently become ineligible to participate in the Plan prior to the end of the Plan Year may receive an award under the Plan on a prorated basis, in the discretion of the Administrator or, with respect only to non-executive officers of the Company, a Delegate.

i. Other Incentive Programs

No Participant may participate in any other Variable Incentive Plan, except as provided for herein.

5. TIMING OF PAYMENT OF AWARDS

AIP Awards for each Participant will be paid in the form (cash or Company shares) as determined by the Committee, subject to such vesting as is determined by the Committee, and subject to the terms and conditions of the Employee Stock Option and Incentive Plan, effective as of April 26, 2012, as amended, or any successor plan, as soon as conveniently possible after the calculation of the Company's (or the Business Unit's) achievement of the Performance Objectives and the award thereof by the Administrator, but in any event not later than three months from the last day of the Plan Year to which such award relates; provided that Participants, if applicable under the law governing their employment contract with the Company or Subsidiary as the case may be, may have elected to defer the receipt of all or part of such award, to the extent permitted under Section 409A, in accordance with established deferred compensation plans offered by the Company.

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6. PLAN ADMINISTRATION

a. General Administration

This Plan will be administered by the Committee, which may delegate its administrative responsibilities in connection with the Plan to appropriate employees of the Company. The Committee or its delegate will have full power and authority to interpret the Plan, to establish, amend and rescind any rules, forms or procedures as it deems necessary for the proper administration of the Plan, to determine the manner and time of payment of the annual incentive compensation payable under the Plan, and to take any other action as it deems necessary or advisable in connection with the Plan. Any decision made, action taken or interpretation made by the Committee or its delegate that is not inconsistent with the provisions of this Plan will be final, conclusive, and binding on all persons interested in the Plan.

b. Adjustments for Extraordinary Events

If an event occurs during a Plan Year that materially influences the Financial Performance Objectives of the Company or Business Unit and is deemed by the Committee to be extraordinary and out of the control of management, the Committee may, in its discretion, increase or decrease the Financial Performance Objectives used to determine the annual AIP payout. Events warranting such action may include, but are not limited to, changes in accounting, tax or regulatory rulings, acquisitions, divestitures, mergers, consolidations, spin-offs, reorganizations, significant changes in economic conditions resulting in windfalls or hardships and other such events as the Committee, in its sole discretion, may determine.

c. Amendment, Suspension, or Termination

The Committee may amend, suspend or terminate the Plan, in whole or in part, at any time, if, in the sole judgment of the Committee, such action is in the best interests of the Company. Notwithstanding the above, any such amendment, suspension or termination must be prospective in that it may not deprive then-current Participants of that which they otherwise would have received under the Plan for the current Plan Year had the Plan not been amended, suspended or terminated.

7. MISCELLANEOUS PROVISIONS

a. Titles

Section and Article titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

b. Employment Not Guaranteed

Nothing contained in the Plan nor any action taken in the administration of the Plan will be construed as a contract of employment or as giving a Participant any right to be retained in the service of the Company or any of its Subsidiaries.

c. Validity

In the event that any provision of the Plan is held to be invalid, void or unenforceable, the same will not affect, in any respect whatsoever, the validity of any other provision of the Plan.

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d. Withholding Tax

All payments made pursuant to this Plan will be subject to withholding for all applicable taxes and contributions required by law to be withheld therefrom.

e. Clawback Provision

In the case of fraud or other intentional misconduct on the part of a Participant that necessitates a restatement of the Company's or Business Unit's financial results, such Participant will reimburse the Company for any awards or other incentive compensation paid or issued to such Participant in excess of the amount that would have been paid or issued based on the restated financial results.

f. Applicable Law

The Plan will be governed in accordance with the laws of the State of California, without giving effect to any principles of conflicts of law, whether of the State of California or any other jurisdiction, and where applicable, the laws of the United States, that would result in the application of the laws of any other jurisdiction.

g. Section 409A

The annual variable awards granted under the Plan are intended to be exempt from or comply in all respects with Section 409A and, to the extent applicable, the Plan will be interpreted in accordance with Section 409A. Notwithstanding any provision of the Plan to the contrary, in the event that the Committee determines that any payment under the Plan may be subject to penalty for noncompliance with Section 409A, the Committee shall have the right (without any obligation to do so or to indemnify any Participant for failure to do so) to adopt such amendments to the Plan or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions that the Committee determines are necessary or appropriate to (i) exempt the payment from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the payment, or (ii) satisfy the requirements of Section 409A and thereby avoid the application of penalty taxes under Section 409A. No provision of this Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from a Participant or any other person to the Company or any of its Subsidiaries, employees or agents.

In the case of a Participant who is a “specified employee” and where delayed commencement of any payments under this Plan is required to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, any payment under this Plan that constitutes “non-qualified deferred compensation” subject to Section 409A may not be made before the date which is six months after the Participant’s separation from service (or, if earlier, the date of the Participant’s death). For purposes of this Section 7(g), a Participant shall be a “specified employee” if such Participant is a key employee (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) of a corporation, any stock of which is publicly traded on an established securities market or otherwise, as determined under Section 409A(a)(2)(B)(i) of the Code and the Department of Treasury regulations thereunder.



207 Goode Ave, Ste 500
 Glendale, California 91203
 Phone 626 304-2000
 Fax 626 792-7312

January 30, 2015

Anne Bramman
 XXXX
 XXXX

Dear Anne:

I am very pleased to offer you the position of Senior Vice President & Chief Financial Officer, reporting directly to me. This is an Executive, Level 2, position. Your employment with Avery Dennison will commence on or about March 1, 2015. This offer is contingent upon successful completion of your background verification, reference checks, and pre-employment drug-screening test.

Specific details of our job offer are as follows:

Base Salary: Your annualized rate of pay will be **\$550,000** paid semi-monthly. Your next salary review will be April 1, 2016. Subsequent salary reviews will be conducted on April 1st of each year, or on another date designated by the Company for a given year.

Bonus: You will be eligible to be considered under Avery Dennison's annual incentive plan ("AIP") to participate at a **60%** of base salary opportunity level, subject to applicable withholdings. If your start date is on or after April 1, 2015, you will participate in the AIP on a prorated basis for 2015. The Annual Incentive Plan (AIP), including eligibility criteria, may change at any time, with or without notice, in accordance with applicable law or, if permissible under the law, at the discretion of the Company.

Long-Term Incentive (LTI) Opportunity: Under the Company's executive incentive compensation program you will be eligible to be considered for an annualized long-term incentive award with a value opportunity equivalent to approximately **180%** of your base salary. The long term incentive program, including eligibility criteria, may be amended, suspended or terminated at any time, with or without notice, in accordance with applicable law and the applicable plan terms. You will receive the following equity awards, which comprise your 2015 LTI grant. They will be granted on March 1, or June 1, depending on your actual start date:

- **\$495,000** value of Market-Leveraged Stock Units (MSUs) with a 4-year ratable vesting schedule, subject to performance.
- **\$495,000** value of Performance Units (PUs) with a 3-year cliff vesting schedule, subject to performance. This award will be broken down into two separate awards due to the different performance metrics (Cumulative EVA (50%) and Relative TSR (50%)).

Sign-On Compensation: In addition, you will also receive sign-on compensation, via a mix of Restricted Stock Units (RSUs) and cash. The sign on compensation will include:

- A one-time RSU Grant with a value of **\$400,000**, with a 3-year ratable vesting schedule. This award will be granted either on March 1 or June 1 depending on your actual start date:
- A one-time cash award of **\$200,000**, to be paid 30 days following the start of your employment with the Company, with all applicable taxes withheld. You will be required to pay back this cash award if you voluntarily terminate your employment within 12 months following your start date with the Company.

Deferred Compensation Program: You will be eligible to participate in the Avery Dennison deferred compensation plan during the next open enrollment cycle. Under this plan, you will be able to defer up to **75%** of your base salary and up to **90%** of your annual bonus.

Executive Benefits: You will receive an annual Executive Benefit Allowance in the amount **\$65,000**, which will be paid in semi-monthly installments with your normal payroll run. If your start date is in the middle of a pay cycle, you will receive the first allowance at the beginning of your next pay cycle. The company will reimburse you for up to **\$15,000** per year, for Financial Planning & Tax Preparation. In addition, you will be eligible for an Annual Executive Physical, you may participate in the Executive Long-Term Disability (LTD) plan, and you are entitled to Executive Supplemental Life Insurance.

You will be entitled to unlimited vacation. You will not accrue vacation while eligible for the unlimited use program. You will receive holidays in accordance with the Company's holiday policy as it may be established and changed from time-to-time. Avery

Dennison celebrates 12 paid holidays each calendar year and you will receive a schedule of holidays for your work location shortly after you begin.

Please see Level 2 Benefits Summary as a reference.

Other Benefits: Your employment classification is regular full-time. As a regular full-time employee, you will be eligible for participation in the Company's health and welfare benefit plans (including medical, dental, vision, life insurance, short-term and long-term disability, etc.) on the first of the month following 60 days of active employment and in accordance with the provisions of such plans. You will also be eligible for participation in the Company's 401(k) retirement Savings Plan in accordance with the provisions of the plan. To ensure that you do not miss the earliest opportunity to participate in the Savings Plan, you will be automatically enrolled following 30 days of active employment at a 6% pre-tax contribution level and the Company will match 50 cents for each dollar you contribute up to a maximum Company match of 3%. In addition, you will receive a Company contribution each pay period equal to 3% of your 401(k) eligible pay regardless of whether you make contributions to the Savings Plan. You may opt-out of the Savings Plan or change your level of participation at any time as described in the New Hire Automatic Enrollment notice included with your new hire packet. Please see the Savings Plan summary plan description included in the Company's Directory of Employee Benefits Information, which will be available to you on-line after your hire date, for more information. You will be receiving a packet from the Company's outside benefits administrator explaining in more detail the Company's benefit plans available to you and the requirements for enrollment. The terms of the benefit plan documents exclusively govern your participation in, eligibility for, and entitlement to benefits under the plans. If there is any conflict between these plans and this letter, or between the plans and any other oral or written summary or description of the benefits, the terms of the benefit plan

documents shall exclusively govern. Please see the Savings Plan summary plan description included in the Company's Your Total Rewards website, which will be available to you on-line after your hire date, for more information.

You will be entitled to the benefits generally available to Company employees in accordance with specific plan provisions. You will be a Participant in the Avery Dennison Key Executive Change of Control Severance Plan, the Avery Dennison Executive Severance Plan, and any other plans generally offered to Level 2 executives, as described in the attached outline. You will also be subject to the Avery Dennison Stock Ownership Policy.

Relocation Assistance: We will provide relocation assistance consistent with our Relocation Program, which is attached for your reference. These benefits are taxable according to applicable federal, state, and local laws. A representative from our relocation firm will be contacting you, once your human resources department has initiated your move, to help you get started with the relocation process and to answer any questions you may have.

While employed by Avery Dennison, secondary employment in a printing business, adhesive products business, or any business competing with, purchasing from or selling to Avery Dennison is prohibited. Other types of secondary employment are also usually not allowed, except under special circumstances and only if approved in advance by your immediate manager. If you intend to engage in secondary employment, you must disclose this fact and all pertinent information in writing to me and obtain written approval. Based on your position with the Company, you are required to complete an Ethics and Conflict of Interest questionnaire, and this information will be reviewed with the Corporate Compliance Officer, and may also be reviewed by the Ethics and Conflict of Interest Committee of the Board of Directors.

The Immigration, Reform and Control Act, as amended, requires all new employees to provide proof of identity and eligibility to work in the United States. The acceptable forms of proof are specified in the enclosed "Lists of Acceptable Documents." Please bring the originals with you on the first day you report to work. You must provide appropriate original documentation within three business days from your employment commencement date or, if you are unable, provide a receipt showing that you have applied for such appropriate documentation. Failure to do so, will mean that you cannot be employed with Avery Dennison.

All candidates for positions as Company employees are required to participate in a post-offer, preplacement drug-screening test in accordance with our corporate policy prohibiting the illegal use of drugs. This offer is contingent upon you successfully passing such drug screening. For purposes of this offer, "successfully passing" means a negative result on the drug screening test. Avery Dennison will pay the cost of the drug screen. You will not be authorized to commence work until Avery Dennison has been notified that you have successfully passed the drug screen.

Your employment with the Company is at-will, which means either you or the Company may terminate the employment relationship at any time, with or without notice or cause. As a condition of employment, all new employees are required to sign both our Company's Employee Agreement and Mutual Agreement to Arbitrate Claims. Copies of these agreements have been enclosed for your review and signature. Please sign and return these documents prior to your commencing employment. Because they are legal documents, you should consult with your own attorney if you desire. Your at-will status and these agreements cannot be altered except in writing signed both by you and an expressly

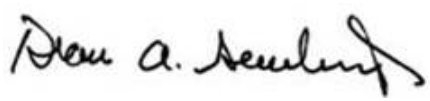
authorized representative of the Company. Also enclosed you will find W-4 and state tax forms which you will need to complete for payroll purposes.

It is our Company's policy to respect all trade secrets, confidential and proprietary information of any other company, including our competitors, and any company at which our employees may have been previously employed. You must not appropriate any trade secrets, confidential or proprietary information of any third party except as permitted in writing by such third party, and you must not use or disclose any third party's trade secrets, confidential or proprietary information for the benefit of our Company.

I look forward to your joining Avery Dennison. Should you have any questions, please feel free to contact Anne Hill at (626) 304-XXXX.

Please sign and date this offer letter below, indicating that you understand and accept the terms described above. Return the letter, along with the enclosed forms, prior to your start date to LeeAnn Prussak in Corporate Human Resources.

Sincerely,



Dean A Scarborough
Chairman and CEO

Attachments:

- Executive Benefit Summary
- Relocation Policy
- Severance Plan
- Change of Control Plan
- Stock Ownership Policy

cc: LeeAnn Prussak
Anne Hill

Accepted by: _____ /s/ Anne Bramman

Date: _____ 2/9/15

Welcome aboard!

AVERY DENNISON CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Dollars in millions)

	2014	2013	2012
Earnings:			
Income from continuing operations before taxes	\$ 364.4	\$ 363.1	\$ 237.6
Add: Fixed charges ⁽¹⁾	90.7	87.9	106.8
Amortization of capitalized interest	3.9	3.8	3.7
Less: Capitalized interest	(3.9)	(3.4)	(3.4)
	<u>\$ 455.1</u>	<u>\$ 451.4</u>	<u>\$ 344.7</u>
Fixed charges: ⁽¹⁾			
Interest expense	\$ 63.3	\$ 58.9	\$ 72.9
Capitalized interest	3.9	3.4	3.4
Interest portion of leases	23.5	25.6	30.5
	<u>\$ 90.7</u>	<u>\$ 87.9</u>	<u>\$ 106.8</u>
Ratio of Earnings to Fixed Charges	<u>5.0</u>	<u>5.1</u>	<u>3.2</u>

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

Use these links to rapidly review the document
[ORGANIZATION OF INFORMATION](#)

EXHIBIT 13

	Segment Pressure-sensitive Materials	Segment Retail Branding and Information Solutions	Segment Vancive Medical Technologies
BUSINESSES	Materials Group	Retail Branding and Information Solutions	Vancive Medical Technologies
2014 SALES IN MILLIONS	\$4,658	\$1,592	\$81
% OF SALES	74%	25%	1%
GLOBAL BRAND	Avery Dennison®	Avery Dennison® Monarch®	Vancive Medical Technologies®
DESCRIPTION	The technologies and materials of our Pressure-sensitive Materials businesses enhance brands' shelf, store and street appeal; inform shoppers of ingredients; protect brand security; improve operational efficiency; and provide visual information that enhances safety	RBIS provides intelligent, creative, and sustainable solutions that elevate brands and accelerate performance through the global retail supply chain	Vancive Medical Technologies delivers advanced medical tapes, films and technologies with its partners to help improve the patient experience, accelerate operational efficiencies, and manage the costs of providing quality patient care and improving outcomes
PRODUCTS/SOLUTIONS	Pressure-sensitive labeling materials; packaging materials and solutions; roll-fed sleeve; performance polymer adhesives and engineered films; graphic imaging media; reflective materials; pressure-sensitive tapes for automotive, building and construction; electronics and industrial applications; diaper tapes and closures	Creative services; brand embellishments; graphic tickets; tags and labels; sustainable packaging; inventory visibility and loss prevention solutions; data management services; price tickets; printers and scanners; radio-frequency identification (RFID) inlays; fasteners; brand protection and security solutions	Skin-contact adhesives; surgical, wound care, ostomy and securement products; medical barrier films; wearable sensor technology
MARKET SEGMENTS	Food; beverage; wine and spirits; home and personal care products; pharmaceuticals; durables; fleet vehicle/automotive; architectural/retail; promotional/advertising; traffic; safety; transportation original equipment manufacturing; personal care; electronics; building and construction	Apparel manufacturing and retail supply chain; food service and supply chain; hard goods and supply chain; pharmaceutical supply chain; logistics	Medical and healthcare
CUSTOMERS	Label converters; package designers; packaging engineers and manufacturers; industrial manufacturers; printers; distributors; designers; advertising agencies; government agencies; sign manufacturers; graphic vendors; tape converters; original equipment manufacturers; construction firms; personal care product manufacturers	Apparel brands; manufacturers and retailers; food service, grocery and pharmaceutical supply chains; consumer goods brands; manufacturers and retailers; automotive manufacturers; transportation companies	Medical products and device manufacturers
WEBSITES	www.label.averydennison.com www.graphics.averydennison.com www.tapes.averydennison.com www.reflectives.averydennison.com	www.rbis.averydennison.com www.rfid.averydennison.com	www.vancive.averydennison.com
LEADERS	Mitchell R. Butier, President, Chief Operating Officer and Chief Financial Officer	R. Shawn Neville, President, Retail Branding and Information Solutions	Howard Kelly, Vice President and General Manager, Vancive Medical Technologies

Safe Harbor Statement

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

Certain risks and uncertainties are discussed in more detail under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2015 and include, but are not limited to, risks and uncertainties relating to the following: fluctuations in demand affecting sales to customers; worldwide and local economic conditions; fluctuations in currency exchange rates and other risks associated with foreign operations, including in emerging markets; the financial condition and inventory strategies of customers; changes in customer preferences; fluctuations in cost and availability of raw materials; our ability to generate sustained productivity improvement; our ability to achieve and sustain targeted cost reductions; the impact of competitive products and pricing; loss of significant contracts or customers; collection of receivables from customers; selling prices; business mix shift; timely development and market acceptance of new products, including sustainable or sustainably-sourced products; investment in development activities and new production facilities; integration of acquisitions and completion of potential dispositions; amounts of future dividends and share repurchases; customer and supplier concentrations; successful implementation of new manufacturing technologies and installation of manufacturing equipment; disruptions in information technology systems including cyber-attacks or other intrusions to network security; successful installation of new or upgraded information technology systems; data security breaches; volatility of financial markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; our ability to obtain adequate financing arrangements and maintain access to capital; fluctuations in interest and tax rates; changes in tax laws and regulations, and uncertainties associated with interpretations of such laws and regulations; outcome of tax audits; fluctuations in pension, insurance, and employee benefit costs; impact of legal and regulatory proceedings, including with respect to environmental, health and safety; changes in governmental laws and regulations; protection and infringement of intellectual property; changes in political conditions; the impact of epidemiological events on the economy and our customers and suppliers; acts of war, terrorism, and natural disasters; and other factors.

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

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

Five-Year Summary

(Dollars in millions, except % and per share amounts)	2014 ⁽¹⁾		2013		2012		2011		2010	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
For the Year										
Net sales	\$ 6,330.3	100.0	\$ 6,140.0	100.0	\$ 5,863.5	100.0	\$ 5,844.9	100.0	\$ 5,604.8	100.0
Gross profit	1,651.2	26.1	1,637.7	26.7	1,528.2	26.1	1,475.3	25.2	1,466.4	26.2
Marketing, general and administrative expense	1,155.3	18.3	1,179.0	19.2	1,148.9	19.6	1,139.4	19.5	1,145.9	20.4
Interest expense	63.3	1.0	59.0	1.0	72.9	1.2	71.1	1.2	76.6	1.4
Other expense, net ⁽²⁾	68.2	1.1	36.6	.6	68.8	1.2	51.6	.9	18.7	.3
Income from continuing operations before taxes	364.4	5.8	363.1	5.9	237.6	4.1	213.2	3.6	225.2	4.0
Provision for (benefit from) income taxes	113.3	1.8	118.8	1.9	80.0	1.4	71.5	1.2	(8.4)	(.1)
Income from continuing operations	251.1	4.0	244.3	4.0	157.6	2.7	141.7	2.4	233.6	4.2
(Loss) income from discontinued operations, net of tax	(2.2)	N/A	(28.5)	N/A	57.8	N/A	48.4	N/A	83.3	N/A
Net income	248.9	3.9	215.8	3.5	215.4	3.7	190.1	3.3	316.9	5.7
	2014		2013		2012		2011		2010	
Per Share Information										
Income per common share from continuing operations	\$ 2.68		\$ 2.48		\$ 1.54		\$ 1.34		\$ 2.21	
Income per common share from continuing operations, assuming dilution	2.62		2.44		1.52		1.33		2.19	
(Loss) income per common share from discontinued operations	(.03)		(.29)		.56		.46		.79	
(Loss) income per common share from discontinued operations, assuming dilution	(.02)		(.28)		.56		.45		.78	
Net income per common share	2.65		2.19		2.10		1.80		3.00	
Net income per common share, assuming dilution	2.60		2.16		2.08		1.78		2.97	
Dividends per common share	1.34		1.14		1.08		1.00		.80	
Weighted-average common shares outstanding (in millions)	93.8		98.4		102.6		105.8		105.8	
Weighted-average common shares outstanding, assuming dilution (in millions)	95.7		100.1		103.5		106.8		106.8	
Book value per share at fiscal year-end	\$ 11.78		\$ 15.51		\$ 15.82		\$ 15.60		\$ 15.61	
Market price per share at fiscal year-end	51.79		50.48		34.40		28.68		42.34	
Market price per share range	41.28 to 52.67		34.92 to 50.65		26.38 to 34.97		23.97 to 43.11		30.79 to 42.49	
At End of Year										
Working capital ⁽³⁾	\$ 322.7		\$ 536.4		\$ 25.5		\$ 271.3		\$ 120.1	
Property, plant and equipment, net ⁽³⁾	875.3		922.5		1,015.5		1,079.4		1,262.9	
Total assets	4,360.2		4,610.6		5,105.3		4,972.7		5,099.4	
Long-term debt and capital leases ⁽³⁾	945.3		950.6		702.2		954.2		956.2	
Total debt ⁽³⁾	1,149.6		1,027.5		1,222.4		1,181.3		1,337.2	
Shareholders' equity	1,066.5		1,492.2		1,580.9		1,658.5		1,645.7	
Other Information										
Depreciation and amortization expense ⁽⁴⁾	\$ 201.6		\$ 204.3		\$ 211.0		\$ 220.0		\$ 220.5	
Research and development expense ⁽⁴⁾	102.5		96.0		98.6		93.8		84.5	
Effective tax rate ⁽⁴⁾	31.1%		32.7%		33.7%		33.5%		(3.7)%	
Return on average shareholders' equity	18.3		13.9		13.4		11.1		21.6	
Return on average total capital	11.8		9.3		9.1		7.6		12.8	

(1) Results for 2014 reflected a 53-week period.

