UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 3, 2009.

OR

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

For the transition period from ____________________ to ____________________

Commission file number: 1-7685

AVERY DENNISON CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-1492269** (I.R.S. Employer Identification No.)
150 North Orange Grove Boulevard **Pasadena, California** (Address of principal executive offices)	**91103** (Zip Code)

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

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

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

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 o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

Number of shares of $1 par value common stock outstanding as of October 31, 2009: 112,744,662

AVERY DENNISON CORPORATION

FISCAL THIRD QUARTER 2009 FORM 10-Q QUARTERLY REPORT

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET
(*Unaudited*)

(Dollars in millions)	October 3, 2009	December 27, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 91.9	$ 105.5
Trade accounts receivable, less allowances of $57.4 and $57.3 for 2009 and 2008, respectively	1,008.6	988.9
Inventories, net	511.8	583.6
Current deferred and refundable income taxes	108.0	115.6
Other current assets	104.0	136.8
Total current assets	1,824.3	1,930.4
Property, plant and equipment	3,226.2	3,173.1
Accumulated depreciation	(1,832.9)	(1,680.1)
Property, plant and equipment, net	1,393.3	1,493.0
Goodwill	962.2	1,716.7
Other intangibles resulting from business acquisitions, net	271.3	303.6
Non-current deferred and refundable income taxes	216.8	168.9
Other assets	426.7	423.1
	$ 5,094.6	$ 6,035.7
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	$ 669.4	$ 665.0
Accounts payable	650.5	672.9
Current deferred and payable income taxes	54.2	59.6
Other current liabilities	614.2	660.5
Total current liabilities	1,988.3	2,058.0
Long-term debt	1,115.7	1,544.8
Long-term retirement benefits and other liabilities	556.5	566.5
Non-current deferred and payable income taxes	134.1	116.4
Commitments and contingencies (see Note 15)		
Shareholders' equity:		
Common stock, $1 par value, authorized - 400,000,000 shares at October 3, 2009 and December 27, 2008; issued - 124,126,624 shares at October 3, 2009 and December 27, 2008; outstanding - 105,190,851 shares and 98,366,621 shares at October 3, 2009 and December 27, 2008, respectively	124.1	124.1
Capital in excess of par value	698.4	642.9
Retained earnings	1,472.4	2,381.3
Cost of unallocated ESOP shares	–	(1.2)
Employee stock benefit trusts, 7,538,811 shares and 7,888,953 shares at October 3, 2009 and December 27, 2008, respectively	(253.3)	(246.9)
Treasury stock at cost, 11,381,962 shares and 17,841,050 shares at October 3, 2009 and December 27, 2008, respectively	(570.8)	(867.7)
Accumulated other comprehensive loss	(170.8)	(282.5)
Total shareholders' equity	1,300.0	1,750.0
	$ 5,094.6	$ 6,035.7

See Notes to Unaudited Condensed Consolidated Financial Statements

CONSOLIDATED STATEMENT OF OPERATIONS
(*Unaudited*)

(In millions, except per share amounts)	Three Months Ended October 3, 2009	Three Months Ended September 27, 2008	Nine Months Ended October 3, 2009	Nine Months Ended September 27, 2008
Net sales	$ 1,549.3	$ 1,724.8	$ 4,430.9	$ 5,198.9
Cost of products sold	1,113.3	1,290.5	3,259.5	3,850.3
Gross profit	436.0	434.3	1,171.4	1,348.6
Marketing, general and administrative expense	323.1	325.5	927.4	994.5
Goodwill and indefinite-lived intangible asset impairment charges	–	–	832.0	–
Interest expense	19.1	29.0	67.0	87.8
Other expense, net	35.5	12.5	162.4	23.9
Income (loss) before taxes	58.3	67.3	(817.4)	242.4
(Benefit from) provision for income taxes	(4.2)	4.6	(20.8)	18.9
Net income (loss)	$ 62.5	$ 62.7	$ (796.6)	$ 223.5
Per share amounts:				
Net income (loss) per common share	$ .59	$ .64	$ (7.73)	$ 2.27
Net income (loss) per common share, assuming dilution	$ .59	$ .63	$ (7.73)	$ 2.26
Dividends	$ .20	$ .41	$ 1.02	$ 1.23
Average shares outstanding:				
Common shares	105.1	98.5	103.1	98.5
Common shares, assuming dilution	106.0	98.9	103.1	98.9
Common shares outstanding at period end	105.2	98.3	105.2	98.3

See Notes to Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(*Unaudited*)

(In millions)	Nine Months Ended October 3, 2009	Nine Months Ended September 27, 2008
Operating Activities		
Net (loss) income	$ (796.6)	$ 223.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	138.2	154.8
Amortization	55.8	55.7
Provision for doubtful accounts	16.3	13.1
Goodwill and indefinite-lived intangible asset impairment charges	832.0	–
Asset impairment and net loss on sale and disposal of assets	40.9	16.4
Loss from debt extinguishment	21.2	–
Stock-based compensation	19.8	24.0
Other non-cash expense and loss	16.2	3.2
Other non-cash income and gain	(7.2)	(14.9)
Changes in assets and liabilities and other adjustments, net of the effect of business acquisitions	(19.7)	(93.5)
Net cash provided by operating activities	316.9	382.3
Investing Activities		
Purchase of property, plant and equipment	(46.7)	(97.8)
Purchase of software and other deferred charges	(20.4)	(49.2)
Payments for acquisitions	–	(130.6)
Proceeds from sale of investments, net	.3	16.2
Other	(4.0)	7.0
Net cash used in investing activities	(70.8)	(254.4)
Financing Activities		
Net decrease in borrowings (maturities of 90 days or less)	(58.1)	(386.3)
Additional borrowings (maturities longer than 90 days)	–	400.1
Payments of debt (maturities longer than 90 days)	(93.2)	(.7)
Dividends paid	(112.3)	(131.4)
Purchase of treasury stock	–	(9.8)
Proceeds from exercise of stock options, net	–	2.3
Other	2.0	8.2
Net cash used in financing activities	(261.6)	(117.6)
Effect of foreign currency translation on cash balances	1.9	(.5)
(Decrease) increase in cash and cash equivalents	(13.6)	9.8
Cash and cash equivalents, beginning of year	105.5	71.5
Cash and cash equivalents, end of period	$ 91.9	$ 81.3

See Notes to Unaudited Condensed Consolidated Financial Statements

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include normal recurring adjustments necessary for a fair statement of Avery Dennison Corporation's (the "Company's") interim results. The unaudited condensed consolidated financial statements and notes in this Form 10-Q are presented as permitted by Article 10 of Regulation S-X. The unaudited condensed consolidated financial statements do not contain certain information included in the Company's 2008 annual financial statements and notes. This Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes included in the Company's 2008 Annual Report on Form 10-K.

The Company's 2009 fiscal year includes a 53-week period, with the extra week reflected in the first quarter. Normally, each fiscal year consists of 52 weeks, but every fifth or sixth year consists of 53 weeks. The third quarters of 2009 and 2008 consisted of thirteen-week periods ending October 3, 2009 and September 27, 2008, respectively.

The interim results of operations are not necessarily indicative of future financial results.

The Company has evaluated subsequent events through the time of filing this Form 10-Q with the Securities and Exchange Commission ("SEC") on November 11, 2009.

Financial Presentation

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

Note 2. Acquisitions

On April 1, 2008, the Company acquired DM Label Group ("DM Label"). DM Label operations are included in the Company's Retail Information Services segment.

Note 3. Inventories

Inventories consisted of:

(In millions)	October 3, 2009	December 27, 2008
Raw materials	$ 235.6	$ 256.2
Work-in-progress	122.4	143.4
Finished goods	223.3	248.6
Inventories at lower of FIFO cost or market (approximates replacement cost)	581.3	648.2
Inventory reserves	(69.5)	(64.6)
Inventories, net	$ 511.8	$ 583.6

Note 4. Goodwill and Other Intangibles Resulting from Business Acquisitions

In the first quarter of 2009, the Company recorded non-cash impairment charges of $832 million for the retail information services reporting unit, of which $820 million is related to goodwill and $12 million is related to indefinite-lived intangible assets. The Company completed its impairment test of goodwill and indefinite-lived intangible assets ("goodwill impairment") in the second quarter of 2009, with no additional impairment charge recorded thereafter.

In performing the required goodwill impairment test, the Company primarily applies a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. The Company's reporting units, which are composed of either a discrete business or an aggregation of businesses with similar economic characteristics, consist of roll materials; retail information services; office and consumer products; graphics and reflective products; industrial products; and business media.

The Company performs its annual goodwill impairment test during the fourth quarter. However, certain factors may result in the need to perform a goodwill impairment test prior to the fourth quarter, including significant underperformance of the Company's business relative to expected operating results, significant adverse economic and industry trends, significant decline in the Company's market capitalization for an extended period of time relative to net book value, or a decision to divest an individual business within a reporting unit. Based upon the Company's assessment of these factors in connection with the preparation of the Company's first quarter financial statements, the Company determined that there was a need to initiate an interim goodwill impairment test. The factors considered included both a sustained decline in the Company's stock price and a decline in the Company's 2009 revenue projections for the retail information services reporting unit, following lower than expected revenues in March 2009, which continued in April 2009. The peak season for the retail information services reporting unit has traditionally been March through the end of the second quarter.

The Company's interim impairment analysis indicated that the fair value of each of the Company's reporting units exceeded its carrying value, except for the Company's retail information services reporting unit, which had a fair value less than its carrying value. In evaluating the fair value of the retail information services reporting unit, the Company assumed further declines in revenue for 2009 from 2008, reflecting continued and further weakness in the retail apparel market. The Company then assumed that revenues by 2012 would increase to levels comparable with 2007 (including estimated sales for Paxar and DM Label, adjusted for foreign currency translation). The Company also assumed a discount rate of 14.5% reflecting the increased uncertainty of global economic conditions in the first three months of 2009.

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

Goodwill

As part of the interim goodwill impairment test completed in the second quarter of 2009, which is discussed above, the Company recorded a non-cash impairment charge of $820 million for the retail information services reporting unit in the first quarter of 2009, with no additional impairment charge recorded thereafter. The total amount of goodwill assigned to the retail information services reporting unit prior to impairment charges was approximately $1.2 billion.

Changes in the net carrying amount of goodwill for the periods shown, by reportable segment, are as follows:

(In millions)	Pressure-sensitive Materials	Retail Information Services	Office and Consumer Products	Other specialty converting businesses	Total
Balance as of December 29, 2007	$ 354.0	$ 1,137.7	$ 177.6	$ 14.0	$ 1,683.3
Goodwill acquired during the period(1)	–	45.1	–	–	45.1
Acquisition adjustments(2)	.3	10.3	–	–	10.6
Transfers(3)	–	10.4	–	(10.4)	–
Translation adjustments	(19.9)	8.1	(10.4)	(.1)	(22.3)
Balance as of December 27, 2008	$ 334.4	$ 1,211.6	$ 167.2	$ 3.5	$ 1,716.7
Acquisition adjustments(4)	–	29.3	–	–	29.3
Goodwill impairment charges	–	(820.0)	–	–	(820.0)
Translation adjustments	19.4	9.5	7.2	.1	36.2
Balance as of October 3, 2009	$ 353.8	$ 430.4	$ 174.4	$ 3.6	$ 962.2
Goodwill Summary:					
Goodwill	$ 353.8	$ 1,250.4	$ 174.4	$ 3.6	$ 1,782.2
Accumulated impairment losses	–	(820.0)	–	–	(820.0)
Balance as of October 3, 2009	$ 353.8	$ 430.4	$ 174.4	$ 3.6	$ 962.2

(1) Goodwill acquired during the period related to the DM Label acquisition in April 2008.

(2) Acquisition adjustments in 2008 consisted of opening balance sheet adjustments associated with the acquisition of Paxar Corporation ("Paxar") in June 2007.

(3) Related to the transfer of a business from other specialty converting businesses to Retail Information Services to align with a change in the Company's internal reporting structure.

(4) Acquisition adjustments in 2009 consisted of opening balance sheet adjustments associated with the DM Label acquisition in April 2008 of $31.1 and other acquisition adjustments of $(1.8).

As of October 3, 2009, goodwill and other intangible assets and their related useful lives include the allocations of the purchase price of the DM Label acquisition based on valuations of the acquired assets.

Indefinite-Lived Intangible Assets

In connection with the acquisition of Paxar, the Company acquired approximately $30 million of intangible assets, consisting of certain trade names and trademarks, which are not subject to amortization because they have an indefinite useful life. As part of the interim goodwill impairment test completed in the second quarter of 2009, which is discussed above, the Company recorded an additional non-cash impairment charge of $12 million related to these indefinite-lived intangible assets in the first quarter of 2009, with no additional impairment charge recorded thereafter. The carrying value of these indefinite-lived intangible assets was $17.8 million and $29.5 million at October 3, 2009 and December 27, 2008, respectively, which include $.2 million and $.5 million of negative currency impact, respectively.

Finite-Lived Intangible Assets

The following table sets forth the Company's finite-lived intangible assets resulting from business acquisitions at October 3, 2009 and December 27, 2008, which continue to be amortized:

	October 3, 2009			December 27, 2008		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 296.6	$ 88.8	$ 207.8	$ 295.9	$ 67.4	$ 228.5
Patents and other acquired technology	53.6	22.4	31.2	53.6	18.8	34.8
Trade names and trademarks (1)	47.6	40.3	7.3	45.1	38.1	7.0
Other intangibles	14.0	6.8	7.2	8.8	5.0	3.8
Total	$ 411.8	$ 158.3	$ 253.5	$ 403.4	$ 129.3	$ 274.1

(1) Includes a reclassification from "Other assets" of approximately $1.

Amortization expense on finite-lived intangible assets resulting from business acquisitions was $8.2 million and $25.2 million for the three and nine months ended October 3, 2009, respectively, and $8.9 million and $24.7 million for the three and nine months ended September 27, 2008, respectively. As of October 3, 2009, the estimated amortization expense for finite-lived intangible assets resulting from completed business acquisitions for this fiscal year and each of the next four fiscal years is expected to be approximately $34 million, $34 million, $34 million, $33 million, and $32 million, respectively.

The weighted-average amortization periods from the date of acquisition for finite-lived intangible assets resulting from business acquisitions are fourteen years for customer relationships, eleven years for trade names and trademarks, thirteen years for patents and other acquired technology, seven years for other intangibles and thirteen years in total. As of October 3, 2009, the weighted-average remaining useful life of acquired finite-lived intangible assets are nine years for customer relationships, five years for trade names and trademarks, seven years for patents and other acquired technology, four years for other intangibles and eight years in total.

Note 5. Debt

On January 23, 2009, the Company entered into an amendment to a credit agreement for a $1 billion revolving credit facility (the "Revolver") with certain domestic and foreign banks, maturing August 10, 2012. The amendment increases the Company's flexibility for a specified period of time under the financial covenants to which the Revolver is subject and excludes certain restructuring charges from the calculation of the financial ratios under those covenants. The amendment increases the annual interest rate of the Revolver to the annual rate of, at the Company's option, either (i) between LIBOR plus 1.8% and LIBOR plus 3.5%, depending on the Company's debt ratings by either Standard & Poor's Rating Service ("S&P") or Moody's Investor Service ("Moody's"), or (ii) the higher of (A) the federal funds rate plus 0.50% or (B) the prime rate, plus between 0.8% and 2.5%, depending on the Company's debt ratings by either S&P or Moody's. The amendment also provides for an increase in the facility fee payable under the Revolver to the annual rate of between 0.2% and 0.5%, depending on the Company's debt ratings by either S&P or Moody's.

On January 23, 2009, a wholly-owned subsidiary of the Company entered into an amendment to a credit agreement for a $400 million term loan credit facility ("Credit Facility") with certain domestic and foreign banks, maturing February 8, 2011. The subsidiary's payment and performance under the agreement are guaranteed by the Company. The amendment increases the Company's flexibility for a specified period of time under the financial covenants to which the Credit Facility is subject and excludes certain restructuring charges from the calculation of the financial ratios under those covenants. The amendment also increases the annual interest rate of the Credit Facility to the annual rate of, at the subsidiary's option, either (i) between LIBOR plus 2.0% and LIBOR plus 4.0%, depending on the Company's debt ratings by either S&P or Moody's, or (ii) the higher of (A) the federal funds rate plus 0.50% or (B) the prime rate, plus between 1.0% and 3.0%, depending on the Company's debt ratings by either S&P or Moody's. The amendment requires the partial repayment of the loans under the Credit Facility in $15 million quarterly installments beginning April 2009 through December

2010, and $280 million payable upon maturity.

The financial covenant ratios permitted under the above-mentioned amendments are as follows:

	First Quarter 2009	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009	First Quarter 2010	Second Quarter 2010	Third Quarter 2010	Fourth Quarter 2010 and thereafter
Interest Coverage Ratio (Minimum)	2.50	2.25	2.10	2.25	2.60	3.00	3.25	3.50
Leverage Ratio (Maximum)	4.00	4.25	4.25	4.00	3.75	3.50	3.50	3.50

As of October 3, 2009, the Company was in compliance with its financial covenants. The non-cash goodwill and indefinite-lived intangible asset impairment charges recognized in the first quarter of 2009 have no adverse impact on the Company's financial covenants. Refer to Note 4, "Goodwill and Other Intangibles Resulting from Business Acquisitions," for information regarding the impairments.

On March 10, 2009, the Company completed an exchange of approximately 6.6 million units (or 75.15%) of its HiMEDS units, stated amount $50.00 per unit (the "HiMEDS units"), in the form of Corporate HiMEDS units (the "Corporate HiMEDS units"), comprised of (i) a purchase contract obligating the holder to purchase from the Company its common stock shares, par value $1.00 per share (the "common stock"), and (ii) a 1/20 or 5.0% undivided beneficial interest in a $1,000 aggregate principal amount 5.350% senior note due November 15, 2020 (the "HiMEDS senior notes"), for 0.9756 shares of common stock and $6.50 in cash (which includes the accrued and unpaid contract adjustment payments with respect to the purchase contracts and the accrued and unpaid interest with respect to the HiMEDS senior notes) for each Corporate HiMEDS unit. The Company issued approximately 6.5 million shares of its common stock and paid approximately $43 million in cash for the exchanged HiMEDS units with a carrying value of approximately $331 million. As a result of this exchange, the Company recorded a debt extinguishment loss of approximately $21 million (included in "Other expense, net" in the unaudited Consolidated Statement of Operations), which included a write-off of $9.6 million related to unamortized debt issuance costs.

As of October 3, 2009, approximately two million HiMEDS units with a carrying value of approximately $109 million remained outstanding. The purchase contracts related to these units obligate the holders to purchase from the Company a certain number of common shares in November 2010 (depending on the stock price at the time).

