Avery Dennison

2008 Annual Report

Avery Dennison 2008 Annual Report

g, Discovering, Focusing, Advancing, Sustaining and above all...

AVERY DENNISON

CONTENTS

FINANCIAL OVERVIEW

(Dollars in millions, except per share amounts)	**2008**	2007	2006
Net sales from continuing operations	**$6,710.4**	$6,307.8	$5,575.9
Net income from continuing operations	**$ 266.1**	$ 303.5	$ 358.5
Net income from continuing operations, as a percent of sales	**4.0**	4.8	6.4
Net income from continuing operations per common share, assuming dilution	**$ 2.70**	$ 3.07	$ 3.57
Net income	**$ 266.1**	$ 303.5	$ 373.2
Net income, as a percent of sales	**4.0**	4.8	6.7
Net income per common share, assuming dilution	**$ 2.70**	$ 3.07	$ 3.72
Dividends per common share	**1.64**	1.61	1.57
Capital expenditures	**119.2**	186.3	153.2
Return on average shareholders' equity (percent)	**13.1**	16.5	22.7

...Sticking to the Fundamentals.

Our ongoing commitment to outstanding quality, innovative solutions and exceptional service allowed us to add value even in these challenging economic times. By operating with greater efficiency, accelerating productivity and capturing new market opportunities, we demonstrate our resilience and the wisdom of sticking to the fundamentals. Every day. Everywhere.

Dear Fellow Shareholders:

Like companies everywhere, Avery Dennison felt the impact of the weakened global economy in 2008. But by sticking to the fundamentals and executing a focused strategy, we achieved important milestones in 2008 that position us well to endure a protracted downturn and to emerge a more competitive and stronger company.

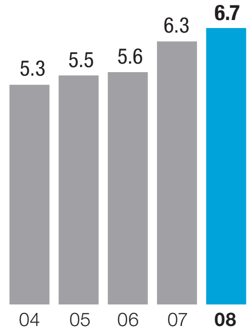
2008 in Perspective

The growing economic and credit crisis that began last year significantly reduced consumer spending throughout the world. During the second half of the year, many customers reduced their inventories and orders, while others implemented mandatory shutdowns late in the year. These deteriorating market conditions, combined with rapidly rising raw material costs, lowered our profits—despite reductions to our fixed cost structure and price increase actions.

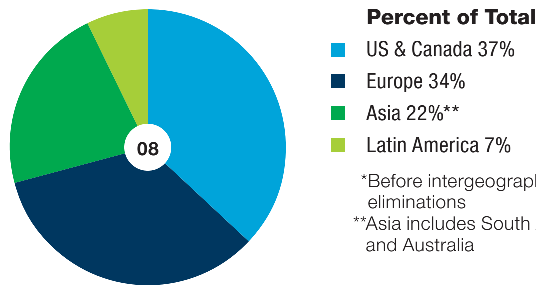
YET, WE HAD A NUMBER OF SIGNIFICANT SUCCESSES:

+ We *increased our free cash flow to record levels,* giving us greater flexibility to invest in programs for future growth.
+ We *introduced a number of unique products*—including our Avery-brand customizable binders, new removable graphics film for the architectural and promotional markets, and a growing line of eco-friendly products.
+ We *scored a number of important customer wins*—like our new fleet marking programs with Miller Brewing and Shell Oil; item-level Radio Frequency Identification (RFID) with Marks & Spencer and Levi Mexico; and continuing adoption of pressure-sensitive film and label applications by consumer products customers like Procter & Gamble and Unilever in Asia.
+ We *entered or identified new markets and regions that offer significant growth potential*—such as the expansion of our businesses in China and India, the enhancement of our woven label capabilities with the acquisition of DM Label and the establishment of a new foothold in Japan for our Roll Materials, Specialty Tape and Graphics Materials businesses.
+ Throughout the recent turmoil within the financial markets, we *retained uninterrupted access to capital to meet our operating needs*. We took a number of actions to provide even greater operating flexibility, including negotiating new debt covenants with our banks, allowing us to more aggressively pursue sustainable cost savings through restructuring. At the same time, we are actively managing our investments in both fixed and working capital to increase our cash flow. In 2008, we used excess cash to reduce our debt by roughly $160 million in the second half of the year, following our acquisition of DM Label.

Sales
(Dollars in billions)



Sales by Region*



*Before intergeographic eliminations
**Asia includes South Africa and Australia

- In the fourth quarter, we *began to implement a Company-wide restructuring program* targeting more than $150 million in annualized savings over the next two years. We expect roughly $70 million of savings from these actions in 2009.

Financial Highlights

- Net sales were $6.71 billion, compared to $6.31 billion in 2007, an increase primarily attributable to acquisitions and currency translation.
- Net income for 2008 was $266.1 million, or $2.70 per share.
- The integration of the Paxar acquisition, which has delivered $120 million in cost synergies, was completed ahead of schedule.
- Free cash flow increased to a record $365 million.

2009 and Beyond

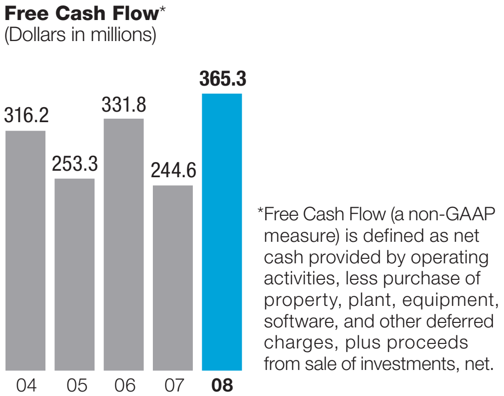
We remain focused on a single strategic objective: to drive profitable growth by providing innovative solutions that transform information and elevate brands. A fundamental part of this strategy is to continue to safeguard the investments we've made in several emerging business opportunities in existing and adjacent markets.

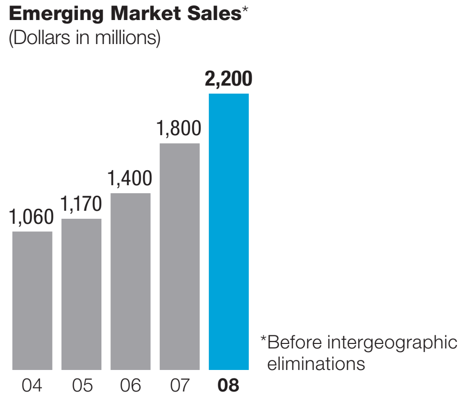
We've defined the right strategies for our market-leading businesses to ensure continued success

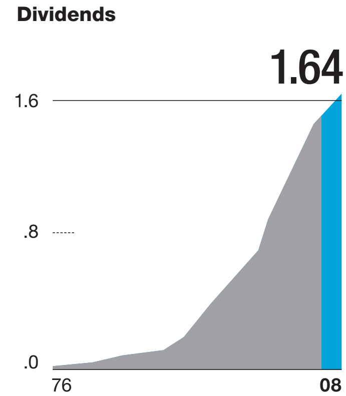
PRESSURE-SENSITIVE MATERIALS: LEVERAGING ADVANTAGES

After showing signs of improvement earlier in the year, sales in Pressure-sensitive Materials declined as the economy slowed. We continued, however, to maintain our investments in promising growth solutions that take advantage of ongoing end-user demand for innovative packaging and eco-friendly products.

- Our proprietary adhesive for clear-on-clear film applications is recognized as the best solution in the industry to help produce labels with strong shelf appeal. We are also developing pressure-sensitive materials that can be used to decorate the uniquely shaped containers increasingly seen on crowded store shelves. Additionally, we are investing in thinner film-liner capability that lowers the operational and per-unit costs of pressure-sensitive technology while reducing its environmental impact versus other decorating methods.
- To help our customers, their customers and the environment, we are offering industry-leading eco-friendly products, recyclable packaging and support services. Last year, the Tag and Label Manufacturing Institute (TLMI) honored Avery Dennison with its TLMI Environmental Leadership Award for the best commitment to progressive environmental practices in the industry.







RETAIL INFORMATION SERVICES: INVESTING FOR SPEED

Retail Information Services also felt the effects of a slowing economy across its core business. Apparel retailers and brand owners continue to adapt their supply chains to deliver as quickly and efficiently as possible. Product lifecycles are measured in weeks, not months—and speed wins. To further expand our leadership position, we are investing in new capabilities and technologies, including digital production systems to streamline and standardize the entire order-to-delivery process.

OFFICE AND CONSUMER PRODUCTS: CAPITALIZING ON CONSUMER TRENDS

The Office and Consumer Products segment is an important source of free cash flow for Avery Dennison. These businesses will continue to grow through the strong Avery consumer brand awareness, cutting-edge online marketing and sales channel relationships already in place. Driven by the significant trend toward mass customization, consumers continue to increase their Internet use and online purchases of office and school print solutions. To capitalize on this mega-trend, Avery Dennison launched Avery Signature Series Binders, an affordable solution that enables consumers to create personalized binders in any quantity through avery.com or other current customer Web sites. These binders mark the beginning of a promising growth platform of related Avery-brand customizable products, such as dividers, labels and fabric transfers.

OTHER SPECIALTY CONVERTING BUSINESSES: FOCUSING ON EMERGING BUSINESS OPPORTUNITIES

By pursuing emerging business opportunities in new markets and regions, we have the potential to produce significant growth over the next few years. Our goal is to increase market share for our specialty tapes and RFID products. We've gained the number-one position in ultra high-frequency (UHF) RFID passive inlays. We now intend to apply our technology advantages to enter the high-frequency (HF) RFID market.

Continuously improving our productivity and our people

WE'RE BUILDING A LEAN CULTURE

Enterprise Lean Sigma (ELS) is an ongoing, Company-wide effort to promote revenue and profit growth by reducing waste, accelerating productivity and enhancing customer service. To date, thousands of employees have participated in hundreds of continuous improvement or "Kaizen" events and delivered impressive results. In our Retail Information Services business in South China, we reduced product sample response times by more than 33 percent. The Specialty Tape business freed up needed capacity at its plant in Turnhout, Belgium, by successfully implementing ELS tools to quickly identify and design a smoother, more balanced process, which resulted in a 65 percent increase in output and a 32 percent increase in labor efficiency. Our Roll Materials business in Mentor, Ohio, reduced customer service order-entry errors to less than one percent—an industry best-in-class achievement.

WE'RE INVESTING IN OUR PEOPLE

Achieving our strategic growth priorities will require capable leaders and employees who can successfully manage rapid change. We continue to make a significant investment in leadership development—as well as ELS—training. We want our leaders to have the skills necessary to lead and compete in a complex, global business environment. In 2009, 25 Leadership Development Training Forums are planned to strengthen the business leadership and inter-personal competencies of high-potential leaders across the Company.

LIVING OUR VALUES, DELIVERING ON OUR PROMISES

No matter what the economic or business circumstances, Avery Dennison will continue to conduct business according to the highest values and business ethics. We are proud of the way our people have responded to the challenges and uncertainty of 2008—with confidence, integrity and an unflagging desire to win. Our long-term strategy includes responsible policies that guide how we treat our people and how we protect the environment.

One of the architects of our values and strategies was Phil Neal, who passed away in October. Phil was CEO of Avery Dennison from 1998 to 2005 and served as chairman for the last five years of his 32-year career with our Company. He played a key role in implementing the core financial and operating strategies that have supported the Company's growth and direction, as well as the development of leaders in every area of our business. We will miss him.

Strong advantages today…well-positioned for tomorrow

We enter 2009 operating in the most difficult economic conditions in a generation. Short term, we are cautious. We cannot predict the timing of a recovery, and raw material and pricing trends in this environment are difficult to forecast. So our short-term focus is on reducing fixed costs and generating cash flow to enable the Company to endure a protracted downturn.

Long term, however, we are optimistic. Our strategy is sound and working. We are number one in the key markets we serve. We continue to invest in emerging business opportunities that will position us for a higher growth trajectory as the global economy recovers.

Over the years, Avery Dennison has proven to be an extraordinarily resilient company. By sticking to the fundamentals—product innovation, exceptional quality and great service—it is our strong belief that we will not only weather the challenges that confront us today, but we will also create a stronger, more energized Company in the future.

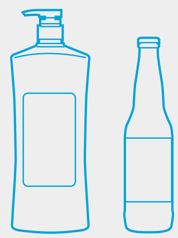
We are especially grateful for the loyalty and confidence that our employees, partners—and particularly our shareholders—have placed in Avery Dennison.

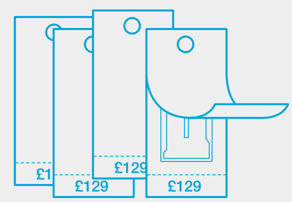
Kent Kresa
Chairman of the Board

Dean A. Scarborough
President and Chief Executive Officer

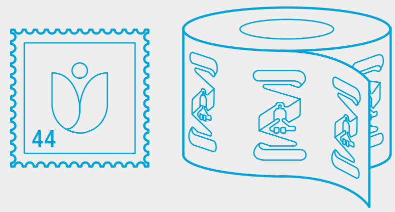
MARCH 6, 2009

Our Segments / Businesses at a Glance





Segment / Businesses	**Pressure-sensitive Materials**	**Retail Information Services**
	+ Roll Materials + Graphics and Reflective Products + Performance Polymers	+ Information and Brand Management + Printer Systems + Fastener
Sales (In millions)	**$3,644**	**$1,548**
Percent of Total Sales	**54%**	**23%**
Brand(s)	**Fasson, Avery Graphics, Avery Dennison**	**Avery Dennison, Monarch**
Products	Pressure-sensitive roll materials, graphics and reflective materials; water- and solvent-based performance polymer adhesives; and engineered films	A wide variety of information and brand management solutions that include graphic tags and labels, variable data tags and labels, woven labels, printed fabric labels, heat transfers, patches and specialty trim, eco-friendly solutions, packaging and security solutions, in-plant printing, RFID solutions, designer trim collections, supply chain solutions and Web services, as well as barcode printers, software solutions, molded plastic fasteners and application devices
Customers / End-users	Global label converters, consumer products package designers and manufacturers, industrial manufacturers, printers, designers, sign manufacturers and graphic vendors	Global retailers and brand owners, apparel and consumer goods manufacturers, restaurant and food service chains, grocery and drugstore chains, and a variety of other industries serviced via resellers



Office and Consumer Products	**Other specialty converting businesses**
+ Office Products	+ Specialty Tape + Radio Frequency Identification (RFID) + Industrial and Automotive Products + Security Printing + Performance Films
$936	**$582**
14%	**9%**
Avery	**Avery Dennison**
Self-adhesive labels, software, binders, sheet protectors, dividers, online templates and printing, writing instruments, T-shirt transfers and do-it-yourself card products	Specialty tapes, industrial adhesives, architectural and engineered films, automotive decorative interior films, automotive exterior films and labels, metallized pigments, self-adhesive postage stamps, RFID inlays and durable tags
Office products superstores, major retailers, office professionals, school administrators, small business owners and consumers	Industrial and original equipment manufacturers, medical products and device manufacturers, converters, packagers and consumer products companies

United by a shared commitment to drive profitable growth, Avery Dennison's Corporate Leadership Team co-authored a clear and measurable roadmap to galvanize and transform the Company. This strategic blueprint defines and aligns a common purpose Company-wide and the actions necessary to build long-term shareholder value.

Leading with confidence, clarity and accountability

LEFT TO RIGHT:

Rich Hoffman Senior VP and Chief Information Officer **Sue Miller** Senior VP, General Counsel and Secretary **Bob Malchione** Senior VP, Corporate Strategy and Technology **Diane Dixon** Senior VP, Corporate Communications and Advertising **Greg Temple** VP, Global Operations and Enterprise Lean Sigma **Dan O'Bryant** Executive VP, Finance, and Chief Financial Officer **Dean Scarborough** President and Chief Executive Officer **Anne Hill** Senior VP and Chief Human Resources Officer **Don Nolan** Group VP, Roll Materials **Terry Hemmelgarn** Group VP, Retail Information Services **Tim Bond** Group VP, Office Products **Dave Edwards** VP and Chief Technology Officer **Tim Clyde** Group VP, Specialty Materials and Converting

Avery Dennison knows how to make the most of an opportunity. Just ask **LG**, South Korea's leader in personal care products. Avery Dennison Korea demonstrated how its clear, pressure-sensitive film could add greater visual appeal to LG's Elastine shampoo. Since LG adopted Fasson-brand pressure-sensitive materials for its entire Elastine product line, other South Korean personal care companies are turning to Avery Dennison to achieve a unique "no-label" look.

For more than 100 years, Mexico's **Sol Beer** featured a distinctive painted label. To reinvigorate this century-old brand, Sol worked with label converter Spear and Avery Dennison to develop a Fasson-brand pressure-sensitive label solution that would produce a fresh, new look for its international packaging. Unlike the "painted-style" labels, produced using an extreme-heat furnace process, the new sharper, more vivid pressure-sensitive labels require less energy to create. So Sol ended up with a brighter, more eye-catching label and the potential to use less energy as well. Now that's refreshing.

Identifying opportunities every day, everywhere

Identifying global opportunities while serving local markets has long been the key strength of Avery Dennison's Roll Materials business. To expand our already strong market position and competitive advantage, we will continue to deliver exceptional solutions that enable our customers to produce packaging and labels with strong brand appeal.

The International Broadcast Centre was one of 10 Olympic buildings, venues and stadiums that relied on Avery Graphics-brand products to create memorable, larger-than-life building wraps, wall coverings, floor graphics and sports signage.

The **Beijing Olympic Committee** gave its ticket printing supplier an Olympian challenge: To produce 15 million tickets that could be quickly validated during the 2008 Summer Games. The RFID inlay inside the tickets had to be thin and smooth yet strong enough to accommodate an RFID chip and resist high compression. Avery Dennison's innovative pressure-sensitive materials proved to be just the ticket.

Leveraging **our game-changing technologies**

Those lucky enough to attend the Olympic Games in Beijing experienced firsthand the ever-growing impact that Avery Dennison is having in emerging markets like China. Avery Dennison's combined expertise, product innovation and technical support contributed to this world-class event.