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

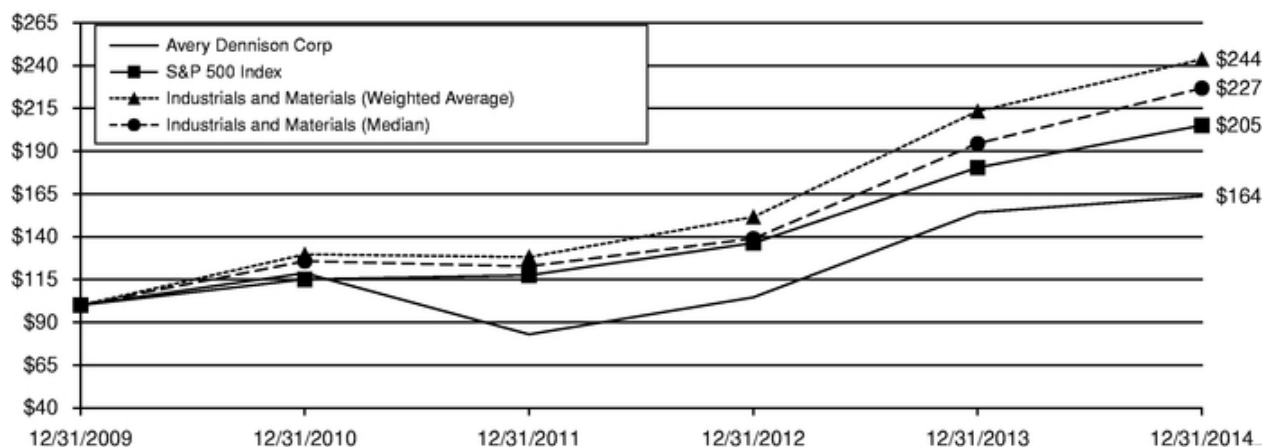
(3) Amounts for 2012 and 2011 are for continuing operations only.

(4) Amounts for all years are for continuing operations only.

Stockholder Return Performance

The following graph compares the cumulative stockholder return on our common stock, including the reinvestment of dividends, with the return on the S&P 500® Stock Index, the average return (weighted by market capitalization) of the S&P 500® Materials and Industrials subsets (the "Market Basket"), and the median return of the Market Basket, in each case for the five-year period ending December 31, 2014.

Comparison of Five-Year Cumulative Total Return as of December 31, 2014



Total Return Analysis ⁽¹⁾

	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Avery Dennison Corporation	\$ 100.00	\$ 118.70	\$ 82.92	\$ 104.56	\$ 154.16	\$ 163.63
S&P 500 Index	100.00	115.09	117.49	136.27	180.38	205.03
Market Basket (Weighted Average) ⁽²⁾	100.00	129.68	128.12	151.55	213.29	243.64
Market Basket (Median)	100.00	125.70	122.74	138.90	194.43	226.77

⁽¹⁾ Assumes \$100 invested on December 31, 2009 and the reinvestment of dividends.

⁽²⁾ Average weighted by market capitalization.

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

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

ORGANIZATION OF INFORMATION

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

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NON-GAAP FINANCIAL MEASURES

We report financial results in conformity with accounting principles generally accepted in the United States of America, or GAAP, and also communicate with investors using certain non-GAAP financial measures. These non-GAAP financial measures are not in accordance with, nor are they a substitute for or superior to, the comparable GAAP financial measures. These non-GAAP financial measures are intended to supplement 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. The measures we use may not be comparable to similarly named non-GAAP measures used by other companies.

Our non-GAAP financial measures exclude the impact of certain events, activities or strategic decisions. By excluding certain accounting effects, both positive and negative, of certain items, we believe that we are providing meaningful supplemental information to facilitate an understanding of our core operating results and liquidity measures. These non-GAAP financial measures are used internally to evaluate trends in our underlying performance, as well as to facilitate comparison to the results of competitors for a single period. While some of the items we exclude from GAAP financial measures recur, they tend to be disparate in amount, frequency, or timing.

We use the following non-GAAP financial measures in this MD&A:

- *Organic sales change* refers to the increase or decrease in sales excluding the estimated impact of currency translation, product line exits, acquisitions and divestitures, and, where applicable, the extra week in the fiscal year. The estimated impact of currency translation is calculated on a constant currency basis, with prior period results translated at current period average exchange rates to exclude the effect of currency fluctuations. We believe organic sales change assists investors in evaluating the underlying sales growth from the ongoing activities of our businesses and provides improved comparability of results period to period.
- *Free cash flow* refers to cash flow from operations, less payments for property, plant and equipment, software and other deferred charges, plus proceeds from sales of property, plant and equipment, plus (minus) net proceeds from sales (purchases) of investments, plus discretionary contributions to pension plans and charitable contribution to Avery Dennison Foundation utilizing proceeds from divestitures. Free cash flow excludes uses of cash that do not directly or immediately support the underlying business, such as discretionary debt reductions, dividends, share repurchases, and certain effects of acquisitions and divestitures (e.g., cash flow from discontinued operations, taxes, and transaction costs).
- *Operational working capital* refers to trade accounts receivable and inventories, net of accounts payable, and excludes cash and cash equivalents, short-term borrowings, deferred taxes, other current assets and other current liabilities, as well as current assets and current liabilities of held-for-sale businesses. We use this non-GAAP financial measure to assess our working capital requirements because it excludes the impact of fluctuations attributable to our financing and other activities (which affect cash and cash equivalents, deferred taxes, other current assets, and other current liabilities) that tend to be disparate in amount, frequency, or timing, and that may increase the volatility of the working capital as a percentage of sales from period to period. Additionally, the excluded items are not significantly influenced by our day-to-day activities managed at the operating level and may not reflect the underlying trends in our operations.
- *Net debt to EBITDA ratio* refers to total debt less cash and cash equivalents, divided by EBITDA, which refers to earnings from continuing operations before interest, taxes, depreciation and amortization. We believe the net debt to EBITDA ratio is meaningful because investors view it as an indicator of our leverage position.

OVERVIEW AND OUTLOOK

Fiscal Year

Normally, our fiscal years consist of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks. Our 2014 fiscal year consisted of a 53-week period ending January 3, 2015 and our 2013 and 2012 fiscal years consisted of 52-week periods ending December 28, 2013 and December 29, 2012, respectively.

Sales

In 2014, sales from continuing operations grew approximately 3% compared to 2013 due to organic growth, with the impact of the extra week in our 2014 fiscal year largely offset by the unfavorable impact of foreign currency translation. On an organic basis, sales increased 3% due to higher volume.

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

In 2013, sales from continuing operations grew approximately 5% on both a reported and organic basis compared to 2012 due to higher volume.

	2014	2013
Estimated change in sales due to		
Organic sales change	3%	5%
Foreign currency translation	(1)	–
Extra week in fiscal year	1	–
Reported sales change ⁽¹⁾	3%	5%

(1) Totals may not sum due to rounding.

Income from Continuing Operations

Income from continuing operations increased from approximately \$244 million in 2013 to approximately \$251 million in 2014. Major factors affecting the change in income from continuing operations in 2014 compared to 2013 included:

Positive factors:

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

Offsetting factors:

- Higher restructuring and transition costs, including the consolidation of certain European operations in our Pressure-sensitive Materials segment
- Impact of pricing and raw material input costs
- Higher employee-related costs
- Gain on sale of assets in 2013

Cost Reduction Actions

2014 Actions

In 2014, we recorded \$66.5 million in restructuring charges, net of reversals, related to restructuring actions we initiated in 2014 ("2014 Actions"), including the consolidation of European operations described above. These charges consisted of severance and related costs for the reduction of approximately 1,420 positions, lease cancellation costs, and asset impairment charges. Approximately 100 employees impacted by our 2014 Actions remained employed with us as of January 3, 2015. We anticipate approximately \$49 million in annualized savings from these restructuring actions, of which approximately \$14 million were realized in 2014, with the remainder to be realized through 2016. In 2014, transition costs related to the 2014 actions were approximately \$12 million.

2012 Program

In 2013, we recorded \$40.3 million in restructuring charges, net of reversals, related to the restructuring program we initiated in 2012 (the "2012 Program"), which consisted of severance and related costs for the reduction of approximately 1,400 positions, lease and other contract cancellation costs, and asset impairment charges.

In 2012, we recorded \$56.4 million in restructuring charges, net of reversals, related to our 2012 Program, which consisted of severance and related costs for the reduction of approximately 1,060 positions, lease cancellation costs, and asset impairment charges.

Refer to Note 13, "Cost Reduction Actions," to the Consolidated Financial Statements for more information.

Free Cash Flow

(In millions)	2014	2013	2012
Net cash provided by operating activities	\$ 374.2	\$ 320.1	\$ 513.4
Purchases of property, plant and equipment	(147.9)	(129.2)	(99.2)
Purchases of software and other deferred charges	(27.1)	(52.2)	(59.1)
Proceeds from sales of property, plant and equipment	4.3	38.7	4.2
Sales (purchases) of investments, net	.3	.1	(6.7)
Plus: charitable contribution to Avery Dennison Foundation utilizing proceeds from divestitures	–	10.0	–
Plus: discretionary contributions to pension plans utilizing proceeds from divestitures	–	50.1	–
Plus (minus): net divestiture-related payments and free cash outflow (inflow) from discontinued operations	.2	92.7	(49.7)
Free cash flow	\$ 204.0	\$ 330.3	\$ 302.9

Free cash flow in 2014 decreased compared to 2013 primarily due to higher working capital requirements (including larger than usual differences in year-end timing of vendor payments and customer receipts), the impact of currency fluctuation, and higher incentive compensation paid in 2014 for the 2013 performance year, partially offset by lower income tax payments, and lower pension contributions (excluding discretionary pension plan contributions utilizing proceeds from divestitures).

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

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

Divestitures

On January 29, 2013, we entered into an agreement to sell our Office and Consumer Products ("OCP") and Designed and Engineered Solutions ("DES") businesses to CCL Industries Inc. ("CCL"). On July 1, 2013, we completed the sale for a total purchase price of \$500 million (\$481.2 million, net of cash provided) and entered into an amendment to the purchase agreement, which, among other things, increased the target net working capital amount and amended obligations related to employee matters and indemnification. We continue to be subject to certain indemnification obligations under the terms of the purchase agreement. In addition, the tax liability associated with the sale is subject to completion of tax return filings in the jurisdictions in which we operated our former OCP and DES businesses.

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

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

Outlook

Certain factors that we believe may contribute to results for 2015 are described below:

- We expect organic sales growth of 3% to 4% in 2015.
- The loss of the extra week in our 2015 fiscal year will decrease net sales compared to 2014 by approximately 1%.
- Based on currency rates in effect during January 2015, we expect currency translation to reduce net sales by approximately 7% and reduce operating income.
- We expect our annual effective tax rate in 2015 to be in the low to mid-thirty percent range.
- We expect earnings to increase in 2015.
- We anticipate capital and software expenditures of approximately \$175 million in 2015.
- We estimate cash restructuring costs of approximately \$35 million in 2015.

ANALYSIS OF RESULTS OF OPERATIONS

Income from Continuing Operations Before Taxes

(In millions)	2014	2013	2012
Net sales	\$ 6,330.3	\$ 6,140.0	\$ 5,863.5
Cost of products sold	4,679.1	4,502.3	4,335.3
Gross profit	1,651.2	1,637.7	1,528.2
Marketing, general and administrative expense	1,155.3	1,179.0	1,148.9
Interest expense	63.3	59.0	72.9
Other expense, net	68.2	36.6	68.8
Income from continuing operations before taxes	\$ 364.4	\$ 363.1	\$ 237.6

As a Percentage of Sales			
Gross profit	26.1%	26.7%	26.1%
Marketing, general and administrative expense	18.3	19.2	19.6
Income from continuing operations before taxes	5.8	5.9	4.1

Gross Profit Margin

Gross profit margin in 2014 declined compared to 2013 primarily reflecting changes in segment and product mix, the impact of pricing and raw material input costs, and higher employee-related costs, partially offset by benefits from productivity initiatives, including savings from restructuring, and higher volume.

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

Marketing, General and Administrative Expense

Marketing, general and administrative expense decreased in 2014 compared to 2013 due to benefits from productivity initiatives, including savings from restructuring, partially offset by higher employee-related costs.

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

Interest Expense

Interest expense increased approximately \$4 million in 2014 compared to 2013 reflecting the impact of timing between maturation and issuance of senior notes in the prior year, as well as the extra week in our 2014 fiscal year.

Interest expense decreased approximately \$14 million in 2013 compared to 2012 as a result of the senior notes we issued in April 2013 having a lower interest rate and fees than our senior notes which we repaid at maturity in January 2013, and our repayment in the second half of 2013 of borrowings from outstanding commercial paper issuances utilizing net proceeds from divestitures.

Other Expense, net

(In millions)	2014	2013	2012
Other expense, net by type			
Restructuring costs:			
Severance and related costs	\$ 54.7	\$ 27.2	\$ 49.3
Asset impairment charges and lease and other contract cancellation costs	11.4	13.1	6.5
Other items:			
Charitable contribution to Avery Dennison Foundation	-	10.0	-
Indefinite-lived intangible asset impairment	3.0	-	7.0
Gain on sale of product line	-	-	(.6)
Gains on sales of assets	(2.5)	(17.8)	-
Loss (gain) from curtailment and settlement of pension obligation	1.6	(1.6)	-
Legal settlements	-	2.5	-
Product line exits	-	-	3.9
Divestiture-related costs ⁽¹⁾	-	3.2	2.7
Other expense, net	\$ 68.2	\$ 36.6	\$ 68.8

⁽¹⁾ Represents only the portion allocated to continuing operations.

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

Refer to Note 13, "Cost Reduction Actions," to the Consolidated Financial Statements for more information regarding costs associated with restructuring.

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

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

Net Income and Earnings per Share

(In millions, except per share amounts and percentages)	2014	2013	2012
Income from continuing operations before taxes	\$ 364.4	\$ 363.1	\$ 237.6
Provision for income taxes	113.3	118.8	80.0
Income from continuing operations	251.1	244.3	157.6
(Loss) income from discontinued operations, net of tax	(2.2)	(28.5)	57.8
Net income	\$ 248.9	\$ 215.8	\$ 215.4
Net income per common share	\$ 2.65	\$ 2.19	\$ 2.10
Net income per common share, assuming dilution	2.60	2.16	2.08
Net income as a percentage of sales	3.9%	3.5%	3.7%
Effective tax rate for continuing operations	31.1	32.7	33.7

Provision for Income Taxes

The effective tax rate for continuing operations was 31.1%, 32.7%, and 33.7% for fiscal years 2014, 2013, and 2012, respectively. The 2014 effective tax rate for continuing operations included the following: tax benefits for changes in certain tax reserves, including interest and penalties, of \$10.2 million resulting from settlements of audits and \$18.1 million resulting from lapses and statute expirations; a repatriation tax benefit of \$9.8 million related to certain foreign losses; tax expense of \$9.1 million from the taxable inclusion of a net foreign currency gain related to the revaluation of certain intercompany loans; tax expense of \$10.6 million related to our change in estimate of the potential outcome of uncertain tax issues in China and Germany; and state tax expense of \$2.5 million primarily related to gains arising as a result of certain foreign reorganizations. Additionally, the 2014 effective tax rate for continuing operations included a net tax benefit of \$9 million from out-of-period adjustments to properly reflect the valuation allowance related to state deferred tax assets, uncertain tax positions, the cumulative tax effect of currency translation associated with a foreign branch investment, and deferred taxes related to acquisitions completed in 2002 and 2003. The impact of these out-of-period adjustments, individually and in the aggregate, was not material to the periods reported or to any previous financial statements.

The 2013 effective tax rate for continuing operations reflected \$11 million of benefit from adjustments to federal income tax, primarily due to the enactment of the American Taxpayer Relief Act of 2012 ("ATRA"), and \$18.8 million of net expense related to changes in certain tax reserves and valuation allowances. Additionally, the effective tax rate for 2013 reflected a benefit of \$11.2 million from favorable tax rates on certain earnings from our operations in lower-tax jurisdictions throughout the world, offset by \$12.1 million of expense related to the accrual of U.S. taxes on certain foreign earnings.

The 2012 effective tax rate for continuing operations reflected \$6.2 million of benefit from the release of a valuation allowance on certain state tax credits and \$11.2 million of expense related to the accrual of U.S. taxes on certain foreign earnings. Additionally, the effective tax rate for 2012 was negatively impacted by approximately \$5 million from the statutory expiration of federal research and development tax credits on December 31, 2011.

On December 19, 2014, the Tax Increase Prevention Act of 2014 was enacted, retroactively extending the controlled foreign corporation ("CFC") look-through rule and the federal research and development credit, which expired on December 31, 2014. The retroactive effects were recognized in the fourth quarter of 2014. The retroactive effects of the extension of the CFC look-through rule did not have a material impact on our effective tax rate or operating results after taking into consideration tax accruals related to our repatriation assertions.

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

Refer to Note 14, "Taxes Based on Income," to the Consolidated Financial Statements for more information.

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

RESULTS OF OPERATIONS BY REPORTABLE SEGMENT

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

Pressure-sensitive Materials

(In millions)	2014	2013	2012
Net sales including intersegment sales	\$ 4,721.3	\$ 4,519.6	\$ 4,318.5
Less intersegment sales	(63.2)	(64.6)	(60.9)
Net sales	\$ 4,658.1	\$ 4,455.0	\$ 4,257.6
Operating income ⁽¹⁾	434.4	442.8	359.7
⁽¹⁾ Included costs associated with restructuring in all years, losses from curtailment and settlement of pension obligations in 2014, and gain on sale of product line in 2012.	\$ 41.6	\$ 10.8	\$ 33.5

Net Sales

In 2014, sales in our Pressure-sensitive Materials segment grew approximately 5% on a reported basis compared to 2013 due to organic growth, with the impact from the extra week in our 2014 fiscal year more than offset by the unfavorable impact of foreign currency translation. On an organic basis, sales increased 5% due to higher volume. On an organic basis, sales increased at a high-single digit rate in emerging markets, at a mid-single digit rate in Western Europe, and at a low-single digit rate in North America.

On an organic basis, sales in 2014 increased at a mid-single digit rate and at a mid-teens rate for the Materials and Performance Tapes product groups in our Pressure-sensitive Materials segment, respectively.

In 2013, sales in our Pressure-sensitive Materials segment increased approximately 5% on both a reported and organic basis compared to 2012 due to higher volume. On an organic basis, sales increased at a high-single digit rate in emerging markets and at low-single digit rates in both North America and Europe.

On an organic basis, sales in 2013 increased at a mid-single digit rate and at a high-single digit rate for the Materials and Performance Tapes product groups in our Pressure-sensitive Materials segment, respectively.

Operating Income

Operating income decreased in 2014 due to higher restructuring and transition costs, the impact of pricing and changes in raw material input costs, and higher employee-related costs, partially offset by higher volume and benefits from productivity initiatives, including savings from restructuring.

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

Retail Branding and Information Solutions

(In millions)	2014	2013	2012
Net sales including intersegment sales	\$ 1,594.0	\$ 1,613.5	\$ 1,538.8
Less intersegment sales	(2.4)	(2.4)	(3.8)
Net sales	\$ 1,591.6	\$ 1,611.1	\$ 1,535.0
Operating income ⁽¹⁾	87.9	81.7	53.3
⁽¹⁾ Included costs associated with restructuring in all years, indefinite-lived intangible asset impairment charges in 2014 and 2012, gains and losses from curtailment and settlement of pension obligation in 2014 and 2013, and gains on sales of assets in 2014 and 2013.	\$ 22.0	\$ 20.0	\$ 24.8

Net Sales

In 2014, sales decreased approximately 1% compared to 2013 reflecting lower sales on an organic basis and the unfavorable impact of foreign currency translation, partially offset by the extra week in our 2014 fiscal year. On an organic basis, sales decreased approximately 2% due to lower volume.

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

Operating Income

Operating income increased in 2014 primarily reflecting benefits from productivity initiatives, including savings from restructuring as well as lower restructuring costs, partially offset by lower volume and higher employee-related costs.

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

Vancive Medical Technologies

(In millions)	2014	2013	2012
Net sales including intersegment sales	\$ 90.2	\$ 77.5	\$ 71.7
Less intersegment sales	(9.6)	(3.6)	(.8)
Net sales	\$ 80.6	\$ 73.9	\$ 70.9
Operating loss ⁽¹⁾	(11.7)	(8.3)	(16.2)
⁽¹⁾ Included costs associated with restructuring in all years and product line exit costs in 2012.	\$ 4.2	\$.1	\$ 4.8

Net Sales

In 2014, sales increased approximately 9% due to organic growth and the favorable impact of foreign currency translation. On an organic basis, sales grew approximately 8% due primarily to higher volume.

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

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Operating Loss

Operating loss increased in 2014 due to higher restructuring costs related to an asset impairment and lower payments from a business partner for development of a new product, partially offset by higher volume.