The fair value of the Company's debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debt of similar remaining maturities. As of October 3, 2009, the carrying value and fair value of the Company's total debt, including short-term borrowings, was $1.79 billion and $1.75 billion, respectively.

Note 6. Pension and Other Postretirement Benefits

The following table sets forth the components of net periodic benefit cost for the periods shown:

	Pension Benefits							
	Three Months Ended				Nine Months Ended			
	October 3, 2009		September 27, 2008		October 3, 2009		September 27, 2008	
(In millions)	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l
Components of net periodic benefit cost:								
Service cost	$ 4.9	$ 3.0	$ 4.9	$ 3.6	$ 14.9	$ 8.7	$ 14.7	$ 10.7
Interest cost	9.6	6.6	9.0	7.2	28.7	19.0	27.0	21.6
Expected return on plan assets	(12.1)	(6.8)	(12.7)	(7.5)	(36.4)	(19.7)	(38.2)	(22.4)
Recognized net actuarial loss	2.6	.5	1.5	1.0	7.7	1.5	4.5	2.8
Amortization of prior service cost	.2	.1	.2	.1	.6	.3	.8	.4
Amortization of transition asset	–	(.1)	–	(.1)	–	(.4)	–	(.4)
Net periodic benefit cost	$ 5.2	$ 3.3	$ 2.9	$ 4.3	$ 15.5	$ 9.4	$ 8.8	$ 12.7

	U.S. Postretirement Health Benefits			
	Three Months Ended		Nine Months Ended	
(In millions)	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Components of net periodic benefit cost:				
Service cost	$ .2	$ .3	$ .7	$ .8
Interest cost	.4	.5	1.4	1.4
Recognized net actuarial loss	.4	.3	1.2	1.1
Amortization of prior service cost	(.5)	(.5)	(1.5)	(1.5)
Net periodic benefit cost	$ .5	$ .6	$ 1.8	$ 1.8

The Company contributed $7.8 million and $2.7 million to its U.S. pension plans during the nine months ended October 3, 2009 and September 27, 2008, respectively. The Company expects to contribute an additional $.2 million (and may contribute up to an additional $25 million) to its U.S. pension plans prior to the end of 2009. Additionally, the Company contributed $2.2 million and $2.4 million to its U.S. postretirement health benefit plan during the nine months ended October 3, 2009 and September 27, 2008, respectively. For the remainder of 2009, the Company expects to contribute an additional $.6 million to its U.S. postretirement health benefit plan.

The Company contributed approximately $23 million and approximately $11 million to its international pension plans during the nine months ended October 3, 2009 and September 27, 2008, respectively. Contributions made during the nine months ended October 3, 2009 included approximately $11 million of contributions to the Dutch pension plan made in the form of borrowings payable by the Company (included in “Long-term debt” in the unaudited Condensed Consolidated Balance Sheet) to the pension plan over the next three years. For the remainder of 2009, the Company expects to contribute an additional $6 million to its international pension plans.

During the nine months ended October 3, 2009, the Company recognized $6.4 million related to its match to participant contributions in the Company’s defined contribution plan. This expense was recorded in “Marketing, general and administrative expense” in the unaudited Consolidated Statement of Operations and was funded through the issuance of shares from the Company’s Employee Stock Benefit Trust.

Note 7. Research and Development

Research and development expense for the three and nine months ended October 3, 2009 was $22.3 million and $67.1 million, respectively. For the three and nine months ended September 27, 2008, research and development expense was $23.8 million and $72.2 million, respectively.

Note 8. Stock-Based Compensation

Net income included stock-based compensation expense related to stock options, performance units (“PUs”), restricted stock units (“RSUs”) and restricted stock of $6.6 million and $19.8 million for the three and nine months ended October 3, 2009, respectively, and $7.1 million and $24 million for the three and nine months ended September 27, 2008, respectively. Total stock-based compensation expense was included in “Marketing, general and administrative expense” in the unaudited Consolidated Statement of Operations and was recorded in corporate expense and the Company’s operating segments, as appropriate.

During the second quarter of 2008, following the Company’s shareholders’ approval of the amended and restated stock option and incentive plan on April 24, 2008, the Company began granting PUs to certain eligible employees of the Company. These PUs are payable in shares of the Company’s common stock at the end of a three-year cliff vesting period provided that certain performance objective metrics are achieved at the end of the period. The compensation expense related to PUs is included in the stock-based compensation expense noted above.

In February 2009, the Company granted its annual stock-based awards to employees and directors. Such awards granted to retirement-eligible employees are treated as though they were immediately vested; as a result, the compensation expense related to these awards (approximately $.9 million) was recognized during the nine months ended October 3, 2009 and is included in the stock-based compensation expense noted above.

As of October 3, 2009, the Company had approximately $45 million of unrecognized compensation expense related to unvested stock options, PUs, RSUs and restricted stock under the Company’s plans. The total unrecognized compensation expense is expected to be recognized over the remaining weighted-average requisite service periods of approximately two years for PUs and RSUs, and approximately three years for stock options and restricted stock.

Note 9. Cost Reduction Actions

Severance charges recorded under the Company's restructuring actions are included in "Other current liabilities" in the unaudited Condensed Consolidated Balance Sheet. Severance and other employee costs represent cash paid or to be paid to employees terminated under these actions. Charges below are included in "Other expense, net" in the unaudited Consolidated Statement of Operations.

Severance, asset impairment, and lease cancellation charges recorded for the three and nine months ended October 3, 2009 and September 27, 2008 are summarized by reportable segment in Note 16, "Segment Information."

Beginning in 2009, the Company modified its approach to allocating Corporate costs (including costs associated with restructuring actions) to its operating segments to better reflect the costs required to support operations within segment results. Prior year amounts have been restated to conform with the new methodology.

2009

In 2009, the Company continued the implementation of the cost reduction action initiated in the fourth quarter of 2008, and recorded charges of $102.2 million, consisting of $69.9 million of severance and other employee costs resulting in the elimination of approximately 2,420 positions impacting all segments, as well as $29.9 million of asset impairment charges, and $2.4 million of lease cancellation charges. As of October 3, 2009, approximately 420 employees related to these charges remain with the Company and are expected to leave by 2010. The table below details the accruals recorded in 2009 and the associated payments:

(In millions)	Pressure-sensitive Materials	Retail Information Services	Office and Consumer Products	Other specialty converting businesses	Total
Total severance and other employee costs accrued during the period ended:					
April 4, 2009	$ 7.6	$ 5.8	$ .9	$ 2.8	$ 17.1
July 4, 2009	13.4	4.6	.3	7.5	25.8
October 3, 2009	3.9	21.0	(.2)	2.3	27.0
2009 Settlements	(11.9)	(11.7)	(.6)	(6.2)	(30.4)
Balance at October 3, 2009	$ 13.0	$ 19.7	$ .4	$ 6.4	$ 39.5
Asset Impairment					
Machinery and equipment	$ 2.3	$ 3.1	$ .2	$ 14.0	$ 19.6
Buildings	.4	1.6	3.9	.9	6.8
Patents	1.9	.2	.4	1.0	3.5
Other					
Lease cancellations	1.7	.7	–	–	2.4
	$ 6.3	$ 5.6	$ 4.5	$ 15.9	$ 32.3

2008

In 2008, the Company implemented cost reduction actions, including the cost reduction action initiated in the fourth quarter, resulting in a headcount reduction of approximately 1,475 positions, impairment of certain assets and software, and lease cancellations. Charges related to these actions totaled $40.7 million, including severance and related costs of $29.8 million, impairment of fixed assets and buildings of $7.7 million, lease cancellation charges of $2.3 million and software impairment of $.9 million. At October 3, 2009, approximately 10 employees related to these charges remain with the Company and are expected to leave in 2009. The table below details the accruals recorded in 2008 and the associated payments:

(In millions)	Pressure-sensitive Materials	Retail Information Services	Office and Consumer Products	Other specialty converting businesses	Total
Total severance and other employee costs accrued during the period ended:					
March 29, 2008	$ 1.5	$ 1.4	$ .2	$ .2	$ 3.3
June 28, 2008	.2	2.8	4.2	–	7.2
September 27, 2008	2.5	1.4	3.2	1.6	8.7
December 27, 2008	2.5	3.8	3.1	1.2	10.6
Total expense accrued during 2008	6.7	9.4	10.7	3.0	29.8
2008 Settlements	(1.5)	(4.7)	(5.2)	(1.1)	(12.5)
2009 Settlements	(4.4)	(4.6)	(4.8)	(1.8)	(15.6)
Balance at October 3, 2009	$ .8	$ .1	$ .7	$ .1	$ 1.7

(In millions)	Pressure-sensitive Materials	Retail Information Services	Office and Consumer Products	Other specialty converting businesses	Total
Asset Impairment					
Machinery and equipment	$ 4.9	$ 1.3	$ 1.2	$ .2	$ 7.6
Buildings	–	.1	–	–	.1
Other					
Lease cancellations	.9	1.4	–	–	2.3
Software impairment	–	–	.9	–	.9
	$ 5.8	$ 2.8	$ 2.1	$ .2	$ 10.9

Note 10. Financial Instruments and Foreign Currency

The Company enters into certain foreign exchange hedge contracts to reduce its exposure to risk from exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in certain foreign currencies that arise primarily as a result of its operations outside the U.S. The Company enters into certain interest rate contracts to help manage its exposure to interest rate fluctuations. The Company also enters into certain natural gas and other commodity futures contracts to hedge price fluctuations for a portion of its anticipated domestic purchases. The maximum length of time in which the Company hedges its exposure to the variability in future cash flows for forecasted transactions is generally 12 to 24 months.

As of October 3, 2009, the U.S. dollar equivalent notional values of the Company's outstanding commodity contracts and foreign currency contracts were approximately $18 million and $1.2 billion, respectively.

The Company recognizes all derivative instruments as either assets or liabilities at fair value in the statement of financial position. The Company designates commodity forward contracts on forecasted purchases of commodities and foreign currency contracts on forecasted transactions as cash flow hedges and foreign currency contracts on existing balance sheet items as fair value hedges.

The following table provides the balances and locations of derivatives as of October 3, 2009:

	Asset		Liability	
(In millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	$ 10.4	Other current liabilities	$ 7.5
Commodity contracts	Other current assets	–	Other current liabilities	4.1
		$ 10.4		$ 11.6

Fair Value Hedges

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

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

(In millions)	Location of Gain (Loss) in Income	Three Months Ended October 3, 2009	Nine Months Ended October 3, 2009
Foreign exchange contracts	Cost of products sold	$ (.5)	$ (2.2)
Foreign exchange contracts	Marketing, general and administrative expense	(16.9)	8.0
		$ (17.4)	$ 5.8

Cash Flow Hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive (loss) income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The following table provides the components of the gain (loss) recognized in accumulated other comprehensive loss on derivatives (effective portion) related to cash flow hedging contracts:

(In millions)	Three Months Ended October 3, 2009	Nine Months Ended October 3, 2009
Foreign exchange contracts	$ (1.8)	$ (5.5)
Commodity contracts	.7	(2.2)
	$ (1.1)	$ (7.7)

The following table provides the components of the gain (loss) reclassified from accumulated other comprehensive loss (effective portion) related to cash flow hedging contracts:

(In millions)	Location of Gain (Loss) in Income	Three Months Ended October 3, 2009	Nine Months Ended October 3, 2009
Interest rate contracts	Interest expense	$ (1.2)	$ (6.0)
Foreign exchange contracts	Cost of products sold	(2.0)	(1.7)
Commodity contracts	Cost of products sold	(1.1)	(4.2)
		$ (4.3)	$ (11.9)

The aggregate reclassification from other comprehensive income to earnings for settlement or ineffectiveness of hedge activity was a net gain of $.6 million and $1.2 million during the three and nine months ended September 27, 2008, respectively. As of October 3, 2009, a net loss of approximately $6 million is expected to be reclassified from other comprehensive income to earnings within the next 12 months.

Included in the reclassification amount discussed above is the amortization of certain hedge costs of approximately $7 million incurred in connection with the long-term debt issued in 2007 related to the Paxar acquisition. Such costs are being amortized over the life of the related forecasted hedge transactions.

The amount of gain or loss recognized in income related to the ineffective portion of, and the amounts excluded from, effectiveness testing for cash flow hedges and derivatives not designated as hedging instruments were not significant.

Foreign Currency

Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency) increased net income by $.2 million and decreased net income by $1.6 million for the three and nine months ended October 3, 2009, respectively. Transactions in foreign currencies increased net income by $3.1 million and $14.4 million for the three and nine months ended September 27, 2008, respectively, which included a foreign currency net gain related to certain intercompany transactions of approximately $1 million and $7 million during the three and nine months ended September 27, 2008, respectively. These results exclude the effects of translation of foreign currencies on the Company’s financial statements.

In the first nine months of 2009 and 2008, no translation gains or losses for hyperinflationary economies were recognized in net income since the Company had no operations in hyperinflationary economies.

Note 11. Taxes Based on Income

The effective tax rate for the three and nine months ended October 3, 2009 was approximately negative 7% and approximately 3%, respectively, compared to approximately 7% and approximately 8% for the three and nine months ended September 27, 2008, respectively. The effective tax rate for the first nine months of 2009 includes a benefit of $31.8 million from discrete events, primarily the tax effect of goodwill and indefinite-lived intangible asset impairments, and the release of tax contingency reserves, partially offset by the build of certain valuation allowances and other items. The impairment of goodwill and indefinite-lived intangible assets is generally not tax deductible, and was the largest factor influencing the effective tax rate for the first nine months of 2009. In addition to these discrete 2009 tax events, on an ongoing basis, the Company’s effective tax rate is lower than the U.S. federal statutory rate of 35%

due to the Company's operations outside the U.S. where the statutory tax rates are generally lower. Additional taxes are not provided for most foreign earnings because the Company currently plans to indefinitely reinvest these amounts.

The amount of income taxes the Company pays is subject to ongoing audits by taxing jurisdictions around the world. The Company's estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Company believes that it has adequately provided for reasonably foreseeable outcomes related to these matters. However, the Company's future results may include favorable or unfavorable adjustments to its estimated tax liabilities in the period the assessments are made or resolved, which may impact the Company's effective tax rate. With some exceptions, the Company and its subsidiaries are no longer subject to income tax examinations by tax authorities for years prior to 2004.

It is reasonably possible that during the next 12 months, the Company may realize a decrease in its gross uncertain tax positions by approximately $52 million, primarily as the result of cash payments and closing tax years. The Company anticipates that it is reasonably possible that cash payments of up to $17 million relating to gross uncertain tax positions could be paid within the next 12 months.

Note 12. Net Income (Loss) Per Share

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

	Three Months Ended		Nine Months Ended	
(In millions, except per share amounts)	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
(A) Net income (loss) available to common shareholders	$ 62.5	$ 62.7	$ (796.6)	$ 223.5
(B) Weighted-average number of common shares outstanding	105.1	98.5	103.1	98.5
Dilutive shares (additional common shares issuable under employee stock options, PUs, RSUs and restricted stock)	.9	.4	–	.4
(C) Weighted-average number of common shares outstanding, assuming dilution	106.0	98.9	103.1	98.9
Net income (loss) per common share (A) ÷ (B)	$ .59	$ .64	$ (7.73)	$ 2.27
Net income (loss) per common share, assuming dilution (A) ÷ (C)	$ .59	$ .63	$ (7.73)	$ 2.26

In the nine months ended October 3, 2009, the effect of dilutive securities (for example, employee stock options, PUs, RSUs and shares of restricted stock) was not dilutive because the Company generated a net operating loss.

Certain employee stock options, PUs, RSUs and shares of restricted stock were not included in the computation of net income per common share, assuming dilution, because they would not have had a dilutive effect. Employee stock options, PUs, RSUs and shares of restricted stock excluded from the computation totaled approximately 10 million shares and approximately 13 million shares for the three and nine months ended October 3, 2009, respectively, and approximately 10 million shares for the three and nine months ended September 27, 2008, respectively.

As further discussed in Note 17, "Recent Accounting Pronouncements," effective at the beginning of 2009, the Company adopted additional guidance regarding the calculation of earnings per share. This did not have a material impact on net income (loss) per share.

Note 13. Comprehensive (Loss) Income

Comprehensive income (loss) includes net income (loss), foreign currency translation adjustment, net actuarial loss, prior service cost and net transition assets, net of tax, and the gains or losses on the effective portion of cash flow and firm commitment hedges, net of tax, that are currently presented as a component of shareholders' equity. The Company's total comprehensive income (loss) was $154.2 million and $(684.9) million for the three and nine months ended October 3, 2009, respectively, and $(57.6) million and $213.7 million for the three and nine months ended September 27, 2008, respectively.

The components of accumulated other comprehensive loss (net of tax, with the exception of the foreign currency translation adjustment) were as follows:

(In millions)	October 3, 2009	December 27, 2008
Foreign currency translation adjustment	$ 167.2	$ 65.8
Net actuarial loss, prior service cost and net transition assets, less amortization	(326.4)	(332.5)
Net loss on derivative instruments designated as cash flow and firm commitment hedges	(11.6)	(15.8)
Accumulated other comprehensive loss	$ (170.8)	$ (282.5)

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

(In millions)	October 3, 2009	December 27, 2008
Beginning accumulated derivative loss	$ (15.8)	$ (16.8)
Net loss (gain) reclassified to earnings	11.9	(2.9)
Net change in the revaluation of hedging transactions	(7.7)	3.9
Ending accumulated derivative loss	$ (11.6)	$ (15.8)

Note 14. Fair Value Measurement

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of October 3, 2009:

		Fair Value Measurements Using		
(In millions)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Available for sale securities	$ 11.9	$ 11.9	$ –	$ –
Derivative assets	10.4	–	10.4	–
Liabilities:				
Derivative liabilities	$ 11.6	$ 4.1	$ 7.5	$ –

Available for sale securities are measured at fair value using quoted prices and classified within Level 1 of the valuation hierarchy. Derivatives that are exchange-traded are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy. Derivatives measured based on inputs that are readily available in public markets are classified within Level 2 of the valuation hierarchy.

The following table summarizes the fair value measurements of assets measured on a non-recurring basis during the nine months ended October 3, 2009:

		Fair Value Measurements Using			
(In millions)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Gains (Losses)
Goodwill	$ 415.0	$ –	$ –	$ 415.0	$ (820.0)
Indefinite-lived intangible asset	18.0	–	–	18.0	(12.0)
Long-lived assets	9.6	–	6.6	3.0	(19.5)

Long-lived assets with carrying amounts totaling $29.1 million were written down to their fair values totaling $9.6 million, resulting in impairment charges of $4.5 million and $19.5 million for the three and nine months ended October 3, 2009, respectively. These charges are included in “Other expense, net” in the unaudited Consolidated Statement of Operations.