The deployment of Enterprise Lean Sigma (ELS) gained momentum across the entire Company—demonstrating its power to inspire, motivate and accelerate continuous improvement. Hundreds of ELS process-improvement events (known as “Kaizens”) took place throughout the year—resulting in new ways to eliminate waste, improve productivity, enhance customer service and execute with excellence.

Activating a new way of working together

John Settineri
Supply Chain

Monina Diaz
Finance and Treasury

Teresa O’Keefe
Global Risk

Marvin Raymundo
Human Resources

Identifying and capitalizing on global market opportunities is synonymous with the Avery brand. Take today's mass customization trend, for example. Whether it's a small business owner in need of personalized business cards or labels, or a teen looking to put her distinctive mark on everything from T-shirts to binders, Avery Design & Print Online makes it easy for Avery Dennison and its customers to stand out.

Empowering generations of thinkers and dreamers

1. Avery® Dark T-Shirt Transfers allow users to apply personalized designs on a variety of colored fabrics. **2. Avery® Durable Labels** can be personalized with printed graphics that adhere to almost any surface including glass, plastic, wood and metal and stand up to frequent use, moisture, scuffing, tearing and smudging. **3. Avery Signature Series Binders®** can be custom-designed online in minutes, in small quantities with quick-turnarounds. **4. Avery HI-LITER®** Retractable Highlighters are non-toxic, durable, quick-drying and cap-free, making them convenient to use to highlight important content.

Discovering new technologies for new markets

As surgical procedures continue to become longer and more complex, protection against bacteria and infection also needs to last longer. That's why Avery Dennison created Silver Incise Film. This medical advancement for surgical procedures helps to significantly reduce surgical infections. Another example of the many ways in which Avery Dennison solutions are making a meaningful difference in the world.

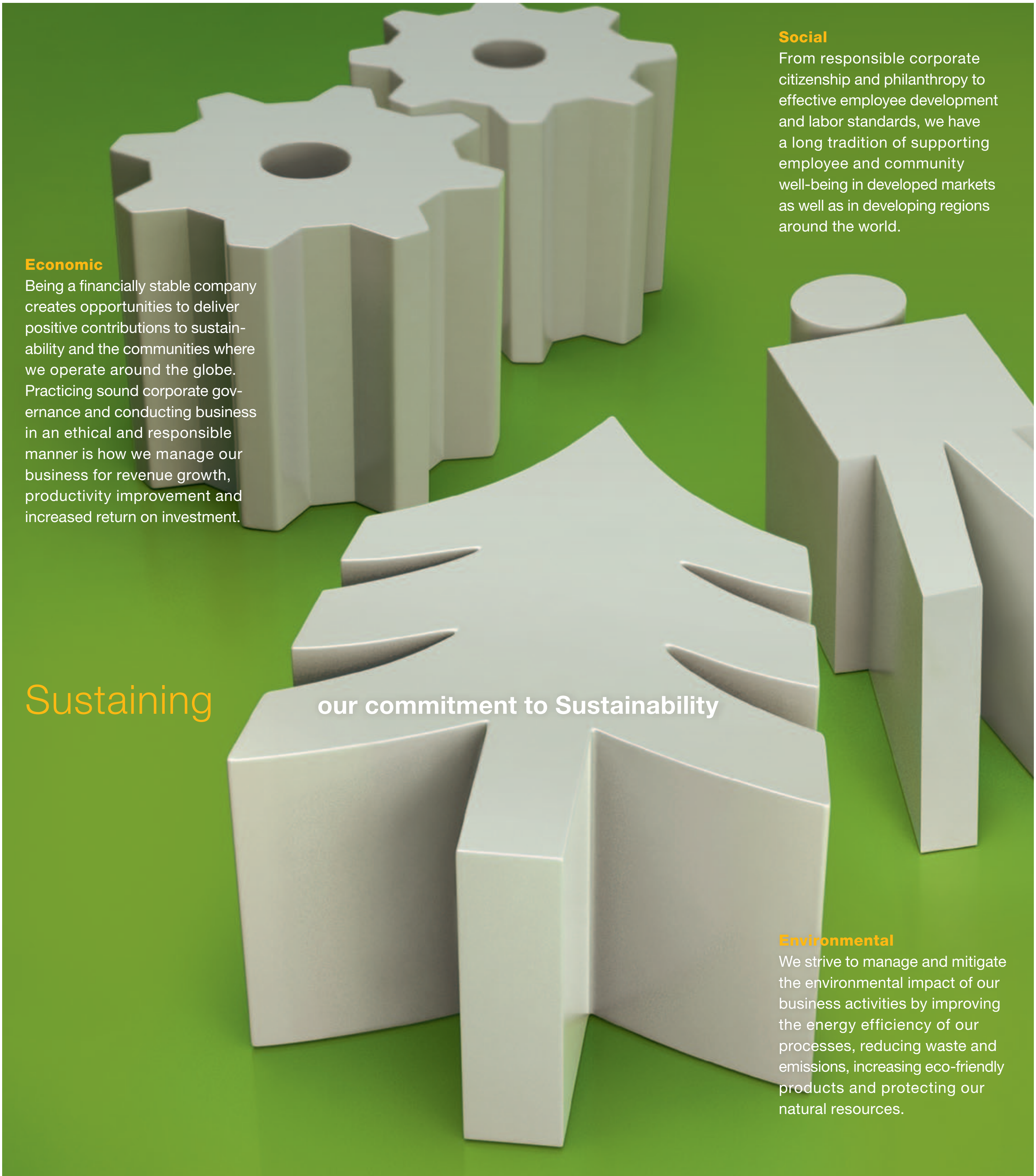
To broaden the size of the markets we serve, as well as open new markets, we are increasingly focusing on our customer's customers' needs. Delivering insights about what end-users care about most helps our direct customers to deliver more relevant market solutions and form stronger ties to Avery Dennison.

Focusing on our customer and our customer's customers

The customer's needs always come first. That's why **Throttleman**, one of Portugal's largest retailers, is using Avery Dennison RFID technology to increase its supply satisfaction. This solution has reduced Throttleman's delivery time to its stores from five days to 24 hours, excess stock at its warehouses by 60 percent and internal lead-time delays from 21 percent to zero percent. All of which adds up to greater product availability for Throttleman customers and greater appreciation for Avery Dennison technology.

Advancing the image of world-class brands

For nearly 75 years, Avery Dennison has built a reputation for helping top companies grow their businesses. Today, thanks to our innovative materials and enabling applications, we continue to forge strong alliances with the most recognized and respected brands in the world — all of whom view Avery Dennison as vital to delivering solutions that elevate their brands.



Social
From responsible corporate citizenship and philanthropy to effective employee development and labor standards, we have a long tradition of supporting employee and community well-being in developed markets as well as in developing regions around the world.

Economic
Being a financially stable company creates opportunities to deliver positive contributions to sustainability and the communities where we operate around the globe. Practicing sound corporate governance and conducting business in an ethical and responsible manner is how we manage our business for revenue growth, productivity improvement and increased return on investment.

Sustaining our commitment to Sustainability

Environmental
We strive to manage and mitigate the environmental impact of our business activities by improving the energy efficiency of our processes, reducing waste and emissions, increasing eco-friendly products and protecting our natural resources.

More than seven decades ago, Company founder R. Stanton Avery established a corporate culture of caring that continues today. Avery Dennison is committed to achieving business success through responsible social, environmental and economic practices that help build healthy communities where it operates all over the world.

Coming in April…
an all-new www.averydennison.com Web site

Investor Information
Obtain stock quotes and annual reports at www.investors.averydennison.com. Send inquiries via e-mail to investorcom@averydennison.com

Career Opportunities
Learn more about the Avery Dennison difference at www.averydennison.com/careers

Other Company Web sites include:
www.fasson.com
www.ris.averydennison.com
www.avery.com
www.averygraphics.com

In support of our commitment to sustainability, the paper for this annual report is certified by the Forest Stewardship Council (FSC), which promotes environmentally responsible, socially beneficial and economically viable management of the world's forests. The paper used in the financial section also contains 30% pulp derived from post-consumer waste fiber.

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Leading, Identifying, Leveraging, Activating, Empowering

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2008 Financial Information

AVERY DENNISON

Five-year Summary

(Dollars in millions, except % and per share amounts)	5-Year Compound Growth Rate	2008 Dollars	2008 %	2007 Dollars	2007 %	2006 Dollars	2006 %	2005 Dollars	2005 %	2004[1] Dollars	2004[1] %
For the Year											
Net sales	7.2%	$ 6,710.4	100.0	$ 6,307.8	100.0	$ 5,575.9	100.0	$ 5,473.5	100.0	$ 5,317.0	100.0
Gross profit	5.5	1,727.0	25.7	1,722.4	27.3	1,538.0	27.6	1,476.9	27.0	1,425.5	26.8
Marketing, general and administrative expense	7.9	1,304.3	19.4	1,182.5	18.7	1,011.1	18.1	987.9	18.0	957.4	18.0
Interest expense	14.6	115.9	1.7	105.2	1.7	55.5	1.0	57.9	1.1	58.7	1.1
Other expense, net[2]	3.5	36.2	0.5	59.4	0.9	36.2	0.6	63.6	1.2	35.2	0.7
Income from continuing operations before taxes	(4.3)	270.6	4.0	375.3	5.9	435.2	7.8	367.5	6.7	374.2	7.0
Provision for income taxes	(45.4)	4.5	0.1	71.8	1.1	76.7	1.4	75.3	1.4	93.9	1.8
Income from continuing operations	1.7	266.1	4.0	303.5	4.8	358.5	6.4	292.2	5.3	280.3	5.3
Income (loss) from discontinued operations, net of tax[3]	N/A	–	N/A	–	N/A	14.7	N/A	(65.4)	N/A	(1.3)	N/A
Net income	(0.1)	266.1	4.0	303.5	4.8	373.2	6.7	226.8	4.1	279.0	5.2
		2008		2007		2006		2005		2004	
Per Share Information											
Income per common share from continuing operations	1.9%	$ 2.70		$ 3.09		$ 3.59		$ 2.92		$ 2.81	
Income per common share from continuing operations, assuming dilution	2.0	2.70		3.07		3.57		2.91		2.79	
Net income per common share	0.1	2.70		3.09		3.74		2.27		2.79	
Net income per common share, assuming dilution	0.2	2.70		3.07		3.72		2.26		2.78	
Dividends per common share	2.5	1.64		1.61		1.57		1.53		1.49	
Weighted-average common shares outstanding	(0.2)	98.4		98.1		99.8		100.1		99.9	
Weighted-average common shares outstanding, assuming dilution	(0.3)	98.7		98.9		100.4		100.5		100.5	
Book value at fiscal year end	5.9	$ 17.78		$ 20.22		$ 17.26		$ 15.26		$ 15.56	
Market price at fiscal year end	(10.4)	31.53		53.41		67.93		55.27		59.97	
Market price range		25.02 to 53.14		49.69 to 69.67		55.09 to 69.11		50.30 to 62.53		54.90 to 65.78	
At Year End											
Working capital		$ (127.6)		$ (419.3)		$ (12.1)		$ 56.0		$ 173.4	
Property, plant and equipment, net		1,493.0		1,591.4		1,309.4		1,295.7		1,374.4	
Total assets		6,035.7		6,244.8		4,324.9		4,228.9		4,420.9	
Long-term debt		1,544.8		1,145.0		501.6		723.0		1,007.2	
Total debt		2,209.8		2,255.8		968.0		1,087.7		1,211.7	
Shareholders' equity		1,750.0		1,989.4		1,696.2		1,521.6		1,558.0	
Number of employees		35,700		37,300		22,700		22,600		21,400	
Other Information											
Depreciation expense[4]		$ 204.6		$ 184.1		$ 153.8		$ 154.2		$ 145.8	
Research and development expense[4]		94.0		95.5		87.9		85.4		81.8	
Effective tax rate[4]		1.7%		19.1%		17.6%		20.5%		25.1%	
Total debt as a percent of total capital		55.8		53.1		36.3		41.7		43.7	
Return on average shareholders' equity (percent)		13.1		16.5		22.7		14.5		19.5	
Return on average total capital (percent)		8.8		10.6		15.7		10.0		12.1	

(1) Results for 2004 reflect a 53-week period.

(2) 2008 includes net pretax charges of $36.2 for restructuring costs, asset impairment and lease cancellation charges and other items.
2007 includes net pretax charges of $59.4 for asset impairment charges, restructuring costs, lease cancellation charges and other items.
2006 includes net pretax charges of $36.2 for restructuring costs, asset impairment and lease cancellation charges, environmental remediation and other items, partially offset by gain on sale of investment and assets.
2005 includes net pretax charge of $63.6 for restructuring costs, asset impairment and lease cancellation charges and legal accrual related to a lawsuit, partially offset by gain on sale of assets.
2004 includes pretax charges of $35.2 for restructuring costs, asset impairment and lease cancellation charges.

(3) Results for 2006 include a tax benefit of $14.9 due to capital losses arising from the sale of discontinued operations and a pretax gain on the sale of discontinued operations of $1.3.
Results for 2005 include impairment charges for goodwill and intangible assets of $74.4 associated with the expected divestiture of a business.

(4) Amounts related to continuing operations.

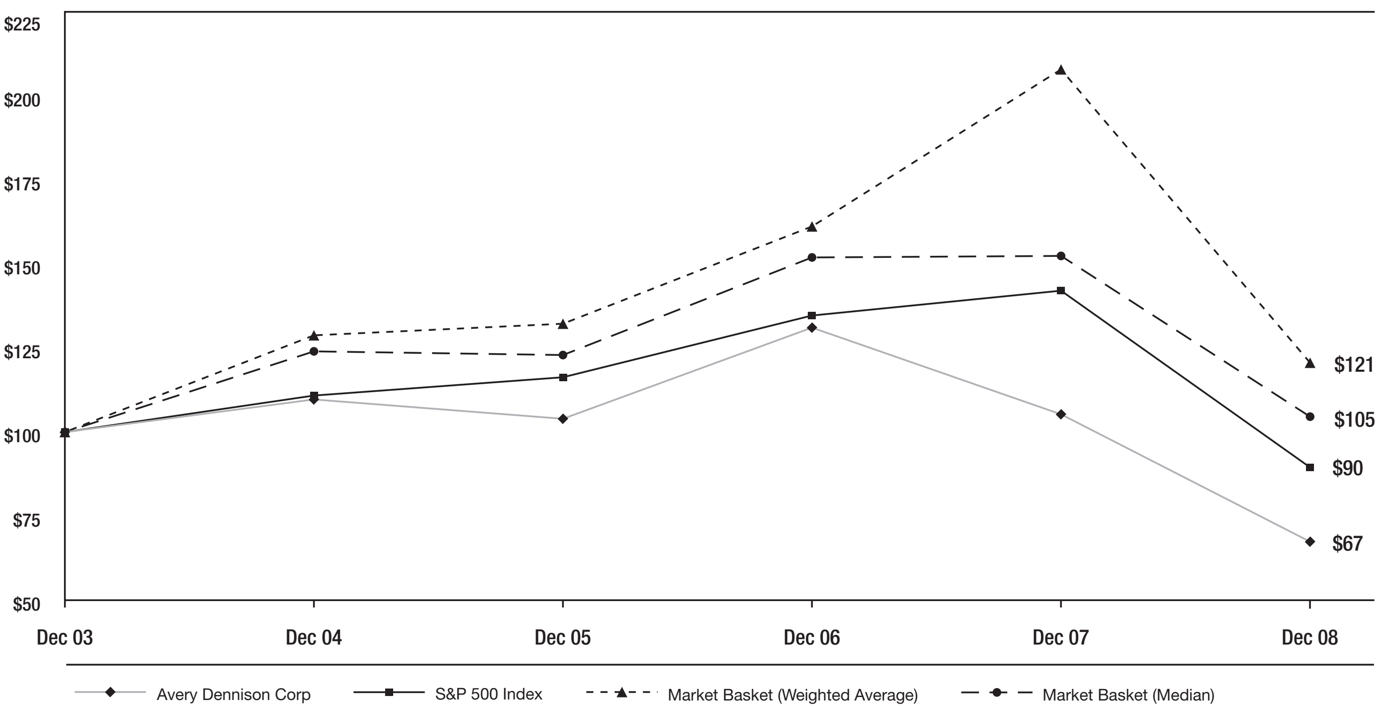
Stockholder Return Performance

The following graph compares the Company's cumulative stockholder return on its common stock, including the reinvestment of dividends, with the return on the Standard & Poor's 500 Stock Index (the "S&P 500 Index") and the average return, weighted by market capitalization, of the peer group set forth below ("Peer Group") for the five-year period ending December 31, 2008. The Company has also included the median return of the Peer Group in the graph as an additional comparison.

The Peer Group is comprised of Air Products & Chemicals Inc., ArvinMeritor Inc., Baker-Hughes Incorporated, Ball Corporation, Bemis Company, Inc., Black & Decker Corporation, Cabot Corporation, Cooper Tire & Rubber Co., Crane Company, Crown Holdings Inc., Cummins Inc., Dana Holding Corporation, Danaher Corporation, Dover Corporation, Eaton Corporation, Ecolab Incorporated, Ferro Corporation, FMC Corporation, Fuller (H. B.) Company, Goodrich Corporation, Grace (W R) & Company, Harley-Davidson Inc., Harris Corporation, Harsco Corporation, Illinois Tool Works Incorporated, Ingersoll-Rand Company, MASCO Corporation, MeadWestvaco Corporation, NACCO Industries, Newell Rubbermaid Incorporated, Olin Corporation, Owens-Illinois, Inc., PACCAR Inc., Parker-Hannifin Corporation, Pentair Inc., Pitney Bowes Incorporated, PolyOne Corporation, Potlatch Corporation, P.P.G. Industries Incorporated, The Sherwin-Williams Company, Smurfit-Stone Container Corporation, Snap-On Incorporated, Sonoco Products Company, Stanley Works, Tecumseh Products Company, Temple-Inland Inc., Thermo Fisher Scientific Inc., Thomas & Betts Corporation, Timken Company and Trinity Industries.