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

FINANCIAL CONDITION

Liquidity

Cash Flow from Operating Activities

(In millions)	2014	2013	2012
Net income	\$ 248.9	\$ 215.8	\$ 215.4
Depreciation and amortization	201.6	204.6	220.6
Provision for doubtful accounts and sales returns	20.7	16.3	19.5
Loss (gain) on sale of businesses	3.4	(49.3)	-
Indefinite-lived intangible asset impairment charge	3.0	-	7.0
Net losses (gains) from long-lived asset impairments and sales/disposals of assets	10.2	(5.8)	11.7
Stock-based compensation	28.3	34.0	38.9
Other non-cash expense and loss	44.2	49.3	41.8
Other non-cash income and gain	-	(11.8)	-
Trade accounts receivable	(40.9)	(110.8)	(106.7)
Inventories	(33.0)	(75.9)	(8)
Other current assets	(16.0)	3.5	(7.6)
Accounts payable	(62.8)	108.2	68.0
Accrued liabilities	(18.2)	(21.2)	73.8
Income taxes (deferred and accrued)	(2.8)	41.9	11.1
Other assets	(3.5)	(5.4)	(4.0)
Long-term retirement benefits and other liabilities	(8.9)	(73.3)	(75.3)
Net cash provided by operating activities	\$ 374.2	\$ 320.1	\$ 513.4

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 2014, cash flow provided by operating activities improved compared to 2013 due to the impact of cash outflows related to our former OCP and DES businesses, higher pension contributions including discretionary pension plan contributions utilizing the net proceeds from divestitures and a charitable contribution to the Avery Dennison Foundation, all in 2013, as well as lower income tax payments in 2014. These factors were partially offset by higher working capital requirements (including larger than usual differences in year-end timing of vendor payments and customer receipts), the effect of currency fluctuation, and higher incentive compensation paid in 2014 for the 2013 performance year.

In 2013, cash flow provided by operating activities decreased compared to 2012 primarily due to lower cash flow from the OCP and DES businesses, inventory build to support higher sales, higher payments for taxes, higher incentive compensation paid in 2013 for the 2012 performance year, higher pension contributions including discretionary pension plan contributions utilizing the net proceeds from divestitures, and a charitable contribution to the Avery Dennison Foundation, partially offset by the impact of extension in payment terms with suppliers and the timing of inventory purchases.

Cash Flow from Investing Activities

(In millions)	2014	2013	2012
Purchases of property, plant and equipment	\$ (147.9)	\$ (129.2)	\$ (99.2)
Purchases of software and other deferred charges	(27.1)	(52.2)	(59.1)
Proceeds from sale of product line	-	-	.8
Proceeds from sales of property, plant and equipment	4.3	38.7	4.2
Sales (purchases) of investments, net	.3	.1	(6.7)
Proceeds from sale of businesses, net of cash provided	-	481.2	-
Other	-	.8	-
Net cash (used in) provided by investing activities	\$ (170.4)	\$ 339.4	\$ (160.0)

Capital and Software Spending

In both 2014 and 2013, we invested in new equipment to support growth, primarily in Asia, and improve manufacturing productivity.

Information technology investments in 2014 and 2013 were primarily associated with standardization initiatives.

Proceeds from Sales of Property, Plant and Equipment

In September 2014, we sold properties in Framingham, Massachusetts used primarily as the former headquarters of our Retail Branding and Information Solutions business for \$3.3 million, recognizing a pre-tax gain of \$1.9 million.

In April 2013, we sold the property and equipment of our former corporate headquarters in Pasadena, California for approximately \$20 million, recognizing a pre-tax gain of \$10.9 million. In 2013, proceeds from sale of property, plant and equipment also included approximately \$11 million from the sale of property, plant and equipment in China, as well as \$5 million from the sale of a research facility located in Pasadena, California.

These gains were recorded in "Other expense, net" in the Consolidated Statements of Income.

Proceeds from Sale of Businesses, Net of Cash Provided

In July 2013, we completed the sale of our former OCP and DES businesses and received \$481.2 million, net of cash provided.

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Cash Flow from Financing Activities

(In millions)	2014	2013	2012
Net change in borrowings and payments of debt	\$ 124.9	\$ (187.2)	\$ 40.5
Dividends paid	(125.1)	(112.0)	(110.4)
Share repurchases	(355.5)	(283.5)	(235.2)
Proceeds from exercises of stock options, net	34.2	44.8	10.2
Other	(2.0)	(8.3)	(2.7)
Net cash used in financing activities	\$ (323.5)	\$ (546.2)	\$ (297.6)

Borrowings and Repayment of Debt

We had \$87 million of borrowings from commercial paper issuances outstanding (weighted-average interest rate of ..4%) at January 3, 2015. We had no outstanding short-term variable rate borrowings from commercial paper issuances at December 28, 2013.

Short-term borrowings outstanding under uncommitted lines of credit were \$111.6 million (weighted-average interest rate of 9.4%) at year-end 2014, compared to \$73.9 million (weighted-average interest rate of 11.2%) at year-end 2013.

In 2014 and 2013, our commercial paper and foreign short-term borrowings were used to fund share repurchase activity and support operational requirements and capital expenditures given the seasonality of our cash flow during the year. During 2013, a portion of our outstanding borrowings was repaid using net proceeds from the \$250 million issuance of senior notes and divestitures of our former OCP and DES businesses. Refer to "Share Repurchases" below for more information.

We had medium-term notes of \$50 million outstanding at both year-end 2014 and 2013.

No balances were outstanding under our revolving credit facility (the "Revolver") as of year-end 2014 or 2013. Commitment fees associated with this facility in 2014, 2013, and 2012, were \$1.3 million, \$1.4 million, and \$1.4 million, respectively.

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

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

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

Refer to "Capital Resources" below for further information on 2014 and 2013 borrowings and repayment of debt.

Dividend Payments

We paid dividends of \$1.34 per share in 2014 compared to \$1.14 per share in 2013. In April 2014, we increased our quarterly dividend to \$.35 per share, representing a 21% increase from our previous dividend rate of \$.29 per share.

Share Repurchases

From time to time, our Board of Directors authorizes us to repurchase shares of our outstanding common stock. Repurchased shares may be reissued under our stock option and incentive plan or used for other corporate purposes. In 2014, we repurchased approximately 7.4 million shares of our common stock at an aggregate cost of \$355.5 million.

On December 4, 2014, our Board of Directors authorized the repurchase of shares of our common stock in the aggregate amount of up to \$500 million (exclusive of any fees, commissions or other expenses related to such purchases), in addition to any outstanding shares authorized under any previous Board authorization. This authorization will remain in effect until the shares authorized thereby have been repurchased.

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

As of January 3, 2015, shares of our common stock in the aggregate amount of approximately \$600 million remained authorized for repurchase under both Board authorizations.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

Goodwill decreased by approximately \$30 million to \$722 million at year-end 2014, which reflected the impact of foreign currency translation partially offset by acquisition adjustments.

Other intangibles resulting from business acquisitions, net, decreased by approximately \$29 million to \$67 million at year-end 2014, which reflected current year amortization expense, a non-cash impairment charge associated with our indefinite-lived intangible assets, and 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 by approximately \$22 million to \$464 million at year-end 2014, which primarily reflected a decrease in long-term pension assets, amortization expense related to software and other deferred charges, net of purchases, the impact of foreign currency translation, and a non-cash impairment charge of a certain asset, partially offset by a reclassification of certain assets from "Property, plant and equipment, net" to "Other assets," an increase in the cash surrender value of our corporate-owned life insurance, and the capitalization of financing costs related to the amendment of the Revolver discussed under "Capital Resources" below.

Shareholders' Equity Accounts

The balance of our shareholders' equity decreased by approximately \$426 million to \$1.07 billion at year-end 2014, which reflected the effect of share repurchases, an increase in "Accumulated other comprehensive loss" due to the unfavorable impacts of foreign currency translation and net pension actuarial losses resulting from lower discount rates at year-end 2014, as well as dividend payments. These decreases were partially offset by net income.

The balance of our treasury stock increased by approximately \$299 million to \$1.47 billion at year-end 2014, which primarily reflected share repurchase activity (\$356 million), partially offset by the use of treasury shares to settle exercises of stock options and vesting of stock-

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based awards (\$43 million) and the funding of contributions to our U.S. defined contribution plan (\$13 million).

Accumulated other comprehensive loss increased by approximately \$266 million to \$547 million at year-end 2014 primarily due to net actuarial losses in our pension and other postretirement plans as a result of lower discount rates (\$185 million) and the unfavorable impact of foreign currency translation (\$155 million), partially offset by current year amortization of net actuarial losses, net pension transition obligations and prior service cost (\$23 million), the tax effect of pension activity (\$48 million), and a net gain on derivative instruments designated as cash flow and firm commitment hedges (\$1 million). Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information.

Impact of Foreign Currency Translation

(In millions)	2014	2013	2012
Change in net sales	\$ (67)	\$ 8	\$ (201)
Change in net income from continuing operations	(5)	4	(11)

In 2014, international operations generated approximately 76% of our net sales. Our future results are subject to changes in political and economic conditions in the regions in which we operate and the impact of fluctuations in foreign currency exchange and interest rates.

The effect of foreign currency translation on net sales in 2014 compared to 2013 primarily reflected the unfavorable impact from sales in Argentina, Brazil and Australia, partially offset by the favorable impact from sales in the European Union and the U.K.

Translation gains and losses for operations in hyperinflationary economies, if any, are included in net income in the period incurred. Operations are treated as being in a hyperinflationary economy based on the cumulative inflation rate over the past three years. We had no operations in hyperinflationary economies in fiscal years 2014, 2013, or 2012.

Effect of Foreign Currency Transactions

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

Analysis of Selected Financial Ratios

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

Working Capital and Operational Working Capital Ratios

Working capital (current assets minus current liabilities and net assets held for sale), as a percentage of net sales, improved in 2014 compared to 2013 primarily due to an increase in short-term and current portion of long-term debt, as well as a decrease in cash and cash equivalents and trade accounts receivable, net, partially offset by a decrease in accounts payable.

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

(Dollars in millions)	2014	2013
(A) Working capital	\$ 322.7	\$ 536.4
Reconciling items:		
Cash and cash equivalents	(227.0)	(351.6)
Current deferred and refundable income taxes and other current assets	(243.6)	(228.3)
Short-term borrowings and current portion of long-term debt and capital leases	204.3	76.9
Current deferred and payable income taxes and other current accrued liabilities	595.7	587.7
(B) Operational working capital	\$ 652.1	\$ 621.1
(C) Net sales	\$ 6,330.3	\$ 6,140.0
Working capital, as a percentage of net sales (A) ÷ (C)	5.1%	8.7%
Operational working capital, as a percentage of net sales (B) ÷ (C)	10.3%	10.1%

As a percentage of net sales, operational working capital in 2014 deteriorated modestly compared to 2013. 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 62 days in 2014 compared to 60 days in 2013, calculated using the four-quarter average accounts receivable balance divided by the average daily sales for the year. The increase in the current year average number of days sales outstanding reflected the timing of collection and longer payment terms with certain customers.

Inventory Ratio

Average inventory turnover decreased modestly to 8.6 in 2014 from 8.8 in 2013, calculated using the annual cost of sales divided by the four-quarter average inventory balance.

Accounts Payable Ratio

The average number of days payable outstanding was 68 days in 2014 and 2013, calculated using the four-quarter average accounts payable balance divided by the average daily cost of products sold for the year.

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Net Debt to EBITDA Ratio

(Dollars in millions)	2014	2013	2012
Income from continuing operations	\$ 251.1	\$ 244.3	\$ 157.6
Reconciling items:			
Interest expense	63.3	59.0	72.9
Provision for income taxes	113.3	118.8	80.0
Depreciation	135.5	135.2	145.4
Amortization	65.9	69.1	65.6
EBITDA	\$ 629.1	\$ 626.4	\$ 521.5
Total debt	\$ 1,149.6	\$ 1,027.5	\$ 1,222.4
Less cash and cash equivalents	(227.0)	(351.6)	(235.4)
Net debt	\$ 922.6	\$ 675.9	\$ 987.0
Net debt to EBITDA ratio	1.5	1.1	1.9

The net debt to EBITDA ratio was higher in 2014 compared to 2013 primarily due to higher total debt and a decrease in cash and cash equivalents as a result of funding share repurchase activity and supporting operational requirements and capital expenditures.

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

Financial Covenants

Our various loan agreements require that we maintain specified financial covenant ratios of total debt and interest expense in relation to certain measures of income. As of January 3, 2015, we were in compliance with our financial covenants.

Fair Value of Debt

The estimated fair value of our long-term debt is primarily based on the credit spread above U.S. Treasury securities on notes with similar rates, credit rating, and remaining maturities. The fair value of short-term borrowings, which include commercial paper issuances and short-term lines of credit, approximates carrying value given the short duration of these obligations. The fair value of our total debt was \$1.22 billion at January 3, 2015 and \$1.06 billion at December 28, 2013. Fair value amounts were determined primarily based on Level 2 inputs. Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information.

Capital Resources

Capital resources include cash flows from operations, cash and cash equivalents and debt financing. At year-end 2014, we had cash and cash equivalents of \$227 million held in accounts at third-party financial institutions.

Our cash balances are held in numerous locations throughout the world. At January 3, 2015, the majority of our cash and cash equivalents was held by 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 foreign earnings. However, if we were to repatriate incremental foreign earnings, we may be subject to additional taxes in the U.S.

In October 2014, we amended and restated the Revolver with certain domestic and foreign banks, increasing the amount available thereunder from \$675 million to \$700 million. The amendment also extended the Revolver's maturity date from December 22, 2016 to October 3, 2019 and adjusted pricing to reflect favorable market conditions. The maturity date may be extended for additional one-year periods under certain circumstances. The commitments under the Revolver may be increased by up to \$325 million, subject to lender approval and customary requirements. The Revolver is used as a back-up facility for our commercial paper program and can be used to finance other corporate requirements. As of January 3, 2015, there was no balance outstanding under the Revolver.

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

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

Capital from Debt

Our total debt increased by approximately \$122 million in 2014 to \$1.15 billion at year-end 2014 compared to \$1.03 billion at year-end 2013, primarily reflecting an increase in commercial paper and foreign short-term borrowings to fund share repurchase activity and support operational requirements, and capital expenditures given the seasonality of our cash flow during the year. Refer to "Borrowings and Repayment of Debt" above for more information.

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

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

Uncommitted lines of credit were approximately \$316 million at year-end 2014. These lines may be cancelled at any time by us or the issuing banks.

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

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Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Contractual Obligations at End of Year 2014

(In millions)	Payments Due by Period						
	Total	2015	2016	2017	2018	2019	Thereafter
Short-term borrowings	\$ 198.5	\$ 198.5	\$ –	\$ –	\$ –	\$ –	\$ –
Long-term debt	949.4	5.0	–	249.7	–	–	694.7
Long-term capital leases	1.6	.7	.3	.2	.2	.2	–
Interest on long-term debt	378.4	51.0	50.8	46.6	34.2	34.2	161.6
Operating leases	173.8	50.9	37.4	22.3	13.6	10.3	39.3
Pension and postretirement benefit payments (unfunded plans)	82.2	7.6	6.6	7.0	21.1	9.4	30.5
Total contractual obligations	\$ 1,783.9	\$ 313.7	\$ 95.1	\$ 325.8	\$ 69.1	\$ 54.1	\$ 926.1

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

The table above does not include:

- Purchase obligations or open purchase orders at year-end – It is impracticable for us to either obtain this information or provide a reasonable estimate thereof due to the decentralized nature of our purchasing systems. In addition, purchase orders are generally at fair value and cancelable without penalty.
- Cash funding requirements for pension benefits payable to certain eligible current and future retirees under our funded plans – Benefits paid by our funded pension plans are paid through a trust or trust equivalent. Cash funding requirements for our funded plans, which can be significantly impacted by earnings on investments, the discount rate, changes in the plans, and funding laws and regulations, are not included as we are not able to estimate required contributions to the trust or trust equivalent. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for expected contributions to our plans.
- Deferred compensation plan benefit payments – It is impracticable for us to obtain a reasonable estimate for 2015 and beyond due to the volatility of the payment amounts and certain events that could trigger immediate payment of benefits to participants. In addition, the account balances per participant are marked-to-market monthly and benefit payments are adjusted annually. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information.
- Cash awards to employees under incentive compensation plans – The amounts to be paid to employees under these awards are based on our stock price and, if applicable, achievement of certain performance objectives on the vesting dates, and, therefore, we cannot reasonably estimate the amounts to be paid on these vesting dates. Refer to Note 12, "Long-term Incentive Compensation," to the Consolidated Financial Statements for further information on cash awards.
- Unfunded termination indemnity benefits to certain employees outside of the U.S. – These benefits are subject to applicable agreements, local laws and regulations. We have not incurred significant costs related to performance under these arrangements.
- Unrecognized tax benefit reserves of \$122.6 million – The resolution of the balance, including the timing of payments, is contingent upon various unknown factors and cannot be reasonably estimated. Refer to Note 14, "Taxes Based on Income," to the Consolidated Financial Statements for further information on unrecognized tax benefits.
- Obligations associated with a commercial facility located in Mentor, Ohio used primarily for the North American headquarters and research center of our Materials group. The facility consists generally of land, buildings, and equipment. We lease the facility under an operating lease arrangement, which contains a residual value guarantee of \$31.5 million, as well as certain obligations with respect to the refinancing of the lessor's debt of \$11.5 million (collectively, the "Guarantee"). At the end of the lease term, we have the option to purchase or remarket the facility at an amount equivalent to the value of the Guarantee. If our estimated fair value (or estimated selling price) of the facility falls below the Guarantee, we would be required to pay the lessor a shortfall, which is an amount equivalent to the Guarantee less our estimated fair value. Refer to Note 7, "Commitments," to the Consolidated Financial Statements for more information.

CRITICAL ACCOUNTING ESTIMATES

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

Critical accounting estimates are those that are important to our financial condition and results, and which require us to make difficult, subjective and/or complex judgments. Critical accounting estimates cover accounting matters that are inherently uncertain because their future resolution is unknown. We believe that critical accounting estimates include accounting for goodwill and indefinite-lived intangible assets, pension and postretirement benefits, taxes based on income, long-term incentive compensation, litigation matters, and environmental expenditures.

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Goodwill and Indefinite-lived Intangible Assets

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

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

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

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

In consultation with outside specialists, we estimate the fair value of our reporting units using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various assumptions about the reporting units, including sales, operating margins, growth rates, and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based on our forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period. We base our fair value estimates on projected financial information and assumptions that we believe are reasonable. However, actual future results may differ from those estimates and projections, and those differences may be material. The valuation methodology used to estimate the fair value of reporting units requires inputs and assumptions that reflect current market conditions, as well as the impact of planned business and operational strategies that require management judgment. The estimated fair value could increase or decrease depending on changes in the inputs and assumptions. Our annual first step impairment analysis in the fourth quarter of 2014 indicated that the fair values of our reporting units exceeded their respective carrying values, including goodwill. The fair value of the reporting units tested exceeded their carrying values by 83% to 291%.

We test indefinite-lived intangible assets, consisting of trademarks, for impairment in the fourth quarter or whenever events or circumstances indicate that it is more likely than not that their carrying values exceed their fair values. Fair value is estimated as the discounted value of future revenues using a royalty rate that a third party would pay for use of the asset. Variation in the royalty rates could impact the estimate of fair value. If the carrying amount of an asset exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess. In the third quarter of 2014, we recorded an indefinite-lived intangible asset impairment of \$3 million. The fair value of this asset exceeded its carrying value by 2%.

Pension and Postretirement Benefits

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

Discount Rate

In consultation with our actuaries, we annually review and determine the discount rates to be used in connection with valuing our postretirement obligations. The assumed discount rate for each pension plan reflects market rates for high quality corporate bonds currently available. In the U.S., our discount rate is determined by evaluating yield curves consisting of large populations of high quality corporate bonds. The projected pension benefit payment streams are then matched with the bond portfolios to determine a rate that reflects the liability duration unique to our plans. A .25% increase in the discount rate in the U.S. as of January 3, 2015 would decrease our 2015 periodic benefit cost and projected benefit obligation by approximately \$.2 million and \$36 million, respectively, and a .25% decrease in the discount rate in the U.S. would increase our 2015 periodic benefit cost and projected benefit obligation by approximately \$.1 million and \$38 million, respectively.

Long-term Return on Assets

We determine the long-term rate of return assumption for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, taking into account our asset allocation, the correlation between our asset classes, and the mix of active and passive investments. Additionally, current market conditions, including interest rates, are evaluated and market data is reviewed for reasonableness and appropriateness. An increase or decrease of .25% on the long-term return on assets in the U.S. would have decreased or increased, respectively, our 2015 periodic benefit cost by approximately \$2 million.

Healthcare Cost Trend Rate

Our practice is to fund the cost of postretirement benefits from operating cash flows. For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered health care benefits was

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

assumed for 2015. This rate is expected to decrease to approximately 5% by 2018.

Taxes Based on Income

Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. These assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. These amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. Our assessment of these sources of income relies heavily on estimates. We use historical experience along with operating forecasts in evaluating expected taxable income for the future. To the extent we do not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established in the period we make such a determination. 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." We also acquired certain net deferred tax assets with existing valuation allowances in prior years. If, based on our estimates of future taxable income, it is later determined that it is more likely than not that a deferred tax asset will be realized, we would release the valuation allowance to current earnings or adjust purchase price allocation.

Our income tax rate is significantly affected by the different tax rates applicable to our operations in the jurisdictions in which we do business. In addition to local country tax law and regulations, this rate depends on the extent earnings are indefinitely reinvested outside the United States. Indefinite reinvestment is determined in accordance with ASC 740-30-25-17 using management's judgment about and intentions concerning estimates of our future financial results, cash flows, capital investment plans and our discretionary actions to return cash to shareholders.

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.

Tax laws are complex and subject to different interpretations by taxpayers and respective governmental taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant facts and circumstances existing at the balance sheet date, taking into consideration existing laws, regulations and practices of any governmental authorities exercising jurisdiction over our operations. We review our tax positions quarterly and adjust the balances as new information becomes available.

Further information is available in Note 14, "Taxes Based on Income," to the Consolidated Financial Statements.

Long-Term Incentive Compensation

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

Changes in estimated forfeiture rates are recorded as cumulative adjustments in the period estimates are revised.

Valuation of Stock-Based Awards

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

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

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

The following assumptions are used in estimating the fair value of granted stock options:

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

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

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

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

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

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

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

Valuation of Cash-Based Awards

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

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

Accounting for Income Taxes for Stock-Based Compensation

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

Litigation Matters

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

Environmental Expenditures

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

RECENT ACCOUNTING REQUIREMENTS

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

MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

Risk Management

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

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

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

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

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

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

Foreign Exchange Value-At-Risk

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

In both 2014 and 2013, the VAR was estimated using a variance-covariance methodology. The currency correlation was based on one-year historical data obtained from one of our domestic banks. A 95% confidence level was used for a one-day time horizon.