Goodwill with a carrying amount of $1.2 billion was written down to its estimated implied fair value of $415 million, resulting in a non-cash impairment charge of $820 million in the first quarter of 2009. Additionally, certain indefinite-lived assets with a carrying value of approximately $30 million were written down to their estimated implied fair value of $18 million, resulting in a non-cash impairment of $12 million in the first quarter of 2009. These charges are included in "Goodwill and indefinite-lived intangible asset impairment charges" in the unaudited Consolidated Statement of Operations for the nine months ended October 3, 2009. Refer to Note 4, "Goodwill and Other Intangibles Resulting from Business Acquisitions," for further information.

Note 15. Commitments and Contingencies

Legal Proceedings

On April 24, 2003, Sentry Business Products, Inc. filed a purported class action on behalf of direct purchasers of label stock in the United States District Court for the Northern District of Illinois against the Company, UPM-Kymmene Corporation ("UPM"), Bemis Company Inc. ("Bemis"), and certain of their subsidiaries seeking treble damages and other relief for alleged unlawful competitive practices, with allegations including that the defendants attempted to limit competition among themselves through anticompetitive understandings. Ten similar complaints were filed in various federal district courts. In November 2003, the cases were transferred to the United States District Court for the Middle District of Pennsylvania and consolidated for pretrial purposes. Plaintiffs filed a consolidated complaint on February 16, 2004, which the Company answered on March 31, 2004. On April 14, 2004, the court separated the proceedings as to class certification and merits discovery, and limited the initial phase of discovery to the issue of the appropriateness of class certification. On January 4, 2006, plaintiffs filed an amended complaint. On January 20, 2006, the Company filed an answer to the amended complaint. On August 14, 2006, the plaintiffs moved to certify a proposed class. The court substantively granted class certification on November 19, 2007. On July 22, 2008, the court held a hearing to set a schedule for merits discovery. On May 12, 2009, the Company entered into a settlement agreement with plaintiffs. Without admitting liability, the Company agreed to pay plaintiffs $36.5 million, plus up to $.5 million related to notice and administration expenses, in two equal installments of $18.5 million, which were paid on May 27, 2009 and July 15, 2009. On June 10, 2009, the district court entered an order preliminarily approving the settlement, and on September 17, 2009, the district court issued an order of final approval and judgment, dismissing all claims against the Company with prejudice. The Company recorded an accrual of $37 million for this settlement in the first quarter of 2009.

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, with allegations including that the defendants attempted to limit competition among themselves through anticompetitive understandings. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for the City and County of San Francisco on March 30, 2004. On September 30, 2004, the Harman Press amended its complaint to add Bemis' subsidiary Morgan Adhesives Company ("MACtac") as a defendant. On January 21, 2005, American International Distribution Corporation filed a purported class action on behalf of indirect purchasers in the Superior Court for Chittenden County, Vermont. Similar actions were filed by Richard Wrobel, on February 16, 2005, in the District Court of Johnson County, Kansas; and by Chad and Terry Muzzey, on February 16, 2005 in the District Court of Scotts Bluff County, Nebraska. On February 17, 2005, Judy Benson filed a purported multi-state class action on behalf of indirect purchasers in the Circuit Court for Cocke County, Tennessee. Without admitting liability, the Company has agreed to pay plaintiffs $2 million to resolve all claims related to the purported state class actions in the states of Kansas, Nebraska, Tennessee and Vermont. The Company recorded $2 million in the third quarter of 2009 in respect of the settlement of these claims. The Company intends to defend the purported California class action vigorously.

The Board of Directors created an ad hoc committee comprised of certain independent directors to oversee the foregoing matters.

The Company is unable to predict the effect of these matters at this time, although the effect could be adverse and material.

The Company and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. Based upon current information, management believes that the resolution of these other matters will not materially affect the Company's financial position.

Environmental

As of October 3, 2009, the Company has been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at 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 the Company's liability has been agreed. The Company is participating with other PRPs at such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

The Company has accrued liabilities for these and certain other sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites and any sites that could be identified in the future for cleanup could be higher than the liability currently accrued.

The activity for the first nine months of 2009 and full-year 2008 related to environmental liabilities, which include costs associated with compliance and remediation, were as follows:

(In millions)	October 3, 2009	December 27, 2008
Balance at beginning of year	$ 58.5	$ 37.8
Purchase price adjustments related to acquisitions	2.1	24.6
Accruals	.8	.9
Payments	(3.3)	(4.8)
Balance at end of period	$ 58.1	$ 58.5

As of October 3, 2009, approximately $17 million of the total balance was classified as short-term.

These estimates could change depending on various factors, such as modification of currently planned remedial actions, changes in remediation technologies, changes in site conditions, a change in the estimated time to complete remediation, changes in laws and regulations affecting remediation requirements and other factors.

Product Warranty

The Company provides for an estimate of costs that may be incurred under its basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of the product. Factors that affect the Company's warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy the Company's warranty obligation and availability of insurance coverage. Because these factors are impacted by actual experience and future expectations, the Company assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. As of October 3, 2009, the Company's product warranty liabilities were approximately $2 million.

Other

In 2005, the Company contacted relevant authorities in the U.S. and reported on the results of an internal investigation of potential violations of the U.S. Foreign Corrupt Practices Act. The transactions at issue were carried out by a small number of employees of the Company's reflective business in China, and involved, among other things, impermissible payments or attempted impermissible payments. The payments or attempted payments and the contracts associated with them appear to have been minor in amount and of limited duration. Sales of the Company's reflective business in China in 2005 were approximately $7 million. In addition, on or about October 10, 2008, the Company notified relevant authorities that it had discovered questionable payments to certain foreign customs and other regulatory officials by some employees of its recently acquired companies. These payments were not made for the purpose of obtaining business from any governmental entity. Corrective and disciplinary actions have been taken with respect to both internal investigations and the Company has taken remedial measures to comply with the provisions of the U.S. Foreign Corrupt Practices Act. On July 28, 2009, the Company entered into a settlement agreement with the SEC regarding the foregoing actions. Without admitting or denying liability, the Company agreed to disgorge approximately $.3 million and pay a $.2 million civil penalty. On August 10, 2009, the Company was advised by the U. S. Department of Justice that it has declined to take action against the Company in connection with the China reflective matters, which were voluntarily disclosed by the Company.

The Company and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the Company's business. Based upon current information, management believes that the resolution of these other matters will not materially affect the Company's financial position.

On September 9, 2005, the Company completed the lease financing for a commercial facility (the "Facility") located in Mentor, Ohio, used primarily for the new headquarters and research center for the Company's roll materials division. The Facility consists generally of land, buildings, equipment and office furnishings. The Company leased the Facility under an operating lease arrangement, which contains a residual value guarantee of $33.4 million. The Company does not expect the residual value of the Facility to be less than the amount guaranteed.

The Company participates in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At October 3, 2009, the Company had guaranteed approximately $15 million.

As of October 3, 2009, the Company guaranteed up to approximately $17 million of certain foreign subsidiaries' obligations to their suppliers, as well as approximately $498 million of certain subsidiaries' lines of credit with various financial institutions.

As of October 3, 2009, approximately two million HiMEDS units with a carrying value of approximately $109 million remained outstanding. The purchase contracts related to these units obligate the holders to purchase from the Company a certain number of common shares in November 2010 (depending on the stock price at the time). Refer to Note 5, "Debt," for more information.

Note 16. Segment Information

As discussed in Note 2, "Acquisitions," the Company completed the acquisition of DM Label during the second quarter of 2008. The operating results for DM Label are included in the Retail Information Services segment.

Beginning in 2009, the Company modified its approach to allocating Corporate costs to its operating segments to better reflect the costs required to support operations within segment results. Prior year amounts have been restated to conform with the new methodology.

Financial information by reportable segment and other businesses is set forth below:

	Three Months Ended		Nine Months Ended	
(In millions)	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Net sales to unaffiliated customers:				
Pressure-sensitive Materials	$ 851.0	$ 936.2	$ 2,453.4	$ 2,835.7
Retail Information Services	325.2	379.1	972.7	1,189.3
Office and Consumer Products	242.8	260.4	644.1	710.2
Other specialty converting businesses	130.3	149.1	360.7	463.7
Net sales to unaffiliated customers	$ 1,549.3	$ 1,724.8	$ 4,430.9	$ 5,198.9
Intersegment sales:				
Pressure-sensitive Materials	$ 38.3	$ 46.1	$ 111.7	$ 132.7
Retail Information Services	.4	.5	.9	1.8
Office and Consumer Products	.2	.4	.6	1.0
Other specialty converting businesses	5.2	7.0	12.2	21.8
Eliminations	(44.1)	(54.0)	(125.4)	(157.3)
Intersegment sales	$ –	$ –	$ –	$ –
Income (loss) before taxes:				
Pressure-sensitive Materials	$ 75.7	$ 62.8	$ 126.1	$ 217.0
Retail Information Services	(29.1)	.5	(888.4)	17.1
Office and Consumer Products	41.0	41.5	98.9	104.1
Other specialty converting businesses	.9	1.2	(37.0)	16.5
Corporate expense	(11.1)	(9.7)	(50.0)	(24.5)
Interest expense	(19.1)	(29.0)	(67.0)	(87.8)
Income (loss) before taxes	$ 58.3 (1)	$ 67.3 (2)	$ (817.4) (3)	$ 242.4 (4)

(1) Operating income for the third quarter of 2009 included "Other expense, net" totaling $35.5, consisting of restructuring costs of $27, asset impairment charges of $4.7, lease cancellation charges of $1.8, and legal settlement costs of $2. Of the total $35.5, the Pressure-sensitive Materials segment recorded $8.3, the Retail Information Services segment recorded $22.3, the Office and Consumer Products segment recorded $(.2), and the other specialty converting businesses recorded $5.1.

(2) Operating income for the third quarter of 2008 included "Other expense, net" totaling $12.5, consisting of restructuring costs of $8.7, asset impairment charges of $3, and lease cancellation charges of $.8. Of the total $12.5, the Pressure-sensitive Materials segment recorded $5.7, the Retail Information Services segment recorded $1.4, the Office and Consumer Products segment recorded $3.9, and the other specialty converting businesses recorded $1.5.

Additionally, operating income for the Retail Information Services segment for the third quarter of 2008 included $5.2 of transition costs associated with the Company's acquisitions.

(3) Operating loss for the first nine months of 2009 included “Other expense, net” totaling $162.4, consisting of restructuring costs of $69.9, asset impairment charges of $29.9, lease cancellation charges of $2.4, legal settlement costs of $39, and a loss of $21.2 from debt extinguishment. Of the total $162.4, the Pressure-sensitive Materials segment recorded $70.2, the Retail Information Services segment recorded $37, the Office and Consumer Products segment recorded $5.5, the other specialty converting businesses recorded $28.5, and Corporate recorded $21.2.

Additionally, operating loss for the Retail Information Services segment for the first nine months of 2009 included $832 of goodwill and indefinite-lived intangible asset impairment charges taken in the first quarter of 2009.

(4) Operating income for the first nine months of 2008 included “Other expense, net” totaling $23.9, consisting of restructuring costs of $19.2, asset impairment charges of $7, and lease cancellation charges of $2.2, partially offset by a gain on sale of investments of $(4.5). Of the total $23.9, the Pressure-sensitive Materials segment recorded $10, the Retail Information Services segment recorded $8.5, the Office and Consumer Products segment recorded $8.2, the other specialty converting businesses recorded $1.7 and Corporate recorded $(4.5).

Additionally, operating income for the Retail Information Services segment for the first nine months of 2008 included $17.9 of transition costs associated with the Company’s acquisitions.

Note 17. Recent Accounting Requirements

In June 2009, the Financial Accounting Standards Board (“FASB”) established the FASB Accounting Standards Codification (the “Codification”) as the single source of authoritative non-governmental U.S. GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009. The adoption of the Codification changed the manner in which U.S. GAAP guidance is referenced, but did not have any impact on the Company’s financial condition, results of operations, cash flows, or disclosures.

In June 2009, the FASB issued changes to consolidation accounting. Among other items, these changes respond to concerns about the application of certain key provisions of previous accounting standards, including those regarding the transparency of the involvement with variable interest entities. These changes are effective for calendar year companies beginning on January 1, 2010. The Company does not expect these changes to have a material impact on the Company’s financial condition, results of operations, cash flows, or disclosures.

In May 2009, the FASB issued a new accounting standard on subsequent events. This standard defines what qualifies as a subsequent event—those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued—and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. This standard was effective for interim and annual periods ending after June 15, 2009. The Company adopted this accounting standard in the second quarter of 2009. Refer to Note 1, “General,” for further information.

In April 2009, the FASB issued changes to disclosure requirements regarding fair value of financial instruments, which require disclosure about fair value of financial instruments, whether recognized or not recognized in the statement of financial position, in interim financial information. These changes also require fair value information to be presented together with the related carrying amount and disclosure regarding the methods and significant assumptions used to estimate fair value. These changes were effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has included the required disclosures in Note 5, “Debt.”

The FASB issued in December 2007, and amended in April 2009, a revised accounting standard for business combinations. This standard defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. In general, this standard requires the acquiring entity in a business combination to recognize the fair value of all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date as the fair value measurement point; and modifies the disclosure requirements. This standard applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. The adoption of this standard has not had a material impact on the Company's financial results of operations and financial condition. There have been no acquisitions since the effective date.

In December 2008, the FASB issued changes to disclosure requirements about postretirement benefit plan assets, which provides additional guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. These changes are effective for financial statements issued for fiscal years ending after December 15, 2009. The adoption of these changes will increase the disclosures in the financial statements related to the assets of the Company's pension and postretirement benefits plans. The Company is currently evaluating the disclosure implications of these changes.

In August 2008, the FASB issued additional accounting guidance regarding defensive intangible assets. This guidance clarifies that a defensive intangible asset should be accounted for as a separate unit of accounting. This applies to all intangible assets acquired, including intangible assets acquired in a business combination, in situations in which the acquirer does not intend to actively use the asset but intends to hold (lock up) the asset to prevent its competitors from obtaining access to the asset (defensive assets). This guidance was effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on December 15, 2008. The adoption of this guidance did not have an impact on the Company's financial results of operations and financial condition because there have been no acquisitions since the effective date.

In June 2008, the FASB issued additional accounting guidance regarding the effect of share-based payments transactions on the computation of earnings per share. This guidance clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years and requires retrospective application. The adoption of this guidance did not have a material impact on the Company's financial results of operations and financial condition.

In April 2008, the FASB issued changes to the method for determining the useful life of intangible assets. These changes modified factors that should be considered in developing renewal or extension assumptions used for purposes of determining the useful life of a recognized intangible asset. These changes were intended to improve the consistency between the useful life of a recognized intangible asset for purposes of determining impairment and the period of expected cash flows used to measure the fair value of the asset in a business combination and other U.S. generally accepted accounting principles. These changes were effective for fiscal years beginning after December 15, 2008. The adoption of these changes did not have a material impact on the Company's financial results of operations and financial condition.

In March 2008, the FASB issued changes to disclosure requirements regarding derivative instruments and hedging activities. These changes were intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. These disclosure requirements apply to all derivative instruments as well as related hedged items, bifurcated derivatives, and non-derivative instruments that are designated and qualify as hedging instruments. Entities with such instruments must provide more robust qualitative disclosures and expanded quantitative disclosures. These changes are effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company has included the required disclosures in Note 10, "Financial Instruments and Foreign Currency."

In December 2007, the FASB issued a new accounting standard on non-controlling interests. This standard was effective for fiscal years and interim periods, beginning on or after December 15, 2008, with earlier adoption prohibited. This standard requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the statement of operations. This standard also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. The adoption of this standard did not have a material impact on the Company's financial results of operations and financial condition.

In September 2006, the FASB issued a new accounting standard on fair value measurements, which was effective for fiscal years and interim periods after November 15, 2007. This standard defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This standard applies to all financial assets and liabilities and to all non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. This standard indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. This standard defines fair value based upon an exit price model. The Company applied the provisions of this standard to assets and liabilities measured on a non-recurring basis as of the beginning of the 2009 fiscal year. The adoption of this standard did not have a significant impact on the Company's financial results of operations or financial position.

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

ORGANIZATION OF INFORMATION

Management's Discussion and Analysis provides a narrative concerning our financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

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Results of Operations by Segment for the Third Quarter	27
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DEFINITION OF TERMS

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, or GAAP. Our discussion of financial results includes several non-GAAP measures to provide additional information concerning Avery Dennison Corporation's (the "Company's") performance. These non-GAAP financial measures are not in accordance with, nor are they a substitute for, GAAP financial measures. These non-GAAP financial measures are intended to supplement the presentation of our financial results that are prepared in accordance with GAAP. Refer to "Uses and Limitations of Non-GAAP Measures."

We use the following terms:

- *Organic sales growth (decline)* refers to the change in sales excluding the estimated impact of currency translation, acquisitions and divestitures, and the extra week in fiscal year 2009;
- *Segment operating income (loss)* refers to income (loss) before interest and taxes;
- *Free cash flow* refers to cash flow from operations and net proceeds from sale of investments, less payments for capital expenditures, software and other deferred charges;
- *Operational working capital* refers to trade accounts receivable and inventories, net of accounts payable.

FORWARD-LOOKING STATEMENTS

Certain statements contained in Management's Discussion and Analysis are "forward-looking statements" and are subject to certain risks and uncertainties. Refer to our "Safe Harbor Statement" contained elsewhere in this report.

OVERVIEW AND OUTLOOK

Overview

Sales

Our sales decreased 10% and 15% during the three and nine months ended October 3, 2009, respectively, compared to the same period last year, reflecting continued weakness in market conditions.

	Three Months Ended		Nine Months Ended	
Estimated change in sales due to:	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Organic sales decline	(6)%	(2)%	(11)%	(2)%
Extra week in fiscal year 2009 (1)	–	–	2	–
Foreign currency translation	(4)	5	(6)	6
Acquisitions, net of divestitures	–	1	–	9
Reported sales (decline) growth (2)	(10)%	3%	(15)%	13%

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

(2) Totals may not sum due to rounding.

Net Income

In the first nine months of 2009, we had a net loss of approximately $797 million compared to a net income of approximately $224 million in the same period in 2008.