During 2008, Sequa Corp. was acquired by the private equity firm The Carlyle Group and Hercules Inc. was acquired by Ashland Inc. These companies were deleted from the Peer Group. In 2008, Owens-Illinois Inc. and Cooper Tire & Rubber Co. were added to the Peer Group, both of which have been included for all periods.

Comparison of Five-Year Cumulative Total Return
as of December 31, 2008



Total Return Analysis[1]

	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Avery Dennison Corp	$100.00	$109.71	$103.96	$131.07	$105.29	$ 67.40
S&P 500 Index	100.00	110.87	116.31	134.67	142.06	89.51
Market Basket (Weighted Average)[2]	100.00	128.78	132.23	161.17	207.87	120.62
Market Basket (Median)	100.00	124.01	122.92	151.95	152.40	104.59

(1) Assumes $100 invested on December 31, 2003, and the reinvestment of dividends; chart reflects performance on a calendar year basis.

(2) Weighted average is weighted by market capitalization.

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

Management's Discussion and Analysis

of Results of Operations and Financial Condition

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:

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 our 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;
- *Segment operating income (loss)* refers to income before interest and taxes;
- *Free cash flow* refers to cash flow from operations and net proceeds from sale of investments, less payments for property, plant and equipment, software and other deferred charges; and
- *Operational working capital* refers to trade accounts receivable and inventories, net of accounts payable.

As a result of the sale of our raised reflective pavement marker business during 2006 (discussed below in "Divestitures"), the discussions which follow reflect our restated results for the accounting change, as well as summary results from our continuing operations unless otherwise noted. However, the net income and net income per share discussions include the impact of discontinued operations.

OVERVIEW AND OUTLOOK

Overview

Sales

Our sales from continuing operations increased 6% in 2008 compared to growth of 13% in 2007, driven primarily by the acquisitions of Paxar Corporation ("Paxar") and DM Label Group ("DM Label") and the effect of currency translation.

Estimated change in sales due to:	2008	2007	2006
Organic sales growth (decline)	(3)%	1%	3%
Foreign currency translation	3	5	–
Acquisitions, net of divestitures	7	8	(1)
Reported sales growth(1)	6%	13%	2%

(1) Totals may not sum due to rounding

On an organic basis, the decline of 3% in 2008 reflected worsening global economic conditions in 2008, which were experienced first in the U.S., then Western Europe, then in our emerging markets (Asia, Eastern Europe and Latin America). Organic sales growth of 1% in 2007 reflected international growth, partially offset by slower and more competitive market conditions in North America.

Net Income

Net income decreased $37 million, or 12%, in 2008 compared to 2007.

Negative factors affecting the change in net income included:

- Reduced fixed cost leverage due to sales decline on an organic basis
- Cost inflation, including raw material and energy costs
- Incremental interest expense and amortization of intangibles related to the Paxar and DM Label acquisitions
- The carryover effect of a more competitive pricing environment in the roll materials business in the prior year, partially offset by current year price increases

Positive factors affecting the change in net income included:

- Cost savings from productivity improvement initiatives, including savings from restructuring actions
- Benefits from foreign currency translation and acquisitions
- Lower effective tax rate
- Lower asset impairment and restructuring charges related to cost reduction actions
- Lower transition costs related to the integration of Paxar

Acquisitions

We completed the Paxar acquisition on June 15, 2007. The combination of the Paxar business into our Retail Information Services segment increases our presence in the retail information and brand identification market, combines complementary strengths and broadens the range of our product and service capabilities, improves our ability to meet customer demands for product innovation and improved quality of service, and facilitates expansion into new product and geographic segments. See "Paxar Acquisition-related Actions" below for information on cash costs incurred and cost synergies achieved during integration.

We completed the DM Label acquisition on April 1, 2008. DM Label operations are included in our Retail Information Services segment.

See Note 2, "Acquisitions," to the Consolidated Financial Statements for further information.

Paxar Acquisition-related Actions

The following integration actions resulted in headcount reductions of approximately 1,695 positions in our Retail Information Services segment:

(Dollars in millions)	Paxar Acquisition-related costs[1]	Headcount Reduction
2007 Restructuring[2]	$ 31.2	200
2007 Transition costs[2]	43.0	–
2008 Restructuring[2]	5.6	130
2008 Transition costs[2]	19.9	–
2007 Purchase price adjustments	20.5	855
2008 Purchase price adjustments	6.0	510
Total Paxar integration actions	$126.2	1,695
Change-in-control costs (purchase price adjustment)	27.8	
Total Paxar acquisition-related costs	$154.0	

(1) Includes severance, asset impairment and lease cancellation charges, where applicable

(2) Recorded in the Consolidated Statement of Income

At year end, the Paxar integration was essentially complete. Cost synergies resulting from the integration were approximately $20 million in 2007 and an incremental $88 million in 2008. We expect to realize incremental savings of approximately $12 million in 2009.

Refer to Note 2, "Acquisitions," to the Consolidated Financial Statements for further information.

Cost Reduction Actions

Q4 2008 — 2009 Actions

In response to worsening market conditions, we are undertaking new restructuring actions that began in the fourth quarter of 2008 that are expected to impact approximately 10% of the Company's global workforce. Refer to the "Outlook" section for total estimated costs to be incurred and annualized savings expected to be achieved through these actions.

In the fourth quarter of 2008, we recorded $12.3 million in pretax 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 700 positions, impacting all of our segments and geographic regions. We expect to realize savings of approximately $18 million in 2009 related to these charges.

Q1 2008 — Q3 2008 Actions

During the first three quarters of 2008, we implemented cost reduction actions resulting in pretax charges of $22.8 million, including severance and employee related costs for approximately 645 positions, asset impairment charges, and lease cancellation costs. We expect to achieve annualized savings of approximately $20 million (most of which will benefit 2009) as a result of these restructuring actions.

Q4 2006 — 2007 Actions

We incurred $31.4 million in pretax charges related to cost reduction actions initiated from late 2006 through the end of 2007, including severance and employee related costs for approximately 555 positions, asset impairment charges, and lease cancellation costs. Savings from these restructuring actions, net of transition costs, were approximately $32 million in 2008 and $5 million in 2007. We expect to realize incremental savings of $8 million in 2009.

Q4 2005 — Q3 2006 Actions

During 2007 and 2006, we realized annualized pretax savings (net of transition costs) of over $90 million, resulting from restructuring actions initiated in the fourth quarter of 2005. These restructuring actions resulted in headcount reductions of approximately 1,150 positions, which impacted all of our segments and geographic regions and were completed in 2006.

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

Divestitures

The divestiture of our raised reflective pavement marker business, which had sales of approximately $23 million in 2005, was completed during the second quarter of 2006 and resulted in a tax benefit due to capital losses arising from the sale of the business. The results of this business have been accounted for as discontinued operations in 2006. This business was previously included in the Pressure-sensitive Materials segment.

In addition, the divestitures of two product lines were completed in the first quarter of 2006. The first product line, which was included in the Office and Consumer Products segment, had estimated sales of $60 million in 2005, with minimal impact to income from operations. The second product line, which was included in other specialty converting businesses, had annual sales of approximately $10 million in 2005, with minimal impact to income from operations.

Free Cash Flow

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. Management believes that it is appropriate to measure cash flow (including net proceeds from sale of investments) after spending on property, plant, equipment, software and other deferred charges because such spending is considered integral to maintaining or expanding our underlying business. This measure is not intended to represent the residual cash available for discretionary purposes. Refer to "Uses and Limitations of Non-GAAP Measures" for further information regarding limitations of this measure.

(In millions)	2008	2007	2006
Net cash provided by operating activities	$ 539.7	$ 499.4	$ 510.8
Purchase of property, plant and equipment	(128.5)	(190.5)	(161.9)
Purchase of software and other deferred charges	(63.1)	(64.3)	(33.4)
Proceeds from sale of investments, net[1]	17.2	–	16.3
Free cash flow	$ 365.3	$ 244.6	$ 331.8

(1) Net proceeds from sale of investments are related to the sale of securities held by our captive insurance company and other investments in 2008 and a sale of a long-term investment in 2006.

The increase in free cash flow in 2008 of $121 million is primarily due to increased cash flow provided by operating activities and reduced capital spending, partially offset by lower net income compared to 2007.

The decrease in free cash flow in 2007 of $87 million reflects higher spending on property, plant and equipment and software and other deferred charges, as well as lower net income compared to 2006.

See “Analysis of Results of Operations” and “Liquidity” in “Financial Condition” below for more information.

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.

As previously disclosed, 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 we believe it is possible that fines or other penalties could be incurred.

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 8, “Contingencies,” to the Consolidated Financial Statements.

Outlook

Certain statements contained in this section are “forward-looking statements” and are subject to certain risks and uncertainties. Refer to our “Safe Harbor Statement” herein.

In light of the global economic environment, we are not providing a 2009 earnings forecast at this time. If current exchange rate trends continue, they would have an unfavorable effect on earnings in 2009.

We expect incremental pension and other employee-related expenses and contributions in 2009.

In response to increased uncertainty resulting from worsening global economic conditions, we initiated new cost reduction actions that target approximately $150 million in annualized savings by 2010, of which an estimated $70 million, net of transition costs, is expected to benefit 2009. We expect to incur approximately $120 million of restructuring charges associated with these actions, with the majority to be incurred in 2009.

In addition to the savings from these new actions, we expect approximately $40 million of savings from previously implemented actions, which includes $12 million of benefits from the Paxar integration.

The total incremental savings from implemented cost reduction actions discussed above are expected to be $110 million for 2009. We anticipate higher charges related to restructuring actions in 2009 compared to 2008.

We anticipate lower interest expense in 2009, subject to currently anticipated retirements and/or refinancings of currently outstanding indebtedness, and assuming a continuation of current market rates for our variable interest rate debt and commercial paper.

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 in the range of $120 million to $150 million in 2009.

ANALYSIS OF RESULTS OF OPERATIONS

Income from Continuing Operations Before Taxes:

(In millions)	2008	2007	2006
Net sales	$6,710.4	$6,307.8	$5,575.9
Cost of products sold	4,983.4	4,585.4	4,037.9
Gross profit	1,727.0	1,722.4	1,538.0
Marketing, general and administrative expense	1,304.3	1,182.5	1,011.1
Interest expense	115.9	105.2	55.5
Other expense, net	36.2	59.4	36.2
Income from continuing operations before taxes	$ 270.6	$ 375.3	$ 435.2

As a Percent of Sales:	%	%	%
Gross profit (margin)	25.7	27.3	27.6
Marketing, general and administrative expense	19.4	18.7	18.1
Income from continuing operations before taxes	4.0	5.9	7.8

Sales

Sales increased 6% in 2008 and 13% in 2007 driven primarily by acquisitions and the effect of currency translation. The acquisitions of Paxar and DM Label increased sales by an estimated $450 million in 2008. The acquisition of Paxar increased sales by an estimated $510 million in 2007. Foreign currency translation had a favorable impact on the change in sales of approximately $167 million in 2008 compared to approximately $232 million in 2007.

On an organic basis, sales declined 3% in 2008 and grew 1% in 2007. The decline in 2008 primarily reflected worsening global economic conditions in 2008, which were experienced first in the U.S., then Western Europe, then in our emerging markets. Organic sales growth of 1% in 2007 reflected international growth, partially offset by slower and more competitive market conditions in North America.

Organic sales growth (or decline) by our major regions of operation was as follows:

	2008	2007	2006
U.S.	(7)%	(4)%	–
Europe	(1)%	3%	3%
Asia	1%	9%	13%
Latin America	1%	4%	11%

On an organic basis, international sales were roughly flat in 2008, compared to growth of 4% in 2007. The growth in 2007 reflected increases in most of our businesses outside of the U.S., particularly in our emerging markets.

In the U.S., sales on an organic basis declined 7% in 2008 and 4% in 2007 due primarily to the slowdown in the U.S. economy, combined with the reduction of inventories by customers, particularly in the Office and Consumer Products segment.

In our Pressure-sensitive Materials segment, soft market conditions experienced in the second half of 2007 in the roll materials businesses in North America and Europe continued in 2008, spreading to Latin America and Asia. In our Retail Information Services segment, we continued to experience weakness in domestic retail apparel markets in 2008 and began to experience weakness in the European retail markets. Our other specialty converting businesses also experienced declines in 2008 primarily due to lower volume in products sold to the automotive and housing construction industries.

Refer to "Results of Operations by Segment" for further information on segments.

Gross Profit

Gross profit margin in 2008 decreased from 2007 as higher gross profit margin associated with sales from the Paxar business and savings from restructuring actions and other sources of productivity were more than offset by the carryover effect of prior year price competition in the roll materials business, higher raw material and other cost inflation, negative product mix shifts (lower sales of higher gross profit margin products), as well as reduced fixed cost leverage on an organic basis.

Gross profit margin in 2007 decreased from 2006 due to price competition and unfavorable product mix in the roll materials business and higher raw material costs. The negative effect of these factors was partially offset by the addition of the higher gross profit margin Paxar business, as well as benefits from our ongoing productivity improvement and cost reduction actions.

Marketing, General and Administrative Expense

Marketing, general and administrative expense in 2008 increased from 2007, as benefits from productivity improvement initiatives and lower net transition costs related to the Paxar and DM Label acquisitions were more than offset by:

- Costs associated with the acquired businesses (totaling approximately $123 million, including $15 million in incremental amortization of intangibles)
- The negative impact of fluctuations in foreign currency (approximately $13 million)
- Higher employee costs

Marketing, general and administrative expense in 2007 increased from 2006, as savings from restructuring actions and other cost reductions were more than offset by:

- Costs associated with the Paxar business and related integration expense (totaling approximately $185 million, including $40 million in integration-related transition costs and $12 million in amortization of intangibles)
- The negative impact of foreign currency translation (approximately $30 million).

Interest Expense

Interest expense increased 10%, or approximately $11 million, in 2008 compared to 2007 due to an increase in borrowings to fund the Paxar and DM Label acquisitions, partially offset by the benefit of lower interest rates.

Other Expense, net

(In millions, pretax)	2008	2007	2006
Restructuring costs	$29.8	$21.6	$21.1
Asset impairment and lease cancellation charges	10.9	17.5	8.7
Asset impairment – integration related	–	18.4	–
Other items	(4.5)	1.9	6.4
Other expense, net	$36.2	$59.4	$36.2

For all three years presented, "Other expense, net" consisted of charges for restructuring, including severance and other employee-related costs, asset impairment charges, and lease cancellation costs, as described above in the "Cost Reduction Actions" and "Paxar Acquisition-related Actions" sections herein. Refer also to Note 10, "Cost Reduction Actions," to the Consolidated Financial Statements for more information.

In 2008, other items included in "Other expense, net" consisted of a gain on sale of investments ($4.5 million).

In 2007, other items included in "Other expense, net" included:

- Cash flow hedge loss ($4.8 million)
- Expenses related to a divestiture ($.3 million)
- Reversal of accrual related to a lawsuit ($3.2 million)

In 2006, other items included in "Other expense, net" included:

- Accrual for environmental remediation costs ($13 million)
- Costs related to a lawsuit and a divestiture ($.8 million)
- Gain on sale of assets ($5.3 million)
- Gain on curtailment and settlement of a pension obligation ($1.6 million)
- Gain on sale of an investment ($10.5 million), partially offset by a charitable contribution to the Avery Dennison Foundation ($10 million)

Net Income:

(In millions, except per share amounts)	2008	2007	2006
Income from continuing operations before taxes	$270.6	$375.3	$435.2
Provision for income taxes	4.5	71.8	76.7
Income from continuing operations	266.1	303.5	358.5
Income from discontinued operations, net of tax	–	–	14.7
Net income	$266.1	$303.5	$373.2
Net income per common share	$ 2.70	$ 3.09	$ 3.74
Net income per common share, assuming dilution	$ 2.70	$ 3.07	$ 3.72
Net income as a percent of sales	4.0%	4.8%	6.7%
Effective tax rate from continuing operations	1.7%	19.1%	17.6%

Provision for Income Taxes

The effective tax rate was approximately 2% for 2008 compared with approximately 19% for 2007. Our 2008 effective tax rate reflects $45.3 million of benefit from changes in the valuation allowance against certain deferred tax assets, favorable geographic income mix, and a $24.8 million detriment from accruals for uncertain tax positions. Refer to Note 11, "Taxes on Income," for more information.

Income from Discontinued Operations

Income from discontinued operations includes the divestiture of our raised reflective pavement markers business as noted in the "Overview" section above. The divestiture of this business was completed during 2006 and resulted in a tax benefit ($14.9 million) due to capital losses arising from the sale of the business and a gain on sale of $1.3 million.

Income from discontinued operations included net sales of approximately $7 million in 2006.

RESULTS OF OPERATIONS BY SEGMENT

Pressure-sensitive Materials Segment

(In millions)	2008	2007	2006
Net sales including intersegment sales	$3,816.2	$3,662.6	$3,397.8
Less intersegment sales	(172.4)	(164.9)	(161.5)
Net sales	$3,643.8	$3,497.7	$3,236.3
Operating income(1)	252.3	318.7	301.6
(1) Includes lease cancellation charges in 2008 and 2006, restructuring costs and asset impairment charges in all years presented, and other items in 2007 and 2006	$ 10.4	$ 13.8	$ 9.3

Net Sales

Sales in our Pressure-sensitive Materials segment increased 4% in 2008 and 8% in 2007. The increase in reported sales for this segment included a favorable impact of foreign currency translation of approximately $132 million in 2008 and approximately $174 million in 2007.

Organic sales growth was 1% in 2008 and 3% in 2007, which reflected growth in our roll materials business in Asia, Latin America and Europe, partially offset by declines in our North American roll materials businesses. The growth resulting from market expansion in our roll materials business in Asia and Latin America during 2007 slowed in 2008. In Asia, the roll materials business experienced high single-digit growth in 2008 compared to double-digit growth in 2007. In Latin America, the roll materials business experienced low single-digit growth in 2008 compared to mid single-digit growth in 2007. Our roll materials business in Europe experienced low single-digit organic sales growth in both 2008 and 2007.