The estimated maximum potential one-day loss in earnings for our foreign exchange positions and contracts was \$1 million at year-end 2014 and \$1.2 million at year-end 2013.

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

Interest Rate Sensitivity

An assumed 50 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 2014 earnings.

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

Consolidated Balance Sheets

(Dollars in millions)	January 3, 2015	December 28, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 227.0	\$ 351.6
Trade accounts receivable, less allowances of \$30.5 and \$31.6 at year-end 2014 and 2013, respectively	958.1	1,016.5
Inventories, net	491.8	494.1
Current deferred and refundable income taxes	107.5	103.4
Assets held for sale	.8	1.3
Other current assets	136.1	124.9
Total current assets	1,921.3	2,091.8
Property, plant and equipment, net	875.3	922.5
Goodwill	721.6	751.1
Other intangibles resulting from business acquisitions, net	67.4	96.0
Non-current deferred income taxes	311.0	263.4
Other assets	463.6	485.8
	\$ 4,360.2	\$ 4,610.6
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt and capital leases	\$ 204.3	\$ 76.9
Accounts payable	797.8	889.5
Accrued payroll and employee benefits	173.7	224.1
Accrued trade rebates	90.5	79.6
Current deferred and payable income taxes	64.9	49.3
Other accrued liabilities	266.6	234.7
Total current liabilities	1,597.8	1,554.1
Long-term debt and capital leases	945.3	950.6
Long-term retirement benefits and other liabilities	622.8	476.4
Non-current deferred and payable income taxes	127.8	137.3
Commitments and contingencies (see Notes 7 and 8)		
Shareholders' equity:		
Common stock, \$1 par value per share, authorized – 400,000,000 shares at year-end 2014 and 2013; issued – 124,126,624 shares at year-end 2014 and 2013; outstanding – 90,458,956 shares and 96,178,411 shares at year-end 2014 and 2013, respectively	124.1	124.1
Capital in excess of par value	823.9	812.3
Retained earnings	2,137.1	2,009.1
Treasury stock at cost, 33,667,668 shares and 27,948,213 shares at year-end 2014 and 2013, respectively	(1,471.3)	(1,172.2)
Accumulated other comprehensive loss	(547.3)	(281.1)
Total shareholders' equity	1,066.5	1,492.2
	\$ 4,360.2	\$ 4,610.6

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

(In millions, except per share amounts)	2014	2013	2012
Net sales	\$ 6,330.3	\$ 6,140.0	\$ 5,863.5
Cost of products sold	4,679.1	4,502.3	4,335.3
Gross profit	1,651.2	1,637.7	1,528.2
Marketing, general and administrative expense	1,155.3	1,179.0	1,148.9
Interest expense	63.3	59.0	72.9
Other expense, net	68.2	36.6	68.8
Income from continuing operations before taxes	364.4	363.1	237.6
Provision for income taxes	113.3	118.8	80.0
Income from continuing operations	251.1	244.3	157.6
(Loss) income from discontinued operations, net of tax	(2.2)	(28.5)	57.8
Net income	\$ 248.9	\$ 215.8	\$ 215.4
Per share amounts:			
Net income (loss) per common share:			
Continuing operations	\$ 2.68	\$ 2.48	\$ 1.54
Discontinued operations	(.03)	(.29)	.56
Net income per common share	\$ 2.65	\$ 2.19	\$ 2.10
Net income (loss) per common share, assuming dilution:			
Continuing operations	\$ 2.62	\$ 2.44	\$ 1.52
Discontinued operations	(.02)	(.28)	.56
Net income per common share, assuming dilution	\$ 2.60	\$ 2.16	\$ 2.08
Dividends per common share	\$ 1.34	\$ 1.14	\$ 1.08
Weighted average shares outstanding:			
Common shares	93.8	98.4	102.6
Common shares, assuming dilution	95.7	100.1	103.5

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

(In millions)	2014	2013	2012
Net income	\$ 248.9	\$ 215.8	\$ 215.4
Other comprehensive (loss) income, before tax:			
Foreign currency translation:			
Translation (loss) gain	(154.7)	(53.3)	43.6
Reclassifications to net income	-	10.8	-
Pension and other postretirement benefits:			
Net actuarial (loss) gain	(192.2)	68.2	(111.6)
Prior service credit (cost)	7.3	(19.9)	-
Reclassifications to net income:			
Amortization of net actuarial loss	24.2	28.4	20.3
Amortization of prior service credit	(1.7)	(3.3)	(4.0)
Amortization of transition asset	-	(.1)	(.5)
Net curtailment of pension and post-retirement benefit obligations	.6	(13.3)	-
Settlement of pension obligations	1.0	1.2	.6
Cash flow hedges:			
Losses (gains) recognized on cash flow hedges	.2	1.0	(1.8)
Reclassifications to net income	1.2	.3	9.7
Other comprehensive (loss) income, before tax	(314.1)	20.0	(43.7)
Income tax (benefit) expense related to items of other comprehensive income (loss)	(47.9)	23.1	(28.9)
Other comprehensive loss, net of tax	(266.2)	(3.1)	(14.8)
Total comprehensive (loss) income, net of tax	\$ (17.3)	\$ 212.7	\$ 200.6

See Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

(Dollars in millions, except per share amounts)	Common stock, \$ par value	Capital in excess of par value	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total
Balance as of December 31, 2011	\$ 124.1	\$ 778.6	\$ 1,810.5	\$ (791.5)	\$ (263.2)	\$ 1,658.5
Net income	—	—	215.4	—	—	215.4
Other comprehensive loss	—	—	—	—	(14.8)	(14.8)
Repurchase of 7,927,344 shares for treasury	—	—	—	(235.2)	—	(235.2)
Issuance of 713,571 shares under stock-based compensation plans, including tax of \$(3.8)	—	23.2	(3.8)	22.4	—	41.8
Contribution of 844,311 shares to the 401(k) Plan	—	—	(.9)	26.5	—	25.6
Dividends: \$1.08 per share	—	—	(110.4)	—	—	(110.4)
Balance as of December 29, 2012	\$ 124.1	\$ 801.8	\$ 1,910.8	\$ (977.8)	\$ (278.0)	\$ 1,580.9
Net income	—	—	215.8	—	—	215.8
Other comprehensive loss	—	—	—	—	(3.1)	(3.1)
Repurchase of 6,555,672 shares for treasury	—	—	—	(283.5)	—	(283.5)
Issuance of 2,240,185 shares under stock-based compensation plans, including tax of \$1.7	—	10.5	(11.6)	70.7	—	69.6
Contribution of 578,441 shares to the 401(k) Plan	—	—	6.1	18.4	—	24.5
Dividends: \$1.14 per share	—	—	(112.0)	—	—	(112.0)
Balance as of December 28, 2013	\$ 124.1	\$ 812.3	\$ 2,009.1	\$ (1,172.2)	\$ (281.1)	\$ 1,492.2
Net income	—	—	248.9	—	—	248.9
Other comprehensive loss	—	—	—	—	(266.2)	(266.2)
Repurchase of 7,416,167 shares for treasury	—	—	—	(355.5)	—	(355.5)
Issuance of 1,299,931 shares under stock-based compensation plans, including tax of \$(4.1)	—	11.6	(2.0)	43.2	—	52.8
Contribution of 396,781 shares to the 401(k) Plan	—	—	6.2	13.2	—	19.4
Dividends: \$1.34 per share	—	—	(125.1)	—	—	(125.1)
Balance as of January 3, 2015	\$ 124.1	\$ 823.9	\$ 2,137.1	\$ (1,471.3)	\$ (547.3)	\$ 1,066.5

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(In millions)	2014	2013	2012
Operating Activities			
Net income	\$ 248.9	\$ 215.8	\$ 215.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	135.5	135.6	150.1
Amortization	66.1	69.0	70.5
Provision for doubtful accounts and sales returns	20.7	16.3	19.5
Loss (gain) on sale of businesses	3.4	(49.3)	—
Indefinite-lived intangible asset impairment charge	3.0	—	7.0
Net losses (gains) from long-lived asset impairments and sales/disposals of assets	10.2	(5.8)	11.7
Stock-based compensation	28.3	34.0	38.9
Other non-cash expense and loss	44.2	49.3	41.8
Other non-cash income and gain	—	(11.8)	—
Changes in assets and liabilities and other adjustments:			
Trade accounts receivable	(40.9)	(110.8)	(106.7)
Inventories	(33.0)	(75.9)	(.8)
Other current assets	(16.0)	3.5	(7.6)
Accounts payable	(62.8)	108.2	68.0
Accrued liabilities	(18.2)	(21.2)	73.8
Taxes on income	15.4	(12.2)	12.4
Deferred taxes	(18.2)	54.1	(1.3)
Other assets	(3.5)	(5.4)	(4.0)
Long-term retirement benefits and other liabilities	(8.9)	(73.3)	(75.3)
Net cash provided by operating activities	374.2	320.1	513.4
Investing Activities			
Purchases of property, plant and equipment	(147.9)	(129.2)	(99.2)
Purchases of software and other deferred charges	(27.1)	(52.2)	(59.1)
Proceeds from sale of product line	—	—	.8
Proceeds from sales of property, plant and equipment	4.3	38.7	4.2
Sales (purchases) of investments, net	.3	.1	(6.7)
Proceeds from sale of businesses, net of cash provided	—	481.2	—
Other	—	.8	—
Net cash (used in) provided by investing activities	(170.4)	339.4	(160.0)
Financing Activities			
Net increase (decrease) in borrowings (maturities of 90 days or less)	126.5	(435.3)	42.3
Additional borrowings (maturities longer than 90 days)	—	250.0	—
Payments of debt (maturities longer than 90 days)	(1.6)	(1.9)	(1.8)
Dividends paid	(125.1)	(112.0)	(110.4)
Share repurchases	(355.5)	(283.5)	(235.2)
Proceeds from exercises of stock options, net	34.2	44.8	10.2
Other	(2.0)	(8.3)	(2.7)
Net cash used in financing activities	(323.5)	(546.2)	(297.6)
Effect of foreign currency translation on cash balances	(4.9)	2.9	1.6
(Decrease) increase in cash and cash equivalents	(124.6)	116.2	57.4
Cash and cash equivalents, beginning of year	351.6	235.4	178.0
Cash and cash equivalents, end of year	\$ 227.0	\$ 351.6	\$ 235.4

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Principles of Consolidation

The consolidated financial statements include the accounts of majority-owned subsidiaries. Intercompany accounts, transactions and profits are eliminated in consolidation.

Financial Presentation

In the first quarter of 2014, we began reporting Vancive Medical Technologies as a reportable segment. This business was previously reported within a category entitled "other specialty converting businesses" and was the only business that comprised that category in the prior periods presented.

As further discussed in Note 2, "Discontinued Operations and Sale of Assets," we have classified the operating results of our Office and Consumer Products ("OCP") and Designed and Engineered Solutions ("DES") businesses, together with certain costs associated with their divestiture, as discontinued operations in the Consolidated Statements of Income for all periods presented. Unless otherwise noted, the results and financial condition of discontinued operations have been excluded from the notes to our Consolidated Financial Statements.

Fiscal Year

Normally, our fiscal years consist of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks. Our 2014 fiscal year consisted of a 53-week period ending January 3, 2015 and our 2013 and 2012 fiscal years consisted of 52-week periods ending December 28, 2013 and December 29, 2012, respectively.

Use of Estimates

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

Accounts Receivable

We record trade accounts receivable at the invoiced amount. The allowance for doubtful account reserve 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. We record these allowances based on estimates related to:

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

No single customer represented 10% or more of our net sales in, or trade accounts receivable at, year-end 2014 or 2013. However, during 2014, our ten largest customers by net sales represented 13% of our net sales. As of January 3, 2015, our ten largest customers by trade accounts receivable represented 15% of our trade accounts receivable. These customers were concentrated in the Pressure-sensitive Materials segment. We do not generally require our customers to provide collateral.

Inventories

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

Property, Plant and Equipment

Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets, ranging from ten to forty-five years for buildings and improvements and three to fifteen years for machinery and equipment. Leasehold improvements are depreciated over the shorter of the useful life of the asset or the term of the associated leases. Maintenance and repair costs are expensed as incurred; renewals and betterments are capitalized. Upon the sale or retirement of assets, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting gain or loss included in net income.

Software

We capitalize internal and external software costs that are incurred during the application development stage of software development, including costs incurred for the design, coding, installation to hardware, testing, and upgrades and enhancements that provide the software or hardware with additional functionalities and capabilities. 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, generally between five and ten years.

Impairment of Long-lived Assets

Impairment charges are recorded when the carrying amounts of long-lived assets are determined not to be recoverable. Recoverability is measured by comparing the undiscounted cash flows expected from their use and eventual disposition to the carrying value of the related asset or asset group. The amount of impairment loss is calculated as the

Notes to Consolidated Financial Statements

excess of the carrying value over the fair value. Historically, changes in market conditions and management strategy have caused us to reassess the carrying amount of our long-lived assets.

Goodwill and Other Intangibles Resulting from Business Acquisitions

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

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

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

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

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

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

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

Financial Instruments

We enter into foreign exchange hedge contracts to reduce our risk from exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in certain foreign currencies that arise primarily as a result of our operations outside the U.S. We enter into interest rate contracts to help manage our exposure to certain interest rate fluctuations. We also enter into futures contracts to hedge certain price fluctuations for a portion of our anticipated domestic purchases of natural gas. The maximum length of time for which we hedge our exposure to the variability in future cash flows for forecasted transactions is 36 months.

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

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

Notes to Consolidated Financial Statements

items (such as recognized assets or liabilities) are also recognized in current period earnings and offset the changes in the fair value of the derivative.

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

See also Note 5, "Financial Instruments."

Fair Value Measurements

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

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

Revenue Recognition

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

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

Research and Development

Research and development costs are related to research, design and testing of new products and applications and are expensed as incurred.

Long-Term Incentive Compensation

No long-term incentive compensation expense was capitalized for the years ended 2014, 2013, or 2012.

Changes in estimated forfeiture rates are recorded as cumulative adjustments in the period estimates are revised.

Valuation of Stock-Based Awards

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

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

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

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

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

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

Valuation of Cash-Based Awards

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

Accounting for Income Taxes for Stock-Based Compensation

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

Notes to Consolidated Financial Statements

See also Note 12, "Long-term Incentive Compensation."

Taxes Based on Income

Our provision for income taxes is determined using the asset and liability approach following the provisions of ASC 740, *Accounting for Income Taxes*. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. We record a valuation allowance to reduce our deferred tax assets when uncertainty regarding their realizability exists. We recognize and measure our uncertain tax positions following the more-likely-than-not threshold for financial statement recognition and measurement for tax positions taken or expected to be taken in a tax return.

See also Note 14, "Taxes Based on Income."

Recent Accounting Requirements

In January 2015, the Financial Accounting Standards Board ("FASB") issued guidance on simplification of income statement classification by removing the concept of extraordinary items from GAAP. Items that are both unusual and infrequent will no longer be separately reported net of tax after continuing operations. The existing requirement to separately present items that are of an unusual nature or occur infrequently on a pre-tax basis within income from continuing operations has been retained and was expanded to include items that are both unusual and infrequent. These items may be presented in the income statement or disclosed in the footnotes to the financial statements. The guidance is effective for periods beginning after December 15, 2015. Early adoption is permitted, but only as of the beginning of the fiscal year of adoption. We expect our adoption of this standard to have no impact on our financial position, results of operations, cash flows, or disclosures.

In August 2014, the FASB issued a new standard that requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. Under this new standard, substantial doubt exists when it is probable that the entity will be unable to meet its obligations as they become due within one year of the date the financial statements are issued. If applicable, certain disclosures are required, including management's plans to mitigate those relevant conditions or events to alleviate the substantial doubt. This standard is effective for annual periods and interim periods within those annual periods ending after December 15, 2016. Early adoption is permitted. We expect our adoption of this standard to have no impact on our financial position, results of operations, cash flows, or disclosures.

In June 2014, the FASB revised guidance on share-based compensation awards that require a specific performance target to be achieved in order for the awards to vest. This revised guidance requires that a performance target that impacts vesting and can be achieved after the requisite service period be treated as a performance condition. As such, a performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that a performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The revised guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, and can be applied either (i) prospectively to all awards granted or modified after the effective date or (ii) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Early adoption is permitted. We do not anticipate our adoption of this revised guidance to have a significant impact on our financial position, results of operations, cash flows, or disclosures.

In May 2014, the FASB issued revised guidance on revenue recognition. This revised guidance provides a single comprehensive model for accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This revised guidance will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. This revised guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This revised guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those years, and can be applied retrospectively either to each prior reporting period presented or with the cumulative effect of adoption recognized at the date of initial application. Early adoption is not permitted. We are evaluating the impact adoption of this revised guidance will have on our financial position, results of operations, cash flows, or disclosures. Based on the information that we have evaluated to date, we do not anticipate the adoption of this revised guidance to have a significant impact on our financial position, results of operations, cash flows, or disclosures.

In April 2014, the FASB issued revised guidance on reporting discontinued operations. This revised guidance defines a discontinued operation as a disposal of a component or a group of components of an entity that represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. This revised guidance also requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. This revised guidance is effective for fiscal years beginning on or after December 15, 2014 and interim periods within those years, with earlier adoption permitted. We do not anticipate the adoption of this revised guidance to have a significant impact on our financial position, results of operations, cash flows, or disclosures.

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NOTE 2. DISCONTINUED OPERATIONS AND SALE OF ASSETS

Discontinued Operations

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

On July 1, 2013, we completed the sale for a total purchase price of \$500 million (\$481.2 million net of cash provided) and entered into an amendment to the purchase agreement, which, among other things, increased the target net working capital amount and amended provisions related to employee matters and indemnification. We continue to be subject to certain indemnification obligations under the terms of the purchase agreement. In addition, the tax liability associated with the sale is subject to completion of tax return filings in certain foreign jurisdictions where we operated the OCP and DES businesses.

At closing, we entered into a supply agreement, pursuant to which CCL agreed to purchase certain pressure-sensitive label stock, adhesives and other base material products for up to six years after closing. While the supply agreement is expected to continue generating revenues and cash flows from the OCP and DES businesses, our continuing involvement in the OCP and DES operations is not expected to be significant to us as a whole.

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

(In millions)	2014	2013	2012
Net sales	\$ —	\$ 380.4	\$ 912.3
(Loss) income before taxes, including divestiture-related and restructuring costs	\$ —	\$ (12.4)	\$ 86.4
Provision for income taxes	—	(.1)	(28.6)
(Loss) income from discontinued operations, net of tax before loss on sale	—	(12.5)	57.8
(Loss) gain on sale before taxes	(3.3)	49.4	—
Tax benefit (provision) on sale	1.1	(65.4)	—
(Loss) income from discontinued operations, net of tax	\$ (2.2)	\$ (28.5)	\$ 57.8

The loss from discontinued operations, net of tax, for 2014 reflected costs related to the resolution of certain post-closing adjustments, including completion of the final purchase price allocation in the third quarter of 2014.

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

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

Sale of Assets

In September 2014, we sold properties in Framingham, Massachusetts used primarily as the former headquarters of our Retail Branding and Information Solutions business for \$3.3 million, recognizing a pre-tax gain of \$1.9 million. In April 2013, we sold the property and equipment of our former corporate headquarters in Pasadena, California for approximately \$20 million, recognizing a pre-tax gain of \$10.9 million. During 2013, we also completed the sale of certain property, plant and equipment in China for approximately \$11 million, as well as the sale of a research facility also located in Pasadena, California for approximately \$5 million. These gains were recorded in "Other expense, net" in the Consolidated Statements of Income.

NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Goodwill

Results from our annual impairment test in the fourth quarter of 2014 indicated that no impairment had occurred in 2014 related to goodwill. The fair value of these assets was primarily based on Level 3 inputs.

Changes in the net carrying amount of goodwill for 2014 and 2013 by reportable segment were as follows:

(In millions)	Pressure-sensitive Materials	Retail Branding and Information Solutions	Other specialty converting businesses	Total
Goodwill as of December 29, 2012	\$ 338.3	\$ 422.6	\$ 3.5	\$ 764.4
Divestiture ⁽¹⁾	—	—	(3.5)	(3.5)
Acquisition adjustments	—	(.2)	—	(.2)
Translation adjustments	(3.9)	(5.7)	—	(9.6)
Goodwill as of December 28, 2013	334.4	416.7	—	751.1
Acquisition adjustments ⁽²⁾	.4	7.0	—	7.4
Translation adjustments	(28.2)	(8.7)	—	(36.9)
Goodwill as of January 3, 2015	\$ 306.6	\$ 415.0	\$ —	\$ 721.6

⁽¹⁾ See Note 2, "Discontinued Operations and Sale of Assets," for more information.

⁽²⁾ Acquisition adjustments related to deferred taxes from previous acquisitions. See Note 14, "Taxes Based on Income," for more information.

The carrying amounts of goodwill at January 3, 2015 and December 28, 2013 were net of accumulated impairment losses of \$820 million, which were included in our Retail Branding and Information Solutions reportable segment.

Notes to Consolidated Financial Statements

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

Indefinite-Lived Intangible Assets

In the third quarter of 2014, we determined that there was a need to conduct an interim impairment test of our indefinite-lived intangible assets, consisting of certain trade names and trademarks. The factors considered included a shortfall in 2014 full-year projected revenue and a reduction in 2015 projected revenue associated with these assets. The interim impairment test indicated that the fair value of our indefinite-lived intangible assets was less than their carrying value, which resulted in a non-cash asset impairment charge of \$3 million. This charge was recorded in "Other expense, net" in the Consolidated Statements of Income and included in our Retail Branding and Information Solutions reportable segment. Results from our annual impairment test in the fourth quarter of 2014 indicated that no further impairment had occurred related to indefinite-lived intangible assets. The fair value of these assets was primarily based on Level 3 inputs.

In conjunction with the preparation for our annual impairment test in the fourth quarter of 2012, we determined that the carrying value of our indefinite-lived intangible assets consisting of certain trade names and trademarks exceeded their fair value, which resulted in a non-cash impairment charge of \$7 million. This charge was recorded in "Other expense, net" in the Consolidated Statements of Income and included in our Retail Branding and Information Solutions reportable segment. The fair value of these assets was primarily based on Level 3 inputs.