Negative factors affecting net income included:

- Impairment of goodwill and indefinite-lived intangible assets
- Lower net sales
- Higher restructuring and asset impairment charges related to cost reduction actions
- Legal settlement costs
- Higher raw material and employee-related costs
- Loss on debt extinguishment
- Unfavorable impact of foreign currency translation

Positive factors affecting net income included:

- Cost savings from productivity improvement initiatives, including savings from restructuring actions
- Changes in pricing to offset the cumulative impact of inflation experienced in 2008
- Lower tax rate
- Lower transition costs related to acquisition integrations

Impairment of Goodwill and Indefinite-Lived Intangible Assets

In the first quarter of 2009, we recorded non-cash impairment charges of $832 million for the retail information services reporting unit, of which $820 million is related to goodwill and $12 million is related to indefinite-lived intangible assets. We completed our impairment test of goodwill and indefinite-lived intangible assets ("goodwill impairment") in the second quarter of 2009, with no additional impairment charge recorded thereafter.

In performing the required goodwill impairment test, we primarily apply a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. Our reporting units, which are composed of either a discrete business or an aggregation of businesses with similar economic characteristics, consist of roll materials; retail information services; office and consumer products; graphics and reflective products; industrial products; and business media.

We perform our annual goodwill impairment test during the fourth quarter. However, certain factors may result in the need to perform a goodwill impairment test prior to the fourth quarter, including significant underperformance of our business relative to expected operating results, significant adverse economic and industry trends, significant decline in our market capitalization for an extended period of time relative to net book value, or a decision to divest an individual business within a reporting unit. Based upon our assessment of these factors in connection with the preparation of our first quarter financial statements, we determined that there was a need to initiate an interim goodwill impairment test. The factors considered included both a sustained decline in our stock price and a decline in our 2009 revenue projections for the retail information services reporting unit, following lower than expected revenues in March 2009, which continued in April 2009. The peak season for the retail information services reporting unit has traditionally been March through the end of the second quarter.

Our interim impairment analysis indicated that the fair value of each of our reporting units exceeded its carrying value, except for our retail information services reporting unit, which had a fair value less than its carrying value. Refer to Note 4, "Goodwill and Other Intangibles Resulting from Business Acquisitions," to the unaudited Condensed Consolidated Financial Statements for further information.

Goodwill

As part of the interim goodwill impairment test completed in the second quarter of 2009, which is discussed above, we recorded a non-cash impairment charge of $820 million for the retail information services reporting unit in the first quarter of 2009, with no additional impairment charge recorded thereafter.

Indefinite-Lived Intangible Assets

In connection with the acquisition of Paxar Corporation (“Paxar”), we acquired approximately $30 million of intangible assets, consisting of certain trade names and trademarks, which are not subject to amortization because they have an indefinite useful life. As part of the interim goodwill impairment test completed in the second quarter of 2009, which is discussed above, we recorded an additional non-cash impairment charge of $12 million related to these indefinite-lived intangible assets in the first quarter of 2009, with no additional impairment charge recorded thereafter.

Acquisitions

We completed the acquisition of DM Label Group (“DM Label”) on April 1, 2008. DM Label operations are included in our Retail Information Services segment. See also Note 2, “Acquisitions,” to the unaudited Condensed Consolidated Financial Statements.

Cost Reduction Actions

Q4 2008 — 2009 Actions

In the fourth quarter of 2008, we initiated restructuring actions that are now expected to generate approximately $160 million in annualized savings by the middle of 2010, of which an estimated $75 million, net of transition costs, is expected to benefit 2009. We expect to incur approximately $100 million of cash restructuring charges associated with these actions, with the majority to be incurred by the end of 2009. Additionally, we have incurred approximately $30 million of non-cash charges through the end of the third quarter of 2009. At the end of the third quarter, we achieved run-rate savings representing nearly 70% of our target.

During the fourth quarter of 2008 and the first nine months of 2009, we recorded $114.5 million in charges related to these restructuring actions, consisting of severance and related employee costs, asset impairment charges, and lease cancellation costs. Severance and employee-related costs related to approximately 3,120 positions, impacting all of our segments and geographic regions.

Q1 2008 — Q3 2008 Actions

During the first three quarters of 2008, we implemented cost reduction actions resulting in charges of $22.8 million, including severance and employee-related costs for approximately 645 positions, asset impairment charges, and lease cancellation costs.

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

Effective Rate of Taxes on Income

The effective tax rate for the first nine months of 2009 was approximately 3%, compared to approximately 8% for the same period in 2008. The effective tax rate for the first nine months of 2009 includes a benefit of $31.8 million from discrete events, primarily the tax effect of goodwill and indefinite-lived intangible asset impairments and the release of tax contingency reserves, partially offset by the build of certain valuation allowances and other items. Refer to Note 11, “Taxes Based on Income,” to the unaudited Condensed Consolidated Financial Statements for further information.

Free Cash Flow

Free cash flow, which is a non-GAAP measure, refers to cash flow from operating activities and net proceeds from sale of investments less spending on property, plant, equipment, software and other deferred charges. We use free cash flow as a measure of funds available for other corporate purposes, such as dividends, debt reduction, acquisitions, and repurchases of common stock. Management believes that this measure provides meaningful supplemental information to our investors to assist them in their financial analysis of the Company. This measure is not intended to represent the residual cash available for discretionary purposes. Refer to the discussion under “Uses and Limitations of Non-GAAP Measures” elsewhere in this report for further information regarding limitations of this measure.

	Nine Months Ended	
(In millions)	October 3, 2009	September 27, 2008
Net cash provided by operating activities	$ 316.9	$ 382.3
Purchase of property, plant and equipment	(46.7)	(97.8)
Purchase of software and other deferred charges	(20.4)	(49.2)
Proceeds from sale of investments, net	.3	16.2
Free cash flow	$ 250.1	$ 251.5

Free cash flow in the first nine months of 2009 remained flat compared to the same period in 2008, as lower income from operations was offset by reduced working capital and lower spending on property, plant, and equipment, software, and other deferred charges.

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

Dividend

On July 30, 2009 and October 22, 2009, we declared a dividend of $.20 per share, a reduction from our previous dividend of $.41 per share in the same periods in 2008. This precautionary action was taken in response to the possibility of continued poor market conditions beyond 2009, to focus on reducing debt and to plan for increased pension funding requirements.

Legal Proceedings

We are a named defendant in purported class actions in the U.S. seeking treble damages and other relief for alleged unlawful competitive practices.

The Board of Directors created an ad hoc committee comprised of certain independent directors to oversee the foregoing matters.

As previously disclosed and reported to authorities in the U.S., we have discovered instances of conduct by certain employees that potentially violate the U.S. Foreign Corrupt Practices Act. We reported that conduct to authorities in the U.S. and have entered into a settlement agreement with the SEC in this regard. Refer to Note 15, "Commitments and Contingencies," to the unaudited Condensed Consolidated Financial Statements for further information.

We are unable to predict the effect of these matters at this time, although the effect could be adverse and material. These and other matters are reported in Note 15, "Commitments and Contingencies," to the unaudited Condensed Consolidated Financial Statements.

Outlook

Certain factors that we believe may contribute to 2009 results are listed below.

The effect of the fiscal calendar change is anticipated to reduce sales by approximately $50 million in the fourth quarter of 2009 compared to the third quarter of 2009.

If current exchange rate trends continue, they would have an unfavorable effect on earnings for 2009.

We expect incremental pension and other employee-related expenses and contributions in 2009. In addition, an analysis performed at the end of the second quarter of 2009 indicates that we will be required to make pension contributions in the range of $200 million to $300 million from the end of the second quarter of 2009 through 2013.

We anticipate higher charges related to restructuring actions in 2009 compared to 2008.

We anticipate lower interest expense in 2009 due primarily to retirements of certain indebtedness and lower short-term interest rates. Our assumptions on interest expense are subject to changes in market rates through the remainder of the year.

The 2009 effective and adjusted tax rates are expected to be in the low single-digits and low double-digits, respectively. The annual effective tax rate will be impacted by future events including changes in tax laws, geographic income mix, tax audits, closure of tax years, legal entity restructuring, and release of, or accrual for, valuation allowances on deferred tax assets. The effective tax rate can potentially have wide variances from quarter to quarter, resulting from interim reporting requirements and the recognition of discrete events.

We anticipate our capital and software expenditures to be approximately $100 million in 2009.

We are targeting a reduction of debt of at least $350 million from the end of the second quarter of 2009 through the end of 2010. In the third quarter of 2009, we reduced debt by approximately $140 million.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE THIRD QUARTER

Income Before Taxes

(In millions)	2009	2008
Net sales	$ 1,549.3	$ 1,724.8
Cost of products sold	1,113.3	1,290.5
Gross profit	436.0	434.3
Marketing, general and administrative expense	323.1	325.5
Interest expense	19.1	29.0
Other expense, net	35.5	12.5
Income before taxes	$ 58.3	$ 67.3
As a Percent of Sales:		
Gross profit (margin)	28.1%	25.2%
Marketing, general and administrative expense	20.9	18.9
Income before taxes	3.8	3.9

Sales

Sales decreased 10% in the third quarter of 2009 compared to the same period last year, due largely to declines in volume, partially offset by the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008. Foreign currency translation had an unfavorable impact on the change in sales of approximately $80 million in the third quarter of 2009.

On an organic basis, sales declined 6% in the third quarter of 2009, as continued deterioration in market conditions contributed to volume declines across all segments. In addition, volume declines were experienced in all geographic regions.

Refer to "Results of Operations by Segment" for information by reportable segment.

Gross Profit Margin

Gross profit margin for the third quarter of 2009 improved in comparison to the same period in 2008, as the benefits of restructuring and productivity improvement initiatives, lower raw material costs, and the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008, more than offset reduced fixed-cost leverage.

Marketing, General and Administrative Expenses

Marketing, general and administrative expense in the third quarter of 2009 remained flat compared to the same period last year, as the benefit of restructuring and productivity initiatives and the impact of foreign currency translation offset increased spending related to employee costs and new growth-related initiatives.

Other Expense, net

(In millions)	2009	2008
Restructuring costs	$ 27.0	$ 8.7
Asset impairment charges and lease cancellation costs	6.5	3.8
Other	2.0	–
Other expense, net	$ 35.5	$ 12.5

In the third quarter of 2009, "Other expense, net" consisted of restructuring costs including severance and other employee-related costs, asset impairment and lease cancellation charges, as well as legal settlement costs. Restructuring costs in the third quarter of 2009 relate to a reduction in headcount of approximately 490 positions across all segments and geographic regions.

In the third quarter of 2008, "Other expense, net" consisted of severance and other employee-related costs of $8.7 million and asset impairment and lease cancellation charges of $3.8 million (primarily in the Pressure-sensitive Materials segment). Restructuring costs in the third quarter of 2008 relate to a reduction in headcount of approximately 310 positions across all segments and geographic regions.

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

Net Income and Earnings per Share

(In millions, except per share)	2009	2008
Income before taxes	$ 58.3	$ 67.3
(Benefit from) provision for income taxes	(4.2)	4.6
Net income	$ 62.5	$ 62.7
Net income per common share	$ .59	$ .64
Net income per common share, assuming dilution	$ .59	$ .63
Net income as a percent of sales	4.0%	3.6%
Percent change in:		
Net income	(.3)%	6.6%
Net income per common share	(7.8)	6.7
Net income per common share, assuming dilution	(6.3)	6.8

(Benefit from) Provision for Income Taxes

Our effective tax rate for the third quarter of 2009 was approximately negative 7%, compared with approximately 7% for the same period in 2008. The effective tax rate for the third quarter of 2009 includes a benefit of $13.4 million from discrete events, primarily from the release of tax contingency reserves and the tax effect of a restructuring event. Refer to Note 11, “Taxes Based on Income,” to the unaudited Condensed Consolidated Financial Statements for further information.

RESULTS OF OPERATIONS BY SEGMENT FOR THE THIRD QUARTER

Pressure-sensitive Materials Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 889.3	$ 982.3
Less intersegment sales	(38.3)	(46.1)
Net sales	$ 851.0	$ 936.2
Operating income (1)	75.7	62.8
(1) Includes legal settlement costs in 2009, and restructuring costs, asset impairment charges and lease cancellation costs in both years	$ 8.3	$ 5.7

Net Sales

Sales in our Pressure-sensitive Materials segment decreased 9% in the third quarter of 2009 compared to the same period in 2008, which included the unfavorable impact of foreign currency translation (approximately $56 million). On an organic basis, sales declined 3% in the third quarter of 2009 primarily due to declines in volume, partially offset by the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008.

On an organic basis, sales in our roll materials business in the third quarter of 2009 declined at a mid single-digit rate in Europe and a low single-digit rate (excluding intercompany sales) in North America, reflecting continued weakness in end-markets. Combined sales in our emerging markets increased at a mid single-digit rate on an organic basis compared to the same period last year.

On an organic basis, sales in our graphics and reflective business in the third quarter of 2009 declined at a low double-digit rate, reflecting lower promotional spending by businesses in response to weak market conditions.

Operating Income

Increased operating income in the third quarter of 2009 reflected lower raw material costs and the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008, as well as cost savings from restructuring and productivity improvement initiatives, partially offset by the impact of lower volume. In addition, operating income included legal settlement costs in 2009, and restructuring costs, asset impairment charges and lease cancellation costs in both years.

Retail Information Services Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 325.6	$ 379.6
Less intersegment sales	(.4)	(.5)
Net sales	$ 325.2	$ 379.1
Operating (loss) income (1) (2)	(29.1)	.5
(1) Includes asset impairment charges and lease cancellation costs in 2009, and restructuring costs in both years	$ 22.3	$ 1.4
(2) Includes transition costs related to acquisition integrations in 2008	$ –	$ 5.2

Net Sales

Sales in our Retail Information Services segment decreased 14% in the third quarter of 2009 compared to the same period last year, which included the unfavorable impact of foreign currency translation (approximately $12 million). On an organic basis, sales declined 11% in the third quarter of 2009 due primarily to lower volume from continued weakness in the apparel markets in the U.S. and Europe.

Operating (Loss) Income

Operating loss in the third quarter of 2009 reflected the impact of lower volume, changes in pricing, and higher employee-related costs, partially offset by the benefit of restructuring and productivity improvement initiatives. Operating (loss) income included asset impairment charges and lease cancellation costs in 2009, transition costs related to acquisition integrations in 2008, and restructuring costs in both years.

Office and Consumer Products Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 243.0	$ 260.8
Less intersegment sales	(.2)	(.4)
Net sales	$ 242.8	$ 260.4
Operating income (1)	41.0	41.5
(1) Includes asset impairment charges in 2008, a restructuring accrual adjustment in 2009, and restructuring costs in both years	$ (.2)	$ 3.9

Net Sales

Sales in our Office and Consumer Products segment decreased 7% in the third quarter of 2009 compared to the same period last year, which included the unfavorable impact of foreign currency translation (approximately $7 million). On an organic basis, sales declined 4% in the third quarter of 2009 due primarily to lower volume from weak end-market demand led by slower corporate purchasing activity, partially offset by strong back-to-school sales.

Operating Income

Decreased operating income in the third quarter of 2009 reflected the impact of lower volume, partially offset by the benefits from restructuring and productivity improvement initiatives. Operating income included asset impairment charges in 2008, a restructuring accrual adjustment in 2009, and restructuring costs in both years.

Other specialty converting businesses

(In millions)	2009	2008
Net sales including intersegment sales	$ 135.5	$ 156.1
Less intersegment sales	(5.2)	(7.0)
Net sales	$ 130.3	$ 149.1
Operating income (1)	.9	1.2
(1) Includes asset impairment charges in 2009, and restructuring costs in both years	$ 5.1	$ 1.5

Net Sales

Sales in our other specialty converting businesses decreased 13% in the third quarter of 2009 compared to the same period last year, which included the unfavorable impact of foreign currency translation (approximately $4 million). On an organic basis, sales declined 10% in the third quarter of 2009, primarily reflecting lower volume in products sold to the housing and construction industries.

Operating Income

Decreased operating income in the third quarter of 2009 reflected lower sales on an organic basis, partially offset by the benefits of restructuring and productivity improvement initiatives. Operating income included asset impairment charges in 2009 and restructuring costs in both years.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE NINE MONTHS YEAR-TO-DATE

(Loss) Income Before Taxes

(In millions)	2009	2008
Net sales	$ 4,430.9	$ 5,198.9
Cost of products sold	3,259.5	3,850.3
Gross profit	1,171.4	1,348.6
Marketing, general and administrative expense	927.4	994.5
Goodwill and indefinite-lived intangible asset impairment charges	832.0	–
Interest expense	67.0	87.8
Other expense, net	162.4	23.9
(Loss) income before taxes	$ (817.4)	$ 242.4
As a Percent of Sales:		
Gross profit (margin)	26.4%	25.9%
Marketing, general and administrative expense	20.9	19.1
(Loss) income before taxes	(18.4)	4.7

Sales

Sales decreased 15% in the first nine months of 2009 compared to the same period last year, due largely to declines in volume, partially offset by the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008, incremental sales from the DM Label acquisition (approximately $9 million), and the impact of the extra week in the first quarter of 2009. Foreign currency translation had an unfavorable impact on the change in sales of approximately $340 million in the first nine months of 2009.

On an organic basis, sales declined 11% in the first nine months of 2009, as continued deterioration in market conditions contributed to volume declines across all segments. In addition, volume declines were experienced in all geographic regions.

Refer to “Results of Operations by Segment” for information by reportable segment.

Gross Profit Margin

Gross profit margin for the first nine months of 2009 improved in comparison to the same period in 2008, reflecting the benefits from restructuring and productivity improvement initiatives, and the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008. These benefits were partially offset by reduced fixed-cost leverage due to lower sales on an organic basis, and higher raw material costs.

Marketing, General and Administrative Expenses

The decrease in marketing, general and administrative expense in the first nine months of 2009 compared to the same period last year primarily reflected cost reductions, the benefits from restructuring and productivity initiatives, and the impact of foreign currency translation. These benefits were partially offset by increased spending related to employee costs and costs associated with the extra week.

Goodwill and Indefinite-Lived Intangible Asset Impairment Charges

In the first quarter of 2009, we recorded non-cash estimated impairment charges of $832 million for the retail information services reporting unit. Refer to Note 4, “Goodwill and Other Intangibles Resulting from Business Acquisitions,” to the unaudited Condensed Consolidated Financial Statements for more information.

Other Expense, net

(In millions)	2009	2008
Restructuring costs	$ 69.9	$ 19.2
Asset impairment charges and lease cancellation costs	32.3	9.2
Other	60.2	(4.5)
Other expense, net	$ 162.4	$ 23.9

In the first nine months of 2009, “Other expense, net” consisted of restructuring costs including severance and other employee-related

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costs, asset impairment charges and lease cancellation costs, as well as legal settlement costs ($39 million) and a loss from debt extinguishment (approximately $21 million). Restructuring costs in the first nine months of 2009 relate to a reduction in headcount of approximately 2,420 positions across all segments and geographic regions. For more information regarding the debt extinguishment, refer to "Financial Condition" in this report and Note 5, "Debt," to the unaudited Condensed Consolidated Financial Statements. For more information regarding the legal settlement, refer to Note 15, "Commitments and Contingencies," to the unaudited Condensed Consolidated Financial Statements.