In our North American roll materials business, slow market conditions in 2008 and 2007 resulted in the low single-digit decline in sales on an organic basis. In 2007, a more competitive environment due in part to capacity additions in the industry led to price reductions to maintain market share.

In our graphics and reflective business, sales declined on an organic basis at a mid single-digit rate in 2008, as growth in Asia and Latin America was more than offset by declines in the U.S. and Europe. The decline primarily reflected lower promotional spending on graphic products by businesses in response to weak market conditions. In 2007, our graphics and reflective business experienced mid single-digit organic sales growth, as strong international growth was partially offset by declines in the U.S.

Operating Income

Decreased operating income in 2008 reflected the negative effects of raw material and other cost inflation and prior year price reductions (which more than offset the initial benefits of recent price increases), and negative product mix, partially offset by higher unit volume, and cost savings from restructuring and productivity improvement initiatives.

Increased operating income in 2007 reflected higher sales and cost savings from restructuring and productivity improvement initiatives. These initiatives were partially offset by a more competitive pricing environment and unfavorable product mix in the roll materials business, higher raw material costs, and transition costs related to restructuring actions.

Operating income for all three years reflected restructuring and asset impairment charges. In 2008, operating income included lease cancellation charges. In 2007, operating income included a reversal of an accrual related to a lawsuit. In 2006, operating income included a gain on sale of assets, legal fees related to a lawsuit, and lease cancellation charges.

Retail Information Services Segment

(In millions)	2008	2007	2006
Net sales including intersegment sales	$1,550.8	$1,177.5	$671.4
Less intersegment sales	(2.1)	(2.1)	(3.4)
Net sales	$1,548.7	$1,175.4	$668.0
Operating income (loss)(1)(2)	9.4	(5.7)	45.2
(1) Includes restructuring costs, asset impairment and lease cancellation charges for all years presented	$ 11.4	$ 31.2	$ 11.2
(2) Includes transition costs associated with acquisition integrations	$ 24.1	$ 43.0	$ –

Net Sales

Sales in our Retail Information Services segment increased 32% in 2008 compared to an increase of 76% in 2007. In 2008, the increase reflected an estimated $450 million in sales from the Paxar and DM Label acquisitions and the favorable impact of foreign currency translation (approximately $7 million). In 2007, the increase reflected an estimated $510 million in sales from the Paxar acquisition and the favorable impact of foreign currency translation (approximately $17 million).

On an organic basis, sales declined 6% in 2008 reflecting continued weakness in the domestic retail apparel markets and weakness experienced in the European retail markets. Organic sales growth of approximately 1% in 2007 reflected increased sales for the European retail market, partially offset by a decline in orders related to apparel shipped to North American retailers and brand owners.

Operating Income

Increased operating income in 2008 reflected higher sales, incremental synergies and lower transition costs related to the Paxar integration, and savings from restructuring and productivity improvement initiatives, partially offset by raw material and other cost inflation, and incremental amortization of acquisition intangibles.

Operating loss in 2007 reflected transition costs and integration-related asset impairment charges associated with the Paxar acquisition, amortization of acquisition intangibles and higher expenses due to investments for growth in Asia, including higher employee-related costs. Higher operating costs were partially offset by higher sales and savings from restructuring and productivity improvement initiatives.

Restructuring costs, asset impairment and lease cancellation charges were incurred in all three years.

Office and Consumer Products Segment

(In millions)	2008	2007	2006
Net sales including intersegment sales	$937.0	$1,017.8	$1,073.8
Less intersegment sales	(1.2)	(1.6)	(1.8)
Net sales	$935.8	$1,016.2	$1,072.0
Operating income(1)	144.5	173.6	187.4
(1) Includes restructuring costs for all years, asset impairment charges in 2008 and 2006, lease cancellation costs in 2007, and other items in 2007 and 2006	$ 12.2	$ 4.8	$ (2.3)

Net Sales

Sales in our Office and Consumer Products segment decreased 8% in 2008 and 5% in 2007. The decline in reported sales in both years reflected lower sales on an organic basis, partially offset by the favorable impact of foreign currency translation (approximately $12 million in 2008 and $25 million in 2007). In 2007, the decline included the negative impact of product line divestitures (approximately $9 million).

On an organic basis, sales declined approximately 9% in 2008 and 7% in 2007. These declines reflected a combination of weak end market demand and tighter inventory controls by customers.

Operating Income

Decreased operating income in 2008 reflected lower sales and cost inflation, partially offset by price increases and savings from restructuring actions and other productivity improvement initiatives.

Decreased operating income in 2007 reflected lower sales and higher raw material costs, partially offset by savings from restructuring actions and productivity improvement initiatives.

Restructuring costs were incurred in all three years and asset impairment charges were incurred in 2008 and 2006. Operating income in 2007 included lease cancellation costs and expense related to a divestiture. In 2006, operating income included a gain from sale of assets, a gain from curtailment and settlement of a pension obligation, and a net gain from a product line divestiture.

Other specialty converting businesses

(In millions)	2008	2007	2006
Net sales including intersegment sales	$608.5	$638.4	$614.0
Less intersegment sales	(26.4)	(19.9)	(14.4)
Net sales	$582.1	$618.5	$599.6
Operating income(1)	6.0	27.1	17.8
(1) Includes restructuring and asset impairment charges for all years presented	$ 2.8	$ 4.2	$ 3.7

Net Sales

Sales in our other specialty converting businesses decreased 6% in 2008 and increased 3% in 2007. In 2008, the decrease reflected lower sales on an organic basis, partially offset by the favorable impact of foreign currency translation (approximately $17 million). In 2007, the increase reflected the favorable impact of foreign currency translation (approximately $16 million), partially offset by the impact of a product line divestiture, net of a small acquisition (approximately $2 million).

On an organic basis, sales declined 8% in 2008, reflecting lower volume in products sold to the automotive and housing construction industries, and the negative effect of exiting certain low-margin products in our specialty tape business, partially offset by growth in our radio-frequency identification ("RFID") division. In 2007, sales grew 1% on an organic basis, as the loss of sales from exiting certain low-margin products in our specialty tape business was more than offset by solid growth in other parts of the specialty tape business, as well as growth of the RFID division.

Operating Income

Decreased operating income for these businesses in 2008 reflected lower sales and cost inflation, partially offset by the benefit of productivity improvement initiatives and a reduction in operating loss in our RFID division.

Increased operating income for these businesses in 2007 reflected higher sales, savings from restructuring and productivity improvement initiatives, and a reduction in operating loss from the RFID division.

Operating income for all years included restructuring costs and asset impairment charges.

FINANCIAL CONDITION

Liquidity

Cash Flow from Operating Activities:

(In millions)	2008	2007	2006
Net income	$266.1	$303.5	$373.2
Depreciation and amortization	278.4	242.9	201.4
Provision for doubtful accounts	17.7	18.7	31.8
Asset impairment and net loss (gain) on sale and disposal of assets	16.8	44.0	(7.8)
Stock-based compensation	29.0	21.6	24.1
Other non-cash items, net	(1.1)	(6.6)	1.0
Trade accounts receivable	57.7	(17.7)	(34.1)
Inventories	16.5	(5.3)	(24.6)
Other current assets	(30.0)	18.8	(45.6)
Accounts payable and accrued liabilities	(15.8)	(87.1)	8.9
Income taxes (deferred and accrued)	(79.9)	(31.4)	5.3
Other assets	20.8	(17.1)	(11.0)
Long-term retirement benefits and other liabilities	(36.5)	15.1	(11.8)
Net cash provided by operating activities	$539.7	$499.4	$510.8

For cash flow purposes, changes in assets and liabilities exclude the impact of foreign currency translation, the impact of acquisitions and divestitures and certain non-cash transactions (discussed in "Analysis of Selected Balance Sheet Accounts" below).

In 2008, cash flow provided by operating activities improved compared to 2007 due to improved collection of trade accounts receivable; extended payment terms on accounts payable; decreased purchases and better management of inventory; lower rebate payments; and lower income tax payments, net of refunds. These positive factors were partially offset by higher payments for interest and higher material costs.

In 2007, cash flow provided by operating activities decreased compared to 2006 primarily due to shorter vendor payment terms on accounts payable and higher payments for income taxes. These negative factors were partially offset by the collection of value-added tax receivables in Europe in other current assets and lower contributions to our pension plans.

Cash Flow from Investing Activities:

(In millions)	2008	2007	2006
Purchase of property, plant and equipment	$(128.5)	$ (190.5)	$(161.9)
Purchase of software and other deferred charges	(63.1)	(64.3)	(33.4)
Payments for acquisitions	(131.2)	(1,291.9)	(13.4)
Proceeds from sale of investments, net	17.2	–	16.3
Proceeds from sale of businesses	–	–	19.1
Other	12.1	3.5	18.4
Net cash used in investing activities	$(293.5)	$(1,543.2)	$(154.9)

Payments for acquisitions

On April 1, 2008, we completed the acquisition of DM Label.

On June 15, 2007, we completed the acquisition of Paxar. This acquisition was initially funded by commercial paper borrowings, supported by a bridge revolving credit facility.

Refer to Note 2, "Acquisitions," to the Consolidated Financial Statements for more information.

Payments for acquisitions during 2007 also included buy-outs of minority interest shareholders associated with certain subsidiaries of RVL Packaging, Inc. and Paxar of approximately $4 million.

Capital and Software Spending

Significant capital projects in 2008 included investments for expansion in China and India serving both our materials and retail information services businesses. Significant information technology projects in 2008 included customer service and standardization initiatives.

Proceeds from Sale of Businesses and Investments

In 2008, we sold securities primarily held by our captive insurance company.

In 2006, we sold a long-term investment (proceeds of approximately $16 million), divested our raised reflective pavement marker business in the U.S. (proceeds of approximately $9 million), and divested a product line in Europe (proceeds of approximately $4 million).

Cash Flow from Financing Activities:

(In millions)	2008	2007	2006
Net change in borrowings and payments of debt	$ (40.7)	$1,259.0	$(140.1)
Dividends paid	(175.0)	(171.8)	(171.8)
Purchase of treasury stock	(9.8)	(63.2)	(157.7)
Proceeds from exercise of stock options, net	2.7	38.1	54.1
Other	14.3	(6.7)	17.7
Net cash (used in) provided by financing activities	$(208.5)	$1,055.4	$(397.8)

Borrowings and Repayment of Debt

At year end 2008, our borrowings outstanding under foreign short-term lines of credit were approximately $106 million (weighted-average interest rate of 6.9%), compared to approximately $70 million at year end 2007 (weighted-average interest rate of 10.6%).

Short-term variable rate domestic borrowings were $558 million at December 27, 2008 (weighted-average interest rate of 0.9%), compared to $990.2 million at December 29, 2007 (weighted-average interest rate of 5.2%). At December 27, 2008, short-term variable rate domestic borrowings were from a mix of commercial paper and the revolving credit agreement. During 2007, we increased our short-term borrowings to initially fund the Paxar acquisition, as noted above in "*Payments for acquisitions,*" as well as to support share repurchases. The change in outstanding commercial paper also reflects positive cash flow from operations.

We had medium-term notes of $50 million outstanding at year end 2008, compared to $100 million at year end 2007. In 2008 and 2007, medium-term notes of $50 million and $60 million were paid on maturity, respectively.

Refer to "Capital Resources" below for further information on the 2008 and 2007 borrowings and repayment of debt.

Shareholders' Equity

Our shareholders' equity was approximately $1.75 billion at year end 2008, compared to approximately $1.99 billion at year end 2007. Our annual dividend per share increased to $1.64 in 2008 from $1.61 in 2007.

Share Repurchases

On October 26, 2006, the Board of Directors authorized the Company to purchase an additional 5 million shares of the Company's stock under our existing stock repurchase program, resulting in a total authorization of approximately 7.4 million shares of the Company's stock at that date. We repurchased approximately .2 million and .8 million shares in 2008 and 2007, respectively. Cash payments for these repurchased shares were approximately $10 million and $63 million in 2008 and 2007, respectively. Included in the 2007 cash payments were approximately $11 million related to shares repurchased in 2006, which settled in 2007. As of December 27, 2008, approximately 3.9 million shares were available for repurchase under the Board of Directors' authorization.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

Goodwill increased $33 million during 2008 due to preliminary identified goodwill associated with the DM Label acquisition ($45 million) and purchase price adjustments ($10 million) associated with the Paxar acquisition completed in June 2007, partially offset by foreign currency translation ($22 million).

Other intangibles resulting from business acquisitions decreased $11 million during 2008, which reflected normal amortization expense ($33 million) and the impact of foreign currency translation ($5 million), partially offset by our preliminary valuation of the intangible assets of the DM Label acquisition ($19 million) and incremental adjustments to intangible assets for the Paxar acquisition ($8 million).

Refer to Note 2, "Acquisitions," to the Consolidated Financial Statements for more information.

Other assets decreased $115 million during 2008 due primarily to decreases in long-term pension assets ($115 million) and cash surrender value of corporate-owned life insurance ($23 million), and the impact of foreign currency translation ($5 million), partially offset by increases in purchases of software and other deferred charges, net of related amortization ($23 million) and other assets ($5 million).

Other Shareholders' Equity Accounts

The value of our employee stock benefit trust decreased $182 million in 2008 due to a decrease in the market value of shares held in the trust of approximately $174 million, and the issuance of shares under our employee stock option and incentive plans of approximately $8 million.

Accumulated other comprehensive (loss) income reflected a loss of $367 million during 2008 due primarily to a decline in the value of pension assets and current year recognition and amortization of net pension transition obligation, prior service cost, and net actuarial losses in our U.S. and international pension and other postretirement plans ($191 million), as well as foreign currency translation ($177 million).

Impact of Foreign Currency Translation:

(In millions)	2008	2007	2006
Change in net sales	$168	$232	$21
Change in net income	8	13	2

In 2008, international operations generated approximately 67% of our net sales. Our future results are subject to fluctuations in foreign currency exchange and interest rates, which are influenced by global economic and political conditions.

The benefit to sales from currency translation in 2008 primarily reflected a benefit from sales denominated in Euros and Swiss Francs, as well as sales in the currencies of China, Brazil, and Australia, partially offset by a negative impact of sales in the currencies of South Korea, Great Britain and South Africa.

Translation gains and losses for operations in hyperinflationary economies are included in net income in the period incurred. Operations are treated as being in a hyperinflationary economy based on the cumulative inflation rate over the past three years. In 2008 and 2007, we had no operations in hyperinflationary economies. In 2006, the only hyperinflationary economy in which we operated was the Dominican Republic, which uses the U.S. dollar as its functional currency.

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 statement and cash flow exposure to transactions in foreign currencies, we may enter into foreign exchange forward, option and swap contracts, where available and appropriate.

Analysis of Selected Financial Ratios

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

Operational Working Capital Ratio

Working capital (current assets minus current liabilities) as a percent of net sales changed in 2008 primarily due to the impact of the Paxar acquisition and a decrease in short-term debt and accrued liabilities, partially offset by a decrease in net trade accounts receivable, inventories and current deferred tax assets, as well as a net increase in hedge liabilities and income taxes payable.

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. The proceeds from this term loan credit facility were used to reduce commercial paper borrowings (included in current liabilities) initially used to finance the Paxar acquisition.

Operational working capital, as a percent of 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 due 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:

(In millions)	2008	2007
(A) Working capital (current assets minus current liabilities)	$ (127.6)	$ (419.3)
Reconciling items:		
Cash and cash equivalents	(105.5)	(71.5)
Current deferred and refundable income taxes and other current assets	(252.4)	(242.0)
Short-term and current portion of long-term debt	665.0	1,110.8
Current deferred and payable income taxes and other current liabilities	720.1	687.6
(B) Operational working capital	$ 899.6	$1,065.6
(C) Net sales	$6,710.4	$6,307.8
Working capital, as a percent of net sales (A) ÷ (C)	(1.9)%	(6.6)%
Operational working capital, as a percent of net sales (B) ÷ (C)	13.4%	16.9%

As a percent of net sales, operational working capital in 2008 decreased compared to 2007. The primary factors contributing to this change, which includes the impact of the Paxar acquisition and foreign currency translation, are discussed below.

Accounts Receivable Ratio

The average number of days sales outstanding was 61 days in 2008 compared to 62 days in 2007, calculated using a four-quarter average accounts receivable balance divided by the average daily sales for the year. The current year average number of days sales outstanding benefited from improved payment terms with our customers. The prior year average number of days sales outstanding was impacted primarily by the acquisition of Paxar, as well as the timing of sales and collections.

Inventory Ratio

Average inventory turnover was 7.8 in both 2008 and 2007, calculated using the annual cost of sales divided by a four-quarter average inventory balance. The current year average inventory turnover reflected the continued improvement of inventory management to adjust to the demand of our customers. In the prior year, this ratio was impacted primarily by the acquisition of Paxar.

Accounts Payable Ratio

The average number of days payable outstanding was 54 days in 2008 compared to 53 days in 2007, calculated using a four-quarter average accounts payable balance divided by the average daily cost of products sold for the year. The current year average number of days payable outstanding was primarily due to improved payment terms with our suppliers, partially offset by lower inventory purchases. The prior year average number of days payable outstanding was impacted primarily by the timing of payments in Europe, partially offset by the acquisition of Paxar.

Debt-to-Capital Ratio

	Year End	
	2008	2007
Debt-to-capital	55.8%	53.1%

The increase in the debt-to-capital ratio in 2008 was primarily due to lower shareholders' equity, which reflected the recognition of net pension transition obligation, prior service cost, and net actuarial losses on our U.S. and international pension and other postretirement plans, and the negative impact of foreign currency translation, partially offset by a net decrease in debt.

Our various loan agreements in effect at year end require that we maintain specified ratios on total debt and interest expense in relation to certain measures of income. Under the loan agreements, the ratio of total debt to earnings before interest, taxes, depreciation, amortization, and other non-cash expenses for the most recent twelve-month fiscal period may not exceed 3.5 to 1.0. In addition, earnings before interest, taxes, and other non-cash expenses, as a ratio to interest for the most recent twelve-month fiscal period may not be less than 3.5 to 1.0. As of December 27, 2008, we were in compliance with these debt covenants. In January 2009, we amended the covenants included in the revolving credit agreement and term loan agreement to exclude certain restructuring charges and to adjust covenant levels. The adjusted covenant levels change quarterly and revert back to the pre-amendment levels during 2010. The amendments also reflect increased pricing levels for borrowings under both agreements, consistent with the current pricing environment. Refer to Note 15, "Subsequent Events," to the Consolidated Financial Statements for further information.