The carrying value of indefinite-lived intangible assets resulting from business acquisitions, consisting of trade names and trademarks, was \$7.9 million and \$10.9 million at January 3, 2015 and December 28, 2013, respectively.

Finite-Lived Intangible Assets

The following table sets forth our finite-lived intangible assets resulting from business acquisitions at January 3, 2015 and December 28, 2013, which continue to be amortized:

(In millions)	2014			2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 228.9	\$ 180.2	\$ 48.7	\$ 234.1	\$ 164.6	\$ 69.5
Patents and other acquired technology	49.0	42.7	6.3	48.9	38.3	10.6
Trade names and trademarks	24.0	20.5	3.5	26.2	22.5	3.7
Other intangibles	12.3	11.3	1.0	12.4	11.1	1.3
Total	\$ 314.2	\$ 254.7	\$ 59.5	\$ 321.6	\$ 236.5	\$ 85.1

Amortization expense from continuing operations for finite-lived intangible assets resulting from business acquisitions was \$24.4 million for 2014, \$28.5 million for 2013, and \$29.9 million for 2012.

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
2015	\$ 20.8
2016	19.0
2017	9.9
2018	2.4
2019	1.8

NOTE 4. DEBT AND CAPITAL LEASES

Short-Term Borrowings

We had \$87 million of borrowings from commercial paper issuances outstanding (weighted-average interest rate of ..4%) at January 3, 2015. We had no outstanding short-term variable rate borrowings from commercial paper issuances at December 28, 2013.

Short-Term Credit Facilities

In October 2014, we amended and restated our revolving credit facility (the "Revolver") with certain domestic and foreign banks, increasing the amount available thereunder from \$675 million to \$700 million. The amendment also extended the Revolver's maturity date from December 22, 2016 to October 3, 2019 and adjusted pricing to reflect favorable market conditions. The maturity date may be extended for additional one-year periods under certain circumstances. The commitments under the Revolver may be increased by up to \$325 million, subject to lender approval and customary requirements. The Revolver is used as a back-up facility for our commercial paper program and can be used to finance other corporate requirements.

No balances were outstanding under the Revolver as of January 3, 2015 or December 28, 2013. Commitment fees associated with this facility in 2014, 2013, and 2012 were \$1.3 million, \$1.4 million, and \$1.4 million, respectively.

Uncommitted lines of credit were approximately \$316 million at January 3, 2015. These lines may be cancelled at any time by us or the issuing banks. Short-term borrowings outstanding under uncommitted lines of credit were \$111.6 million (weighted-average interest rate of 9.4%) and \$73.9 million (weighted-average interest rate of 11.2%) at January 3, 2015 and December 28, 2013, respectively.

Notes to Consolidated Financial Statements

Long-Term Borrowings and Capital Leases

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

(In millions)	2014	2013
Long-term debt and capital leases		
Medium-term notes:		
Series 1995 due 2015 through 2025	\$ 50.0	\$ 50.0
Long-term notes		
Senior notes due 2017 at 6.6%	249.6	249.6
Senior notes due 2020 at 5.4%	249.9	249.9
Senior notes due 2023 at 3.4%	249.7	249.7
Senior notes due 2033 at 6.0%	150.0	150.0
Capital lease obligations	1.8	3.0
Less amount classified as current	(5.7)	(1.6)
Total long-term debt and capital leases	\$ 945.3	\$ 950.6

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

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

Year	(In millions)
2015 (classified as current)	\$ 5.7
2016	.3
2017	249.9
2018	.2
2019	.2
2020 and thereafter	694.7

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

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

Other

Our various loan agreements require that we maintain specified financial covenant ratios of total debt and interest expense in relation to certain measures of income. As of January 3, 2015, we were in compliance with our financial covenants.

Our total interest costs from continuing operations in 2014, 2013, and 2012, were \$67.2 million, \$62.3 million, and \$76.2 million, respectively, of which \$3.9 million, \$3.3 million, and \$3.3 million, respectively, were capitalized as part of the cost of assets.

The estimated fair value of our long-term debt is primarily based on the credit spread above U.S. Treasury securities on notes with similar rates, credit ratings, and remaining maturities. The fair value of short-term borrowings, which include commercial paper issuances and short-term lines of credit, approximates carrying value given the short duration of these obligations. The fair value of our total debt was \$1.22 billion at January 3, 2015 and \$1.06 billion at December 28, 2013. Fair value amounts were determined primarily based on Level 2 inputs. Refer to Note 1, "Summary of Significant Accounting Policies," for more information.

NOTE 5. FINANCIAL INSTRUMENTS

As of January 3, 2015, the aggregate U.S. dollar equivalent notional value of our outstanding commodity contracts and foreign exchange contracts was \$5.5 million and \$1.4 billion, respectively.

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

The following table provides the fair value and balance sheet locations of derivatives as of January 3, 2015:

(In millions)	Asset		Liability	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	\$ 10.3	Other accrued liabilities	\$ 10.5
Commodity contracts	Other current assets	-	Other accrued liabilities	1.0
			Long-term retirement benefits and other liabilities	.2
		\$ 10.3		\$ 11.7

The following table provides the fair value and balance sheet locations of derivatives as of December 28, 2013:

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

Fair Value Hedges

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

The following table provides the components of the net gain (loss) recognized in income related to fair value hedge contracts. The

Notes to Consolidated Financial Statements

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	2014	2013	2012
Foreign exchange contracts	Cost of products sold	\$ (1.6)	\$ 2.3	\$ –
Foreign exchange contracts	Marketing, general and administrative expense	(43.3)	(35.9)	17.8
		\$ (44.9)	\$ (33.6)	\$ 17.8

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 derivatives representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

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

(In millions)	2014	2013	2012
Foreign exchange contracts	\$ 1.3	\$ 1.1	\$ (.9)
Commodity contracts	(1.2)	(.1)	(.9)
	\$.1	\$ 1.0	\$ (1.8)

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

(In millions)	Location of Gain (Loss) in Income	2014	2013	2012
Foreign exchange contracts	Cost of products sold	\$ (1.2)	\$.6	\$ (2.5)
Commodity contracts	Cost of products sold	.1	(1.2)	(2.8)
Interest rate contracts	Interest expense	(.1)	(.1)	(4.4)
		\$ (1.2)	\$ (.7)	\$ (9.7)

The amount of gain or loss recognized in income related to the ineffective portion of, and the amount excluded from, effectiveness testing for cash flow hedges and derivatives not designated as hedging instruments was not material in 2014, 2013, or 2012.

As of January 3, 2015, we expect a net gain of approximately \$2 million 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

We sponsor a number of defined benefit plans, the accrual of benefits under some of which has been frozen, covering eligible employees in the U.S. and certain other countries. Benefits payable to an employee are based primarily on years of service and the employee's compensation during the course of his or her employment with us. While we have not expressed any intent to terminate these plans, we may do so at any time, subject to applicable laws and regulations.

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

Employees who participated in our U.S. defined benefit plan, the Avery Dennison Pension Plan ("ADPP"), between December 1, 1986 and November 30, 1997, may also have had a Stock Holding and Retirement Enhancement Account ("SHARE Account") associated with our defined contribution plan. The ADPP is a floor offset plan that coordinated the amount of projected benefit obligation to an eligible participant with the SHARE Account such that the total benefit payable to an eligible participant would equal the greater of the value of the participant's benefit from the ADPP or the value of the participant's SHARE Account. Lower than expected asset returns on the participant balances in the SHARE Account could have increased the projected benefit obligation under the ADPP. In the fourth quarter of 2013, we amended our plan documents to require participants to make an early election rather than waiting to make such election upon termination of employment either to (a) receive their assets in the SHARE Account as a distribution, in which case their retirement benefit under the ADPP would be offset by the annuity equivalent of these assets, or (b) transfer their SHARE Account assets to the ADPP and receive the full ADPP retirement benefit in annuity form. The amendment resulted in an actuarial loss of approximately \$20 million to the ADPP in 2013. In the fourth quarter of 2014, all participants with a SHARE Account completed their elections and the existing SHARE Accounts were terminated, resulting in our recording an additional actuarial loss of \$12 million. These actuarial losses are subject to future amortization.

Plan Assets

Our investment management of the ADPP assets utilizes a liability driven investment (LDI) strategy. Under an LDI strategy, the assets are invested in a diversified portfolio that is split into two sub-portfolios: a growth portfolio and a liability hedging portfolio. The growth portfolio consists primarily of equity and high-yield fixed income securities. The liability hedging portfolio consists primarily of investment grade fixed income securities and cash, and is intended, over time, to more closely match the liabilities of the plan. The investment objective of the portfolio is to improve the funded status of the plan; as funded status reaches certain trigger points, the portfolio moves to a more conservative asset allocation by increasing the allocation to the liability hedging portfolio. The current allocation is 65% in the growth portfolio and 35% in the liability hedging portfolio, subject to periodic fluctuations due to market movements. The plan assets are diversified across asset classes, striving to balance risk and return within the limits of prudent risk-taking and Section 404 of the Employee Retirement Income Security Act of 1974, as amended. Because many of the pension liabilities are long-term, the investment horizon is also long-term, but the investment plan must also ensure adequate near-term liquidity to fund benefit payments.

Notes to Consolidated Financial Statements

Assets of our international plans are invested in accordance with locally accepted practices and primarily include equity securities, fixed income securities, insurance contracts and cash. Asset allocations and investments vary by country and plan. Our target plan asset investment allocation for our international plans combined is 39% in equity securities, 49% in fixed income securities and cash, and 12% in insurance contracts and other investments, and is subject to periodic fluctuations in these respective asset classes.

Fair Value Measurements

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

Cash is valued at nominal value. Money market funds are valued at net asset value ("NAV"). Mutual funds are valued at fair value as determined by quoted market prices, based upon the NAV of shares held by the plans at year-end. Pooled funds, which include real estate pooled funds and multi-asset common trust funds, are comprised of shares or units in funds that are not publicly traded and are valued at net unit value, as determined by the fund's trustees based on the underlying securities in the trust. Equities are valued at the closing price reported on the active market on which the individual securities are traded. Real estate investment trusts are valued based on quoted prices in active markets. Debt securities consist primarily of treasury securities and corporate bonds, which are valued using bid prices; observable market inputs to determine these prices include reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids and offers. Insurance contracts are valued at book value, which approximates fair value and is calculated using the prior year balance plus or minus investment returns and changes in cash flows. Pooled funds – alternative investments are investments in a fund of hedge funds, which are valued monthly on a one-month lag using a market approach valuation technique. We assess information available to us to determine whether there are any material changes to values at the reporting date. This investment was classified as a Level 3 asset as shares may be redeemed quarterly upon 65 days' notice and are subject to certain restrictions.

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

The following table sets forth, by level within the fair value hierarchy, U.S. plan assets (all in the ADPP) at fair value as of year-end 2014:

(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)
Asset class				
Cash	\$ 1.3	\$ 1.3	\$ –	\$ –
Liability hedging portfolio				
Pooled funds – Corporate debt/agencies	152.4	–	152.4	–
Pooled funds – Fixed income	218.7	–	218.7	–
Pooled funds – U.S. bonds, other fixed income	.4	–	.4	–
Total liability hedging portfolio	371.5	–	371.5	–
Growth portfolio ⁽¹⁾				
Pooled funds – Global equities	60.2	–	60.2	–
Pooled funds – Global real estate investment trusts	40.4	–	40.4	–
Pooled funds – High yield bonds	58.2	–	58.2	–
Pooled funds – International	87.5	–	87.5	–
Pooled funds – U.S. equities	99.4	–	99.4	–
Pooled funds – Alternative investments	60.3	–	–	60.3
Total growth portfolio	406.0	–	345.7	60.3
Total U.S. plan assets at fair value	\$ 778.8	\$ 1.3	\$ 717.2	\$ 60.3
Other assets ⁽²⁾	.1			
Total U.S. plan assets	\$ 778.9			

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

(2) Includes accrued recoverable taxes.

Notes to Consolidated Financial Statements

The following table presents a reconciliation of Level 3 U.S. plan assets held during the year ended January 3, 2015:

(In millions)	Level 3 Assets Pooled Funds – Alternative Investments
Balance at December 28, 2013	\$ 51.2
Net realized and unrealized gain	2.7
Purchases	6.4
Settlements	–
Impact of changes in foreign currency exchange rates	–
Balance at January 3, 2015	\$ 60.3

The following table sets forth, by level within the fair value hierarchy, international plan assets at fair value as of year-end 2014:

(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)
Asset class				
Cash	\$.6	\$.6	\$ –	\$ –
Fixed income securities				
Mutual funds	.3	.3	–	–
Pooled funds – Emerging markets bonds	6.7	–	6.7	–
Pooled funds – European bonds	243.5	–	243.5	–
Pooled funds – U.K. bonds	66.4	–	66.4	–
Pooled funds – Global bonds	3.4	–	3.4	–
Pooled funds – High yield bonds	6.5	–	6.5	–
Pooled funds – Enhanced yield bonds	1.9	–	1.9	–
Total fixed income securities	328.7	.3	328.4	–
Equity securities				
Pooled funds – Emerging markets	22.3	–	22.3	–
Pooled funds – U.K.	16.2	–	16.2	–
Pooled funds – Global	160.2	–	160.2	–
Pooled funds – Real estate investment trusts	32.0	–	32.0	–
Total equity securities	230.7	–	230.7	–
Other investments				
Pooled funds – Commodities	8.4	–	8.4	–
Pooled funds – Real estate	8.5	–	8.5	–
Pooled funds – Other	16.6	–	16.6	–
Insurance contracts	24.6	–	–	24.6
Total other investments	58.1	–	33.5	24.6
Total international plan assets at fair value	\$ 618.1	\$.9	\$ 592.6	\$ 24.6

Notes to Consolidated Financial Statements

The following table presents a reconciliation of Level 3 international plan assets held during the year ended January 3, 2015:

(In millions)	Level 3 Assets Insurance Contracts
Balance at December 28, 2013	\$ 27.4
Net realized and unrealized gain	.6
Purchases	2.3
Settlements	(2.9)
Impact of changes in foreign currency exchange rates	(2.8)
Balance at January 3, 2015	\$ 24.6

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

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

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

⁽²⁾ Includes accrued recoverable taxes.

Notes to Consolidated Financial Statements

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

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

⁽¹⁾ Includes accrued recoverable taxes.

Postretirement Health Benefits

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

Plan Assumptions

Discount Rate

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

Long-term Return on Assets

We determine the long-term rate of return assumption for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, taking into account our asset allocation, the correlation between our asset classes, and the mix of active and passive investments. Additionally, current market conditions, including interest rates, are evaluated and market data is reviewed for reasonableness and appropriateness.

Notes to Consolidated Financial Statements

Healthcare Cost Trend Rate

Our practice is to fund the cost of postretirement benefits from operating cash flows. For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2015. This rate is expected to decrease to approximately 5% by 2018.

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

(In millions)	One-percentage-point Increase		One-percentage-point Decrease	
Effect on total of service and interest cost components	\$.01	\$	(.01)
Effect on postretirement benefit obligations		.4		(.4)

Plan Balance Sheet Reconciliations

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

Plan Benefit Obligations

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2014		2013		2014	2013
	U.S.	Int'l	U.S.	Int'l		
Change in projected benefit obligations						
Projected benefit obligations at beginning of year	\$ 933.7	\$ 642.8	\$ 963.7	\$ 597.6	\$ 9.1	\$ 12.0
Service cost	.4	12.9	.4	13.0	–	–
Interest cost	44.7	23.8	39.7	23.3	.3	.3
Participant contribution	–	4.0	–	4.1	1.1	1.2
Amendments ⁽¹⁾	–	(7.2)	19.9	–	–	–
Actuarial loss (gain) ⁽²⁾	141.5	166.1	(59.8)	8.5	.3	(.5)
Plan transfers ⁽³⁾	21.4	–	5.7	7.1	–	–
Benefits paid	(47.9)	(22.3)	(45.4)	(21.2)	(2.8)	(3.5)
Curtailments	–	(7.6)	9.5	(1.7)	–	(4)
Settlements	–	(2.2)	–	(6.0)	–	–
Foreign currency translation	–	(73.2)	–	18.1	–	–
Projected benefit obligations at end of year	\$ 1,093.8	\$ 737.1	\$ 933.7	\$ 642.8	\$ 8.0	\$ 9.1
Accumulated benefit obligations at end of year	\$ 1,093.8	\$ 693.9	\$ 933.7	\$ 601.7		

⁽¹⁾ Amendments to the international plans in 2014 related to our plans in The Netherlands, U.K. and France. Amendments to the U.S. pension plan in 2013 primarily related to changing the timing for the required benefit elections for participant SHARE Accounts.

⁽²⁾ Actuarial loss (gain) in 2013 included an out-of-period adjustment of \$15 million recorded in the fourth quarter of 2013 to properly state the balance sheet pension liability by increasing the projected benefit obligation as a result of a change in the method for projecting SHARE Account asset values. The corresponding adjustment affected other comprehensive income, with no impact to net income in 2013, and is subject to future amortization. The impact of this out-of-period adjustment was not considered material to the 2013 or any previous financial statements.

⁽³⁾ Plan transfers in 2014 and 2013 for the U.S. represented transfers from participant SHARE Accounts. Plan transfers in 2013 for the international plans include transfers in Switzerland and Germany related to the OCP and DES divestitures.

Plan Assets

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2014		2013		2014	2013
	U.S.	Int'l	U.S.	Int'l		
Change in plan assets						
Plan assets at beginning of year	\$ 747.4	\$ 566.6	\$ 648.5	\$ 515.0	\$ –	\$ –
Actual return on plan assets	52.9	117.9	61.8	26.6	–	–
Plan transfers ⁽¹⁾	21.4	–	5.7	2.3	–	–
Employer contributions	5.1	16.0	76.8	28.9	1.7	2.3
Participant contributions	–	4.0	–	4.1	1.1	1.2
Benefits paid	(47.9)	(22.3)	(45.4)	(21.2)	(2.8)	(3.5)
Settlements	–	(2.2)	–	(6.0)	–	–
Foreign currency translation	–	(61.9)	–	16.9	–	–
Plan assets at end of year	\$ 778.9	\$ 618.1	\$ 747.4	\$ 566.6	\$ –	\$ –

⁽¹⁾ Plan transfers in 2014 and 2013 for the U.S. represented transfers from participant SHARE Accounts. Plan transfers in 2013 for the international plans include transfers in Switzerland related to the OCP and DES divestitures.

Notes to Consolidated Financial Statements

Funded Status

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2014		2013		2014	2013
	U.S.	Int'l	U.S.	Int'l		
Funded status of the plans						
Other assets	\$ -	\$ 20.0	\$ -	\$ 35.4	\$ -	\$ -
Other accrued liabilities	(4.1)	(2.5)	(3.6)	(2.7)	(1.6)	(2.2)
Long-term retirement benefits and other liabilities	(310.8)	(136.5)	(182.7)	(108.9)	(6.4)	(6.9)
Plan assets less than benefit obligations	\$ (314.9)	\$ (119.0)	\$ (186.3)	\$ (76.2)	\$ (8.0)	\$ (9.1)

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2014		2013		2012		2014	2013	2012
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Weighted-average assumptions used to determine year-end benefit obligations									
Discount rate	4.00%	2.54%	4.85%	3.88%	4.00%	3.94%	3.50%	3.45%	2.85%
Compensation rate increase	-	2.22	-	2.24	-	2.24	-	-	-

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

For U.S. and international plans combined, the projected benefit obligations and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were \$1.45 billion and \$997.3 million, respectively, at year-end 2014 and \$1.25 billion and \$953.7 million, respectively, at year-end 2013.

For U.S. and international plans combined, the accumulated benefit obligations and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$1.43 billion and \$997.3 million, respectively, at year-end 2014 and \$1.22 billion and \$938.6 million, respectively, at year-end 2013.

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	
	2014		2013		2014	2013
	U.S.	Int'l	U.S.	Int'l		
Net actuarial loss	\$ 590.5	\$ 174.8	\$ 466.9	\$ 129.5	\$ 24.1	\$ 26.6
Prior service cost (credit)	19.9	(5.3)	21.0	2.5	(22.9)	(26.2)
Net transition obligation	-	.4	-	.5	-	-
Net amount recognized in accumulated other comprehensive loss	\$ 610.4	\$ 169.9	\$ 487.9	\$ 132.5	\$ 1.2	\$.4

The following table sets forth the pretax amounts, including those of discontinued operations, recognized in "Other comprehensive loss (income)":

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2014		2013		2012		2014	2013	2012
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Net actuarial loss (gain)	\$ 140.6	\$ 51.3	\$ (73.4)	\$ 6.1	\$ 93.5	\$ 16.4	\$.3	\$ (.9)	\$ 1.7
Prior service (credit) cost	-	(7.3)	19.9	-	-	-	-	-	-
Amortization of unrecognized:									
Net actuarial loss	(16.8)	(5.6)	(18.6)	(8.0)	(14.9)	(3.3)	(2.8)	(2.5)	(2.7)
Prior service (cost) credit	(1.2)	(1.0)	(.3)	(.4)	(.4)	(.5)	3.3	17.2	4.8
Net transition asset	-	-	-	.1	-	.5	-	-	-
Net amount recognized in other comprehensive loss (income)	\$ 122.6	\$ 37.4	\$ (72.4)	\$ (2.2)	\$ 78.2	\$ 13.1	\$.8	\$ 13.8	\$ 3.8

Notes to Consolidated Financial Statements

Plan Income Statement Reconciliations

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

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2014		2013		2012		2014	2013	2012
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Service cost	\$.4	\$ 12.9	\$.4	\$ 13.0	\$.3	\$ 9.1	\$ —	\$ —	\$ —
Interest cost	44.7	23.8	39.7	23.3	40.3	24.5	.3	.3	.5
Expected return on plan assets	(52.0)	(26.0)	(48.1)	(22.6)	(45.9)	(22.1)	—	—	—
Recognized actuarial loss	16.2	5.2	17.7	6.3	14.3	3.1	2.8	2.5	2.7
Amortization of prior service cost (credit)	1.2	.4	.3	.5	.4	.4	(3.3)	(4.1)	(4.8)
Amortization of transition asset	—	—	—	(.1)	—	(.5)	—	—	—
Recognized loss (gain) on curtailment ⁽¹⁾	—	.6	—	(1.5)	—	—	—	—	—
Recognized loss on settlement ⁽²⁾	.6	.4	—	.5	.6	—	—	—	—
Net periodic benefit cost (credit)	\$ 11.1	\$ 17.3	\$ 10.0	\$ 19.4	\$ 10.0	\$ 14.5	\$ (.2)	\$ (1.3)	\$ (1.6)

- (1) Recognized loss on curtailment in 2014 related to a pension plan in The Netherlands and gain on curtailment in 2013 related to a pension plan in Taiwan. These amounts were recorded in "Other expense, net" in the Consolidated Statements of Income.
- (2) Represented settlement event in Switzerland in 2014.