In the first nine months of 2008, "Other expense, net" consisted of severance and other employee-related costs of $19.2 million and asset impairment and lease cancellation charges of $9.2 million, partially offset by $4.5 million related to a gain on sale of investments. Restructuring costs in the first nine months of 2008 relate to a reduction in headcount of approximately 775 positions across all segments and geographic regions.

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

Net (Loss) Income and Earnings per Share

(In millions, except per share)	2009	2008
(Loss) income before taxes	$ (817.4)	$ 242.4
(Benefit from) provision for income taxes	(20.8)	18.9
Net (loss) income	$ (796.6)	$ 223.5
Net (loss) income per common share	$ (7.73)	$ 2.27
Net (loss) income per common share, assuming dilution	$ (7.73)	$ 2.26
Net (loss) income as a percent of sales	(18.0)%	4.3%
Percent change in:		
Net (loss) income	(456.4)%	(.3)%
Net (loss) income per common share	(440.5)	(.4)
Net (loss) income per common share, assuming dilution	(442.0)	(.4)

(Benefit from) Provision for Income Taxes

Our effective tax rate for the first nine months of 2009 was approximately 3%, compared to approximately 8% for the same period in 2008. The effective tax rate for the first nine months of 2009 includes a benefit of $31.8 million from discrete events, primarily the tax effect of goodwill and indefinite-lived intangible asset impairments and the release of tax contingency reserves, partially offset by the build of certain valuation allowances and other items. Refer to Note 11, "Taxes Based on Income," to the unaudited Condensed Consolidated Financial Statements for further information.

RESULTS OF OPERATIONS BY SEGMENT FOR THE NINE MONTHS YEAR-TO-DATE

Pressure-sensitive Materials Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 2,565.1	$ 2,968.4
Less intersegment sales	(111.7)	(132.7)
Net sales	$ 2,453.4	$ 2,835.7
Operating income (1)	126.1	217.0
(1) Includes legal settlement costs in 2009, and restructuring costs, asset impairment charges and lease cancellation costs in both years	$ 70.2	$ 10.0

Net Sales

Sales in our Pressure-sensitive Materials segment decreased 13% in the first nine months of 2009 compared to the same period in 2008, which included the unfavorable impact of foreign currency translation (approximately $236 million), partially offset by the impact of the extra week in the first quarter of 2009. On an organic basis, sales declined 8% in the first nine months of 2009 primarily due to declines in volume, partially offset by the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008.

On an organic basis, sales in our roll materials business in the first nine months of 2009 declined at a low double-digit rate in Europe, a low single-digit rate (excluding intercompany sales) in North America, and a combined low single-digit rate in our emerging markets compared to the same period last year. These declines reflected continued weakness in end-markets.

On an organic basis, sales in our graphics and reflective business in the first nine months of 2009 declined at a high-teen rate, reflecting lower promotional spending by businesses in response to weak market conditions.

Operating Income

Decreased operating income in the first nine months of 2009 reflected legal settlement costs, and higher restructuring costs, asset impairment charges, and lease cancellation costs compared to the same period in 2008. In addition, lower volume and higher raw material costs more than offset the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008 and cost savings from restructuring and productivity improvement initiatives.

Retail Information Services Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 973.6	$ 1,191.1
Less intersegment sales	(.9)	(1.8)
Net sales	$ 972.7	$ 1,189.3
Operating (loss) income (1) (2)	(888.4)	17.1
(1) Includes restructuring costs, asset impairment charges and lease cancellation costs in both years	$ 37.0	$ 8.5
(2) Includes goodwill and indefinite-lived intangible asset impairment charges in 2009 and transition costs related to acquisition integrations in 2008	$ 832.0	$ 17.9

Net Sales

Sales in our Retail Information Services segment decreased 18% in the first nine months of 2009 compared to the same period last year, which included the unfavorable impact of foreign currency translation (approximately $54 million), partially offset by the impact of the extra week in the first quarter of 2009 and incremental sales from the DM Label acquisition (approximately $9 million). On an organic basis, sales declined 17% in the first nine months of 2009 due primarily to lower volume from continued weakness in the apparel markets in the U.S. and Europe.

Operating (Loss) Income

Operating loss in the first nine months of 2009 reflected goodwill and indefinite-lived intangible asset impairment charges, lease cancellation costs, and higher restructuring and asset impairment charges, partially offset by transition costs related to acquisition integrations in 2008. In addition, incremental savings from integration actions and the benefit of restructuring and productivity improvement initiatives were more than offset by lower volume, changes in pricing, and higher employee-related and raw material cost inflation.

Office and Consumer Products Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 644.7	$ 711.2
Less intersegment sales	(.6)	(1.0)
Net sales	$ 644.1	$ 710.2
Operating income (1)	98.9	104.1
(1) Includes restructuring costs and asset impairment charges in both years	$ 5.5	$ 8.2

Net Sales

Sales in our Office and Consumer Products segment decreased 9% in the first nine months of 2009 compared to the same period last year, which included the unfavorable impact of foreign currency translation (approximately $30 million), partially offset by the impact of the extra week in the first quarter of 2009. On an organic basis, sales declined 8% in the first nine months of 2009 due primarily to lower volume from weak end-market demand led by slower corporate purchasing activity, partially offset by strong back-to-school sales and the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008.

Operating Income

Decreased operating income in the first nine months of 2009 reflected the impact of lower volume, partially offset by cost savings from restructuring and productivity improvement initiatives and the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008. Operating income included restructuring costs and asset impairment charges in both years.

Other specialty converting businesses

(In millions)	2009	2008
Net sales including intersegment sales	$ 372.9	$ 485.5
Less intersegment sales	(12.2)	(21.8)
Net sales	$ 360.7	$ 463.7
Operating (loss) income (1)	(37.0)	16.5
(1) Includes asset impairment charges in 2009 and restructuring costs in both years	$ 28.5	$ 1.7

Net Sales

Sales in our other specialty converting businesses decreased 22% in the first nine months of 2009 compared to the same period last year, which included the unfavorable impact of foreign currency translation (approximately $20 million), partially offset by the impact of the extra week in the first quarter of 2009. On an organic basis, sales declined 21% in the first nine months of 2009, primarily reflecting lower volume in products sold to the automotive, housing, and construction industries.

Operating (Loss) Income

Operating loss in the first nine months of 2009 reflected lower sales on an organic basis, partially offset by the benefit of restructuring and productivity improvement initiatives. Operating (loss) income included asset impairment charges in 2009 and restructuring costs in both years.

FINANCIAL CONDITION

Liquidity

Cash Flow from Operating Activities for the First Nine Months:

(In millions)	2009	2008
Net (loss) income	$ (796.6)	$ 223.5
Depreciation and amortization	194.0	210.5
Provision for doubtful accounts	16.3	13.1
Goodwill and indefinite-lived intangible asset impairment charges	832.0	–
Asset impairment and net loss on sale and disposal of assets	40.9	16.4
Loss from debt extinguishment	21.2	–
Stock-based compensation	19.8	24.0
Other non-cash expense and loss	16.2	3.2
Other non-cash income and gain	(7.2)	(14.9)
Changes in assets and liabilities and other adjustments, net of the effect of business acquisitions	(19.7)	(93.5)
Net cash provided by operating activities	$ 316.9	$ 382.3

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

In 2009, cash flow provided by operating activities decreased by $65.4 million compared to 2008 as lower income from operations was partially offset by reduced working capital.

Refer to “Analysis of Selected Financial Ratios” below for more information.

Cash Flow from Investing Activities for the First Nine Months:

(In millions)	2009	2008
Purchase of property, plant and equipment	$ (46.7)	$ (97.8)
Purchase of software and other deferred charges	(20.4)	(49.2)
Payments for acquisitions	–	(130.6)
Proceeds from sale of investments, net	.3	16.2
Other	(4.0)	7.0
Net cash used in investing activities	$ (70.8)	$ (254.4)

Capital and Software Spending

During the first nine months of 2009, we invested in various small capital projects, including projects associated with the expansion in Japan. Significant capital projects during the first nine months of 2008 included investments for expansion in China and India serving both our materials and retail information services businesses.

Information technology projects during the first nine months of 2009 and 2008 included customer service and standardization initiatives.

Payments for Acquisitions

On April 1, 2008, we completed the acquisition of DM Label, which is included in our Retail Information Services segment.

Proceeds from Sale of Investments

During the first nine months of 2009 and 2008, net proceeds from sale of investments consist of the sale of securities held by our captive insurance company.

Cash Flow from Financing Activities for the First Nine Months:

(In millions)	2009	2008
Net change in borrowings and payments of debt	$ (151.3)	$ 13.1
Dividends paid	(112.3)	(131.4)
Purchase of treasury stock	–	(9.8)
Proceeds from exercise of stock options, net	–	2.3
Other	2.0	8.2
Net cash used in financing activities	$ (261.6)	$ (117.6)

Borrowings and Repayment of Debt

In March 2009, we completed an exchange of approximately 6.6 million of our Corporate HiMEDS units, or approximately 75.15% of the outstanding Corporate HiMEDS units. In aggregate, the exchange resulted in the extinguishment of approximately $331 million of senior notes that are part of the Corporate HiMEDS units, the issuance of approximately 6.5 million shares of Avery Dennison's common stock (par value $1.00 per share), and the payment of approximately $43 million in cash to participating holders who validly tendered their Corporate HiMEDS units. As a result of this exchange, we recorded a debt extinguishment loss of approximately $21 million, which included a write-off of $9.6 million related to unamortized debt issuance costs.

In February 2008, one of our subsidiaries entered into a credit agreement for a term loan credit facility with fifteen domestic and foreign banks for a total commitment of $400 million, which we guaranteed, maturing February 8, 2011. We used the term loan credit facility to reduce commercial paper borrowings previously issued to fund the Paxar acquisition. The term loan credit facility is subject to financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio, which were amended in January 2009.

Refer to Note 5, "Debt," to the unaudited Condensed Consolidated Financial Statements for more information.

Shareholders' Equity

Our shareholders' equity was approximately $1.3 billion at October 3, 2009 compared to approximately $1.8 billion at December 27, 2008. The decrease in our shareholders' equity was primarily due to the non-cash impairment charges of $832 million in the first quarter of 2009, partially offset by the issuance of common stock shares associated with the extinguishment of senior notes associated with the Corporate HiMEDS units, as well as the impact of foreign currency translation. Refer to Note 4, "Goodwill and Other Intangibles Resulting from Business Acquisitions," to the unaudited Condensed Consolidated Financial Statements and the "Borrowings and Repayment of Debt" section above for more information. Our dividend per share decreased to $1.02 in the first nine months of 2009 from $1.23 in the first nine months of 2008. Refer to "Dividend" in the Overview and Outlook section above for further information.

Share Repurchases

During the first nine months of 2008, we repurchased approximately .2 million shares totaling $9.8 million.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

Goodwill decreased approximately $755 million during the first nine months of 2009, which reflected a non-cash impairment charge associated with our retail information services reporting unit ($820 million), partially offset by net purchase price adjustments associated with the DM Label and the Paxar acquisitions ($29 million) and the impact of foreign currency translation ($36 million).

Other intangibles resulting from business acquisitions, net decreased approximately $32 million during the first nine months of 2009, which reflected normal amortization expense ($25 million) and a non-cash impairment charge associated with our retail information services reporting unit ($12 million), partially offset by an asset reclassification from "Other assets" ($1 million) and the impact of foreign currency translation ($4 million).

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

Other assets increased approximately $4 million during the first nine months of 2009, which reflected purchases of software and other deferred charges ($20 million), an increase in cash surrender value of corporate-owned life insurance ($13 million), an increase in third-party loan receivable ($5 million), and the impact of foreign currency translation ($3 million). These increases were partially offset by normal amortization and impairment of software and other deferred charges ($31 million), the write-off of unamortized debt issuance costs associated with the exchange of the HiMEDS units, net of additional financing costs related to the covenant amendments ($5 million) discussed above in "Borrowings and Repayment of Debt," as well as an asset reclassification to "Other intangibles resulting from business acquisitions, net" ($1 million).

Other Shareholders' Equity Accounts

The value of our employee stock benefit trusts increased by $6 million during the first nine months of 2009 due to higher market value of shares held in the trusts of approximately $16 million, partially offset by the issuance of shares under our employee stock option and defined contribution plans of approximately $10 million.

Treasury Stock

During the first nine months of 2009, we issued approximately 6.5 million shares of common stock with a book value of approximately $297 million in connection with the completed exchange of the Corporate HiMEDS units, as discussed above in "Borrowings and Repayment of Debt."

Impact of Foreign Currency Translation for the First Nine Months:

(In millions)	2009	2008
Change in net sales	$ (341)	$ 248
Change in net income	(9)	13

International operations generated approximately 65% of our net sales in the first nine months of 2009. Our future results are subject to changes in political and economic conditions and the impact of fluctuations in foreign currency exchange and interest rates.

Sales from currency translation in the first nine months of 2009 primarily reflected a negative impact from sales denominated in Euros, as well as sales in the currencies of Great Britain, Australia and South Korea.

Effect of Foreign Currency Transactions

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

Analysis of Selected Financial Ratios

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

Operational Working Capital Ratio

Working capital (current assets minus current liabilities), as a percent of annualized net sales, decreased in 2009 primarily due to a decrease in net trade accounts receivable and inventories, partially offset by a decrease in accounts payable and a decrease in short-term and current portion of long-term debt.

Operational working capital, as a percent of annualized net sales, is a non-GAAP measure and is shown below. We use this non-GAAP measure as a tool to assess our working capital requirements because it excludes the impact of fluctuations attributable to our financing and other activities (that affect cash and cash equivalents, deferred taxes and other current assets and other current liabilities) that tend to be disparate in amount and timing, and therefore, may increase the volatility of the working capital ratio from period to period. Additionally, the items excluded from this measure are not necessarily indicative of the underlying trends of our operations and are not significantly influenced by the day-to-day activities that are managed at the operating level. Refer to "Uses and Limitations of Non-GAAP Measures." Our objective is to minimize our investment in operational working capital, as a percentage of sales, by reducing this ratio to maximize cash flow and return on investment.

Operational Working Capital for the First Nine Months:

(In millions)	2009	2008
(A) Working capital (current assets minus current liabilities)	$ (164.0)	$ 11.5
Reconciling items:		
Cash and cash equivalents	(91.9)	(81.3)
Current deferred and refundable income taxes and other current assets	(212.0)	(286.2)
Short-term and current portion of long-term debt	669.4	721.6
Current deferred and payable income taxes and other current liabilities	668.4	673.2
(B) Operational working capital	$ 869.9	$ 1,038.8
(C) Annualized net sales (year-to-date sales divided by 3, multiplied by 4)	$ 5,772.0(1)	$ 6,931.9
Working capital, as a percent of annualized net sales (A) ¸ (C)	(2.8)%	0.2%
Operational working capital, as a percent of annualized net sales (B) ¸ (C)	15.1%	15.0%

(1) Adjusted for the extra week in the first quarter of 2009

As a percent of annualized sales, operational working capital in the first nine months of 2009 remained flat compared to the same period in the prior year. This measure reflects the effects of the following ratios, including the impact of foreign currency translation, and is discussed below.

Accounts Receivable Ratio

The average number of days sales outstanding was 60 days in the first nine months of 2009 compared to 61 days in the first nine months of 2008, calculated using the three-quarter average trade accounts receivable balance divided by the average daily sales for the first nine months of 2009 and 2008, respectively. During the first nine months of 2009, the average number of days sales outstanding was primarily impacted by the timing of sales and improvement in collections.

Inventory Ratio

Average inventory turnover was 8.1 in the first nine months of 2009 compared to 7.8 in the first nine months of 2008, calculated using the annualized cost of sales (cost of sales for the first nine months divided by 3, and multiplied by 4, adjusted for the extra week in the first quarter of 2009) divided by the three-quarter average inventory balance for the first nine months of 2009 and 2008, respectively. During the first nine months of 2009, the average inventory turnover was primarily impacted by improved inventory management, as well as a decrease in inventory purchases as a result of lower sales.

Accounts Payable Ratio

The average number of days payable outstanding was 52 days in the first nine months of 2009 compared to 54 days in the first nine months of 2008, calculated using the three-quarter average accounts payable balance divided by the average daily cost of products sold for the first nine months of 2009 and 2008, respectively. During the first nine months of 2009, the average number of days payable outstanding was primarily impacted by lower purchases, as well as the timing of payments which was impacted by the extra week in the first quarter of 2009.

Capital Resources

Capital resources include cash flows from operations, cash and cash equivalents and debt financing. At October 3, 2009, we had cash and cash equivalents of $92 million held in accounts managed by third-party financial institutions. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however, there is no assurance that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

Our $1 billion revolving credit facility, which supports our commercial paper programs in the U.S. and Europe, matures in 2012. Based upon our current outlook for our business and market conditions, we believe that this facility, in addition to the uncommitted bank lines of credit maintained in the countries in which we operate, provide the liquidity to fund our current operations. During the recent turmoil in the financial markets, we did not experience interruptions in our access to funding.

Refer to Note 5, “Debt,” to the unaudited Condensed Consolidated Financial Statements for more information.

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

Capital from Debt

Our total debt decreased approximately $425 million in the first nine months of 2009 to approximately $1.79 billion compared to approximately $2.21 billion at year end 2008, primarily reflecting a decrease in long-term borrowings. Refer to “Borrowings and Repayment of Debt” above for further information.

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 and other borrowings. A downgrade of our short-term credit ratings below the current “A-2” and “P2” levels would impact our ability to access the commercial paper markets. If our access to commercial paper markets is limited, our revolving credit facility and other credit facilities are available to meet our short-term funding requirements, if necessary. When determining a credit rating, the rating agencies place significant weight on our competitive position, business outlook, consistency of cash flows, debt level and liquidity, geographic dispersion and management team.

Our Credit Ratings as of October 3, 2009:

	Short-term	Long-term	Outlook
Standard & Poor’s Rating Service	A-2	BBB	Stable
Moody’s Investors Service	P2	Baa2	Negative

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

Legal Proceedings

We are a named defendant in purported class actions in the U.S. seeking treble damages and other relief for alleged unlawful competitive practices.