The fair value of our debt is estimated based on the discounted amount of future cash flows using the current rates offered to us for debt of the same remaining maturities. At year end, the fair value of our total debt, including short-term borrowings, was $1,944.2 million in 2008 and $2,250.7 million in 2007.

Shareholders' Equity Ratios

	2008	2007	2006
Return on average shareholders' equity	13.1%	16.5%	22.7%
Return on average total capital	8.8	10.6	15.7

Decreases in these ratios in 2008 compared to 2007 were primarily due to lower net income, as well as a higher yearly average of total debt outstanding and shareholders' equity. These ratios are computed using actual net income and a five-quarter average denominator for equity and total debt accounts.

Capital Resources

Capital resources include cash flows from operations, cash and cash equivalents and debt financing. At year end 2008, we had cash and cash equivalents of $105.5 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 committed and uncommitted bank lines of credit maintained in the countries in which we operate, provide the liquidity to fund our operations. During the recent turmoil in the financial markets, we did not experience interruptions in our access to funding.

We have $.5 million of long-term debt maturities due in 2009.

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.

Our total debt decreased $46 million in 2008 to $2.21 billion compared to $2.26 billion at year end 2007, reflecting primarily a decrease in short-term borrowings used for general operational requirements, partially offset by an increase in short-term borrowings associated with the DM Label acquisition. Refer to "Borrowings and Repayment of Debt" in the "Cash Flow from Financing Activities" section above for more information.

In August 2007, we amended our existing revolving credit agreement, increasing commitments from $525 million to $1 billion and extending the maturity to August 2012. Commitments were provided by twelve domestic and foreign banks. Financing available under the agreement will be used as a commercial paper back-up facility and is also available to finance other corporate requirements. In January 2009, we amended the covenants related to this issuance as described above. Refer to Note 15, "Subsequent Events," to the Consolidated Financial Statements for further information.

In September 2007, one of our subsidiaries issued $250 million 10-year senior notes, which we guaranteed, bearing interest at a rate of 6.625% per year, due October 2017. The net proceeds from the offering were approximately $247 million and were used to pay down current long-term debt maturities of $150 million and reduce commercial paper borrowings of $97 million initially used to finance the Paxar acquisition.

In the fourth quarter of 2007, we filed a shelf registration statement with the Securities and Exchange Commission to permit the issuance of debt and equity securities. Proceeds from the shelf offering may be used for general corporate purposes, including repaying, redeeming or repurchasing existing debt, and for working capital, capital expenditures and acquisitions. This shelf registration replaced the shelf registration statement filed in 2004. The HiMEDS units discussed below were issued under this registration statement.

In the fourth quarter of 2007, we issued $440 million of 7.875% Corporate HiMEDS units, a mandatory convertible debt issue. These HiMEDS units are comprised of two components — purchase contracts obligating the holders to purchase from us a certain number of shares in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price at that time) and senior notes due in 2020. The net proceeds from the offering were approximately $427 million, which were used to reduce commercial paper borrowings initially used to finance the Paxar acquisition. In February 2009, we commenced an offer to exchange up to approximately 8.4 million units, or 95%, of our HiMEDS units, stated amount $50.00 per unit, in the form of Corporate HiMEDS units. As the exchange is not mandatory, there is no assurance that the exchange will occur in part or in its entirety. Refer to Note 15, "Subsequent Events," to the Consolidated Financial Statements for further information.

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. Financing available under the agreement is to be used for working capital and other general corporate purposes. We used the term loan credit facility to reduce commercial paper borrowings previously issued to fund the acquisition of Paxar. The term loan credit facility is subject to customary financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio. In January 2009, we amended these covenants as described above. Refer to Note 15, "Subsequent Events," to the Consolidated Financial Statements for further information.

In February 2008, we terminated our bridge revolving credit agreement, dated June 13, 2007, with five domestic and foreign banks.

In addition, we have a 364-day revolving credit facility in which a foreign bank provides us up to Euro 30 million ($42.2 million) in borrowings through March 5, 2009. With the approval of the bank, we may extend the revolving period and due date on an annual basis. Financing under this agreement is used to finance cash requirements of our European operations. As of December 27, 2008, there was $42.2 million of debt outstanding under this agreement. There was no debt outstanding under this agreement as of December 29, 2007.

We had standby letters of credit outstanding of $70.6 million and $80.9 million at the end of 2008 and 2007, respectively. The aggregate contract amount of outstanding standby letters of credit approximated fair value.

Our uncommitted lines of credit were approximately $468 million at year end 2008. Our uncommitted lines of credit have no commitment expiration date and may be cancelled by the banks or us at any time.

Credit ratings are a significant factor in our ability to raise short-term and long-term financing. The credit ratings assigned to us also impact the interest rates on our commercial paper and other borrowings. When determining a credit rating, the rating agencies place significant weight on our competitive position, business outlook, consistency of cash flows, debt level and liquidity, geographic dispersion and management team. We remain committed to retaining an investment grade rating.

Our Credit Ratings as of Year End 2008:

	Short-term	Long-term	Outlook
Standard & Poor's Rating Service ("S&P")	A-2	BBB	Stable
Moody's Investors Service ("Moody's")	P2	Baa1(1)	Negative

(1) In January 2009, our long-term credit rating was placed under review by Moody's for possible downgrade. Moody's expects the review to be completed by the end of April 2009.

Contractual Obligations, Commitments and Off-balance Sheet Arrangements

Contractual Obligations at Year End 2008:

	Payments Due by Period						
(In millions)	Total	2009	2010	2011	2012	2013	Thereafter
Short-term lines of credit	$ 664.4	$664.4	$ –	$ –	$ –	$ –	$ –
Long-term debt and capital leases(1)	1,545.3	.5	.6	405.2	–	250.0	889.0
Interest on long-term debt(2)	872.1	75.8	75.8	75.8	75.8	64.1	504.8
Operating leases	250.9	64.6	49.6	39.2	30.5	20.1	46.9
Pension and postretirement benefit contributions	25.0	25.0	–	–	–	–	–
Total contractual obligations	$3,357.7	$830.3	$126.0	$520.2	$106.3	$334.2	$1,440.7

(1) In January 2009, we entered into an amendment to our credit agreement for a $400 million term loan credit facility ("Credit Facility") maturing February 8, 2011. The amendment provides for 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. Under the amended agreement, repayment of long-term debt and capital leases is scheduled as follows: $60.5 million in 2009, $60.6 million in 2010, $285.2 million in 2011, $0 in 2012, $250 million in 2013, and $889 million thereafter. See Note 15, "Subsequent Events," for more information.

(2) Interest on floating rate debt was estimated using the index rate in effect as of December 27, 2008.

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

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 estimate that the residual value of the Facility will not be less than the amount guaranteed.

We did not include purchase obligations or open purchase orders at year end 2008 in the table of contractual obligations above, because it is impracticable for us to either obtain such information or provide a reasonable estimate due to the decentralized nature of our purchasing systems.

The table above does not reflect unrecognized tax benefits of approximately $23 million, which is the portion that may become payable during 2009. The resolution of the balance is contingent upon various unknown factors, and cannot be reasonably estimated. Refer to Note 11, "Taxes Based on Income" to the Consolidated Financial Statements for further information on unrecognized tax benefits.

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.

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 8, "Contingencies," to the Consolidated Financial Statements.

Environmental Matters

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 seventeen waste disposal or waste recycling sites, including former Paxar 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 which could be identified in the future for cleanup could be higher than the liability currently accrued.

Environmental liabilities, which include costs associated with compliance and remediation, were as follows:

(In millions)	December 27, 2008	December 29, 2007
Balance at beginning of year	$37.8	$22.9
Purchase price adjustments related to acquisitions	24.6	21.5
Accruals	.9	2.8
Payments	(4.8)	(9.4)
Balance at end of year	$58.5	$37.8

As of December 27, 2008, approximately $2 million associated with these environmental liabilities is estimated to be paid within the next 12 months.

Our 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.

Other

In 2005, we contacted relevant authorities in the U.S. and reported 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 relatively minor in amount and of limited duration. Corrective and disciplinary actions have been taken. Sales of our reflective business in China in 2005 were approximately $7 million. Based on findings to date, no changes to our previously filed financial statements are warranted as a result of these matters. However, we believe that fines or other penalties could be incurred. While we are unable to predict the financial or operating impact of any such fines or penalties, we believe that our behavior in detecting, investigating, responding to and voluntarily disclosing these matters to authorities should be viewed favorably.

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 do not appear to have been made for the purpose of obtaining business from any governmental entity. We are in the process of conducting a review and are taking remedial measures to comply with the provisions of the U.S. Foreign Corrupt Practices Act.

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.

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. As 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.

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 December 27, 2008, we had guaranteed approximately $13 million.

As of December 27, 2008, we guaranteed up to approximately $22 million of certain of our foreign subsidiaries' obligations to their suppliers, as well as approximately $556 million of certain of our subsidiaries' lines of credit with various financial institutions.

In the fourth quarter of 2007, we issued $440 million of 7.875% Corporate HiMEDS units, a mandatory convertible debt issue. These HiMEDS units are comprised of two components — purchase contracts obligating the holders to purchase from us a certain number of shares of our common stock in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the quoted price per share of our common stock at that time) and senior notes due in 2020. The net proceeds from the offering were approximately $427 million.

In February 2009, we commenced an offer to exchange up to approximately 8.4 million units, or 95%, of our HiMEDS units, stated amount $50.00 per unit, in the form of Corporate HiMEDS units. As the exchange is not mandatory, there is no assurance that the exchange will occur in part or in its entirety. Refer to Note 15, "Subsequent Events," to the Consolidated Financial Statements for further 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 and the impact of acquisitions and divestitures 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.

RELATED PARTY TRANSACTIONS

From time to time, we enter into transactions in the normal course of business with related parties. We believe that such transactions are at arm's length and for terms that would have been obtained from unaffiliated third parties.

One of our directors, Peter W. Mullin is the chairman, chief executive officer and a director of MC Insurance Services, Inc. ("MC"), Mullin Insurance Services, Inc. ("MINC"), and PWM Insurance Services, Inc. ("PWM"), executive compensation and benefit consultants and insurance agents. Mr. Mullin is also the majority stockholder of MC, MINC and PWM (collectively referred to as the "Mullin Companies"). In October 2008, the Mullin Companies' executive benefit and insurance agency related entities (MC Insurance Agency Service, LLC, — "MCIA," MullinTBG Insurance Agency Services, LLC — "MullinTBG," and MullinTBG Advisory Services, LLC — "MullinTBG Advisors") were sold to Prudential Financial ("Prudential"). We paid premiums to insurance carriers for life insurance placed by the Mullin Companies in connection with various of our employee benefit plans. The Mullin Companies and Prudential have advised us that they earned commissions from such insurance carriers for the placement and renewal of this insurance. Approximately 50% of these commissions were allocated to and used by MullinTBG (a previous affiliate of MC and now a wholly-owned affiliate of Prudential) to administer benefit plans and provide benefit statement information to participants under various of our employee benefit plans. During 2008, MullinTBG Advisors provided financial advisory services to participants in certain of our employee benefit plans. The Mullin Companies own a minority interest in M Financial Holdings, Inc. ("MFH"). Substantially all of the life insurance policies, which we placed through the Mullin Companies in 2008 and prior years, are issued by insurance carriers that participate in reinsurance agreements entered into between these insurance carriers and M Life Insurance Company ("M Life"), a wholly-owned subsidiary of MFH. Reinsurance returns earned by M Life are determined annually by the insurance carriers and can be negative or positive, depending upon the results of M Life's aggregate reinsurance pool, which consists of the insured lives reinsured by M Life. The Mullin Companies have advised us that they participated in net reinsurance gains of M Life. In addition, the Mullin Companies have advised us that they also participated in net reinsurance gains of M Life that are subject to risk of forfeiture. None of these transactions were significant to our financial position or results of operations.

Summary of Related Party Activity:

(In millions)	2008	2007	2006
Mullin Companies and Prudential commissions on our insurance premiums and advisory fees	$ .6	$.4	$.5
Mr. Mullin's direct & indirect interest in these commissions and fees	.3	.3	.4
Mullin Companies reinsurance gains (without risk of forfeiture) ascribed by M Life to our life insurance policies	.2	.2	.3
Mr. Mullin's direct & indirect interest in reinsurance gains (without risk of forfeiture)	.1	.1	.2
Mullin Companies reinsurance gains (subject to risk of forfeiture) ascribed by M Life to our life insurance policies	.05	.8	.6
Mr. Mullin's direct & indirect interest in reinsurance gains (subject to risk of forfeiture)	.04	.5	.4

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Revenue Recognition

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

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

Sales Returns and Allowances

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

Accounts Receivable Allowances

We are required to make judgments as to the collectibility of accounts receivable based on established aging policy, historical experience and future expectations. The allowances for doubtful accounts represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. We record these allowances based on estimates related to the following factors: (i) customer specific allowances; (ii) amounts based upon an aging schedule; and (iii) an estimated amount, based on our historical experience, for issues not yet identified. No single customer represented 10% or more of our net sales or trade receivables at year end 2008 and 2007. However, our ten largest customers at year end 2008 represented approximately 13% of trade accounts receivable and consisted of five customers of our Office and Consumer Products segment, four customers of our Pressure-sensitive Materials segment and one customer of both these segments. The financial position and operations of these customers are monitored on an ongoing basis.

Inventory and Inventory Reserves

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

Long-lived Asset Impairments

We record impairment charges when the carrying amounts of long-lived assets are determined not to be recoverable. Impairment is measured by assessing the usefulness of an asset or by comparing the carrying value of an asset to its fair value. Fair value is typically determined using quoted market prices, if available, or an estimate of undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The key estimates applied when preparing cash flow projections relate to revenues, gross margins, economic life of assets, overheads, taxation and discount rates. The amount of impairment loss is calculated as the excess of the carrying value over the fair value. Changes in market conditions and management strategy have historically caused us to reassess the carrying amount of our long-lived assets.

Goodwill

Our reporting units for the purpose of performing the impairment tests for goodwill consist of roll materials; retail information services; office and consumer products; graphics and reflective products; industrial products; and business media. For the purpose of performing the required impairment tests, we primarily apply a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. We perform our annual impairment test of goodwill during the fourth quarter.

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

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

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

We estimate the fair value of our reporting units, using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various judgmental assumptions about sales, operating margins, growth rates and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based on our forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period. Because of the increased uncertainty resulting from worsening global economic conditions, our revenue projections generally assumed reductions in 2009 and a period of recovery beginning in 2010.

Our first step impairment analysis for 2008 indicated that the fair value of each of our reporting units exceeded its carrying value. The fair values of our reporting units, except for the retail information services reporting unit, exceeded the carrying amount by more than 100% of the respective reporting unit's book value of goodwill at December 27, 2008. The fair value of our retail information services reporting unit exceeded its carrying value by approximately 5% of its book value of goodwill at December 27, 2008 (approximately $1.2 billion).

In evaluating the fair value of our retail information services reporting unit, we assumed revenue declines for 2009 from 2008 reflecting a continuation of weakness in the retail apparel market. We then assumed revenue in 2010 increased to levels comparable with fiscal year 2007 (including estimated sales for Paxar and DM Label, adjusted for foreign currency translation). We also assumed a discount rate of 11.8% and a perpetual growth rate of 3% reflecting the market conditions in the fourth quarter of 2008.

The retail information services business is seasonal, with higher volume in the second quarter. We may need to perform an impairment test in the second quarter of 2009 if revenues or results for this reporting unit during the first and second quarters of 2009 are below our estimates, the perpetual growth rate is decreased below 2.7%, the discount rate increases above 12%, or other key assumptions used in our fair value calculations in the fourth quarter of 2008 change.

Pension and Postretirement Benefits

Effective December 2006, we adopted the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." Assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension plan and other postretirement benefit plans are evaluated by management in consultation with outside actuaries. In the event we determine that changes are warranted in the assumptions used, such as the discount rate, expected long-term rate of return, or health care costs, future pension and postretirement benefit expenses could increase or decrease. Due to changing market conditions or changes in the participant population, the actuarial assumptions we use may differ from actual results, which could have a significant impact on our pension and postretirement liability and related cost.

Discount Rate

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

Long-term Return on Assets

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

Healthcare Cost Trend Rate

Our practice is to fund the cost of postretirement benefits on a cash basis. For measurement purposes, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009. This rate is expected to decrease to approximately 5% by 2011.

Income Taxes

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

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

Pursuant to SFAS No. 109, "Accounting for Income Taxes," when establishing a valuation allowance, we consider future sources of taxable income such as "future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards" and "tax planning strategies." SFAS No. 109 defines a tax planning strategy as "an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets." In the event we determine the deferred tax assets will not be realized in the future, the valuation adjustment to the deferred tax assets will be charged to earnings in the period in which we make such a determination. We have also acquired certain net deferred tax assets with existing valuation allowances. If it is later determined that it is more likely than not that the deferred tax assets will be realized, we will release the valuation allowance to current earnings or adjust the purchase price allocation.

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

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time, pursuant to FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109." FIN 48 requires a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We record a liability for the difference between the benefit recognized and measured pursuant to FIN 48 and tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. We report tax-related interest and penalties as a component of income tax expense.

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

Stock-Based Compensation

We recognize expense for stock-based compensation in accordance with the provisions of the SFAS No. 123(R), "Share-Based Payment."

Valuation of Stock Options

Our stock-based compensation expense is the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period. The fair value of each of our stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for our expected dividend yield, expected volatility, risk-free interest rate and the expected life of the options.

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

Expected volatility for options was determined based on an average of implied and historical volatility.

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

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

Forfeiture rate assumption was determined based on historical data of our stock option forfeitures.