In 2013, in connection with the sale of our former OCP and DES businesses, we recognized a curtailment gain of \$13.1 million associated with our U.S. postretirement health benefit plan, partially offset by curtailment and settlement losses of \$10.4 million associated with certain U.S. pension plans. The net gain of \$2.7 million was recorded in "Income (loss) from discontinued operations, net of tax" in the Consolidated Statements of Income. Refer to Note 2, "Discontinued Operations and Sale of Assets," for more information on the sale.

The following table sets forth the weighted-average assumptions used to determine net periodic cost:

	Pension Benefits						U.S. Postretirement Health Benefits		
	2014		2013		2012		2014	2013	2012
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Discount rate	4.85%	3.88%	4.00%	3.94%	4.75%	4.80%	3.45%	2.85%	3.75%
Expected return on assets	7.75	4.82	8.00	4.78	8.00	4.95	—	—	—
Compensation rate increase	—	2.24	—	2.24	—	2.79	—	—	—

Plan Contributions

We make contributions to our defined benefit plans sufficient to meet the minimum funding requirements of applicable laws and regulations, plus additional amounts, if any, we determine to be appropriate. In 2015, we expect to contribute approximately \$15 million, \$4 million, and \$2 million to our international pension plans, U.S. pension plans, and postretirement benefit plan, respectively.

Future Benefit Payments

Anticipated future benefit payments, which reflect expected service periods for eligible participants, are as follows:

(In millions)	Pension Benefits		U.S. Postretirement Health Benefits	
	U.S.	Int'l	U.S.	Int'l
2015	\$ 49.4	\$ 18.4	\$ —	\$ 1.6
2016	50.1	19.3	—	1.2
2017	52.2	19.8	—	.9
2018	68.4	20.1	—	.6
2019	58.2	21.1	—	.5
2020–2023	294.5	119.2	—	1.6

Estimated Amortization Amounts in Accumulated Other Comprehensive Loss

Our estimates of fiscal year 2015 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	U.S.	Int'l
Net actuarial loss	\$ 20.3	\$ 10.4	\$ —	\$ 2.6
Prior service cost (credit)	1.1	(.3)	—	(3.3)
Net transition obligation	—	.1	—	—
Net loss (gain) to be recognized	\$ 21.4	\$ 10.2	\$ —	\$ (.7)

Defined Contribution Plans

We sponsor various defined contribution plans worldwide, the largest of which is the Avery Dennison Corporation Employee Savings Plan ("Savings Plan"), a 401(k) plan for our U.S. employees.

We recognized expense from continuing operations of \$19.4 million, \$21 million, and \$19.8 million in 2014, 2013, and 2012, respectively, related to our employer contributions and employer match of participant contributions to the Savings Plan.

Notes to Consolidated Financial Statements

Other Retirement Plans

We have deferred compensation plans which permit eligible employees and directors to defer a portion of their compensation. The compensation voluntarily deferred by the participant, together with certain employer contributions, earn specified and variable rates of return. As of year-end 2014 and 2013, we had accrued \$125.2 million and \$128.6 million, respectively, for our obligations under these plans. These obligations are funded by corporate-owned life insurance contracts and standby letters of credit. As of year-end 2014 and 2013, these obligations were secured by standby letters of credit of \$2.5 million and \$3 million, respectively. Proceeds from the insurance policies are payable to us upon the death of covered participants. The cash surrender values of these policies, net of outstanding loans, which are included in "Other assets" in the Consolidated Balance Sheets, were \$210.9 million and \$204.6 million at year-end 2014 and 2013, respectively.

Our deferred compensation expense from continuing operations was \$6.8 million, \$5.9 million, and \$7.1 million for 2014, 2013, and 2012, respectively. A portion of the interest on certain of our contributions may be forfeited by participants if their employment terminates before age 55 other than by reason of death or disability.

Our Directors Deferred Equity Compensation Plan allows our non-employee directors to elect to receive their cash compensation in deferred stock units ("DSUs") issued under our stock option and incentive plan. Dividend equivalents, representing the value of dividends per share paid on shares of our common stock and calculated with reference to the number of DSUs held as of a quarterly dividend record date, are credited in the form of additional DSUs on the applicable payable date. A director's DSUs are converted into shares of our common stock upon his or her resignation or retirement. Approximately .1 million DSUs were outstanding as of year-end 2014 and 2013, with an aggregate value of \$6.1 million and \$5.5 million, respectively.

NOTE 7. COMMITMENTS

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

Year	(In millions)
2015	\$ 50.9
2016	37.4
2017	22.3
2018	13.6
2019	10.3
2020 and thereafter	39.3
Total minimum lease payments	\$ 173.8

Rent expense for operating leases from continuing operations, which includes maintenance and insurance costs and property taxes, was approximately \$67 million in 2014, \$70 million in 2013, and \$75 million in 2012. Operating leases relate primarily to office and warehouse space, and equipment for electronic data processing and transportation. The terms of these leases do not impose significant restrictions or unusual obligations, except as noted below.

On September 9, 2005, we completed a ten-year lease financing for a commercial facility located in Mentor, Ohio used primarily for the North American headquarters and research center of our Materials group. The facility consists generally of land, buildings, and equipment. We lease the facility under an operating lease arrangement, which contains a residual value guarantee of \$31.5 million, as well as certain obligations with respect to the refinancing of the lessor's debt of \$11.5 million (collectively, the "Guarantee"). At the end of the lease term, we have the option to purchase or remarket the facility at an amount equivalent to the value of the Guarantee. If our estimated fair value (or estimated selling price) of the facility falls below the Guarantee, we would be required to pay the lessor a shortfall, which is an amount equivalent to the Guarantee less our estimated fair value. During the second quarter of 2011, we estimated a shortfall with respect to the Guarantee and began to recognize the shortfall on a straight-line basis over the remaining lease term. The carrying amount of the shortfall was approximately \$16 million at January 3, 2015, which was included in "Other accrued liabilities" in the Consolidated Balance Sheets.

Refer to Note 4, "Debt and Capital Leases," for information on capital lease obligations.

NOTE 8. CONTINGENCIES

Legal Proceedings

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

Environmental

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

Notes to Consolidated Financial Statements

As of January 3, 2015, 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 fourteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of our liability has been agreed. We are participating with other PRPs at these sites, and anticipate that our share of remediation costs will be determined pursuant to agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

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

The activity in 2014 and 2013 related to environmental liabilities was as follows:

(In millions)	2014	2013
Balance at beginning of year	\$ 29.6	\$ 32.5
Charges (reversals), net	1.7	4.6
Payments	(5.1)	(7.5)
Balance at end of year	\$ 26.2	\$ 29.6

As of January 3, 2015, approximately \$10 million of the balance was classified as short-term and included in "Other accrued liabilities" in the Consolidated Balance Sheets.

Guarantees

We participate in receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. We guarantee the collection of the related receivables. At January 3, 2015, the outstanding amount guaranteed was approximately \$17 million. We believe our exposure to these guarantees is not material.

Unused letters of credit (primarily standby) outstanding with various financial institutions were approximately \$53 million at January 3, 2015.

NOTE 9. 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 January 3, 2015:

(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				
Trading securities	\$ 17.9	\$ 7.6	\$ 10.3	\$ -
Derivative assets	10.3	-	10.3	-
Liabilities				
Derivative liabilities	\$ 11.7	\$ 1.2	\$ 10.5	\$ -

Notes to Consolidated Financial Statements

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of December 28, 2013:

(In millions)	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Trading securities	\$ 17.7	\$ 7.6	\$ 10.1	\$ -
Short-term investments	114.5	-	114.5	-
Derivative assets	3.2	.1	3.1	-
Liabilities				
Derivative liabilities	\$ 4.7	\$ -	\$ 4.7	\$ -

Trading securities include fixed income securities (primarily U.S. government and corporate debt securities) measured at fair value using quoted prices/bids and a money market fund measured at fair value using net asset value. As of January 3, 2015, trading securities of \$.8 million and \$17.1 million were included in "Cash and cash equivalents" and "Other current assets," respectively, in the Consolidated Balance Sheets. As of December 28, 2013, trading securities of \$.3 million and \$17.4 million were included in "Cash and cash equivalents" and "Other current assets," respectively, in the Consolidated Balance Sheets. Short-term investments are comprised of commercial paper and measured at fair value using broker quoted prices. As of December 28, 2013, short-term investments were included in "Cash and cash equivalents." Derivatives that are exchange-traded are measured at fair value using quoted market prices and classified within Level 1 of the valuation hierarchy. Derivatives measured based on inputs that are readily available in public markets are classified within Level 2 of the valuation hierarchy.

Non-recurring Fair Value Measurements

During 2013, long-lived assets with carrying amounts totaling \$8.3 million were written down to their fair value of \$4.8 million, resulting in an impairment charge of \$3.5 million, which was included in "Other expense, net" in the Consolidated Statements of Income. The fair value was based on the sale price of the assets, less estimated broker fees, which are primarily Level 3 inputs.

NOTE 10. NET INCOME PER SHARE

Net income per common share was computed as follows:

(In millions, except per share amounts)	2014	2013	2012
(A) Income from continuing operations	\$ 251.1	\$ 244.3	\$ 157.6
(B) (Loss) income from discontinued operations, net of tax	(2.2)	(28.5)	57.8
(C) Net income available to common shareholders	\$ 248.9	\$ 215.8	\$ 215.4
(D) Weighted-average number of common shares outstanding	93.8	98.4	102.6
Dilutive shares (additional common shares issuable under stock-based awards)	1.9	1.7	.9
(E) Weighted-average number of common shares outstanding, assuming dilution	95.7	100.1	103.5
Net income (loss) per common share:			
Continuing operations (A) ÷ (D)	\$ 2.68	\$ 2.48	\$ 1.54
Discontinued operations (B) ÷ (D)	(.03)	(.29)	.56
Net income per common share (C) ÷ (D)	\$ 2.65	\$ 2.19	\$ 2.10
Net income (loss) per common share, assuming dilution:			
Continuing operations (A) ÷ (E)	\$ 2.62	\$ 2.44	\$ 1.52
Discontinued operations (B) ÷ (E)	(.02)	(.28)	.56
Net income per common share, assuming dilution (C) ÷ (E)	\$ 2.60	\$ 2.16	\$ 2.08

Certain stock-based compensation awards were not included in the computation of net income per common share, assuming dilution, because they would not have had a dilutive effect. Stock-based compensation awards excluded from the computation totaled approximately 3 million shares in 2014, 7 million shares in 2013, and 12 million shares in 2012.

Notes to Consolidated Financial Statements

NOTE 11. SUPPLEMENTAL EQUITY AND COMPREHENSIVE INCOME INFORMATION

Common Stock and Share Repurchase Program

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

From time to time, our Board of Directors authorizes us to repurchase of shares of our outstanding common stock. Repurchased shares may be reissued under our stock option and incentive plan or used for other corporate purposes. In 2014, we repurchased approximately 7.4 million shares of our common stock at an aggregate cost of \$355.5 million.

On December 4, 2014, our Board of Directors authorized the repurchase of shares of our common stock in the aggregate amount of up to \$500 million (exclusive of any fees, commissions or other expenses related to such purchases), in addition to any outstanding shares authorized under any previous Board authorization. This authorization will remain in effect until the shares authorized thereby have been repurchased.

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

As of January 3, 2015, shares of our common stock in the aggregate amount of approximately \$600 million remained authorized for repurchase under both Board authorizations.

Treasury Shares Reissuance

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

Comprehensive Income

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

The changes in "Accumulated other comprehensive loss" (net of tax) for 2014 and 2013 were as follows:

(In millions)	Foreign Currency Translation	Pension and Other Postretirement Benefits	Cash Flow Hedges	Total
Balance as of December 29, 2012	\$ 180.5	\$ (456.5)	\$ (2.0)	\$ (278.0)
Other comprehensive income (loss) before reclassifications, net of tax	(53.3)	29.4	.8	(23.1)
Reclassifications to net income, net of tax	10.8	9.0	.2	20.0
Net current-period other comprehensive income (loss), net of tax	(42.5)	38.4	1.0	(3.1)
Balance as of December 28, 2013	\$ 138.0	\$ (418.1)	\$ (1.0)	\$ (281.1)
Other comprehensive income (loss) before reclassifications, net of tax	(154.7)	(129.4)	.1	(284.0)
Reclassifications to net income, net of tax	-	16.9	.9	17.8
Net current-period other comprehensive income (loss), net of tax	(154.7)	(112.5)	1.0	(266.2)
Balance as of January 3, 2015	\$ (16.7)	\$ (530.6)	\$ -	\$ (547.3)

The amounts reclassified from "Accumulated other comprehensive loss" to increase (decrease) income from continuing operations were as follows:

(In millions)	2014	2013	Affected Line Item in the Statement Where Net Income is Presented
Cash flow hedges:			
Foreign exchange contracts	\$ (1.2)	\$.6	Cost of products sold
Commodity contracts	.1	(1.2)	Cost of products sold
Interest rate contracts	(1.1)	(1.1)	Interest expense
	(1.2)	(1.7)	Total before tax
	.3	.2	Provision for income taxes
	(1.2)	(1.5)	Net of tax
Pension and other postretirement benefits ⁽¹⁾	(24.1)	(23.5)	
	7.2	7.8	Provision for income taxes
	(16.9)	(15.7)	Net of tax
Total reclassifications for the period	\$ (17.8)	\$ (16.2)	Total, net of tax

⁽¹⁾ See Note 6, "Pension and Other Postretirement Benefits," for more information.

During 2013, we reclassified \$6.4 million (net of tax) from "Accumulated other comprehensive loss" to "(Loss) income from

Notes to Consolidated Financial Statements

discontinued operations, net of tax," related to a net gain from curtailment in our domestic defined benefit plans and settlements from certain international pension plans as a result of the sale of the OCP and DES businesses. Refer to Note 6, "Pension and Other Postretirement Benefits," for more information.

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

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

(In millions)	2014	2013	2012
Foreign currency translation	\$ -	\$ -	\$.9
Pension and other postretirement benefits:			
Net actuarial (loss) gain	(56.6)	26.4	(38.3)
Prior service credit (cost)	1.1	(7.5)	-
Reclassifications to net income:			
Amortization of net actuarial loss	7.5	9.4	6.9
Amortization of prior service credit	(.7)	(1.3)	(1.5)
Amortization of transition asset	-	-	(.1)
Net curtailment of pension and post-retirement benefit obligations	.1	(4.8)	-
Settlement of pension obligations	.3	.6	.2
Cash flow hedges:			
Losses (gains) recognized on cash flow hedges	.1	.2	(.7)
Reclassifications to net income	.3	.1	3.7
Income tax (benefit) expense related to items of other comprehensive (loss) income	\$ (47.9)	\$ 23.1	\$ (28.9)

NOTE 12. LONG-TERM INCENTIVE COMPENSATION

Equity Awards

Stock-Based Compensation

We maintain various stock option and incentive plans and grant our annual stock-based compensation awards to eligible employees in February and non-employee directors in May. Prior to 2013, these awards were granted to non-employee directors in April. Certain awards granted to retirement-eligible employees vest in full upon retirement; awards to these employees are accounted for as fully vested on the date of grant.

Stock-based compensation expense from continuing operations and the total recognized tax benefit related to this expense for the years 2014, 2013, and 2012 were as follows:

(In millions)	2014	2013	2012
Stock-based compensation expense	\$ 28.3	\$ 32.3	\$ 35.8
Tax benefit	10.5	10.8	12.5

This expense was included in "Marketing, general and administrative expense" in the Consolidated Statements of Income.

As of January 3, 2015, we had approximately \$29 million of unrecognized compensation expense from continuing operations related to unvested stock-based awards, which is expected to be recognized over the remaining weighted-average requisite service period of approximately two years.

Stock Options

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

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

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

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

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

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

No stock options were granted during 2014. The weighted-average grant date fair value per share for stock options was \$6.97 and \$7.08 in 2013 and 2012, respectively.

The underlying weighted-average assumptions used were as follows:

	2013	2012
Risk-free interest rate	1.04%	1.82%
Expected stock price volatility	27.17%	32.81%
Expected dividend yield	3.40%	3.30%
Expected option term	6.2 years	6.0 years

The following table sets forth stock option information related to our stock option and incentive plan during 2014:

	Number of options (in thousands)	Weighted- average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at December 28, 2013	7,891.2	\$ 45.85	4.27	\$ 69.0
Exercised	(1,009.2)	34.14		
Forfeited or expired	(1,703.4)	58.17		
Outstanding at January 3, 2015	5,178.6	\$ 44.08	3.95	\$ 54.6
Options vested and expected to vest at January 3, 2015	5,134.5	44.19	3.95	53.7
Options exercisable at January 3, 2015	4,444.2	\$ 45.89	3.51	\$ 40.9

Notes to Consolidated Financial Statements

The total intrinsic value of stock options exercised was \$15.4 million in 2014, \$26.1 million in 2013, and \$3.8 million in 2012. We received approximately \$34.2 million in 2014, \$44.8 million in 2013, and \$10.2 million in 2012 from the exercise of stock options. The tax benefit associated with these exercised options was \$5.3 million in 2014, \$8.5 million in 2013, and \$1.3 million in 2012. The intrinsic value of the stock options is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

Performance Units ("PUs")

PUs are performance-based awards granted under our stock option and incentive plan to eligible employees. PUs are payable in shares of our common stock at the end of a three-year cliff vesting period provided that certain performance objectives are achieved at the end of the period. Over the performance period, the estimated number of shares of our common stock issuable upon vesting is adjusted upward or downward based upon the probability of the achievement of the performance objectives established for the award. The actual number of shares issued can range from 0% to 200% of the target shares at the time of grant. The weighted-average grant date fair value for PUs was \$47.85, \$52.93 and \$34.43 in 2014, 2013 and 2012, respectively.

The following table summarizes information related to awarded PUs:

	Number of PUs (in thousands)	Weighted- average grant- date fair value
Unvested at December 28, 2013	795.2	\$ 41.32
Granted at target	183.6	47.85
Forfeited/cancelled	(288.9)	41.59
Unvested at January 3, 2015	689.9	\$ 40.16

In 2014, PUs granted during 2011 were cancelled as the performance objective was not met as of the end of the three-year performance period. The fair value of vested PUs was \$9.8 million and \$.3 million in 2013 and 2012, respectively.

Market-Leveraged Stock Units ("MSUs")

In 2013, we began granting performance-based MSUs under our stock option and incentive plan to certain eligible employees. These units vest ratably over a four-year period provided that the performance objective is achieved as of the end of each vesting period. MSUs accrue dividend equivalents during the vesting period, which are earned and paid only at vesting. The number of MSU shares earned is based upon our absolute total shareholder return at each vesting date and can range from 0% to 200% of the target amount of MSUs subject to vesting. Each of the four vesting periods represents one tranche of MSUs and the fair value of each of these four tranches was determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected volatility and other assumptions, to estimate the probability of achieving the performance objective established for the award. The weighted-average grant date fair value for MSUs was \$52.76 and \$51.40 in 2014 and 2013, respectively.

The following table summarizes information related to awarded MSUs:

	Number of MSUs (in thousands)	Weighted- average grant- date fair value
Unvested at December 28, 2013	330.1	\$ 51.40
Granted at target	338.1	52.76
Adjustment for above-target performance ⁽¹⁾	33.3	51.40
Vested	(109.6)	51.40
Forfeited/cancelled	(40.1)	53.11
Unvested at January 3, 2015	551.8	\$ 52.18

⁽¹⁾ Reflects adjustment as a result of achieving above-target performance for vesting of the tranche paid out in 2014.

Restricted Stock Units ("RSUs")

RSUs are service-based awards granted under our stock option and incentive plan to certain eligible employees that usually vest ratably over a period of three years for non-employee directors and four years for employees provided that directorship or employment continues through the applicable vesting date. If the condition is not met, unvested RSUs are generally forfeited. The weighted-average grant date fair value for RSUs was \$45.91, \$38.72 and \$27.88 in 2014, 2013 and 2012, respectively.

The following table summarizes information related to awarded RSUs:

	Number of RSUs (in thousands)	Weighted- average grant- date fair value
Unvested at December 28, 2013	681.0	\$ 31.06
Granted	48.9	45.91
Vested	(301.1)	31.41
Forfeited/cancelled	(40.8)	31.53
Unvested at January 3, 2015	388.0	\$ 32.70

Notes to Consolidated Financial Statements

The fair value of vested RSUs was \$9.5 million, \$15.9 million and \$12.5 million in 2014, 2013 and 2012, respectively.

Cash Awards

Long-Term Incentive Units

Long-term incentive units ("LTI Units") are granted under our long-term incentive unit plan to certain eligible employees. LTI Units are service-based awards that generally vest ratably over a four-year period. The settlement value equals the number of vested LTI Units multiplied by the average of the high and low market prices of our common stock on the vesting date. The compensation expense related to these awards is amortized on a straight-line basis and the fair value is remeasured using the estimated percentage of units expected to be earned multiplied by the average of the high and low market prices of our common stock at each quarter-end.

We also grant cash-based awards in the form of performance and market-leveraged LTI Units to eligible employees. Performance LTI Units are payable in cash at the end of a three-year cliff vesting period provided that certain performance objectives are achieved at the end of the performance period. Market-leveraged LTI Units are payable in cash and vest ratably over a period of four years. The number of performance and market-leveraged LTI Units earned at vesting is adjusted upward or downward based upon the probability of achieving the performance objectives established for the respective award and the actual number of units issued can range from 0% to 200% of the target units subject to vesting. The performance and market-leveraged LTI Units are remeasured using the estimated percentage of units expected to be earned multiplied by the average of the high and low market prices of our common stock at each quarter-end over their respective performance periods. The compensation expense related to performance LTI Units is amortized on a straight-line basis over their respective performance period. The compensation expense related to market-leveraged LTI Units is amortized on a graded-vesting basis over their respective performance periods.