On April 24, 2003, Sentry Business Products, Inc. filed a purported class action on behalf of direct purchasers of label stock in the United States District Court for the Northern District of Illinois against us, UPM-Kymmene Corporation (“UPM”), Bemis Company, Inc. (“Bemis”), and certain of their subsidiaries seeking treble damages and other relief for alleged unlawful competitive practices, with allegations including that the defendants attempted to limit competition among themselves through anticompetitive understandings. Ten similar complaints were filed in various federal district courts. In November 2003, the cases were transferred to the United States District Court for the Middle District of Pennsylvania and consolidated for pretrial purposes. Plaintiffs filed a consolidated complaint on February 16, 2004, which we answered on March 31, 2004. On April 14, 2004, the court separated the proceedings as to class certification and merits discovery, and limited the initial phase of discovery to the issue of the appropriateness of class certification. On January 4, 2006, plaintiffs filed an amended complaint. On January 20, 2006, we filed an answer to the amended complaint. On August 14, 2006, the plaintiffs moved to certify a proposed class. The court substantively granted class certification on November 19, 2007. On July 22, 2008, the court held a hearing to set a schedule for merits discovery. On May 12, 2009, we entered into a settlement agreement with plaintiffs. Without admitting liability, we agreed to pay plaintiffs $36.5 million, plus up to $.5 million related to notice and administration expenses, in two equal installments of $18.5 million, which were paid on May 27, 2009 and July 15, 2009. On June 10, 2009, the district court entered an order preliminarily approving the settlement, and on September 17, 2009, the district court issued an order of final approval and judgment, dismissing all claims against us with prejudice. We recorded an accrual of $37 million for this settlement in the first quarter of 2009.

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against us, UPM and UPM’s subsidiary Raflatac (“Raflatac”), seeking treble damages and other relief for alleged unlawful competitive practices, with allegations including that the defendants attempted to limit competition between themselves through anticompetitive understandings. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for the City and County of San Francisco on March 30, 2004. On September 30, 2004, the Harman Press amended its complaint to add Bemis’ subsidiary Morgan Adhesives Company (“MACtac”) as a defendant. On January 21, 2005, American International Distribution Corporation filed a purported class action on behalf of indirect purchasers in the Superior Court for Chittenden County, Vermont. Similar actions were filed by Richard Wrobel, on February 16, 2005, in the District Court of Johnson County, Kansas; and by Chad and Terry Muzzey, on February 16, 2005 in the District Court of Scotts Bluff County, Nebraska. On February 17, 2005, Judy Benson filed a purported multi-state class action on behalf of indirect purchasers in the Circuit Court for Cocke County, Tennessee. Without admitting liability, we have agreed to pay plaintiffs $2 million to resolve all claims related to the purported state class actions in the states of Kansas, Nebraska, Tennessee and Vermont. We recorded $2 million in the third quarter of 2009 in respect of the settlement of these claims. We intend to defend the purported California class action vigorously.

The Board of Directors created an ad hoc committee comprised of certain independent directors to oversee the foregoing matters.

We are unable to predict the effect of these matters at this time, although the effect could be adverse and material. These and other matters are reported in Note 15, "Commitments and Contingencies," to the unaudited Condensed Consolidated Financial Statements.

Environmental

As of October 3, 2009, 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 upon. We are participating with other PRPs at such sites, and anticipate that our share of cleanup costs will be determined pursuant to remedial agreements to be entered into in the normal course of negotiations with the EPA or other governmental authorities.

We have accrued liabilities for these and certain other sites, including sites in which governmental agencies have designated us as a PRP, where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites and any sites that could be identified in the future for cleanup could be higher than the liability currently accrued.

The activity for the first nine months of 2009 and full-year 2008 related to environmental liabilities, which include costs associated with compliance and remediation, were as follows:

(In millions)	October 3, 2009	December 27, 2008
Balance at beginning of year	$ 58.5	$ 37.8
Purchase price adjustments related to acquisitions	2.1	24.6
Accruals	.8	.9
Payments	(3.3)	(4.8)
Balance at end of period	$ 58.1	$ 58.5

As of October 3, 2009, approximately $17 million of the total balance was classified as short-term.

These estimates could change depending on various factors, such as modification of currently planned remedial actions, changes in remediation technologies, changes in site conditions, a change in the estimated time to complete remediation, changes in laws and regulations affecting remediation requirements and other factors.

Product Warranty

We provide for an estimate of costs that may be incurred under our basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of products. Factors that affect our warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy our warranty obligation and availability of insurance coverage. Because these factors are impacted by actual experience and future expectations, we assess the adequacy of the recorded warranty liability and adjust the amounts as necessary. As of October 3, 2009, our product warranty liabilities were approximately $2 million.

Other

In 2005, we contacted relevant authorities in the U.S. and reported on the results of an internal investigation of potential violations of the U.S. Foreign Corrupt Practices Act. The transactions at issue were carried out by a small number of employees of our reflective business in China, and involved, among other things, impermissible payments or attempted impermissible payments. The payments or attempted payments and the contracts associated with them appear to have been minor in amount and of limited duration. Sales of our reflective business in China in 2005 were approximately $7 million. In addition, on or about October 10, 2008, we notified relevant authorities that we had discovered questionable payments to certain foreign customs and other regulatory officials by some employees of our recently acquired companies. These payments were not made for the purpose of obtaining business from any governmental entity. Corrective and disciplinary actions have been taken with respect to both internal investigations and we have taken remedial measures to comply with the provisions of the U.S. Foreign Corrupt Practices Act. On July 28, 2009, we entered into a settlement agreement with the SEC regarding the foregoing actions. Without admitting or denying liability, we agreed to disgorge approximately $.3 million and pay a $.2 million civil penalty. On August 10, 2009, we were advised by the U. S. Department of Justice that it has declined to take action against us in connection with the China reflective matters, which were voluntarily disclosed by us.

We and our subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of our business. Based upon current information, we believe that the resolution of these other matters will not materially affect us.

On September 9, 2005, we completed the lease financing for a commercial facility (the "Facility") located in Mentor, Ohio, used primarily for the new headquarters and research center for our roll materials division. The Facility consists generally of land, buildings, equipment and office furnishings. We have leased the Facility under an operating lease arrangement, which contains a residual value guarantee of $33.4 million. We do not expect the residual value of the Facility to be less than the amount guaranteed.

We participate in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by us. At October 3, 2009, we had guaranteed approximately $15 million.

As of October 3, 2009, we guaranteed up to approximately $17 million of certain of our foreign subsidiaries' obligations to their suppliers, as well as approximately $498 million of certain of our subsidiaries' lines of credit with various financial institutions.

As of October 3, 2009, approximately two million HiMEDS units with a carrying value of approximately $109 million remained outstanding. The purchase contracts related to these units obligate the holders to purchase from the Company a certain number of common shares in November 2010 (depending on the stock price at the time). Refer to Note 5, "Debt," to the unaudited Condensed Consolidated Financial Statements for more information.

USES AND LIMITATIONS OF NON-GAAP MEASURES

We use certain non-GAAP financial measures that exclude the impact of certain events, activities or strategic decisions. The accounting effects of these events, activities or decisions, which are included in the GAAP measures, may make it difficult to assess the underlying performance of the Company in a single period. By excluding certain accounting effects, both positive and negative (e.g. gains on sales of assets, restructuring charges, asset impairments, etc.), from certain of our GAAP measures, management believes that it is providing meaningful supplemental information to facilitate an understanding of the Company's "core" or "underlying" operating results. These non-GAAP measures are used internally to evaluate trends in our underlying business, as well as to facilitate comparison to the results of competitors for a single period.

Limitations associated with the use of our non-GAAP measures include (1) the exclusion of foreign currency translation, the impact of acquisitions and divestitures, and the impact of the extra week in fiscal year 2009 from the calculation of organic sales growth; (2) the exclusion of mandatory debt service requirements, as well as the exclusion of other uses of the cash generated by operating activities that do not directly or immediately support the underlying business (such as discretionary debt reductions, dividends, share repurchases, acquisitions, etc.) for calculation of free cash flow; and (3) the exclusion of cash and cash equivalents, short-term debt, deferred taxes, and other current assets and other current liabilities, as well as current assets and current liabilities of held-for-sale businesses, for the calculation of operational working capital. While some of the items the Company excludes from GAAP measures recur, these items tend to be disparate in amount and timing. Based upon feedback from investors and financial analysts, we believe that supplemental non-GAAP measures provide information that is useful to the assessment of the Company's performance and operating trends.

RECENT ACCOUNTING REQUIREMENTS

During the first nine months of 2009, certain other accounting and financial disclosure requirements by the Financial Accounting Standards Board and the SEC were issued. Refer to Note 17, "Recent Accounting Requirements," to the unaudited Condensed Consolidated Financial Statements for more information.

SAFE HARBOR STATEMENT

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

Certain of such risks and uncertainties are discussed in more detail in Part I, Item 1A, "Risk Factors," to the Company's Annual Report on Form 10-K for the year ended December 27, 2008, and include, but are not limited to, risks and uncertainties relating to investment in development activities and new production facilities; fluctuations in cost and availability of raw materials; ability of the Company to achieve and sustain targeted cost reductions; ability of the Company to generate sustained productivity improvement; successful integration of acquisitions; successful implementation of new manufacturing technologies and installation of manufacturing equipment; the financial condition and inventory strategies of customers; customer and supplier concentrations; changes in customer order patterns; loss of significant contract(s) or customer(s); timely development and market acceptance of new products; fluctuations in demand affecting sales to customers; impact of competitive products and pricing; selling prices; business mix shift; volatility of capital and credit markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; ability of the Company to obtain adequate financing arrangements and to maintain access to capital; fluctuations in interest and tax rates; fluctuations in pension, insurance and employee benefit costs; impact of legal proceedings, including a previous government investigation into industry competitive practices, and any related proceedings or lawsuits pertaining thereto or to the subject matter thereof related to the concluded investigation by the U.S. Department of Justice ("DOJ") (including purported class actions seeking treble damages for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation), as well as the impact of potential violations of the U.S. Foreign Corrupt Practices Act; changes in tax laws and regulations; changes in governmental regulations; changes in political conditions; fluctuations in foreign currency exchange rates and other risks associated with foreign operations; worldwide and local economic conditions; impact of epidemiological events on the economy and the Company's customers and suppliers; acts of war, terrorism, natural disasters; and other factors.

The Company believes that the most significant risk factors that could affect its financial performance in the near-term include (1) the impact of economic conditions on underlying demand for the Company's products and on the carrying value of its assets; (2) the impact of competitors' actions, including pricing, expansion in key markets, and product offerings; (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; (4) the impact of an increase in costs associated with the Company's debt; and (5) the ability of the Company to achieve and sustain targeted cost reductions.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are no material changes in the information provided in Part II, Item 7A of the Company's Form 10-K for the fiscal year ended December 27, 2008.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(f)) that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

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

The Company's disclosure controls system is based upon a global chain of financial and general business reporting lines that converge in the Company's headquarters in Pasadena, California. As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the quarter covered by this report.

Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

The Company periodically assesses its overall control environment, including the control environment of acquired businesses.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of October 3, 2009, the Company has been designated by the U.S. Environmental Protection Agency (“EPA”) and/or other responsible state agencies as a potentially responsible party (“PRP”) at 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 the Company’s liability has been agreed. The Company is participating with other PRPs at such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

The Company has accrued liabilities for these and certain other sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites and any sites that could be identified in the future for cleanup could be higher than the liability currently accrued.

As of October 3, 2009, the Company’s estimated accrued liability associated with compliance and remediation costs was approximately $58 million, including estimated liabilities related to the Company’s acquisitions. As of October 3, 2009, approximately $17 million of the total balance was classified as short-term. These estimates could change depending on various factors, such as modification of currently planned remedial actions, changes in remediation technologies, changes in site conditions, a change in the estimated time to complete remediation, changes in laws and regulations affecting remediation requirements and other factors.

On April 24, 2003, Sentry Business Products, Inc. filed a purported class action on behalf of direct purchasers of label stock in the United States District Court for the Northern District of Illinois against the Company, UPM-Kymmene Corporation (“UPM”), Bemis Company, Inc. (“Bemis”), and certain of their subsidiaries seeking treble damages and other relief for alleged unlawful competitive practices, with allegations including that the defendants attempted to limit competition between themselves through anticompetitive understandings. Ten similar complaints were filed in various federal district courts. In November 2003, the cases were transferred to the United States District Court for the Middle District of Pennsylvania and consolidated for pretrial purposes. Plaintiffs filed a consolidated complaint on February 16, 2004, which the Company answered on March 31, 2004. On April 14, 2004, the court separated the proceedings as to class certification and merits discovery, and limited the initial phase of discovery to the issue of the appropriateness of class certification. On January 4, 2006, plaintiffs filed an amended complaint. On January 20, 2006, the Company filed an answer to the amended complaint. On August 14, 2006, the plaintiffs moved to certify a proposed class. The court substantively granted class certification on November 19, 2007. On July 22, 2008, the court held a hearing to set a schedule for merits discovery. On May 12, 2009, the Company entered into a settlement agreement with plaintiffs. Without admitting liability, the Company agreed to pay plaintiffs $36.5 million, plus up to $.5 million related to notice and administration expenses, in two equal installments of $18.5 million, which were paid on May 27, 2009 and July 15, 2009. On June 10, 2009, the district court entered an order preliminarily approving the settlement, and on September 17, 2009, the district court issued an order of final approval and judgment, dismissing all claims against the Company with prejudice. The Company recorded an accrual of $37 million for this settlement in the first quarter of 2009.

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM’s subsidiary Raflatac (“Raflatac”), seeking treble damages and other relief for alleged unlawful competitive practices, with allegations including that the defendants attempted to limit competition between themselves through anticompetitive understandings. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for the City and County of San Francisco on March 30, 2004. On September 30, 2004, the Harman Press amended its complaint to add Bemis’ subsidiary Morgan Adhesives Company (“MACtac”) as a defendant. On January 21, 2005, American International Distribution Corporation filed a purported class action on behalf of indirect purchasers in the Superior Court for Chittenden County, Vermont. Similar actions were filed by Richard Wrobel, on February 16, 2005, in the District Court of Johnson County, Kansas; and by Chad and Terry Muzzey, on February 16, 2005 in the District Court of Scotts Bluff County, Nebraska. On February 17, 2005, Judy Benson filed a purported multi-state class action on behalf of indirect purchasers in the Circuit Court for Cocke County, Tennessee. Without admitting liability, the Company has agreed to pay plaintiffs $2 million to resolve all claims related to the purported state class actions in the states of Kansas, Nebraska, Tennessee and Vermont. The Company recorded $2 million in the third quarter of 2009 in respect of the settlement of these claims. The Company intends to defend the purported California class action vigorously.

The Board of Directors created an ad hoc committee comprised of certain independent directors to oversee the foregoing matters.

The Company is unable to predict the effect of these matters at this time, although the effect could be adverse and material.

In 2005, the Company contacted relevant authorities in the U.S. and reported on the results of an internal investigation of potential violations of the U.S. Foreign Corrupt Practices Act. The transactions at issue were carried out by a small number of employees of the Company's reflective business in China, and involved, among other things, impermissible payments or attempted impermissible payments. The payments or attempted payments and the contracts associated with them appear to have been minor in amount and of limited duration. Sales of the Company's reflective business in China in 2005 were approximately $7 million. In addition, on or about October 10, 2008, the Company notified relevant authorities that it had discovered questionable payments to certain foreign customs and other regulatory officials by some employees of its recently acquired companies. These payments were not made for the purpose of obtaining business from any governmental entity. Corrective and disciplinary actions have been taken with respect to both internal investigations and the Company has taken remedial measures to comply with the provisions of the U.S. Foreign Corrupt Practices Act. On July 28, 2009, the Company entered into a settlement agreement with the SEC regarding the foregoing actions. Without admitting or denying liability, the Company agreed to disgorge approximately $.3 million and pay a $.2 million civil penalty. On August 10, 2009, the Company was advised by the U. S. Department of Justice that it has declined to take action against the Company in connection with the China reflective matters, which were voluntarily disclosed by the Company.

The Company and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the Company's business. Based upon current information, management believes that the resolution of these other matters will not materially affect the Company's financial position.

ITEM 1A. RISK FACTORS

Our ability to attain our goals and objectives is materially dependent on numerous factors and risks, including but not limited to matters described in Part I, Item 1A, of the Company's Form 10-K for the fiscal year ended December 27, 2008. Set forth below is an update to such risk factors.

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

Currently, the majority of our revenues is generated from customers located outside of the U.S., and a substantial portion of our assets, including employees, are located outside of the U.S. We have not accrued income taxes and foreign withholding taxes on undistributed earnings for most non-U.S. subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. Certain recently announced proposals could substantially increase our tax expense, which would result in a negative impact on our financial position and results of operations.

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

(a) Not Applicable

(b) Not Applicable

(c) Purchases of Equity Securities by Issuer

The Board of Directors has authorized the repurchase of shares of the Company's outstanding common stock. Repurchased shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. The Company did not repurchase any registered equity securities in the first nine months of 2009. As of October 3, 2009, the maximum number of shares that may yet be purchased under the Company's plans was approximately 4 million shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

Exhibit 3.1	Restated Certification of Incorporation, filed August 2, 2002 with the Office of Delaware Secretary of State, is incorporated by reference to the third quarterly report for 2002 on Form 10-Q, filed November 12, 2002
Exhibit 3.2	By-laws, as amended and restated
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges
Exhibit 31.1	D. A. Scarborough Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	D. R. O'Bryant Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	D. A. Scarborough Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	D. R. O'Bryant Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVERY DENNISON CORPORATION
(Registrant)

/s/ Daniel R. O'Bryant
Daniel R. O'Bryant
Executive Vice President, Finance, and
Chief Financial Officer
(Principal Financial Officer)

/s/ Mitchell R. Butier
Mitchell R. Butier
Corporate Vice President, Global Finance, and
Chief Accounting Officer
(Principal Accounting Officer)

November 11, 2009

Exhibit 3.2

AMENDED AND RESTATED BYLAWS
OF
AVERY DENNISON CORPORATION
(a Delaware Corporation)

Avery Dennison Corporation (hereinafter called the "corporation"), pursuant to the provisions of Section 109 of the General Corporation Law of the State of Delaware (the "General Corporation Law") adopts these Amended and Restated Bylaws (hereinafter, the "Bylaws"), which restate, amend and supersede the bylaws of the corporation, as previously amended, in their entirety as described below:

ARTICLE I

OFFICES

Section 1. *Registered Office*.

The registered office of Avery Dennison Corporation in the State of Delaware shall be at 1209 Orange Street, in the City of Wilmington, County of New Castle, and the name of the registered agent at that address shall be The Corporation Trust Company.

Section 2. *Principal Office*.

The principal executive office for the transaction of the business of the corporation is hereby fixed and located in Los Angeles County, California. The board of directors is hereby granted full power and authority to change said principal executive office from one location to another within or without the State of California.