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

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

Accounting for Income Taxes for Stock-based Compensation

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

Restructuring and Severance Costs

We account for restructuring costs including severance and other costs associated with exit or disposal activities following the guidance provided in SFAS No. 112, "Accounting for Postemployment Benefits," and SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." In the U.S., we have a severance pay plan ("Pay Plan"), which provides eligible employees with severance payments in the event of an involuntary termination due to qualifying cost reduction actions. We calculate severance pay using the severance benefit formula under the Pay Plan. Accordingly, we record provisions for such amounts and other related exit costs when they are probable and estimable as set forth under SFAS No. 112. In the absence of a Pay Plan or established local practices for overseas jurisdictions, liability for severance and other employee-related costs is recognized when the liability is incurred, following the guidance of SFAS No. 146.

Litigation and Environmental Matters

We are currently involved in various lawsuits, claims and inquiries, most of which are routine to the nature of our business. In accordance with SFAS No. 5, "Accounting for Contingencies," when it is probable that obligations have been incurred and where a range of the cost of compliance or remediation can be estimated, the best estimate within the range, or if the most likely amount cannot be determined, the low end of the range is accrued. The ultimate resolution of these claims could affect future results of operations should our exposure be materially different from our earlier estimates or should liabilities be incurred that were not previously accrued.

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

Business Combinations

We account for business combinations using the accounting requirements of SFAS No. 141, "Business Combinations." In accordance with SFAS No. 141, we record the assets acquired and liabilities assumed from acquired businesses at fair value, and we make estimates and assumptions to determine such fair values.

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

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

Effective January 2009, we will adopt SFAS No. 141(R), "Business Combinations." We are currently evaluating the impact of this Statement on our financial results of operations and financial position.

RECENT ACCOUNTING REQUIREMENTS

During 2008, we adopted certain accounting and financial disclosure requirements of the Financial Accounting Standards Board ("FASB"), Emerging Issues Task Force ("EITF") and Financial Interpretations by the staff of the FASB, none of which had a significant impact on our financial results of operations and financial position. Refer to Note 1, "Summary of Significant Accounting Policies," to the 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 Annual Report contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, 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 by retailers and other customers for our products; impact of competitive products and pricing; selling prices; possible increases in per unit product manufacturing costs due to less than full utilization of manufacturing capacity as a result of changing economic conditions and other factors; possible increases in payment time for receivables as a result of changing economic conditions or other factors; business mix shift; volatility of capital and credit markets; credit risks; ability of the Company to obtain adequate financing arrangements and to maintain access to capital; fluctuations in interest 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 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; (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) potential adverse developments in legal proceedings and/or investigations, including possible fines, penalties, judgments or settlements; 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.

MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

Risk Management

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

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

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

Our objective in managing our exposure to interest rate changes is to reduce the impact of interest rate changes on earnings and cash flows. To achieve our objectives, we may periodically use interest rate contracts to manage the exposure to interest rate changes related to our borrowings. In June 2007 and August 2007, we entered into certain interest rate option contracts to hedge our exposure related to interest rate increases in connection with our anticipated long-term debt issuances. Such debt issuances were intended to replace the short-term borrowings initially used to finance the Paxar acquisition and to support the refinancing of our current long-term debt maturities. In connection with these transactions, we paid $11.5 million as option premiums, of which $4.8 million was recognized during 2007 as a cash flow hedge loss in the Consolidated Statement of Income and $6.7 million is being amortized over the life of the related forecasted hedged transactions.

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

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

Foreign Exchange Value-At-Risk

We use a Value-At-Risk ("VAR") model to determine the estimated maximum potential one-day loss in earnings associated with both our foreign exchange positions and contracts. This approach assumes that market rates or prices for foreign exchange positions and contracts are normally distributed. The VAR model estimates were made assuming normal market conditions. Firm commitments, accounts receivable and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were included in the model. Forecasted transactions, which certain of these instruments are intended to hedge, were excluded from the model. The VAR was estimated using a variance-covariance methodology based on historical volatility for each currency. The volatility and correlation used in the calculation were based on two-year historical data obtained from one of our domestic banks. A 95% confidence level was used for a one-day time horizon.

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

The estimated maximum potential one-day loss in earnings for our foreign exchange positions and contracts was approximately $1.7 million at year end 2008.

Interest Rate Sensitivity

An assumed 30 basis point move in interest rates (10% of our weighted-average interest rate on floating rate debt) affecting our variable-rate borrowings would have had an estimated $4 million effect on our 2008 earnings.

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 105.5	$ 71.5
Trade accounts receivable, less allowances of $57.3 and $64.2 at year end 2008 and 2007, respectively	988.9	1,113.8
Inventories, net	583.6	631.0
Current deferred and refundable income taxes	115.6	128.1
Other current assets	136.8	113.9
Total current assets	1,930.4	2,058.3
Property, plant and equipment, net	1,493.0	1,591.4
Goodwill	1,716.7	1,683.3
Other intangibles resulting from business acquisitions, net	303.6	314.2
Non-current deferred and refundable income taxes	168.9	59.9
Other assets	423.1	537.7
	$6,035.7	$6,244.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	$ 665.0	$1,110.8
Accounts payable	672.9	679.2
Accrued payroll and employee benefits	205.7	204.7
Accrued trade rebates	122.6	150.3
Current deferred and payable income taxes	59.6	31.4
Other accrued liabilities	332.2	301.2
Total current liabilities	2,058.0	2,477.6
Long-term debt	1,544.8	1,145.0
Long-term retirement benefits and other liabilities	566.5	391.5
Non-current deferred and payable income taxes	116.4	241.3
Commitments and contingencies (see Notes 7 and 8)		
Shareholders' equity:		
Common stock, $1 par value, authorized – 400,000,000 shares at year end 2008 and 2007; issued – 124,126,624 shares at year end 2008 and 2007; outstanding – 98,366,621 shares and 98,386,897 shares at year end 2008 and 2007, respectively	124.1	124.1
Capital in excess of par value	642.9	781.1
Retained earnings	2,381.3	2,290.2
Cost of unallocated ESOP shares	(1.2)	(3.8)
Employee stock benefit trust, 7,888,953 shares and 8,063,898 shares at year end 2008 and 2007, respectively	(246.9)	(428.8)
Treasury stock at cost, 17,841,050 shares and 17,645,829 shares at year end 2008 and 2007, respectively	(867.7)	(858.2)
Accumulated other comprehensive (loss) income	(282.5)	84.8
Total shareholders' equity	1,750.0	1,989.4
	$6,035.7	$6,244.8

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(In millions, except per share amounts)	2008	2007	2006
Net sales	$6,710.4	$6,307.8	$5,575.9
Cost of products sold	4,983.4	4,585.4	4,037.9
Gross profit	1,727.0	1,722.4	1,538.0
Marketing, general and administrative expense	1,304.3	1,182.5	1,011.1
Interest expense	115.9	105.2	55.5
Other expense, net	36.2	59.4	36.2
Income from continuing operations before taxes	270.6	375.3	435.2
Provision for income taxes	4.5	71.8	76.7
Income from continuing operations	266.1	303.5	358.5
Income from discontinued operations, net of tax (including gain on disposal of $1.3 and tax benefit of $14.9 in 2006)	–	–	14.7
Net income	$ 266.1	$ 303.5	$ 373.2
Per share amounts:			
Net income per common share:			
Continuing operations	$ 2.70	$ 3.09	$ 3.59
Discontinued operations	–	–	.15
Net income per common share	$ 2.70	$ 3.09	$ 3.74
Net income per common share, assuming dilution:			
Continuing operations	$ 2.70	$ 3.07	$ 3.57
Discontinued operations	–	–	.15
Net income per common share, assuming dilution	$ 2.70	$ 3.07	$ 3.72
Dividends	$ 1.64	$ 1.61	$ 1.57
Average shares outstanding:			
Common shares	98.4	98.1	99.8
Common shares, assuming dilution	98.7	98.9	100.4
Common shares outstanding at year end	98.4	98.4	98.3

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollars in millions, except per share amounts)	Common stock, $1 par value	Capital in excess of par value	Retained earnings	Cost of unallocated ESOP shares	Employee stock benefit trusts	Treasury stock	Accumulated other comprehensive income (loss)	Total
Fiscal year ended 2005	$124.1	$ 729.5	$1,955.0	$(7.7)	$(552.0)	$(638.2)	$ (89.1)	$1,521.6
Comprehensive income:								
Net income			373.2					373.2
Other comprehensive income:								
Foreign currency translation adjustment							101.0	101.0
Effective portion of gains or losses on cash flow hedges, net of tax of $1.8							(3.1)	(3.1)
Minimum pension liability adjustment, net of tax of $.6							(2.2)	(2.2)
Other comprehensive income							95.7	95.7
Total comprehensive income								468.9
Adjustment to initially adopt SFAS No. 158:								
Adjustment to minimum pension liability to initially apply SFAS No. 158, net of tax of $(59.2)							114.0	114.0
Net actuarial loss, prior service cost and net transition obligation, net of tax of $62.2							(170.8)	(170.8)
Effects of changing pension plan measurement date pursuant to SFAS No. 158:								
Service cost, interest cost, and expected return on plan assets for December 1 – December 30, 2006, net of tax			(.8)					(.8)
Amortization of prior service cost for December 1 – December 30, 2006, net of tax							.1	.1
Repurchase of 2,524,194 shares for treasury, net of shares issued						(168.5)		(168.5)
Stock issued under option plans, including $22.7 of tax and dividends paid on stock held in stock trusts		30.4			71.1			101.5
Dividends: $1.57 per share			(171.8)					(171.8)
ESOP transactions, net				2.0				2.0
Employee stock benefit trusts market value adjustment		121.6			(121.6)			–
Fiscal year ended 2006	124.1	881.5	2,155.6	(5.7)	(602.5)	(806.7)	(50.1)	1,696.2
Comprehensive income:								
Net income			303.5					303.5
Other comprehensive income:								
Foreign currency translation adjustment							105.5	105.5
Effective portion of gains or losses on cash flow hedges, net of tax of $(.1)							.2	.2
Net actuarial loss, prior service cost and net transition asset, net of tax of $(10)							29.2	29.2
Other comprehensive income							134.9	134.9
Total comprehensive income								438.4
Effects of adopting FIN 48			2.9					2.9
Repurchase of 758,781 shares for treasury, net of shares issued						(51.5)		(51.5)
Stock issued under option plans, including $19.3 of tax and dividends paid on stock held in stock trusts		19.3			54.0			73.3
Dividends: $1.61 per share			(171.8)					(171.8)
ESOP transactions, net				1.9				1.9
Employee stock benefit trusts market value adjustment		(119.7)			119.7			–
Fiscal year ended 2007	124.1	781.1	2,290.2	(3.8)	(428.8)	(858.2)	84.8	1,989.4
Comprehensive income:								
Net income			266.1					266.1
Other comprehensive income:								
Foreign currency translation adjustment							(177.3)	(177.3)
Effective portion of gains or losses on cash flow hedges, net of tax of $(.6)							1.0	1.0
Net actuarial loss, prior service cost and net transition asset, net of tax of $(103.5)							(191.0)	(191.0)
Other comprehensive income							(367.3)	(367.3)
Total comprehensive income								(101.2)
Repurchase of 195,221 shares for treasury, net of shares issued						(9.5)		(9.5)
Stock issued under option plans, including $13.4 of tax and dividends paid on stock held in stock trusts		36.2			7.5			43.7
Dividends: $1.64 per share			(175.0)					(175.0)
ESOP transactions, net				2.6				2.6
Employee stock benefit trusts market value adjustment		(174.4)			174.4			–
Fiscal year ended 2008	$124.1	$ 642.9	$2,381.3	$(1.2)	$(246.9)	$(867.7)	$ (282.5)	$1,750.0

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)	2008	2007	2006
Operating Activities			
Net income	$ 266.1	$ 303.5	$ 373.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	204.6	184.1	154.3
Amortization	73.8	58.8	47.1
Provision for doubtful accounts	17.7	18.7	31.8
Asset impairment and net loss (gain) on sale and disposal of assets of $6.5, $10.9, and $(13.9) in 2008, 2007, and 2006, respectively	16.8	44.0	(7.8)
Stock-based compensation	29.0	21.6	24.1
Other non-cash items, net	(1.1)	(6.6)	1.0
Changes in assets and liabilities and other adjustments, net of the effect of business acquisitions and divestitures:			
Trade accounts receivable	57.7	(17.7)	(34.1)
Inventories	16.5	(5.3)	(24.6)
Other current assets	(30.0)	18.8	(45.6)
Accounts payable and accrued liabilities	(15.8)	(87.1)	8.9
Taxes on income	34.3	6.1	12.6
Deferred taxes	(114.2)	(37.5)	(7.3)
Other assets	20.8	(17.1)	(11.0)
Long-term retirement benefits and other liabilities	(36.5)	15.1	(11.8)
Net cash provided by operating activities	539.7	499.4	510.8
Investing Activities			
Purchase of property, plant and equipment	(128.5)	(190.5)	(161.9)
Purchase of software and other deferred charges	(63.1)	(64.3)	(33.4)
Payments for acquisitions	(131.2)	(1,291.9)	(13.4)
Proceeds from sale of investments, net	17.2	–	16.3
Proceeds from sale of businesses	–	–	19.1
Other	12.1	3.5	18.4
Net cash used in investing activities	(293.5)	(1,543.2)	(154.9)
Financing Activities			
Net (decrease) increase in borrowings (maturities of 90 days or less)	(390.1)	792.2	(137.8)
Additional borrowings (maturities longer than 90 days)	400.1	688.8	–
Payments of debt (maturities longer than 90 days)	(50.7)	(222.0)	(2.3)
Dividends paid	(175.0)	(171.8)	(171.8)
Purchase of treasury stock	(9.8)	(63.2)	(157.7)
Proceeds from exercise of stock options, net	2.7	38.1	54.1
Other	14.3	(6.7)	17.7
Net cash (used in) provided by financing activities	(208.5)	1,055.4	(397.8)
Effect of foreign currency translation on cash balances	(3.7)	1.4	1.9
Increase (decrease) in cash and cash equivalents	34.0	13.0	(40.0)
Cash and cash equivalents, beginning of year	71.5	58.5	98.5
Cash and cash equivalents, end of year	$ 105.5	$ 71.5	$ 58.5

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Principles of Consolidation

The consolidated financial statements include the accounts of majority-owned subsidiaries. Intercompany accounts, transactions and profits are eliminated in consolidation. Investments in certain affiliates (20% to 50% ownership) are accounted for by the equity method of accounting. Investments representing less than 20% ownership are accounted for by the cost method of accounting.

Financial Presentation

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

Change in Accounting Method

Beginning in the fourth quarter of 2007, the Company changed its method of accounting for inventories for the Company's U.S. operations from a combination of the use of the first-in, first-out ("FIFO") and the last-in, first-out ("LIFO") methods to the FIFO method. The inventories for the Company's international operations continue to be valued using the FIFO method. The Company believes the change is preferable as the FIFO method better reflects the current value of inventories on the Consolidated Balance Sheet; provides better matching of revenue and expense in the Consolidated Statement of Income; provides uniformity across the Company's operations with respect to the method for inventory accounting; and enhances comparability with peers. Furthermore, this application of the FIFO method is consistent with the Company's accounting of inventories for U.S. income tax purposes.

The change in accounting method from LIFO to FIFO method was completed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Corrections." The Company applied the change in accounting principle by retrospectively restating prior years' financial statements. As a result of the change in the Company's policy for accounting for inventory, pretax income for the years ended December 29, 2007 and December 30, 2006 was increased by $1.1 million and $9.6 million, respectively.

Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes the standards for reporting information about segments in financial statements. In applying the criteria set forth in SFAS No. 131, the Company has determined that it has three reportable segments for financial reporting purposes:

- Pressure-sensitive Materials — manufactures and sells pressure-sensitive roll label materials, films for graphic and reflective applications, performance polymers (largely adhesives used to manufacture pressure-sensitive materials), and extruded films
- Retail Information Services — designs, manufactures and sells a wide variety of price marking and brand identification products, including tickets, tags and labels, and related services, supplies and equipment
- Office and Consumer Products — manufactures and sells a variety of office and consumer products, including labels, binders, dividers, sheet protectors, and writing instruments

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

In 2008, the Pressure-sensitive Materials segment contributed approximately 54% of the Company's total sales, while the Retail Information Services segment and the Office and Consumer Products segment contributed approximately 23% and 14%, respectively, of the Company's total sales. The other specialty converting businesses contributed the remaining 9% of the Company's total sales. International and domestic operations generated approximately 67% and 33%, respectively, of the Company's total sales in 2008. Refer to Note 12, "Segment Information," for further information.

Fiscal Year

The Company's 2008, 2007 and 2006 fiscal years reflected 52-week periods ending December 27, 2008, December 29, 2007, and December 30, 2006, respectively. Normally, each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks.

Use of Estimates

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

Cash and Cash Equivalents

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

(In millions)	2008	2007	2006
Interest, net of capitalized amounts	$114.6	$ 93.6	$52.0
Income taxes, net of refunds	77.0	106.2	60.4

In 2008, 2007 and 2006, non-cash activities included accruals for capital expenditures of approximately $5 million, $14 million and $18 million, respectively, due to the timing of payments. In 2005, fixed assets acquired through capital leases totaled approximately $9 million. These assets were sold and leased-back in 2006, under an operating lease. Additionally in 2006, non-cash activities included approximately $11 million in purchases of treasury stock, which were completed in late 2006 but not settled until January 2007.

Accounts Receivable

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

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

No single customer represented 10% or more of the Company's net sales or trade receivables at year end 2008 and 2007. However, the ten largest customers at year end 2008 represented approximately 13% of trade accounts receivable and consisted of five customers of the Company's Office and Consumer Products segment, four customers of the Pressure-sensitive Materials segment and one customer of both these segments. The Company does not generally require its customers to provide collateral, but the financial position and operations of these customers are monitored on an ongoing basis.

Inventories

Inventories are stated at the lower of cost or market value.