The compensation expense from continuing operations related to LTI Units was \$17.8 million in 2014, \$10.3 million in 2013, and \$1.9 million in 2012. This expense was included in "Marketing, general and administrative expense" in the Consolidated Statements of Income. The total recognized tax benefit related to these units was \$5.7 million in 2014, \$3.2 million in 2013, and \$.5 million in 2012.

NOTE 13. COST REDUCTION ACTIONS

Restructuring Costs

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

2014 Actions

In 2014, we recorded \$66.5 million in restructuring charges, net of reversals, related to restructuring actions we initiated in 2014 ("2014 Actions"), including the consolidation of certain European operations. These charges consisted of severance and related costs for the reduction of approximately 1,420 positions, lease cancellation costs, and asset impairment charges. Approximately 100 employees impacted by our 2014 Actions remained employed with us as of January 3, 2015. We expect payments relating to our 2014 Actions to be completed in 2015.

2012 Program

In 2013, we recorded \$40.3 million in restructuring charges, net of reversals, related to the restructuring program we initiated in 2012 ("2012 Program"), which consisted of severance and related costs for the reduction of approximately 1,400 positions, lease and other contract cancellation costs, and asset impairment charges.

In 2012, we recorded \$56.4 million in restructuring charges, net of reversals, related to our 2012 Program, which consisted of severance and related costs for the reduction of approximately 1,060 positions, lease cancellation costs, and asset impairment charges.

No employees impacted by the 2012 Program remained employed with us as of December 28, 2013.

2011 Actions

In 2011, we recorded approximately \$45 million in restructuring charges, net of reversals, including charges for discontinued operations, consisting of severance and related costs for the reduction of approximately 910 positions, asset impairment charges, and lease cancellation costs. No employees impacted by these actions remained employed with us as of December 29, 2012.

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

Notes to Consolidated Financial Statements

During 2014, restructuring charges and payments were as follows:

(In millions)	Accrual at December 28, 2013	Charges (Reversals), net	Cash Payments	Non-cash Impairment	Foreign Currency Translation	Accrual at January 3, 2015
2014 Actions						
Severance and related costs	\$ —	\$ 55.1	\$ (35.6)	\$ —	\$ (2.7)	\$ 16.8
Asset impairment charges	—	10.8	—	(10.8)	—	—
Lease cancellation costs	—	.6	(.5)	—	—	.1
2012 Program						
Severance and related costs	6.6	(.4)	(5.2)	—	(.2)	.8
Lease and other contract cancellation costs	.2	—	(.2)	—	—	—
Total	\$ 6.8	\$ 66.1	\$ (41.5)	\$ (10.8)	\$ (2.9)	\$ 17.7

During 2013, restructuring charges and payments were as follows:

(In millions)	Accrual at December 29, 2012	Charges, net	Cash Payments	Non-cash Impairment	Foreign Currency Translation	Accrual at December 28, 2013
2012 Program						
Severance and related costs	\$ 20.7	\$ 27.2	\$ (41.0)	\$ —	\$ (.3)	\$ 6.6
Lease and other contract cancellation costs	.1	3.4	(3.3)	—	—	.2
Asset impairment charges	—	9.7	—	(9.7)	—	—
2011 Actions						
Severance and related costs	.1	—	(.1)	—	—	—
Total	\$ 20.9	\$ 40.3	\$ (44.4)	\$ (9.7)	\$ (.3)	\$ 6.8

The table below shows the total amount of restructuring costs incurred by reportable segment and Corporate. Restructuring costs in continuing operations were included in "Other expense, net" in the Consolidated Statements of Income.

(In millions)	2014	2013	2012
Restructuring costs by reportable segment and Corporate			
Pressure-sensitive Materials	\$ 40.2	\$ 10.8	\$ 34.1
Retail Branding and Information Solutions	21.3	28.5	17.8
Vancive Medical Technologies	4.2	.1	.9
Corporate	.4	.9	3.0
Continuing operations	66.1	40.3	55.8
Discontinued operations	—	—	.6
Total	\$ 66.1	\$ 40.3	\$ 56.4

NOTE 14. TAXES BASED ON INCOME

Taxes based on income (loss) were as follows:

(In millions)	2014	2013	2012
Current:			
U.S. federal tax	\$ 14.5	\$ 1.9	\$ (18.7)
State taxes	(.2)	.3	(2.4)
International taxes	115.0	107.3	101.2
	129.3	109.5	80.1
Deferred:			
U.S. federal tax	(21.4)	(11.2)	9.5
State taxes	8.0	1.3	(9.3)
International taxes	(2.6)	19.2	(.3)
	(16.0)	9.3	(.1)
Provision for income taxes	\$ 113.3	\$ 118.8	\$ 80.0

Notes to Consolidated Financial Statements

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

(In millions)	2014	2013	2012
Computed tax at 35% of income before taxes	\$ 127.5	\$ 127.1	\$ 83.1
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	1.4	2.4	1.1
Foreign earnings taxed at different rates ⁽¹⁾⁽²⁾	(15.9)	(14.7)	11.8
Valuation allowance	16.0	(4.3)	(23.6)
Corporate owned life insurance	(4.2)	(6.9)	(5.5)
U.S. federal research and development tax credits	(1.6)	(7.0)	–
Tax contingencies and audit settlements	(2.7)	23.1	9.4
Expiration of carryforward items	1.4	2.5	4.8
Other items, net	(8.6)	(3.4)	(1.1)
Provision for income taxes	\$ 113.3	\$ 118.8	\$ 80.0

(1) Included foreign earnings taxed in the U.S., net of credits, for all years.

(2) Included \$12.1 million and \$11.2 million of expense related to the accrual of U.S. taxes on certain foreign earnings for 2013 and 2012, respectively. For 2014, there was no such accrual.

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

(In millions)	2014	2013	2012
U.S.	\$ 3.5	\$ (36.2)	\$ (125.7)
International	360.9	399.3	363.3
Income from continuing operations before taxes	\$ 364.4	\$ 363.1	\$ 237.6

The effective tax rate for continuing operations was 31.1%, 32.7%, and 33.7% for fiscal years 2014, 2013, and 2012, respectively. The 2014 effective tax rate for continuing operations included the following: tax benefits for changes in certain tax reserves, including interest and penalties, of \$10.2 million resulting from settlements of audits and \$18.1 million resulting from lapses and statute expirations; a repatriation tax benefit of \$9.8 million related to certain foreign losses; tax expense of \$9.1 million from the taxable inclusion of a net foreign currency gain related to the revaluation of certain intercompany loans; tax expense of \$10.6 million related to our change in estimate of the potential outcome of uncertain tax issues in China and Germany; and state tax expense of \$2.5 million primarily related to gains arising as a result of certain foreign reorganizations. Additionally, the 2014 effective tax rate for continuing operations included a net tax benefit of \$9 million from out-of-period adjustments to properly reflect the valuation allowance related to state deferred tax assets, uncertain tax positions, the cumulative tax effect of currency translation associated with a foreign branch investment, and deferred taxes related to acquisitions completed in 2002 and 2003. The impact of these out-of-period adjustments, individually and in the aggregate, was not material to the periods reported or to any previous financial statements.

The 2013 effective tax rate for continuing operations reflected \$11 million of benefit from adjustments to federal income tax, primarily due to the enactment of the American Taxpayer Relief Act of 2012 ("ATRA"), and \$18.8 million of net expense related to changes in certain tax reserves and valuation allowances. Additionally, the effective tax rate for 2013 reflected a benefit of \$11.2 million from favorable tax rates on certain earnings from our operations in lower-tax jurisdictions throughout the world, offset by \$12.1 million of expense related to the accrual of U.S. taxes on certain foreign earnings.

The 2012 effective tax rate for continuing operations reflected \$6.2 million of benefit from the release of a valuation allowance on certain state tax credits and \$11.2 million of expense related to the accrual of U.S. taxes on certain foreign earnings. Additionally, the effective tax rate for 2012 was negatively impacted by approximately \$5 million from the statutory expiration of federal research and development tax credits on December 31, 2011.

On December 19, 2014, the Tax Increase Prevention Act of 2014 was enacted, retroactively extending the controlled foreign corporation ("CFC") look-through rule and the federal research and development credit, which expired on December 31, 2014. The retroactive effects were recognized in the fourth quarter of 2014. The retroactive effects of the extension of the CFC look-through rule did not have a material impact on our effective tax rate or operating results after taking into consideration tax accruals related to our repatriation assertions.

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

Deferred income taxes have not been provided on approximately \$2.2 billion of undistributed earnings of foreign subsidiaries as of January 3, 2015 since these amounts are intended to be indefinitely reinvested in foreign operations. It is not practicable to calculate the deferred taxes associated with these earnings because of the variability of multiple factors that would need to be assessed at the time of any assumed repatriation; however, foreign tax credits would likely be available to reduce federal income taxes in the event of distribution. In making this assertion, we evaluate, among other factors, the profitability of our U.S. and foreign operations and the need for cash within and outside the U.S., including cash requirements for capital improvements, acquisitions, market expansion, and stock repurchase programs.

Deferred income taxes reflect the temporary differences between the amounts at which assets and liabilities are recorded for financial reporting purposes and the amounts utilized for tax purposes. The

Notes to Consolidated Financial Statements

primary components of the temporary differences that gave rise to our deferred tax assets and liabilities were as follows:

(In millions)	2014	2013
Accrued expenses not currently deductible	\$ 40.7	\$ 44.7
Net operating losses	277.7	306.2
Tax credit carryforwards	104.2	129.2
Postretirement and postemployment benefits	97.6	100.8
Pension costs	154.0	95.7
Inventory reserves	9.1	8.6
Other assets	9.2	6.2
Valuation allowance	(75.0)	(59.0)
Total deferred tax assets ⁽²⁾	617.5	632.4
Depreciation and amortization	(121.8)	(127.8)
Repatriation accrual ⁽¹⁾	1.9	(52.9)
Foreign operating loss recapture	(118.0)	(136.5)
Other liabilities	(3.0)	(1.8)
Total deferred tax liabilities ⁽²⁾	(240.9)	(319.0)
Total net deferred tax assets	\$ 376.6	\$ 313.4

- (1) Included in the repatriation accrual as of January 3, 2015 was a net deferred tax liability of \$4.4 million associated with the future tax cost to repatriate non-permanently reinvested earnings of our foreign subsidiaries which is more than offset by a contra deferred tax liability of \$6.3 million related to unrealized foreign exchange losses associated with earnings of our foreign subsidiaries that can be repatriated to the U.S. in future periods without incurring any additional U.S. federal income taxes.

- (2) Reflect gross amounts before jurisdictional netting of deferred tax assets and liabilities.

A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized. The valuation allowance at January 3, 2015 and December 28, 2013 was \$75 million and \$59 million, respectively.

Net operating loss carryforwards of foreign subsidiaries at January 3, 2015 and December 28, 2013 were \$928.7 million and \$1.06 billion, respectively. Tax credit carryforwards of both domestic and foreign subsidiaries at January 3, 2015 and December 28, 2013 totaled \$104.2 million and \$129.2 million, respectively. If unused, foreign net operating losses and tax credit carryforwards will expire as follows:

(In millions)	Net Operating Losses ⁽¹⁾	Tax Credits
Expires in 2015	\$ 15.3	\$.6
Expires in 2016	8.1	.7
Expires in 2017	15.5	.4
Expires in 2018	16.5	23.9
Expires in 2019	4.6	33.2
Expires in 2020	17.7	15.9
Expires in 2021	8.2	.3
Expires in 2022	2.8	9.6
Expires in 2023	13.7	5.2
Expires in 2024	3.3	.3
Expires in 2025	-	.1
Expires in 2026	-	1.2
Expires in 2027	-	.1
Expires in 2028	-	.1
Expires in 2029	1.8	.1
Expires in 2030	.4	-
Expires in 2031	.6	-
Expires in 2032	1.1	-
Expires in 2033	-	1.8
Expires in 2034	-	1.6
Indefinite life/no expiration	819.1	9.1
Total	\$ 928.7	\$ 104.2

- (1) Net operating losses are presented before tax effect

Based on current projections, certain indefinite-lived foreign net operating losses may take up to 50 years to be fully utilized.

We do not anticipate the expected expiration of our remaining tax holidays in Thailand and Vietnam between 2015 and 2016 to have a material effect on our effective tax rate, operating results, or financial condition.

Unrecognized Tax Benefits

As of January 3, 2015, our unrecognized tax benefits totaled \$122.6 million, \$98.7 million of which, if recognized, would reduce our annual effective income tax rate. As of December 28, 2013, our unrecognized tax benefits totaled \$137.2 million, \$96.7 million of which, if recognized, would reduce our annual effective income tax rate.

Where applicable, we recognize potential accrued interest and penalties related to unrecognized tax benefits from our global operations in income tax expense. We recognized a tax benefit of \$1.3 million, and tax expense of \$2.7 million and \$5.5 million in the Consolidated Statements of Income in 2014, 2013, and 2012, respectively. We have accrued \$26.7 million and \$29.2 million for interest and penalties, net of tax benefit, in the Consolidated Balance Sheets at January 3, 2015 and December 28, 2013, respectively.

Notes to Consolidated Financial Statements

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

(In millions)	2014	2013
Balance at beginning of year	\$ 137.2	\$ 121.6
Additions based on tax positions related to the current year	18.2	20.1
Additions for tax positions of prior years	7.8	8.3
Reductions for tax positions of prior years:		
Changes in judgment	(1.8)	(4.0)
Settlements	(15.8)	(2.6)
Lapses and statute expirations	(13.8)	(6.2)
Changes due to translation of foreign currencies	(9.2)	—
Balance at end of year	\$ 122.6	\$ 137.2

The amount of income taxes we pay is subject to ongoing audits by taxing jurisdictions around the world. Our estimate of the potential outcome of any uncertain tax issue is subject to our assessment of relevant risks, facts, and circumstances existing at that time. We believe that we have adequately provided for reasonably foreseeable outcomes related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate. As of the date the 2014 financial statements are being issued, we and our U.S. subsidiaries have completed the Internal Revenue Service's Compliance Assurance Process Program through 2013. We are subject to routine tax examinations in other jurisdictions. With a few exceptions, we are no longer subject to examinations by tax authorities for years prior to 2006.

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

NOTE 15. SEGMENT INFORMATION

Segment Reporting

We have the following operating and reportable segments:

- 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 performance tapes;
- Retail Branding and Information Solutions – designs, manufactures and sells a wide variety of branding and information products and services, including brand and price tickets, tags and labels (including RFID inlays), and related services, supplies and equipment; and
- Vancive Medical Technologies – manufactures an array of pressure-sensitive adhesive products for surgical, wound care, ostomy, and electromedical applications.

Intersegment sales are recorded at or near market prices and are eliminated in determining consolidated sales. We evaluate performance based on income from operations before interest expense and taxes. General corporate expenses are also excluded from the computation of income from operations for the segments.

We do not disclose total assets by reportable segment since we do not produce and review such information internally. As our reporting structure is not organized or reviewed internally by country, results by individual country are not provided.

(In millions)	2014	2013	2012
Net sales to unaffiliated customers			
Pressure-sensitive Materials	\$ 4,658.1	\$ 4,455.0	\$ 4,257.6
Retail Branding and Information Solutions	1,591.6	1,611.1	1,535.0
Vancive Medical Technologies	80.6	73.9	70.9
Net sales to unaffiliated customers	\$ 6,330.3	\$ 6,140.0	\$ 5,863.5
Intersegment sales			
Pressure-sensitive Materials	\$ 63.2	\$ 64.6	\$ 60.9
Retail Branding and Information Solutions	2.4	2.4	3.8
Vancive Medical Technologies	9.6	3.6	.8
Intersegment sales	\$ 75.2	\$ 70.6	\$ 65.5
Income from continuing operations before taxes			
Pressure-sensitive Materials	\$ 434.4	\$ 442.8	\$ 359.7
Retail Branding and Information Solutions	87.9	81.7	53.3
Vancive Medical Technologies	(11.7)	(8.3)	(16.2)
Corporate expense	(82.9)	(94.1)	(86.3)
Interest expense	(63.3)	(59.0)	(72.9)
Income from continuing operations before taxes	\$ 364.4	\$ 363.1	\$ 237.6
Capital expenditures			
Pressure-sensitive Materials	\$ 110.5	\$ 81.1	\$ 64.8
Retail Branding and Information Solutions	39.6	42.4	24.7
Vancive Medical Technologies	2.1	1.2	3.4
Capital expenditures	\$ 152.2	\$ 124.7	\$ 92.9
Depreciation and amortization expense			
Pressure-sensitive Materials	\$ 116.0	\$ 113.5	\$ 112.8
Retail Branding and Information Solutions	81.4	86.7	93.9
Vancive Medical Technologies	4.2	4.1	4.3
Depreciation and amortization expense	\$ 201.6	\$ 204.3	\$ 211.0
Other expense, net by reportable segment			
Pressure-sensitive Materials	\$ 41.6	\$ 10.8	\$ 33.5
Retail Branding and Information Solutions	22.0	20.0	24.8
Vancive Medical Technologies	4.2	.1	4.8
Corporate	.4	5.7	5.7
Other expense, net	\$ 68.2	\$ 36.6	\$ 68.8

Notes to Consolidated Financial Statements

(In millions)	2014	2013	2012
Other expense, net by type			
Restructuring costs:			
Severance and related costs	\$ 54.7	\$ 27.2	\$ 49.3
Asset impairment charges and lease and other contract cancellation costs	11.4	13.1	6.5
Other items:			
Charitable contribution to Avery Dennison Foundation	–	10.0	–
Indefinite-lived intangible asset impairment charge	3.0	–	7.0
Gain on sale of product line	–	–	(6)
Gains on sales of assets	(2.5)	(17.8)	–
Loss (gain) from curtailment and settlement of pension obligation	1.6	(1.6)	–
Legal settlements	–	2.5	–
Product line exits	–	–	3.9
Divestiture-related costs ⁽¹⁾	–	3.2	2.7
Other expense, net	\$ 68.2	\$ 36.6	\$ 68.8

(1) Represents only the portion allocated to continuing operations.

Within Pressure-sensitive Materials, net sales to unaffiliated customers of the Materials product group were \$4.33 billion, \$4.16 billion, and \$3.98 billion in 2014, 2013, and 2012, respectively, and net sales to unaffiliated customers of the Performance Tapes product group were \$332.5 million, \$293 million, and \$274.2 million in 2014, 2013, and 2012, respectively.

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

(In millions)	2014	2013	2012
Net sales to unaffiliated customers			
U.S.	\$ 1,529.4	\$ 1,537.6	\$ 1,528.3
Europe	2,074.4	1,958.4	1,851.1
Asia	1,914.2	1,823.5	1,627.6
Latin America	522.9	515.6	501.2
Other international	289.4	304.9	355.3
Net sales to unaffiliated customers	\$ 6,330.3	\$ 6,140.0	\$ 5,863.5

Property, plant and equipment, net, in our U.S. and international operations are set forth below.

(In millions)	2014	2013	2012
Property, plant and equipment, net			
U.S.	\$ 261.5	\$ 279.6	\$ 340.2
International	613.8	642.9	675.3
Property, plant and equipment, net	\$ 875.3	\$ 922.5	\$ 1,015.5

NOTE 16. SUPPLEMENTAL FINANCIAL INFORMATION

Inventories

Net inventories at year-end were as follows:

(In millions)	2014	2013
Raw materials	\$ 183.6	\$ 196.3
Work-in-progress	150.4	149.0
Finished goods	157.8	148.8
Inventories, net	\$ 491.8	\$ 494.1

Property, Plant and Equipment

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

(In millions)	2014	2013
Land	\$ 32.1	\$ 47.0
Buildings and improvements	578.2	580.2
Machinery and equipment	1,958.2	2,001.3
Construction-in-progress	86.0	74.3
Property, plant and equipment	2,654.5	2,702.8
Accumulated depreciation	(1,779.2)	(1,780.3)
Property, plant and equipment, net	\$ 875.3	\$ 922.5

Software

Capitalized software costs at year-end were as follows:

(In millions)	2014	2013
Cost	\$ 445.7	\$ 427.9
Accumulated amortization	(293.1)	(264.6)
Software, net	\$ 152.6	\$ 163.3

Software amortization expense from continuing operations was \$36.4 million in 2014, \$35.3 million in 2013, and \$30.7 million in 2012.

Research and Development

Research and development expense from continuing operations, which is included in "Marketing, general and administrative expense" in the Consolidated Statements of Income, was as follows:

(In millions)	2014	2013	2012
Research and development expense	\$ 102.5	\$ 96.0	\$ 98.6

Supplemental Cash Flow Information

Cash paid for interest and income taxes, including amounts paid for discontinued operations, was as follows:

(In millions)	2014	2013	2012
Interest, net of capitalized amounts	\$ 61.6	\$ 64.1	\$ 68.0
Income taxes, net of refunds	108.8	129.4	97.7

Capital expenditures accrued but not paid, including amounts for discontinued operations, were \$3.8 million in 2014, \$11.5 million in 2013, and \$12 million in 2012.

Notes to Consolidated Financial Statements

Currency Effects

Gains and losses resulting from foreign currency transactions are included in income in the period incurred. Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency), including hedging impacts, decreased net income by \$8.7 million, \$7.9 million, and \$8.8 million in 2014, 2013, and 2012, respectively.

We had no operations in hyperinflationary economies in fiscal years 2014, 2013, or 2012.

NOTE 17. QUARTERLY FINANCIAL INFORMATION (Unaudited)

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter ⁽¹⁾
2014				
Net sales	\$ 1,550.1	\$ 1,615.8	\$ 1,559.6	\$ 1,604.8
Gross profit	407.2	428.2	400.7	415.1
Income from continuing operations	71.6	44.4	65.0	70.1
(Loss) income from discontinued operations, net of tax	(.4)	(1.9)	(.7)	.8
Net income	71.2	42.5	64.3	70.9
Net income (loss) per common share:				
Continuing operations	.74	.47	.70	.77
Discontinued operations	-	(.02)	(.01)	.01
Net income per common share	.74	.45	.69	.78
Net income (loss) per common share, assuming dilution:				
Continuing operations	.73	.46	.68	.75
Discontinued operations	-	(.02)	-	.01
Net income per common share, assuming dilution	.73	.44	.68	.76
2013				
Net sales	\$ 1,498.9	\$ 1,552.3	\$ 1,504.9	\$ 1,583.9
Gross profit	401.7	417.5	402.2	416.3
Income from continuing operations	66.8	70.8	62.0	44.7
Loss from discontinued operations, net of tax	(9.0)	(2.0)	(15.5)	(2.0)
Net income	57.8	68.8	46.5	42.7
Net income (loss) per common share:				
Continuing operations	.67	.71	.63	.46
Discontinued operations	(.09)	(.02)	(.16)	(.02)
Net income per common share	.58	.69	.47	.44
Net income (loss) per common share, assuming dilution:				
Continuing operations	.66	.70	.62	.45
Discontinued operations	(.09)	(.02)	(.15)	(.02)
Net income per common share, assuming dilution	.57	.68	.47	.43

⁽¹⁾ Results for the fourth quarter of 2014 reflected the extra week in our 2014 fiscal year.