Section 3. *Other Offices*.

The corporation may also have offices at such other places within or without the State of Delaware as the board of directors may from time to time determine, or the business of the corporation may require.

ARTICLE II

STOCKHOLDERS

Section 1. *Place of Meetings*.

Meetings of stockholders shall be held at any place, if any, within or outside the State of Delaware designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the corporation.

Section 2. *Annual Meetings of Stockholders*.

The annual meeting of stockholders shall be held on the last Thursday in April of each year at 1:30 p.m. of said day, or on such other day, which shall not be a legal holiday, and at such other time as shall be determined by the board of directors. Any previously scheduled annual meeting of stockholders may be postponed by resolution of the board of directors upon public notice given prior to the date previously scheduled for such annual meeting of stockholders.

Section 3. *Special Meetings*.

A special meeting of the stockholders may be called at any time by the board of directors, or by a majority of the directors or by a committee authorized by the board to do so. Any previously scheduled special meeting of the stockholders may be postponed by resolution of the board of directors upon public notice given prior to the date previously scheduled for such special meeting of the stockholders. Business transacted at any special meeting of the stockholders shall be limited to the purpose stated in the notice of meeting.

Section 4. *Notice of Stockholders' Meetings*.

All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 5 of this Article II not less than ten (10) nor more than sixty (60) days before the date of the meeting being noticed, unless otherwise required by law. The notice shall specify the place, if any, date and hour of the meeting and (i) in case of a special meeting, the purpose or purposes for which the meeting is called, or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders. The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, management intends to present for election.

Section 5. *Manner of Giving Notice; Affidavit of Notice*.

Notice of any meeting of stockholders shall be given either personally or by mail or telegraphic or other written communication or by electronic transmission, charges prepaid, addressed to the stockholder at the address of such stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. Whenever notice is required to be given to any stockholder to whom (1) notice of 2 consecutive annual meetings, and all notices of meetings or of the taking of action by written consent without a meeting to such person during the period between such 2 consecutive annual meetings, or (2) all, and at least 2, payments (if sent by first-class mail) of dividends or interests or securities during a 12 month period, have been mailed addressed to such person at such person's address as shown on the records of the corporation and have been returned undeliverable, the giving of such notice shall not be required. If any such person shall deliver to the corporation a written notice setting forth such person's then current address, the requirement that notice be given to such person shall be reinstated. If mailed, notice shall be deemed to have been given at the time when deposited in the United States mail, or if delivered personally or sent by means of electronic transmission, notice shall be deemed to have been given at the time provided in accordance with applicable law.

An affidavit of the mailing or other means of giving any notice of any stockholders' meeting shall be executed by the secretary, assistant secretary or any transfer agent of the corporation giving such notice, and shall be filed and maintained in the minute book of the corporation.

Section 6. *Quorum*.

The presence in person or by proxy of the holders of a majority of the voting power of the outstanding shares entitled to vote at any meeting of stockholders shall constitute a quorum for the transaction of business. The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 7. *Adjourned Meeting and Notice Thereof*.

Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the Chairman of the meeting**,** but in the absence of a quorum, no other business may be transacted at such meeting, except as provided in Section 6 of this Article II.

When any meeting of stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place, if any, thereof (and, in the event that the adjourned meeting is to be conducted by means of remote communications, the means of remote communication by which stockholders and proxy holders may be deemed to be present in person and to vote at the meeting) are announced at the meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than thirty (30) days. Notice of any such adjourned meeting, if required, shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 4 and 5 of this Article II. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

Section 8. *Voting*.

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 11 of this Article II. Such vote may be by voice vote or by ballot, at the discretion of the Chairman of the meeting. If a quorum is present, the affirmative vote of a majority in voting power of the shares represented at the meeting and entitled to vote on any matter shall be the act of the stockholders, unless otherwise provided by the General Corporation Law, the certificate of incorporation (including the certificate of designations of preferences as to any preferred stock), these Bylaws, or the rules and regulations of any stock exchange applicable to the corporation, or applicable law or pursuant to any rule or regulation applicable to the corporation or its securities.

At a stockholders' meeting involving the election of directors, no stockholder shall be entitled to cumulate (i.e., cast for any one or more candidates a number of votes greater than the number of the stockholder's shares). The required vote for the election of directors shall be as set forth in Section 15 of this Article II.

Section 9. *Waiver of Notice or Consent by Absent Stockholders*.

The actions of stockholders taken at any meeting thereof, either annual or special, however called and noticed, and wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, not present in person or by proxy, gives a waiver of notice or a consent to the holding of the meeting, or an approval of the minutes thereof. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of stockholders. All such waivers, consents or approvals shall be filed with the corporate records or made part of the minutes of the meeting.

Attendance of a person at a meeting shall also constitute a waiver of notice of such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting if such objection is expressly made at the meeting.

Section 10. *No Stockholder Action by Written Consent Without a Meeting*.

Stockholders may take action only at a regular or special meeting of stockholders.

Section 11. *Record Date for Stockholder Notice and Voting*.

For purposes of determining the holders entitled to notice of any meeting or to vote, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days prior to the date of any such meeting, and in such case only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date fixed as aforesaid, except as otherwise provided in the General Corporation Law.

If the board of directors does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

Section 12. *Proxies*.

Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by proxy. Without limiting the manner in which a proxy may be granted, a stockholder may grant a proxy in the following manners: (i) by executing a writing authorizing another person or persons to act for such stockholder as proxy or (ii) by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to a person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided however that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. A written proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or electronic transmission or otherwise) by the stockholder or the stockholder's attorney in fact. A proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, prior to the vote pursuant thereto, by a writing or electronic transmission delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy, or (ii) notice of the death or incapacity of the maker of such proxy is received by the corporation before the vote pursuant thereto is counted; provided, however, that no such proxy shall be valid after the expiration of three years from the date of such proxy, unless otherwise provided in the proxy.

Section 13. *Inspectors of Election; Opening and Closing the Polls*.

The board of directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by law.

The chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting.

Section 14. *Nomination and Stockholder Business*.

(A) Annual Meetings of Stockholders. (1) Nominations of persons for election to the board of directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders only (a) pursuant to the corporation's notice of meeting (or any supplement thereto), (b) by or at the direction of the board of directors or any committee thereof or (c) by the proper request of any stockholder of the corporation who was a stockholder of record of the corporation at the time the notice provided for in this Bylaw is delivered to the secretary of the corporation and at the time of the annual meeting, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw. The immediately preceding sentence shall be the exclusive means for a stockholder to make nominations or other business proposals (other than matters properly brought under Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and included in the corporation's notice of meeting) before an annual meeting of stockholders.

(2) Without qualification or limitation, for any nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this Bylaw, the stockholder must have given timely notice thereof and timely updates and supplements thereof in writing to the secretary of the corporation and any such proposed business other than the nominations of persons for election to the board of directors must constitute a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 90th day, nor earlier than the close of business on the 120th day, prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary

date, notice by the stockholder must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or, if the first public announcement of the date of such annual meeting is less than 100 days prior to such annual meeting, the 10th day following the day on which public announcement of the date of such meeting is first made by the corporation). In no event shall any adjournment or postponement of an annual meeting, or the public announcement thereof, commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(3) Notwithstanding anything in the immediately preceding paragraph to the contrary, in the event that the number of directors to be elected to the board of directors of the corporation is increased, effective at the annual meeting, and there is no public announcement by the corporation naming the nominees for the additional directorships or specifying the size of the increased board of directors at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for the additional directorships created by such increase, if it shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

In addition, to be timely, a stockholder's notice shall further be updated and supplemented, if necessary, so that the information provided or required to be provided in such notice shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to the secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for the meeting in the case of the update and supplement required to be made as of the record date, and not later than eight (8) business days prior to the date for the meeting, any adjournment or postponement thereof in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the corporation's notice of meeting (1) by or at the direction of the board of directors or (2) provided that the board of directors has determined that directors shall be elected at such meeting, by any stockholder of the corporation who is a stockholder of record both at the time the notice provided for in this Bylaw is delivered to the secretary of the corporation and at the time of the meeting, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Bylaw. In the event the corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the board of directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the corporation's notice of meeting, if the stockholder's notice with respect to any nomination (including the completed and signed questionnaire, representation and agreement required by Section 16 of this Article II of these Bylaws) shall be delivered to the secretary at the principal executive offices of the corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or, if the first public announcement of the date of such annual meeting is less than 100 days prior to such annual meeting, the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall any adjournment or postponement of a special meeting, or the public announcement thereof, commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(C) Disclosure Requirements. (1) To be proper in form, a stockholder's notice (whether given pursuant to paragraph (A) or paragraph (B) of this Bylaw) to the secretary must include the following, as applicable.

(a) As to each person, if any, whom the stockholder proposes to nominate for election or reelection as a director, in addition to the matters set forth in paragraph (c) below: (i) all information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, (ii) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected and (iii) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such stockholder and beneficial owner on whose behalf the nomination is being made, if any, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the stockholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any affiliate or associate thereof or person acting in concert therewith, were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant;

(b) As to any other business that the stockholder proposes to bring before the meeting other than a nomination of a director or directors, in addition to the matters set forth in paragraph (c) below: (i) a brief description of the business desired to be brought before the meeting, (ii) the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the corporation, the language of the proposed amendment), (iii) the reasons for conducting such business at the meeting, and (iv) any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made and a description of all agreements, arrangements and understandings between such stockholder and beneficial owner, if any, and any other person or persons (including their names) in connection with the proposal of such business by such stockholder;

(c) As to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made: (i) the name and address of such stockholder, as they appear on the corporation's books, and the name and address of such beneficial owner, if any, and of their respective affiliates or associates or others acting in concert therewith, (ii) (A) the class or series and number of shares of the corporation which are, directly or indirectly, owned beneficially and of record by such stockholder, such beneficial owner and their respective affiliates or associates or others acting in concert therewith, (B) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the corporation or with a value derived in whole or in part from the value of any class or series of shares of the corporation, any derivative or synthetic arrangement having the characteristics of a long position in any class or series of shares of the corporation, or any contract, derivative, swap or other transaction or series of transactions designed to produce economic benefits and risks that correspond substantially to the ownership of any class or series of shares of the corporation, including due to the fact that the value of such contract, derivative, swap or other transaction or series of transactions is determined by reference to the price, value or volatility of any class or series of shares of the corporation, whether or not such instrument, contract or right shall be subject to settlement in the underlying class or series of shares of the corporation, through the delivery of cash or other property, or otherwise, and without regard of whether the stockholder of record, the beneficial owner, if any, or any affiliates or associates or others acting in concert therewith, may have entered into transactions that hedge or mitigate the economic effect of such instrument, contract or right (a "Derivative Instrument") directly or indirectly owned beneficially by such stockholder, the beneficial owner, if any, or any affiliates or associates or others acting in concert therewith and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the corporation, (C) any proxy, contract, arrangement, understanding, or relationship pursuant to which such stockholder has a right to vote any class or series of shares of the corporation, (D) any agreement, arrangement, understanding, relationship or otherwise, including any repurchase or similar so-called "stock borrowing" agreement or arrangement, engaged in, directly or indirectly, by such stockholder, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of any class or series of the shares of the corporation by, manage the risk of share price changes for, or increase or decrease the voting power of, such stockholder with respect to any class or series of the shares of the corporation, or which provides, directly or indirectly, the opportunity to profit or share in any profit derived from any decrease in the price or value of any class or series of the shares of the corporation ("Short Interests"), (E) any rights to dividends on the shares of the corporation owned beneficially by such stockholder that are separated or separable from the underlying shares of the corporation, (F) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such stockholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner of such general or limited partnership, (G) any performance-related fees (other than an asset-based fee) that such stockholder is entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, as of the date of such notice and any updates and supplements thereof, including without limitation any such interests held by members of such stockholder's immediate family sharing the same household, (H) any significant equity interests or any Derivative Instruments or Short Interests in any principal competitor of the corporation held by such stockholder, and (I) any direct or indirect interest of such stockholder in any contract with the corporation, any affiliate of the corporation or any principal competitor of the corporation (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement), and (iii) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, (iv) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (x) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (y) otherwise to solicit proxies from stockholders in support of such proposal or nomination and (v) any other information relating to such stockholder and beneficial owner, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; and

(d) With respect to each person, if any, whom the stockholder proposes to nominate for election or reelection to the board of directors, a stockholder’s notice must, in addition to the matters set forth in paragraphs (a) and (c) above, also include the completed and signed questionnaire, representation and agreement required by Section 16 of this Article II of these Bylaws. The corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as an independent director of the corporation or that could be material to a reasonable stockholder’s understanding of the independence, or lack thereof, of such nominee.

(2) For purposes of this Bylaw, “public announcement” shall mean disclosure in a press release reported by a national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act and the rules and regulations promulgated thereunder.

(3) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw; provided, however, that any references in this Bylaw to the Exchange Act or the rules promulgated thereunder are not intended to and shall not limit the requirements applicable to nominations or proposals as to any other business to be considered pursuant to paragraph (A) or paragraph (B) of this Bylaw (other than, as provided in the last sentence of (A)(1), matters brought properly under and in compliance with Rule 14a-8 of the Exchange Act, as may be amended from time to time). Nothing in this Bylaw shall be deemed to affect any rights (a) of stockholders to request inclusion of proposals or nominations in the corporation’s proxy statement pursuant to applicable rules and regulations promulgated under the Exchange Act or (b) of the holders of any series of Preferred Stock to elect directors, if and to the extent provided for under law, pursuant to any applicable provisions of the certificate of incorporation or these Bylaws.

(D) General. (1) Only such persons who have been properly nominated in accordance with the procedures set forth in this Bylaw shall be eligible to be elected at an annual or special meeting of stockholders of the corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the certificate of incorporation or these Bylaws, the chairman of the meeting shall have the power and duty (a) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Bylaw (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder’s nominee or proposal in compliance with such stockholder’s representation as required by clause (C)(1)(c)(iv) of this Bylaw) and (b) if any proposed nomination or business was not made or proposed in compliance with this Bylaw, to declare that such proposed nomination or business shall be disregarded and no action shall be taken on such proposed nomination or business. Notwithstanding the foregoing provisions of this Bylaw, unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the corporation to present a nomination or proposed business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation. For purposes of this Bylaw, to be considered a qualified representative of the stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

Section 15. *Required Vote for Directors*.

(A) Majority Vote. Except as otherwise required by law or by the certificate of incorporation, each director shall be elected by the vote of the majority of the votes cast with respect to the director at any meeting for the election of directors at which a quorum is present; provided, however, that if the number of nominees exceeds the number of directors to be elected, the directors shall be elected by the vote of a plurality of the votes of shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. For purposes of this Bylaw, “a majority of the votes cast” shall mean that the number of shares voted “for” a director’s election exceeds the number of votes cast “against” that director’s election (with “abstentions” and “broker nonvotes” not counted as votes cast either “for” or “against” that director’s election).

(B) If a nominee who is an incumbent director is not elected and no successor has been elected at such meeting, the director shall promptly tender his or her resignation to the board of directors in accordance with the agreement contemplated by Section 16 of this Article II of these Bylaws. The Nominating and Governance Committee shall make a recommendation to the board of directors on whether to accept or reject the tendered resignation, or whether other action should be taken. The board of directors shall act on the tendered resignation, taking into account the Committee’s recommendation and publicly disclose (in a press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication) its decision regarding the tendered resignation and the rationale behind the decision within 90 days from the date of the certification of the election results.

The Nominating and Governance Committee in making its recommendation, and the board of directors in making its decision, may each consider any factors or other information that it considers appropriate and relevant. The director who tenders his or her resignation shall not participate in the recommendation of the Nominating and Governance Committee or the decision of the board of directors with respect to his or her resignation. If such incumbent director’s resignation is not accepted by the board of directors, such director shall continue to serve until the end of his or her term and until his or her successor is duly elected, or his or her earlier resignation or removal. If a director’s resignation is accepted by the board of directors pursuant to this Bylaw, or if a nominee for director is not elected and the nominee is not an incumbent director, then the board of directors, in its sole discretion, may fill any resulting vacancy pursuant to the provisions of Section 4 of Article III of these Bylaws or may decrease the size of the board of directors pursuant to the provisions of Section 2 of Article III of these Bylaws.

Section 16. *Submission of Questionnaire, Representation and Agreement*.

To be eligible to be a nominee for election or reelection as a director of the corporation, a person must deliver (in accordance with the time periods prescribed for delivery of notice under Section 14 of this

Article II) to the secretary at the principal executive offices of the corporation a written questionnaire with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided by the secretary upon written request) and a written representation and agreement (in the form provided by the secretary upon written request) that such person (A) will abide by the requirements of Section 15 of this Article II, (B) is not and will not become a party to (1) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a director of the corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the corporation or (2) any Voting Commitment that could limit or interfere with such person's ability to comply, if elected as a director of the corporation, with such person's fiduciary duties under applicable law, (C) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein, (D) agrees to comply with the corporation's outside directors stock ownership policies, if any, and (E) in such person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the corporation, and will comply with all applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the corporation.

ARTICLE III

DIRECTORS

Section 1. *Powers*.

Subject to the provisions of the General Corporation Law and any limitations in the certificate of incorporation and these Bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the directors shall have the power and authority to:

(a) Select and remove all officers, agents and employees of the corporation, prescribe such powers and duties for them as may not be inconsistent with law, the certificate of incorporation or these Bylaws, fix their compensation, and require from them security for faithful service.

(b) Change the principal executive office or the principal business office in the State of California from one location to another; cause the corporation to be qualified to do business in any other state, territory, dependency, or foreign country and conduct business within or outside the State of California; designate any place within or without the State of California for the holding of any stockholders' meeting or meetings, including annual meetings; adopt, make and use a corporate seal, and prescribe the forms of certificates of stock, and alter the form of such seal and of such certificates from time to time as in their judgment they may deem best, provided that such forms shall at all times comply with the provisions of law.

(c) Authorize the issuance of shares of stock of the corporation from time to time, upon such terms as may be lawful, in consideration of money paid, labor done or services actually rendered, debts or securities canceled or tangible or intangible property actually received.

(d) Borrow money and incur indebtedness for the purpose of the corporation, and cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, or other evidences of debt and securities therefor.

Section 2. *Number and Qualification of Directors*.

The number of directors of the corporation shall be twelve (12) until changed by a Bylaw amending this Section 2 of this Article III, duly adopted by the board of directors or by the stockholders.

Section 3. *Election and Term of Office of Directors*.