Inventories at year end were as follows:

(In millions)	2008	2007
Raw materials	$256.2	$252.6
Work-in-progress	143.4	151.5
Finished goods	248.6	304.2
Inventories at lower of FIFO cost or market (approximates replacement cost)	648.2	708.3
Inventory reserves	(64.6)	(77.3)
Inventories, net	$583.6	$631.0

Property, Plant and Equipment

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

(In millions)	2008	2007
Land	$ 68.4	$ 69.7
Buildings and improvements	745.5	733.6
Machinery and equipment	2,301.5	2,278.2
Construction-in-progress	57.7	114.4
Property, plant and equipment	3,173.1	3,195.9
Accumulated depreciation	(1,680.1)	(1,604.5)
Property, plant and equipment, net	$ 1,493.0	$ 1,591.4

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

Software

The Company capitalizes software costs in accordance with American Institute of Certified Public Accountants' Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and these capitalized costs are included in "Other assets" in the Consolidated Balance Sheet. The Company capitalizes internal and external costs that are incurred during the application development stage of the software development, including costs incurred for the design, coding, installation to hardware, testing, and upgrades and enhancements that provide additional functionalities and capabilities to the software and hardware of the chosen path. Internal and external costs during the preliminary project stage are expensed, as well as those costs during the post-implementation and/or operation stage are expensed, including internal and external training costs and maintenance costs.

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

(In millions)	2008	2007
Cost	$ 335.5	$ 293.1
Accumulated amortization	(188.0)	(167.1)
	$ 147.5	$ 126.0

Impairment of Long-lived Assets

Impairment charges are recorded when the carrying amounts of long-lived assets are determined not to be recoverable. Impairment is measured by assessing the usefulness of an asset or by comparing the carrying value of an asset to its fair value. Fair value is typically determined using quoted market prices, if available, or an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. Historically, changes in market conditions and management strategy have caused the Company to reassess the carrying amount of its long-lived assets. Refer to Note 10, "Cost Reduction Actions," for details of impairment charges recorded in 2008, 2007 and 2006.

Goodwill and Other Intangibles Resulting from Business Acquisitions

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

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

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

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

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

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

Foreign Currency

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

Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency) increased net income by $16.1 million in 2008, $1.4 million in 2007, and $1.3 million in 2006. In 2008, transactions in foreign currencies included a foreign currency net gain related to certain intercompany transactions of approximately $9 million. These results exclude the effects of translation of foreign currencies on the Company's financial statements.

In 2008 and 2007, the Company had no operations in hyperinflationary economies. In 2006, the only hyperinflationary economy in which the Company operated was the Dominican Republic, in which the Company uses the U.S. dollar as the functional currency.

Financial Instruments

For purposes of this section of Note 1 and Note 5, "Financial Instruments," the terms "cash flow hedge," "derivative instrument," "fair value," "fair value hedge," "financial instrument," "firm commitment," "ineffective," and "highly effective" are used as these terms are defined in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, and SFAS No. 157, "Fair Value Measurements."

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

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

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

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

Fair Value Measurements

Beginning in 2008, the Company adopted SFAS No. 157, "Fair Value Measurements," except as it applies to non-financial assets and non-financial liabilities subject to FASB Staff Position ("FSP") No. 157-2. SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, and expands disclosures about fair value measurements. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions to determine the best estimate of fair value.

See also Note 14, "Fair Value Measurements."

Revenue Recognition

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

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

Advertising Costs

Advertising costs included in "Marketing, general and administrative expense" were $22.6 million in 2008, $31 million in 2007, and $16.2 million in 2006. The Company's policy is to expense advertising costs as incurred.

Research and Development

Research and development costs are related to research, design and testing of new products and applications and are expensed as incurred. Research and development expense was $94 million in 2008, $95.5 million in 2007, and $87.9 million in 2006.

Pension and Postretirement Benefits

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

Product Warranty

The Company provides for an estimate of costs that may be incurred under its basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of the product. Factors that affect the Company's warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy the Company's warranty obligation and availability of insurance coverage. As 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.

Product warranty liabilities were as follows:

(In millions)	2008	2007	2006
Balance at beginning of year	$2.5	$1.9	$ 2.5
Accruals for warranties issued	.2	.8	.7
Assumed accrued warranty liability[1]	–	.5	–
Payments	(.8)	(.7)	(1.3)
Balance at end of year	$1.9	$2.5	$ 1.9

(1) Related to the Paxar acquisition

Stock-Based Compensation

The terms used in this section of Note 1 and Note 9, "Shareholders' Equity and Stock-Based Compensation," including "short-cut method" and "windfall tax benefit," are as defined in SFAS No. 123(R), "Share-Based Payment."

The Company's stock-based compensation expense is the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period. The fair value of the Company's stock option awards is estimated as of the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for the Company's expected dividend yield, expected volatility, risk-free interest rate and the expected life of the options. The Company recognizes expense for stock-based compensation in accordance with the provisions of the SFAS No. 123(R).

The Company uses the short-cut method to calculate the historical pool of windfall tax benefits related to employee stock-based compensation awards, in accordance with the provisions of SFAS No. 123(R). In addition, the Company elected to follow the tax ordering laws to determine the sequence in which deductions and net operating loss carryforwards are utilized, as well as the direct-only approach to calculating the amount of windfall or shortfall tax benefits.

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

Environmental Expenditures

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

In December 2005, the Company adopted FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143." As a result, the Company recognized a liability for the fair value of conditional asset retirement obligations based on estimates determined through present value techniques. An asset retirement is 'conditional' when the timing and (or) method of settlement of the retirement obligation is conditional upon a future event that may or may not be within the control of the Company. Certain potential obligations have not been included in the Company's estimate, because the range of time over which the Company may settle the obligation or the method of settlement is unknown or cannot be reasonably estimated. The Company's estimated liability associated with asset retirement obligations was not significant as of December 27, 2008.

Restructuring and Severance Costs

The Company accounts for restructuring costs including severance and other costs associated with exit or disposal activities following the guidance provided in SFAS No. 112, "Accounting for Postemployment Benefits," and SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." In the U.S., the Company has a severance pay plan ("Pay Plan"), which provides eligible employees with severance payments in the event of an involuntary termination due to qualifying cost reduction actions. Severance pay is calculated by using a severance benefit formula under the Pay Plan. Accordingly, the provisions for such amounts and other related exit costs are recorded when they are probable and estimable as set forth under SFAS No. 112. In the absence of a Pay Plan or established local practices for overseas jurisdictions, liability for severance and other employee-related costs is recognized when the liability is incurred, following the guidance of SFAS No. 146. See also Note 10, "Cost Reduction Actions."

Taxes on Income

Deferred tax assets and liabilities reflect temporary differences between the amount of assets and liabilities for financial and tax reporting purposes. Such amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is recorded to reduce the Company's deferred tax assets to the amount that is more likely than not to be realized.

Pursuant to SFAS No. 109, "Accounting for Income Taxes," when establishing a valuation allowance, the Company considers future sources of taxable income such as "future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards" and "tax planning strategies." SFAS No. 109 defines a tax planning strategy as "an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets." In the event the Company determines that the deferred tax assets will not be realized in the future, the valuation adjustment to the deferred tax assets is charged to earnings in the period in which the Company makes such a determination. The Company has also acquired certain net deferred tax assets with existing valuation allowances. If it is later determined that it is more likely than not that the deferred tax assets will be realized, the Company will release the valuation allowance to current earnings or adjust the purchase price allocation.

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

The amount of income taxes the Company pays is subject to ongoing audits by federal, state and foreign tax authorities. The Company's estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time, pursuant to FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109." At the beginning of the first quarter of 2007 (December 31, 2006), the Company adopted the provisions of FIN 48 and recognized a decrease of $2.9 million in the liability for unrecognized tax benefits, which was accounted for as an increase to the beginning balance of retained earnings. FIN 48 requires a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The Company records a liability for the difference between the benefit recognized and measured pursuant to FIN 48 and tax position taken or expected to be taken on the tax return. To the extent that the Company's assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. The Company reports tax-related interest and penalties as a component of income tax expense.

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

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

Net Income Per Share

Net income per common share amounts were computed as follows:

(In millions, except per share amounts)	2008	2007	2006
(A) Income from continuing operations	$266.1	$303.5	$358.5
(B) Income from discontinued operations	–	–	14.7
(C) Net income available to common shareholders	$266.1	$303.5	$373.2
(D) Weighted-average number of common shares outstanding	98.4	98.1	99.8
Dilutive shares (additional common shares issuable under employee stock options, PUs, RSUs and restricted stock)	.3	.8	.6
(E) Weighted-average number of common shares outstanding, assuming dilution	98.7	98.9	100.4
Income from continuing operations per common share (A) ÷ (D)	$ 2.70	$ 3.09	$ 3.59
Income from discontinued operations per common share (B) ÷ (D)	–	–	.15
Net income per common share (C) ÷ (D)	$ 2.70	$ 3.09	$ 3.74
Income from continuing operations per common share, assuming dilution (A) ÷ (E)	$ 2.70	$ 3.07	$ 3.57
Income from discontinued operations per common share, assuming dilution (B) ÷ (E)	–	–	.15
Net income per common share, assuming dilution (C) ÷ (E)	$ 2.70	$ 3.07	$ 3.72

Certain employee stock options and RSUs 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 and RSUs excluded from the computation represented an aggregate of 10.4 million shares in 2008, 4.4 million shares in 2007, and 4.6 million shares in 2006.

Comprehensive Income

Comprehensive income includes net income, 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 (loss) income was $(101.2) million, $438.4 million and $468.9 million for 2008, 2007 and 2006, respectively.

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

(In millions)	2008	2007
Foreign currency translation adjustment	$ 65.8	$ 243.1
Net actuarial loss, prior service cost and net transition assets, less amortization	(332.5)	(141.5)
Net loss on derivative instruments designated as cash flow and firm commitment hedges	(15.8)	(16.8)
Accumulated other comprehensive (loss) income	$(282.5)	$ 84.8

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

(In millions)	2008	2007
Beginning accumulated derivative loss	$(16.8)	$(17.0)
Net (gain) loss reclassified to earnings	(2.9)	10.5
Net change in the revaluation of hedging transactions	3.9	(10.3)
Ending accumulated derivative loss	$(15.8)	$(16.8)

Business Combinations

The Company accounts for business combinations using the accounting requirements of SFAS No. 141, "Business Combinations." In accordance with SFAS No. 141, the Company records the assets acquired and liabilities assumed from acquired businesses at fair value, and the Company makes estimates and assumptions to determine such fair values.

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

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

Recent Accounting Requirements

In December 2008, the FASB issued FASB Staff Position FSP 132(R)-1, "Employers Disclosures 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. This interpretation is effective for financial statements issued for fiscal years ending after December 15, 2009. The adoption of this interpretation 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 this Statement.

In August 2008, the FASB issued FSP Emerging Issues Task Force ("EITF") 08-07, "Accounting for Defensive Intangible Assets." This issue 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). FSP-EITF 08-07 is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on December 15, 2008. The Company is currently evaluating the impact of this Statement on the Company's financial results of operations and financial position.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." Under this issue, 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. FSP-EITF 03-6-1 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 Company is currently evaluating the impact of adopting FSP-EITF 03-6-1 on its earnings per share.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities (the "Hierarchy"). The Hierarchy within SFAS No. 162 is consistent with that previously defined in the AICPA Statement on Auditing Standards ("SAS") No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." SFAS No. 162 is effective 60 days following the United States Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The adoption of SFAS No. 162 will not have a material effect on the Consolidated Financial Statements because the Company has utilized the guidance within SAS No. 69.

In April 2008, the FASB directed the FASB Staff to issue FSP No. 142-3, "Determination of the Useful Life of Intangible Assets." FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used for purposes of determining the useful life of a recognized intangible asset under SFAS No. 142. FSP FAS No. 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other U.S. generally accepted accounting principles. FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008. Earlier application is not permitted. The Company is currently evaluating the impact of this Statement on the Company's financial results of operations and financial position.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." This Statement is 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. SFAS No. 161 applies to all derivative instruments within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as well as related hedged items, bifurcated derivatives, and non-derivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS No. 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS No. 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company is currently evaluating the disclosure implications of this Statement.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements — an amendment of Accounting Review Board ("ARB") No. 51." This Statement is effective for fiscal years and interim periods, beginning on or after December 15, 2008, with earlier adoption prohibited. This Statement 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 income statement. It also amends certain of ARB No. 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). This Statement also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. The Company is currently evaluating the impact of this Statement on the Company's financial results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." This Statement replaces SFAS No. 141, "Business Combinations," and 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. This Statement's scope is broader than that of SFAS No. 141, which applied only to business combinations in which control was obtained by transferring consideration. In general, SFAS No. 141(R) 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 Statement 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 Company is currently evaluating the impact of this Statement on the Company's financial results of operations and financial position. However, starting fiscal 2009, accounting for changes in valuation allowances for acquired deferred tax assets ($40.8 million, if recognized) and the resolution of uncertain tax positions ($48.2 million, if recognized) for prior business combinations will impact tax expense instead of goodwill.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FAS 115 (February 2007)." This Statement details the disclosures required for items measured at fair value. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not affect the Company's financial results of operations or financial position as the Company did not elect the fair value option for its eligible financial assets or liabilities.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which is effective for fiscal years and interim periods after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement 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. The statement 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. SFAS No. 157 defines fair value based upon an exit price model. In connection with the issuance of SFAS No. 157, the FASB issued FSP Nos. 157-1 and 157-2. FSP No. 157-1 amends SFAS No. 157 to exclude SFAS No. 13, "Accounting for Leases," and its related interpretive accounting pronouncements that address leasing transactions. FSP No. 157-2 delays the effective date of the application of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company adopted SFAS No. 157 as of the beginning of 2008 fiscal year, with the exception of the application of the statement to non-recurring non-financial assets and non-financial liabilities. Non-recurring non-financial assets and non-financial liabilities for which the Company has not applied the provisions of SFAS No. 157 include those measured at fair value in goodwill impairment testing, indefinitely-lived intangible assets measured at fair value for impairment testing, and those initially measured at fair value in business combinations. The adoption of SFAS No. 157 did not have a significant impact on the Company's financial results of operations or financial position.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This Statement requires (a) the recognition of funded status of a defined benefit postretirement plan in the statement of financial position and changes in the funded status through comprehensive income; (b) as a component of other comprehensive income, the recognition of actuarial gains and losses and the prior service costs and credits (net of tax) that arise during the period, but are not recognized in the income statement; (c) measurement of defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position; and (d) disclosure of additional information about certain effects on net periodic benefit cost for the next fiscal year, that arise from delayed recognition of the gains and losses, prior service costs or credits, and transition assets or obligations. The Company adopted all provisions of SFAS No. 158, including changing the measurement date of the majority of the U.S. plans to coincide with the fiscal year end. The adoption of SFAS No. 158 has reduced total shareholders' equity by approximately $57 million, net of tax, in 2006. The adoption of SFAS No. 158 did not affect the Company's financial results of operations as of December 30, 2006.

Related Party Transactions

From time to time, the Company enters into transactions in the normal course of business with related parties. Management believes that such transactions are at arm's length and for terms that would have been obtained from unaffiliated third parties.

One of the Company's directors, Peter W. Mullin, is the chairman, chief executive officer and a director of MC Insurance Services, Inc. ("MC"), Mullin Insurance Services, Inc. ("MINC"), and PWM Insurance Services, Inc. ("PWM"), executive compensation and benefit consultants and insurance agents. Mr. Mullin is also the majority stockholder of MC, MINC and PWM (collectively referred to as the "Mullin Companies"). In October 2008, the Mullin Companies' executive benefit and insurance agency related entities (MC Insurance Agency Services, LLC — "MCIA," MullinTBG Insurance Agency Services, LLC — "MullinTBG," and MullinTBG Advisory Services — "MullinTBG Advisors") were sold to Prudential Financial ("Prudential"). The Company paid premiums to insurance carriers for life insurance placed by the Mullin Companies in connection with various of the Company's employee benefit plans. The Mullin Companies and Prudential have advised the Company that they earned commissions from such insurance carriers for the placement and renewal of this insurance. Approximately 50% of these commissions were allocated to and used by MullinTBG (a previous affiliate of MC and now a wholly-owned affiliate of Prudential) to administer benefit plans and provide benefit statement information to participants under various of the Company's employee benefit plans. During 2008, MullinTBG also provided financial advisory services to participants in certain of the Company's employee benefit plans. The Mullin Companies own a minority interest in M Financial Holdings, Inc. ("MFH"). Substantially all of the life insurance policies, which the Company placed through the Mullin Companies, are issued by insurance carriers that participate in reinsurance agreements entered into between these insurance carriers and M Life Insurance Company ("M Life"), a wholly-owned subsidiary of MFH. Reinsurance returns earned by M Life are determined annually by the insurance carriers and can be negative or positive, depending upon the results of M Life's aggregate reinsurance pool, which consists of the insured lives reinsured by M Life. The Mullin Companies have advised the Company that they participated in net reinsurance gains of M Life. In addition, the Mullin Companies have advised the Company that they also participated in net reinsurance gains of M Life that are subject to risk of forfeiture. None of these transactions were significant to the financial position or financial results of operations of the Company.

Summary of Related Party Activity:

(In millions)	2008	2007	2006
Mullin Companies and Prudential commissions on the Company's insurance premiums and advisory fees	$ .6	$.4	$.5
Mr. Mullin's direct & indirect interest in these commissions and fees	.3	.3	.4
Mullin Companies reinsurance gains (without risk of forfeiture) ascribed by M Life to the Company's life insurance policies	.2	.2	.3
Mr. Mullin's direct & indirect interest in reinsurance gains (without risk of forfeiture)	.1	.1	.2
Mullin Companies reinsurance gains (subject to risk of forfeiture) ascribed by M Life to the Company's life insurance policies	.05	.8	.6
Mr. Mullin's direct & indirect interest in reinsurance gains (subject to risk of forfeiture)	.04	.5	.4

NOTE 2. ACQUISITIONS

On June 15, 2007, the Company completed the acquisition of Paxar Corporation ("Paxar"), a global leader in retail tag, ticketing, and branding systems. In accordance with the terms of the acquisition agreement, each outstanding share of Paxar common stock, par value $0.10, was converted into the right to receive $30.50 in cash. At June 15, 2007, outstanding options to purchase Paxar Common Stock, shares of Paxar restricted stock and Paxar performance share awards were converted into weight-adjusted options to purchase the Company's common stock, shares of the Company's restricted stock and, at the Company's election, shares of the Company's restricted stock or the Company's restricted stock units, respectively. Since the date of acquisition, certain of these equity awards have vested on an accelerated basis.