Notes to Consolidated Financial Statements

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

(In millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014				
Restructuring costs:				
Severance and related costs	\$ 7.0	\$ 35.9	\$ 5.1	\$ 6.7
Asset impairment charges and lease cancellation costs	.3	2.6	1.6	6.9
Other items:				
Indefinite-lived intangible asset impairment charge	-	-	3.0	-
Gains on sales of assets	-	(.6)	(1.9)	-
Losses from curtailment and settlement of pension obligations	-	.6	-	1.0
Other expense, net	\$ 7.3	\$ 38.5	\$ 7.8	\$ 14.6
2013				
Restructuring costs:				
Severance and related costs	\$ 6.8	\$ 5.4	\$ 8.7	\$ 6.3
Asset impairment charges and lease and other contract cancellation costs	1.3	2.4	8.0	1.4
Other items:				
Charitable contribution to Avery Dennison Foundation	-	-	10.0	-
Gains on sale of assets	(1.3)	(10.9)	(.5)	(5.1)
Gain from curtailment of pension obligation	-	-	(1.6)	-
Legal settlement	-	2.5	-	-
Divestiture-related costs ⁽¹⁾	.7	.3	1.1	1.1
Other expense, net	\$ 7.5	\$ (.3)	\$ 25.7	\$ 3.7

⁽¹⁾ Represents only the portion allocated to continuing operations.

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 and Finance Committee, which is comprised solely of independent directors. The Committee meets periodically with financial management, internal auditors and the independent registered public accounting firm to obtain reasonable assurance that each is meeting its responsibilities and to discuss matters concerning auditing, internal accounting control and financial reporting. The independent registered public accounting firm and our internal audit department have free access to meet with the Audit and Finance Committee without management present.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15(d)-15(f). Under the supervision and with the participation of management, including the chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework (2013)*, management has concluded that internal control over financial reporting was effective as of January 3, 2015. Management's assessment of the effectiveness of internal control over financial reporting as of January 3, 2015 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 and
Chief Executive Officer

/s/ MITCHELL R. BUTIER

Mitchell R. Butier
President, Chief Operating Officer, and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AVERY DENNISON CORPORATION:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at January 3, 2015 and December 28, 2013, and the results of their operations and their cash flows for each of the three years in the period ended January 3, 2015 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 January 3, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California
February 25, 2015

Corporate Information

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Los Angeles, California

Registrar and Transfer Agent

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Annual Meeting

Our Annual Meeting of Stockholders will be held at 1:30 p.m. on April 23, 2015 at the Hilton Hotel, 100 West Glenoaks Boulevard, Glendale, California 91202.

The Direct Share Purchase and Sale Program

Shareholders of record may reinvest their cash dividends in additional shares of our common stock at market price. Investors may also invest optional cash payments of up to \$12,500 per month in our common stock at market price. Investors not yet participating in the program, as well as brokers and custodians who hold our common stock on behalf of clients, may obtain a copy of the program by contacting Broadridge Corporate Issuer Solutions, Inc.

Direct Deposit of Dividends

Shareholders may receive their quarterly dividend payments by direct deposit into their checking or savings accounts. For more information, contact Broadridge Corporate Issuer Solutions, Inc.

Other Information

We are including, as Exhibits 31.1 and 31.2 to our Annual Report on Form 10-K for fiscal year 2014 filed with the Securities and Exchange Commission ("SEC"), certificates of our Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. We submitted to the New York Stock Exchange ("NYSE") an unqualified annual written affirmation, along with the Chief Executive Officer's certificate that he is not aware of any violation by the Company of NYSE's corporate governance listing standards, on April 24, 2014.

A copy of our Annual Report on Form 10-K, as filed with the SEC, will be furnished to shareholders and interested investors free of charge upon written request to our Corporate Secretary. Copies may also be downloaded from our investor website at www.investors.averydennison.com.

Corporate Headquarters and Mailing Address

Avery Dennison Corporation
207 Goode Avenue
Glendale, California 91203
Phone: (626) 304-2000

Stock and Dividend Data

Our common stock is listed on the NYSE.
Ticker symbol: AVY

	2014		2013	
	High	Low	High	Low
Market Price				
First Quarter	\$ 52.14	\$ 46.99	\$ 43.58	\$ 34.92
Second Quarter	51.76	46.66	44.46	40.13
Third Quarter	51.49	46.18	46.15	42.76
Fourth Quarter	52.67	41.28	50.65	42.28
			2014	2013
Dividends per Common Share				
First Quarter			\$.29	\$.27
Second Quarter			.35	.29
Third Quarter			.35	.29
Fourth Quarter			.35	.29
			\$ 1.34	\$ 1.14
Number of shareholders of record as of year-end			5,728	6,339

SUBSIDIARY⁽¹⁾U.S. STATE OR COUNTRY IN WHICH ORGANIZED

ADC PHILIPPINES, INC.	PHILIPPINES
ADESPAN S.R.L.	ITALY
ADHIPRESS BANGLADESH LTD.	BANGLADESH
ADHIPRESS (HONG KONG) LTD.	HONG KONG
AVERY CORP.	DELAWARE
AVERY DE MEXICO SRL DE CV	MEXICO
AVERY DENNISON AUSTRALIA GROUP HOLDINGS PTY LIMITED	AUSTRALIA
AVERY DENNISON AUSTRALIA INTERNATIONAL HOLDINGS PTY LTD.	AUSTRALIA
AVERY DENNISON AUSTRALIA PTY LTD.	AUSTRALIA
AVERY DENNISON BELGIE BVBA	BELGIUM
AVERY DENNISON BENELUX BVBA	BELGIUM
AVERY DENNISON BULGARIA EOOD	BULGARIA
AVERY DENNISON BV	NETHERLANDS
AVERY DENNISON CANADA CORPORATION	CANADA
AVERY DENNISON CENTRAL EUROPE GMBH	GERMANY
AVERY DENNISON CHILE S.A.	CHILE
AVERY DENNISON COLOMBIA S. A.	COLOMBIA
AVERY DENNISON COMMERCIAL EL SALVADOR LTDA. DE C.V.	EL SALVADOR
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	CALIFORNIA
AVERY DENNISON G HOLDINGS I LLC	NEVADA
AVERY DENNISON G HOLDINGS III LLC	DELAWARE
AVERY DENNISON G INVESTMENTS 111 LIMITED	GIBRALTAR
AVERY DENNISON G INVESTMENTS V LIMITED	GIBRALTAR
AVERY DENNISON GROUP DANMARK APS	DENMARK
AVERY DENNISON GROUP SINGAPORE (PTE) LIMITED	SINGAPORE
AVERY DENNISON GULF FZCO	UNITED ARAB EMIRATES
AVERY DENNISON HOLDING GMBH	GERMANY
AVERY DENNISON HOLDING LUXEMBOURG S. A. R. L.	LUXEMBOURG
AVERY DENNISON HOLDING & FINANCE THE NETHERLANDS BV	NETHERLANDS
AVERY DENNISON HOLDINGS LLC	DELAWARE
AVERY DENNISON HOLDINGS NEW ZEALAND LIMITED	NEW ZEALAND
AVERY DENNISON HONG KONG BV	NETHERLANDS
AVERY DENNISON HONG KONG HOLDING I B.V.	NETHERLANDS

AVERY DENNISON HONG KONG HOLDING II B.V.	NETHERLANDS
AVERY DENNISON IBERICA, S.A.	SPAIN
AVERY DENNISON INNOVATIONS LLC	DELAWARE
AVERY DENNISON INTELLIGENT HEALTHCARE SOLUTIONS LLC	DELAWARE
AVERY DENNISON INVESTMENT LUXEMBOURG II SARL	LUXEMBOURG
AVERY DENNISON INVESTMENTS LUXEMBOURG S.A.R.L.	LUXEMBOURG
AVERY DENNISON INVESTMENTS LUXEMBOURG III SARL	LUXEMBOURG
AVERY DENNISON INVESTMENTS LUXEMBOURG IV SARL	LUXEMBOURG
AVERY DENNISON INVESTMENTS LUXEMBOURG V SCA	LUXEMBOURG
AVERY DENNISON ITALIA S.R.L.	ITALY
AVERY DENNISON JAPAN K.K.	JAPAN
AVERY DENNISON JAPAN MATERIALS COMPANY LTD.	JAPAN
AVERY DENNISON KAGIT URUNLERI SANAYI TICARET LIMITED SIRKETI	TURKEY
AVERY DENNISON KOREA LIMITED	SOUTH KOREA
AVERY DENNISON LABELS LIMITED	HONG KONG
AVERY DENNISON LANKA (PRIVATE) LIMITED	SRI LANKA
AVERY DENNISON LUXEMBOURG SALES SARL	LUXEMBOURG
AVERY DENNISON LUXEMBOURG S.A.R.L.	LUXEMBOURG
AVERY DENNISON MANAGEMENT GMBH	GERMANY
AVERY DENNISON MANAGEMENT KGAA	LUXEMBOURG

AVERY DENNISON MANAGEMENT LUXEMBOURG S.A.R.L.	LUXEMBOURG
AVERY DENNISON MATERIALS EUROPE B.V.	NETHERLANDS
AVERY DENNISON MATERIALS EUROPE GMBH	SWITZERLAND
AVERY DENNISON MATERIALS FRANCE S.A.R.L.	FRANCE
AVERY DENNISON MATERIALS GMBH	GERMANY
AVERY DENNISON MATERIALS IRELAND LIMITED	IRELAND
AVERY DENNISON MATERIALS NEDERLAND BV	NETHERLANDS
AVERY DENNISON MATERIALS NEW ZEALAND LIMITED	NEW ZEALAND
AVERY DENNISON MATERIALS PTY LIMITED	AUSTRALIA
AVERY DENNISON MATERIALS ROM SRL	ROMANIA
AVERY DENNISON MATERIALS RUSSIA LLC	RUSSIA
AVERY DENNISON MATERIALS SALES FRANCE S. A. S.	FRANCE
AVERY DENNISON MATERIALS SALES GERMANY GMBH	GERMANY
AVERY DENNISON MATERIALS SDN BHD	MALAYSIA
AVERY DENNISON MATERIALS UKRAINE	UKRAINE
AVERY DENNISON MATERIALS U.K. LIMITED	UNITED KINGDOM
AVERY DENNISON MAURITIUS LTD.	MAURITIUS
AVERY DENNISON MOROCCO SARL	MOROCCO
AVERY DENNISON NETHERLANDS INVESTMENT 0 BV	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT I BV	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT II B. V.	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT III BV	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT IX BV	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT NORTH AMERICA BV	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT VI BV	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT VII B.V.	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT VIII B.V..	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT X B V	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT XI COOPERATIEF U.A.	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT XII BV	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT XIII BV	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT XIV BV	NETHERLANDS
AVERY DENNISON NETHERLANDS INVESTMENT XV BV	NETHERLANDS
AVERY DENNISON NORDIC APS	DENMARK
AVERY DENNISON NTP A. S.	NORWAY
AVERY DENNISON OFFICE ACCESSORIES U.K. LIMITED	UNITED KINGDOM

AVERY DENNISON OFFICE PRODUCTS COMPANY	NEVADA
AVERY DENNISON OFFICE PRODUCTS HOLDINGS COMPANY	NEVADA
AVERY DENNISON OFFICE PRODUCTS MANUFACTURING U.K. LTD.	UNITED KINGDOM
AVERY DENNISON OFFICE PRODUCTS (PTY.) LTD.	SOUTH AFRICA
AVERY DENNISON OVERSEAS CORPORATION	MASSACHUSETTS
AVERY DENNISON OVERSEAS CORPORATION (JAPAN BRANCH)	JAPAN
AVERY DENNISON PENSION TRUSTEE LIMITED	UNITED KINGDOM
AVERY DENNISON PERU S. R. L.	PERU
AVERY DENNISON POLSKA SP. Z O.O.	POLAND
AVERY DENNISON PRAHA SPOL. S R. O.	CZECH REPUBLIC
AVERY DENNISON RBIS PTY LTD	AUSTRALIA
AVERY DENNISON RBIS SINGAPORE PTE	SINGAPORE
AVERY DENNISON RETAIL INFORMATION SERVICES COLOMBIA S. A.	COLOMBIA
AVERY DENNISON RETAIL INFORMATION SERVICES DE MEXICO, S. A. DE C.V.	MEXICO
AVERY DENNISON RETAIL INFORMATION SERVICES DOMINICAN REPUBLIC, S. A.	DOMINICAN REPUBLIC
AVERY DENNISON RETAIL INFORMATION SERVICES EL SALVADOR S. A. DE C. V.	EL SALVADOR
AVERY DENNISON RETAIL INFORMATION SERVICES GUATEMALA, S. A.	GUATEMALA
AVERY DENNISON RETAIL INFORMATION SERVICES HONDURAS, S. R.L.	HONDURAS
AVERY DENNISON RETAIL INFORMATION SERVICES LLC	NEVADA
AVERY DENNISON RETAIL INFORMATION SERVICES PERU SAC	PERU
AVERY DENNISON RETAIL INFORMATION SERVICES UK LTD.	UNITED KINGDOM
AVERY DENNISON RETAIL INFORMATION SERVICES (PTY) LTD	SOUTH AFRICA
AVERY DENNISON RFID COMPANY	DELAWARE
AVERY DENNISON RIS KOREA LTD.	KOREA
AVERY DENNISON RIS TAIWAN LTD.	TAIWAN
AVERY DENNISON RIS VIETNAM CO. LTD.	VIETNAM
AVERY DENNISON R.I.S. FRANCE S. A. S.	FRANCE
AVERY DENNISON R.I.S. IBERIA S.L.	SPAIN
AVERY DENNISON R.I.S. ITALIA S.R.L.	ITALY
AVERY DENNISON R.I.S. POLSKA SP.ZO.O	POLAND
AVERY DENNISON SCANDINAVIA AB	SWEDEN
AVERY DENNISON SCANDINAVIA APS	DENMARK
AVERY DENNISON SCHWEIZ AG	SWITZERLAND
AVERY DENNISON SECURITY PRINTING EUROPE APS	DENMARK
AVERY DENNISON SHARED SERVICES, INC.	NEVADA
AVERY DENNISON SINGAPORE INVESTMENTS B.V.	NETHERLANDS
AVERY DENNISON SINGAPORE (PTE) LTD	SINGAPORE
AVERY DENNISON SOUTH AFRICA (PROPRIETARY) LIMITED	SOUTH AFRICA
AVERY DENNISON SYSTEMES D'ETIQUETAGE FRANCE S.A.S.	FRANCE
AVERY DENNISON S.R.L.	ROMANIA
AVERY DENNISON TREASURY MANAGEMENT BV	NETHERLANDS

AVERY DENNISON TEKSTIL URUNLERI SANAYI VE TICARET LIMITED SIRKETI
AVERY DENNISON U.K. II LIMITED
AVERY DENNISON U.K. LIMITED
AVERY DENNISON VERMOGENSVERWALTUNGS GMBH & CO K.G.
AVERY DENNISON ZWECKFORM OFFICE PRODUCTS EUROPE GMBH
AVERY DENNISON ZWECKFORM OFFICE PRODUCTS MANUFACTURING GMBH
AVERY DENNISON (ASIA) HOLDINGS LIMITED
AVERY DENNISON (CHINA) COMPANY LIMITED
AVERY DENNISON (FUZHOU) CONVERTED PRODUCTS LIMITED
AVERY DENNISON (GUANGZHOU) CONVERTED PRODUCTS LIMITED
AVERY DENNISON (GUANGZHOU) CO. LTD.
AVERY DENNISON (HONG KONG) LIMITED
AVERY DENNISON (HONG KONG) LIMITED TAIWAN BRANCH
AVERY DENNISON (INDIA) PRIVATE LIMITED
AVERY DENNISON (IRELAND) LIMITED

TURKEY
UNITED KINGDOM
UNITED KINGDOM
GERMANY
GERMANY
GERMANY
MAURITIUS
CHINA
CHINA
CHINA
CHINA
HONG KONG
TAIWAN
INDIA
IRELAND

AVERY DENNISON (KENYA) PRIVATE LIMITED
AVERY DENNISON (KUNSHAN) CO., LIMITED
AVERY DENNISON (MALAYSIA) SDN. BHD.
AVERY DENNISON (QINGDAO) CONVERTED PRODUCTS LIMITED
AVERY DENNISON (SHENZHEN) CONVERT PRODUCTS LIMITED
AVERY DENNISON (SUZHOU) CO. LIMITED
AVERY DENNISON (THAILAND) LTD.
AVERY DENNISON (VIETNAM) LIMITED
AVERY DENNISON, S.A. DE C.V.
AVERY GRAPHIC SYSTEMS, INC.
AVERY HOLDING LIMITED
AVERY HOLDING S.A.S.
AVERY LLC
AVERY OFFICE PRODUCTS PUERTO RICO L.L.C.
AVERY PACIFIC LLC
AVERY PROPERTIES PTY. LIMITED
BEST COURAGE INTERNATIONAL LIMITED
BONFIRE MANAGEMENT LIMITED
CREATERO GMBH
DENNISON INTERNATIONAL COMPANY
DENNISON MANUFACTURING COMPANY
EUSTON FINANCIAL LIMITED
INDUSTRIAL DE MARCAS LTDA
INFODRAGON MANAGEMENT LIMITED
JAC ASIA PACIFIC SDN BHD
JAC CARIBE C.S.Z.
JAC DO BRASIL LTDA.
JAC NEW ZEALAND LIMITED
JACKSTADT FRANCE S.N.C.
JACKSTADT SOUTH AFRICA (PTY) LTD.
JINTEX LIMITED
KUNSHAN DAH MEI WEAVING CO. LTD
L&E AMERICAS SERVICIOS, S. A. DE C.V.
MARKSTAR INTERNATIONAL LTD.
MODERN MARK INTERNATIONAL LIMITED
MONARCH MARKING SYSTEMS HOLDINGS LTD
MONARCH MARKING (S.E.A.) PTE. LTD
NAPERVILLE GLOBAL LIMITED
NEW WALES FINANCE LIMITED
NEWCLASSIC INVESTMENT LIMITED
NINGBO AVERY DENNISON RBIS SHENZHOU
PAXAR BANGLADESH LTD.
PAXAR B. V.
PAXAR CANADA CORPORATION
PAXAR CORPORATION
PAXAR CORPORATION (MALAYSIA) SDN. BHD.
PAXAR DE COLOMBIA FTZ LTDA.
PAXAR DE EL SALVADOR S. A. DE C. V.
PAXAR DE GUATEMALA, S. A.
PAXAR DE MEXICO S. A. DE C. V.
PAXAR DE NICARAGUA. S.A.
PAXAR DO BRASIL LTDA
PAXAR FAR EAST LTD.
PAXAR KOREA LTD.
PAXAR PACKAGING (GUANGZHOU) LTD.
PAXAR PAKISTAN (PVT) LTD.

KENYA
CHINA
MALAYSIA
CHINA
CHINA
CHINA
THAILAND
VIETNAM
MEXICO
DELAWARE
UNITED KINGDOM
FRANCE
DELAWARE
PUERTO RICO
CALIFORNIA
AUSTRALIA
BRITISH VIRGIN ISLANDS
BRITISH VIRGIN ISLANDS
GERMANY
MASSACHUSETTS
NEVADA
BRITISH VIRGIN ISLANDS
COLOMBIA
BRITISH VIRGIN ISLANDS
MALAYSIA
DOMINICAN REPUBLIC
BRAZIL
NEW ZEALAND
FRANCE
SOUTH AFRICA
JERSEY, CHANNEL ISLANDS
CHINA
MEXICO
HONG KONG
HONG KONG
UNITED KINGDOM
SINGAPORE
BRITISH VIRGIN ISLANDS
BRITISH VIRGIN ISLANDS
BRITISH VIRGIN ISLANDS
CHINA
BANGLADESH
NETHERLANDS
CANADA
NEW YORK
MALAYSIA
COLOMBIA
EL SALVADOR
GUATEMALA
MEXICO
NICARAGUA
BRAZIL
HONG KONG
SOUTH KOREA
CHINA
PAKISTAN

PAXAR (CHINA) LTD.

HONG KONG

PAXAR (THAILAND) LIMITED
PT AVERY DENNISON INDONESIA
PT AVERY DENNISON PACKAGING INDONESIA
P. T. PACIFIC LABEL INDONESIA
P. T. PAXAR INDONESIA
RVL AMERICAS, S DE R.L. DE C.V.
RVL CENTRAL AMERICA, S. A.
RVL PACKAGING FAR EAST LIMITED
RVL SERVICE, S. DE R. L. DE C. V.
SECURITY PRINTING DIVISION, INC.
SINGAPORE LACES & LABELS (PTE) LIMITED
SKILLFIELD INVESTMENTS LIMITED
SU ZHOU JI ZHONG GARMENTS ACCESSORY CO. LIMITED
SUZHOU FENG YI HENG YE DYE CO. ,LTD.
TIGER EIGHT GROUP LIMITED
WORLDWIDE RISK INSURANCE, INC.

THAILAND
INDONESIA
INDONESIA
INDONESIA
INDONESIA
MEXICO
GUATEMALA
HONG KONG
MEXICO
MEXICO
DELAWARE
SINGAPORE
SINGAPORE
BRITISH VIRGIN ISLANDS
CHINA
CHINA
BRITISH VIRGIN ISLANDS
HAWAII

(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 and Chief Executive Officer

February 25, 2015

**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
President, Chief Operating Officer and
Chief Financial Officer

February 25, 2015

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 January 3, 2015 (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 25, 2015

/s/ Dean A. Scarborough

Dean A. Scarborough
Chairman 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 January 3, 2015 (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 25, 2015

/s/ Mitchell R. Butier

Mitchell R. Butier
President, Chief Operating Officer 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.