Subject to Section 15 below, one class of the directors shall be elected at each annual meeting of the stockholders, but if any such annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of stockholders held for that purpose. All directors shall hold office until their respective successors are duly elected and qualified. Irrespective of the provisions of Section 15 of this Article III and of the preceding sentence, a director shall automatically be retired on the date of the expiration of the first annual meeting following his 72nd birthday.

Section 4. *Vacancies and Newly Created Directorships*.

Vacancies and newly created directorships on the board of directors may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director. Each director elected to fill a vacancy shall hold office for the remainder of the term of the person whom he or she succeeds until a successor has been elected and qualified.

A vacancy or vacancies in the board of directors shall be deemed to exist in the case of the death, retirement, resignation, disqualification or removal of any director, or if the authorized number of directors be increased.

Any director may resign or voluntarily retire upon giving written notice to the chairman of the board, the president, the secretary or the board of directors. Such retirement or resignation shall be effective upon the giving of the notice, unless the notice specifies a later time for its effectiveness. If such retirement or resignation is effective at a future time, the board of directors may elect a successor to take office when the retirement or resignation becomes effective.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office. No director may be removed during his term except for cause.

Section 5. *Place of Meetings and Telephonic Meetings*.

Regular meetings of the board of directors may be held at any place within or without the State of Delaware that has been designated from time to time by resolution of the board. In the absence of such designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board shall be held at any place within or without the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or there is no notice, at the principal executive office of the corporation. Any meeting, regular or special, may be held by conference telephone or other communication equipment, so long as all directors participating in such meeting can hear one another, and all such directors shall be deemed to be present in person at such meeting.

Section 6. *Annual Meetings*.

Immediately following each annual meeting of stockholders, the board of directors shall hold a regular meeting for the purpose of organization, any desired election of officers and transaction of other business. Notice of this meeting shall not be required.

Section 7. *Other Regular Meetings*.

Other regular meetings of the board of directors shall be held at such time as shall from time to time be determined by the board of directors. Such regular meetings may be held without notice provided that notice of any change in the determination of time of such meeting shall be sent to all of the directors. Notice of a change in the determination of the time shall be given to each director in the same manner as for special meetings of the board of directors.

Section 8. *Special Meetings*.

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board or the president or any vice president or the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone or by electronic transmission to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at his or her address as it is shown upon the records of the corporation. In case such notice is mailed, it shall be deposited in the United States mail at least four (4) days prior to the time of the holding of the meeting. In case such notice is delivered personally, or by telephone, telegram or other form of electronic transmission, it shall be delivered personally, or by telephone, or transmitted by other electronic transmission at least forty-eight (48) hours prior to the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated to either the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose of the meeting nor the place if the meeting is to be held at the principal executive office of the corporation.

Section 9. *Quorum*.

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as hereinafter provided. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the board of directors. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 10. *Waiver of Notice*.

The actions of the board of directors at any meeting thereof, however called and noticed or wherever held, shall be as valid as though taken at a meeting duly held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the directors not present gives a waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. The waiver of notice or consent need not specify the purpose of the meeting. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director.

Section 11. *Adjournment*.

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

Section 12. *Notice of Adjournment*.

Notice of the time and place of an adjourned meeting need not be given if the time and place thereof are announced at the adjourned meeting, unless the meeting is adjourned for more than twenty-four (24) hours, in which case notice of such time and place shall be given prior to the time of the adjourned meeting, in the manner specified in Section 8 of this Article III, to the directors who were not present at the time of the adjournment.

Section 13. *Action Without Meeting*.

Any action required or permitted to be taken by the board of directors may be taken without a meeting, if all members of the board shall consent to such action in compliance with applicable law.

Section 14. *Fees and Compensation of Directors*.

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses, as may be fixed or determined by resolution of the board of directors. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation for such services.

Section 15. *Classification of Directors*.

The board of directors shall be and is divided into three classes, Class I, Class II and Class III. The number of directors in each class shall be the whole number contained in the quotient arrived at by dividing the authorized number of directors by three, and if a fraction is also contained in such quotient then if such fraction is one-third (1/3) the extra director shall be a member of Class III and if the fraction is two-thirds (2/3) one of the extra directors shall be a member of Class III and the other shall be a member of Class II. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected.

In the event of any increase or decrease in the authorized number of directors, (a) each director then serving as such shall nevertheless continue as a director of the class of which he is a member until the expiration of his current term, or his prior death, resignation or removal, and (b) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the board of directors to such class or classes as shall, so far as possible, bring the number of directors in the respective classes into conformity with the formula in this Section 15, as applied to the new authorized number of directors.

Section 16. *Chairman of the Board*.

The board of directors may, by resolution, select a member of the board of directors to act as chairman of the board. The chairman of the board shall preside over the meetings of the board of directors and shall have such other duties as may be delegated to the chairman by the board of directors. The chairman of the board shall not be an officer of the corporation, unless otherwise provided by resolution of the board of directors.

ARTICLE IV

COMMITTEES

Section 1. *Committees of Directors*.

The board of directors may, by resolution adopted by the board of directors, designate one or more committees, including an executive committee, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

(a) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the General Corporation Law to be submitted to the stockholders for approval; or

(b) adopting, amending or repealing any Bylaw of the corporation.

Section 2. *Meetings and Action of Committees*.

Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Sections 5 (place of meetings), 7 (regular meetings), 8 (special meetings and notice), 9 (quorum), 10 (waiver of notice), 11 (adjournment), 12 (notice of adjournment) and 13 (action without meetings), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the board of directors and its members, except that the time of regular meetings of committees may be determined by resolution of the board of directors as well as the committee, special meetings of committees may also be called by resolution of the board of directors, and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

ARTICLE V

OFFICERS

Section 1. *Officers*.

The officers of the corporation shall be the chief executive officer, the president, a vice president, a secretary and a treasurer. The corporation may also have, at the discretion of the chief executive officer or the board of directors, one or more additional vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 3 of this Article V. Any number of offices may be held by the same person.

Section 2. *Election of Officers*.

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article V, shall be chosen annually by the board of directors, and each shall hold his office until he shall resign or be removed or otherwise disqualified to serve or his successor shall be elected and qualified.

Section 3. *Subordinate Officers, etc*.

The chief executive officer or the board of directors may appoint such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the Bylaws or as the chief executive officer or the board of directors may from time to time determine.

Section 4. *Removal and Resignation of Officers*.

Any officer may be removed, either with or without cause, by the board of directors, at any regular or special meeting thereof, or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. *Vacancies in Office*.

A vacancy in any office because of death, resignation, removal, disqualification, or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to such office.

Section 6. *Chief Executive Officer*.

The chief executive officer shall, subject to the control of the board of directors, have general supervision, direction and control of the business and affairs of the corporation. If so determined by resolution of the board of directors, the chairman of the board shall also be the chief executive officer.

Section 7. *President*.

The president shall exercise and perform such powers and duties with respect to the administration of the business and affairs of the corporation as may from time to time be assigned to him by the chief executive officer or by the board of directors, or as may be prescribed by the Bylaws. If so determined by resolution of the board of directors, the president shall also be the chief executive officer and/or the chief operating officer.

Section 8. *Vice Presidents*.

In the absence or disability of the president, a vice president designated by the board of directors shall perform all the duties of the president, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors or the Bylaws.

Section 9. *Secretary*.

The secretary shall keep or cause to be kept, at the principal executive office or such other place as the board of directors may order, a book of minutes of all meetings and actions of directors, committees of directors and stockholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' and committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a stock register, or a duplicate register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required by the Bylaws or by law to be given, and he shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by the Bylaws.

Section 10. *Treasurer*.

The treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall be open at all reasonable times to inspection by any director.

The treasurer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the chief executive officer or the board of directors. He shall disburse the funds of the corporation as may be ordered by the chief executive officer or the board of directors, shall render to the chief executive officer or the board of directors, whenever they request it, an account of all of his transactions as treasurer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the chief executive officer, the board of directors or the Bylaws.

Section 11. *Assistant Secretaries and Assistant Treasurers*.

Any assistant secretary may perform any act within the power of the secretary, and any assistant treasurer may perform any act within the power of the treasurer, subject to any limitations which may be imposed in these Bylaws or in board resolutions.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS

Section 1. *Indemnification and Insurance*.

(A) Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit, or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans maintained or sponsored by the corporation, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the General Corporation Law as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment), against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in paragraph (C) of this Bylaw, the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the board of directors. The right to indemnification conferred in this Bylaw shall be a contract right that vests at the time that such person's service to or at the request of the corporation commences and includes the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the corporation within 20 days after the receipt by the corporation of a statement or statements from the claimant requesting such advance or advances from time to time; provided, however, that if the General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the corporation of an undertaking by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Bylaw or otherwise.

(B) To obtain indemnification under this Bylaw, a claimant shall submit to the corporation a written request, including therein or therewith such documentation and information as is reasonably available to the claimant and is reasonably necessary to determine whether and to what extent the claimant is entitled to indemnification. Upon written request by a claimant for indemnification pursuant to the first sentence of this paragraph (B), a determination, if required by applicable law, with respect to the claimant's entitlement thereto shall be made as follows: (1) if requested by the claimant, by independent counsel (as hereinafter defined), or (2) if no request is made by the claimant for a determination by independent counsel, (i) by the board of directors by a majority vote of a quorum consisting of disinterested directors (as hereinafter defined), or (ii) by a committee of disinterested directors designated by disinterested directors, even though less than a quorum, or (iii) if a quorum of the board of directors consisting of disinterested directors is not obtainable or, even if obtainable, such quorum of disinterested directors so directs, by independent counsel in a written opinion to the board of directors, a copy of which shall be delivered to the claimant, or (iv) if a quorum of disinterested directors so directs, by the stockholders of the corporation. In the event the determination of entitlement to indemnification is to be made by independent counsel at the request of the claimant, the independent counsel shall be selected by the board of directors unless there shall have occurred within two years prior to the date of the commencement of the action, suit or proceeding for which indemnification is claimed a "Change of Control" as defined in the 1996 Stock Incentive Plan, in which case the independent counsel shall be selected by the claimant unless the claimant shall request that such selection be made by the board of directors. If it is so determined that the claimant is entitled to indemnification, payment to the claimant shall be made within 10 days after such determination.

(C) If a claim under paragraph (A) of this Bylaw is not paid in full by the corporation within 30 days after a written claim pursuant to paragraph (B) of this Bylaw has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim, including attorney's fees to the fullest extent permitted by law. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the corporation) that the claimant has not met the standard of conduct which makes it permissible under the General Corporation Law for the corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its board of directors, independent counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law, nor an actual determination by the corporation (including its board of directors, independent counsel or stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(D) If a determination shall have been made pursuant to paragraph (B) of this Bylaw that the claimant is entitled to indemnification, the corporation shall be bound by such determination in any judicial proceeding commenced pursuant to paragraph (C) of this Bylaw.

(E) The corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to paragraph (C) of this Bylaw that the procedures and presumptions of this Bylaw are not valid, binding and enforceable and shall stipulate in such proceeding that the corporation is bound by all the provisions of this Bylaw.

(F) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Bylaw (i) shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise and (ii) cannot be terminated by the corporation, the board of directors or the stockholders of the corporation with respect to a person's service prior to the date of such termination. No repeal or modification of this Bylaw shall in any way diminish or adversely affect the rights of any current or former director, officer, employee or agent of the corporation hereunder in respect of any occurrence or matter arising prior to any such repeal or modification.

(G) The corporation may maintain insurance, at its expense, to protect itself and any current or former director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law. To the extent that the corporation maintains any policy or policies providing such insurance, each such current or former director or officer, and each such agent or employee to which rights to indemnification have been granted as provided in paragraph (H) of this Bylaw, shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage thereunder for any such current or former director, officer, employee or agent.

(H) The corporation may, to the extent authorized from time to time by the board of directors or the chief executive officer, grant rights to indemnification, and rights to be paid by the corporation the expenses incurred in defending any proceeding in advance of its final disposition, to any current or former employee or agent of the corporation to the fullest extent of the provisions of this Bylaw with respect to the indemnification and advancement of expenses of current or former directors and officers of the corporation.

(I) If any provision or provisions of this Bylaw shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (1) the validity, legality and enforceability of the remaining provisions of this Bylaw (including, without limitation, each portion of any paragraph of this Bylaw containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (2) to the fullest extent possible, the provisions of this Bylaw (including, without limitation, each such portion of any paragraph of this Bylaw containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

(J) For purposes of this Bylaw:

(1) “disinterested director” means a director of the corporation who is not and was not a party to the matter in respect of which indemnification is sought by the claimant.

(2) “independent counsel” means a law firm, a member of a law firm, or an independent practitioner, that is experienced in matters of corporation law and shall include any person who, under the applicable standards of professional conduct then prevailing, would not have a conflict of interest in representing either the corporation or the claimant in an action to determine the claimant’s rights under this Bylaw.

(K) Any notice, request or other communication required or permitted to be given to the corporation under this Bylaw shall be in writing and either delivered in person or sent by telecopy, telex, telegram, overnight mail or courier service, or certified or registered mail, postage prepaid, return receipt requested, to the Secretary of the corporation and shall be effective only upon receipt by the Secretary.

Section 2. *Fiduciaries of Corporate Employee Benefit Plan*.

This Article VI does not apply to any proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the corporation as defined in Section 1 of this Article VI. Nothing contained in this Article VI shall limit any right to indemnification to which such a trustee, investment manager or other fiduciary may be entitled by contract or otherwise, which shall be enforceable to the extent permitted by Section 410 of the Employee Retirement Income Security Act of 1974, as amended, other than this Article VI.

ARTICLE VII

GENERAL CORPORATE MATTERS

Section 1. *Record Date for Purposes Other Than Notice and Voting*.

For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days prior to any such action, and in such case only stockholders of record on the date so fixed are entitled to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date fixed as aforesaid, except as otherwise provided in the General Corporation Law.

If the board of directors does not so fix a record date, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such action, whichever is later.

Section 2. *Checks, Drafts, Evidences of Indebtedness*.

All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the corporation shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the board of directors.

Section 3. *Corporate Contracts and Instruments; How Executed*.

The board of directors, except as otherwise provided in these Bylaws, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances; and, unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or to any amount.

Section 4. *Stock Certificates*.

The shares of the corporation shall be represented by certificates, provided that the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Every holder of stock represented by certificates shall be entitled to have a certificate signed by or in the name of the corporation by the Chairman or Vice Chairman of the board of directors, if any, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the corporation certifying the number of shares owned by such holder in the corporation. Any of or all the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were such officer, transfer agent, or registrar at the date of issue.

Section 5. *Lost Certificates*.

Except as hereinafter in this Section 5 provided, no new stock certificate shall be issued in lieu of an old certificate unless the latter is surrendered to the corporation and canceled at the same time. The board of directors may in case any stock certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of a new certificate in lieu thereof, upon such terms and conditions as the board of directors may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate.

Section 6. *Representation of Stock of Other Corporations*.

The chairman of the board, the president, or any vice president, or any other person authorized by resolution of the board of directors by any of the foregoing designated officers, is authorized to vote on behalf of the corporation any and all stock or other equity interest of any other corporation or corporations, foreign or domestic, standing in the name of the corporation. The authority herein granted to said officers to vote or represent on behalf of the corporation any and all stock by the corporation in any other corporation or corporations, or other entity or entities, may be exercised by any such officer in person or by any person authorized to do so by proxy duly executed by said officer.

Section 7. *Construction and Definitions*.

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law shall govern the construction of the Bylaws. Without limiting the generality of the foregoing, the singular number includes the plural, the plural number includes the singular, and the term “person” includes both a corporation and a natural person.

Section 8. *Fiscal Year*.

The fiscal year of the corporation shall commence on or about the first day of the calendar year, as determined by the officers of the corporation.

Section 9. *Seal*.

The seal of the corporation shall be round and shall bear the name of the corporation and words and figures denoting its organization under the laws of the State of Delaware and year thereof, and otherwise shall be in such form as shall be approved from time to time by the board of directors.

ARTICLE VIII

AMENDMENTS

Section 1. *Amendment by Stockholders*.

New Bylaws may be adopted or these Bylaws may be amended or repealed by the stockholders by vote of not less than 80% of the total voting power of all shares of stock of the corporation entitled to vote in the election of directors, considered for purposes of this Section 1 as one class.

Section 2. *Amendment by Directors*.

Subject to the rights of the stockholders as provided in Section 1 of this Article VIII, to adopt, amend or repeal Bylaws, Bylaws may be adopted, amended or repealed by the board of directors.

Amended and restated as of October 22, 2009

Exhibit 12

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

(Dollars in millions)	Three Months Ended October 3, 2009	Three Months Ended September 27, 2008	Nine Months Ended October 3, 2009	Nine Months Ended September 27, 2008
Earnings:				
Income (loss) before taxes	$ 58.3	$ 67.3	$ (817.4)	$ 242.4
Add: Fixed charges (1)	29.9	39.9	98.9	120.4
Amortization of capitalized interest	.8	.8	2.5	2.4
Less: Capitalized interest	(1.1)	(1.7)	(2.9)	(5.0)
	$ 87.9	$ 106.3	$ (718.9)	$ 360.2
Fixed charges: (1)				
Interest expense	$ 19.1	$ 29.0	$ 67.0	$ 87.8
Capitalized interest	1.1	1.7	2.9	5.0
Interest portion of leases	9.7	9.2	29.0	27.6
	$ 29.9	$ 39.9	$ 98.9	$ 120.4
Ratio of Earnings to Fixed Charges (2)	2.9	2.7	—	3.0

(1) The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose, “earnings” consist of income 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.

(2) For the nine months ended October 3, 2009, the Company’s earnings were not sufficient to cover fixed charges by $817.8. This loss primarily reflected the non-cash goodwill and other indefinite-lived intangible asset impairment charges of $832 and loss on extinguishment of debt of approximately $21 recorded in the first quarter of 2009, and legal settlement costs of $39 million recorded in the first nine months of 2009.

Exhibit 31.1

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 quarterly report on Form 10-Q 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
President and Chief Executive Officer

November 11, 2009

Exhibit 31.2

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

CERTIFICATION

I, Daniel R. O’Bryant, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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/ Daniel R. O’Bryant

Daniel R. O’Bryant
Executive Vice President, Finance, and
Chief Financial Officer

November 11, 2009

Exhibit 32.1

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 Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended October 3, 2009 (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: November 11, 2009

/s/ Dean A. Scarborough
Dean A. Scarborough
President and Chief Executive Officer

* The above certification accompanies the issuer’s Quarterly Report on Form 10-Q and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.

Exhibit 32.2

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 Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended October 3, 2009 (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: November 11, 2009

/s/ Daniel R. O'Bryant
Daniel R. O'Bryant
Executive Vice President, Finance, and
Chief Financial Officer

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