The Paxar operations are included in the Company's Retail Information Services segment. The combination of the Paxar business into the Retail Information Services segment increases the Company's presence in the retail information and brand identification market, combines complementary strengths and broadens the range of the Company's product and service capabilities, improves the Company's ability to meet customer demands for product innovation and improved quality of service, and facilitates expansion into new product and geographic segments. The integration of the acquisition into the Company's operations has resulted in significant cost synergies.

Purchase Price Allocation

The total purchase price was approximately $1.33 billion for the outstanding shares of Paxar, including transaction costs of approximately $15 million. The acquisition was initially funded by commercial paper borrowings, supported by a bridge revolving credit facility (see Note 4, "Debt").

In accordance with SFAS No. 141, "Business Combinations," the allocation of the purchase price has been made and recorded in the Consolidated Financial Statements. During 2008, the Company recorded net adjustments of approximately $10 million to the purchase price allocation, which included adjustments related to environmental liability, restructuring liability, inventory, property, plant and equipment, intangible assets and certain tax assets and liabilities.

The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed at the date of the acquisition.

(In millions)	June 15, 2007
Current assets (including cash and cash equivalents of approximately $47 million)	$ 365.1
Property, plant, and equipment, net	250.8
Other assets	1.1
Intangible assets	241.6
Goodwill	941.6
Total assets acquired	$1,800.2
Current liabilities	222.1
Other long-term liabilities	220.3
Other equity	24.6
Total liabilities and other equity	$ 467.0
Net assets acquired	$1,333.2

As a result of the Paxar acquisition, the Company assumed liabilities of approximately $442 million, including accounts payable and other current and long-term liabilities. Included in this amount is approximately $5 million of long-term debt, which remains outstanding at December 27, 2008. In addition, the Company has assumed additional standby letters of credit of $7.3 million.

Included in the assumed current liabilities were accrued restructuring costs related to Paxar's pre-acquisition restructuring program. At December 27, 2008, approximately $.8 million remained accrued in connection with this program.

The excess of the cost-basis over the fair value of the net tangible assets acquired is approximately $1.18 billion, including goodwill of approximately $942 million and identified intangible assets of approximately $242 million, which includes amortizable and non-amortizable intangible assets.

Identifiable intangible assets consist of customer relationships, patents and other acquired technology and other intangibles. These intangible assets include approximately $183 million for customer relationships with a weighted-average useful life of ten years; approximately $25 million for patents and other acquired technology with a weighted-average useful life of eight years; and approximately $4 million for other intangibles with a weighted-average useful life of ten years. These acquired amortizable intangible assets have an estimated weighted-average useful life of nine years. Furthermore, approximately $30 million of the acquired intangible assets related to trade names and trademarks are not subject to amortization because they have an indefinite useful life.

The goodwill from this acquisition is not expected to be deductible for U.S. tax purposes. Refer also to Note 3, "Goodwill and Other Intangibles Resulting from Business Acquisitions."

There were no in-progress research and development assets acquired as a result of the acquisition.

Paxar Integration Actions

As a result of the Paxar acquisition, the Company identified certain liabilities and other costs of $25 million for restructuring actions, which were recorded as part of the Company's purchase price allocation. Included in this amount are severance costs for involuntary terminations of approximately 1,365 Paxar employees of $21.1 million, lease cancellation costs of $3.2 million, and other related costs of $.7 million. Severance costs are included in "Other accrued liabilities" in the Consolidated Balance Sheet. Severance and other employee costs represent cash paid or to be paid to employees terminated under these actions.

(In millions)	Purchase Price Adjustments
Total severance and other employee costs accrued	$ 21.1
2007 Settlements	(5.8)
2008 Settlements	(12.2)
Balance at December 27, 2008	$ 3.1
Other	
Lease cancellations	$ 3.2
Other	.7
	$ 3.9

In addition, as part of these actions, the Company reduced the acquired value for certain acquired property, plant and equipment by $6.7 million, which is reflected in the allocation of the purchase price.

Employee-related Items

In connection with this acquisition, certain change-in-control provisions provided that $27.8 million was to be paid to certain key executives of Paxar. This amount includes severance, bonuses, accelerated vesting of stock options, performance share awards, restricted stock, and other items. In connection with these items, $.2 million remained accrued in "Other accrued liabilities" in the Consolidated Balance Sheet at December 27, 2008. New employment agreements for certain key executives retained by the Company provided for approximately $8 million to be accrued over their requisite service periods, of which $5 million was recorded during 2007 and $2.8 million was recorded during 2008 in the Consolidated Statement of Income.

The estimated fair value of equity includes the total amount related to converted Paxar stock options and performance share awards of approximately $24 million. This total includes amounts related to converted but unvested stock options and performance share awards (approximately $5 million), which will be recognized in the Company's operating results over the remaining vesting periods of these equity awards. Refer to Note 9, "Shareholders' Equity and Stock-Based Compensation," for further information.

Pro Forma Results of Operations

The following table represents the unaudited pro forma results of operations for the Company as though the acquisition of Paxar had occurred at the beginning of 2007. The pro forma results include estimated interest expense associated with commercial paper borrowings to fund the acquisition; amortization of intangible assets that have been acquired; adjustment to income tax provision using the worldwide combined effective tax rates of both the Company and Paxar; elimination of intercompany sales and profit in inventory; fair value adjustments to inventory; and additional depreciation resulting from fair value amounts allocated to real and personal property over the estimated useful lives. The pro forma results of operations have been prepared based on the allocation of the purchase price. This pro forma information is for comparison purposes only, and is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of 2007, nor is it necessarily indicative of future results.

(In millions, except per share amounts)	2007(1)
Net sales	$6,722.3
Net income	278.4
Net income per common share	2.84
Net income per common share, assuming dilution	2.81

(1) The pro forma results of operations for fiscal year 2007 include the Company's restructuring costs and other charges discussed in Note 12, "Segment Information."

Prior to the acquisition, the Company sold certain roll materials products to Paxar. The Company's net sales to Paxar prior to the acquisition were approximately $8 million during 2007.

Other 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. Since the acquisition, the impact of this acquisition on the Company's revenues was approximately $36 million during 2008.

NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

The Company estimates the fair value of its reporting units, using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires the Company to make various judgmental assumptions about sales, operating margins, growth rates and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based on the Company's forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period. Because of the increased uncertainty resulting from worsening global economic conditions, the Company's revenue projections generally assumed reductions in 2009 and a period of recovery beginning in 2010.

The Company's first step impairment analysis for 2008 indicated that the fair value of each of its reporting units exceeded its carrying value, and therefore, no impairment was recognized. The fair values of the Company's reporting units, except for the retail information services reporting unit, exceeded the carrying amount by more than 100% of the respective reporting unit's book value of goodwill at December 27, 2008. The fair value of the Company's retail information services reporting unit exceeded its carrying value by approximately 5% of its book value of goodwill at December 27, 2008 (approximately $1.2 billion).

In evaluating the fair value of the retail information services reporting unit, the Company assumed revenue declines for 2009 from 2008 reflecting a continuation of weakness in the retail apparel markets. The Company then assumed revenue in 2010 increased to levels comparable with fiscal year 2007 (including estimated sales for Paxar and DM Label, adjusted for foreign currency translation). The Company also assumed a discount rate of 11.8% and a perpetual growth rate of 3% reflecting the market conditions in the fourth quarter of 2008. The retail information services business is seasonal, with higher volume in the second quarter. The Company may need to perform an impairment test in the second quarter of 2009 if revenues or results for this reporting unit during the first and second quarters of 2009 are below the Company's estimates, the perpetual growth rate is decreased below 2.7%, the discount rate increases above 12%, or other key assumptions used in the Company's fair value calculations in the fourth quarter of 2008 change.

Changes in the net carrying amount of goodwill from continuing operations for 2008 and 2007, 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 30, 2006	$332.4	$ 200.5	$169.1	$ 13.9	$ 715.9
Goodwill acquired during the period(1)	–	935.7	–	–	935.7
Acquisition adjustments(2)	–	(.5)	–	–	(.5)
Translation adjustments	21.6	2.0	8.5	.1	32.2
Balance as of December 29, 2007	$354.0	$1,137.7	$177.6	$ 14.0	$1,683.3
Goodwill acquired during the period(3)	–	45.1	–	–	45.1
Acquisition adjustments(4)	.3	10.3	–	–	10.6
Transfers(5)	–	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

(1) Goodwill acquired during the period includes Paxar acquisition in June 2007, as well as buy-outs of minority interest shareholders associated with RVL Packaging, Inc. and Paxar.

(2) Acquisition adjustments in 2007 consisted of a tax adjustment associated with RVL Packaging, Inc.

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

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

(5) 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.

As of December 27, 2008, goodwill and other intangible assets and related useful lives include the allocations of the purchase price of the Paxar and DM Label acquisitions, based on valuations of the acquired assets. Refer to Note 2, "Acquisitions," for further information.

In connection with the Paxar acquisition, 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. These intangible assets, which are not included in the table below, had a negative currency impact of $.5 million at December 27, 2008.

The following table sets forth the Company's other intangible assets resulting from business acquisitions at December 27, 2008 and December 29, 2007, which continue to be amortized:

	2008			2007		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets:						
Customer relationships	$295.9	$ 67.4	$228.5	$276.1	$41.8	$234.3
Patents and other acquired technology	53.6	18.8	34.8	52.4	14.1	38.3
Trade names and trademarks	45.1	38.1	7.0	46.2	38.6	7.6
Other intangibles	8.8	5.0	3.8	8.6	4.6	4.0
Total	$403.4	$129.3	$274.1	$383.3	$99.1	$284.2

Amortization expense on other intangible assets resulting from business acquisitions was $32.8 million for 2008, $19.9 million for 2007, and $11.1 million for 2006. The estimated amortization expense for other intangible assets resulting from completed business acquisitions for each of the next five fiscal years is expected to be approximately $30 million in 2009, and $29 million per year in 2010 through 2013.

The weighted-average amortization periods from the date of acquisition for amortizable intangible assets resulting from business acquisitions are thirteen years for customer relationships, thirteen years for patents and other acquired technology, twelve years for trade names and trademarks, eight years for other intangibles and thirteen years in total. As of December 27, 2008, the weighted-average remaining useful life of acquired amortizable intangible assets are ten years for customer relationships, eight years for patents and other acquired technology, five years for trade names and trademarks, five years for other intangibles and nine years in total.

NOTE 4. DEBT

Long-term debt and its respective weighted-average interest rates at December 27, 2008 consisted of the following:

(In millions)	2008	2007
Medium-term notes		
Series 1995 at 7.5% – due 2015 through 2025	$ 50.0	$ 50.0
Series 1998 at 5.9% – due 2008	–	50.0
Senior notes due 2013 at 4.9%	250.0	250.0
Senior notes due 2033 at 6.0%	150.0	150.0
Bank term loan due 2011 at a floating rate of 2.4%	400.0	–
Senior notes due 2017 at 6.6%	249.0	248.9
Senior notes due 2020 at 7.9%	440.0	440.0
Other long-term borrowings	6.3	6.6
Less amount classified as current	(.5)	(50.5)
	$1,544.8	$1,145.0

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

Maturities of long-term debt during the years 2009 through 2013 are $.5 million (classified as current), $.6 million, $405.2 million, $0, and $250 million, respectively, with $889 million maturing in 2014 and thereafter.

In February 2008, a wholly-owned subsidiary of the Company entered into a credit agreement for a term loan credit facility with fifteen domestic and foreign banks for a total commitment of $400 million, maturing February 8, 2011. The subsidiary's payment and performance under the agreement are guaranteed by the Company. Financing available under the agreement was permitted to be used for working capital and other general corporate purposes. The Company used the term loan credit facility to reduce commercial paper borrowings previously issued to fund the acquisition of Paxar. The term loan credit facility is subject to customary financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio. See below for discussion on compliance with these covenants. Refer to Note 15, "Subsequent Events," for further information.

In February 2008, the Company terminated its bridge revolving credit agreement, dated June 13, 2007, with five domestic and foreign banks.

In the fourth quarter of 2007, the Company filed a shelf registration statement with the Securities and Exchange Commission to permit the issuance of debt and equity securities. Proceeds from the shelf offering may be used for general corporate purposes, including repaying, redeeming or repurchasing existing debt, and for working capital, capital expenditures and acquisitions. This shelf registration replaced the shelf registration statement filed in 2004. The HiMEDS units discussed below were issued under this registration statement.

In the fourth quarter of 2007, the Company issued $440 million of 7.875% Corporate HiMEDS units, a mandatory convertible debt issue. These HiMEDS units are comprised of two components — purchase contracts obligating the holders to purchase from the Company a certain number of shares in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price at that time) and senior notes due in 2020. The net proceeds from the offering were approximately $427 million, which were used to reduce commercial paper borrowings initially used to finance the Paxar acquisition. Refer to Note 15, "Subsequent Events," for further information regarding the Company's offer to exchange up to approximately 8.4 million shares, or 95%, of these HiMEDS units.

In September 2007, a subsidiary of the Company issued $250 million 10-year senior notes (guaranteed by the Company) bearing interest at a rate of 6.625% per year, due October 2017. The net proceeds from the offering were approximately $247 million and were used to pay down current long-term debt maturities of $150 million and reduce commercial paper borrowings of $97 million initially used to finance the Paxar acquisition.

In August 2007, the Company amended its existing revolving credit agreement, increasing commitments from $525 million to $1 billion and extending the maturity to August 2012. Commitments were provided by twelve domestic and foreign banks. Financing available under the agreement will be used as a commercial paper back-up facility and is also available to finance other corporate requirements.

At December 27, 2008, short-term variable rate domestic borrowings were from a mix of commercial paper and the revolving credit agreement. Short-term variable rate borrowings were $558 million at December 27, 2008 (weighted-average interest rate of 0.9%) and $990.2 million at December 29, 2007 (weighted-average interest rate of 5.2%). The change in outstanding short-term variable rate domestic borrowings was primarily due to the refinancing of short-term debt with the $400 million term loan credit facility.

At December 27, 2008, the Company had $106.4 million of borrowings outstanding under foreign short-term lines of credit with a weighted-average interest rate of 6.9%. Included in this balance was $42.2 million of debt outstanding under an agreement for a 364-day revolving credit facility in which a foreign bank provides the Company up to Euro 30 million ($42.2 million) in borrowings through March 5, 2009. There was no debt outstanding under this agreement as of December 29, 2007.

Uncommitted lines of credit were approximately $468 million at year end 2008. The Company's uncommitted lines of credit have no commitment expiration date, and may be cancelled at any time by the Company or the banks.

At December 27, 2008, the Company had available short-term financing arrangements totaling approximately $845 million.

Commitment fees relating to the financing arrangements are not significant.

The Company's total interest costs in 2008, 2007 and 2006 were $122.1 million, $111.1 million and $60.5 million, respectively, of which $6.2 million, $5.9 million and $5 million, respectively, were capitalized as part of the cost of assets.

The terms of various loan agreements in effect at December 27, 2008 require that the Company maintain specified ratios on total debt and interest expense in relation to certain measures of income. Under the loan agreements, the Company's leverage ratio, which is calculated as the ratio of total debt to earnings before interest, taxes, depreciation, amortization, and other non-cash expenses for the most recent twelve-month fiscal period, may not exceed 3.5 to 1.0. In addition, the Company's interest coverage ratio, which is calculated as earnings before interest, taxes, and other non-cash expenses, as a ratio to interest for the most recent twelve-month fiscal period, may not be less than 3.5 to 1.0. As of December 27, 2008, the Company was in compliance with these debt covenants. In January 2009, the Company amended the covenants included in the revolving credit agreement and term loan agreement to exclude certain restructuring charges and to adjust covenant levels. The adjusted covenant levels change quarterly and revert back to the pre-amendment levels during 2010. The amendments also reflect increased pricing levels for borrowings under both agreements consistent with the current pricing environment. See Note 15, "Subsequent Events" for more information.

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 the same remaining maturities. At year end 2008 and 2007, the fair value of the Company's total debt, including short-term borrowings, was $1,944.2 million and $2,250.7 million, respectively. These amounts were determined primarily based on Level 2 inputs as defined in SFAS No. 157, "Fair Value Measurements." Refer to Note 1, "Summary of Significant Accounting Policies."

The Company had standby letters of credit outstanding of $70.6 million and $80.9 million at the end of 2008 and 2007, respectively. The aggregate contract amount of outstanding standby letters of credit approximated fair value.

NOTE 5. FINANCIAL INSTRUMENTS

The aggregate reclassification from other comprehensive income to earnings for settlement or ineffectiveness of hedge activity was a net gain of $2.9 million and a net loss of $10.5 million during 2008 and 2007, respectively. Included in the 2007 reclassification from other comprehensive income to earnings was a net loss of $4.8 million related to certain cash flow hedges that were ineffective, which was included in "Other expense, net" in the Consolidated Statement of Income. The effect of the settlement of currency hedges included in this reclassification is offset by the currency impact of the underlying hedged activity. A net loss of approximately $7 million is expected to be reclassified from other comprehensive income to earnings within the next 12 months.

In June 2007 and August 2007, the Company entered into certain interest rate option contracts to hedge its exposure related to interest rate increases in connection with anticipated long-term debt issuances. Such debt issuances were intended to replace short-term borrowings initially used to finance the Paxar acquisition, as well as pay down current long-term debt maturities. In connection with these transactions, the Company paid $11.5 million as option premiums, of which $4.8 million was recognized as a cash flow hedge loss in the Consolidated Statement of Income for the year ended December 29, 2007, and $6.7 million is being amortized over the life of the related forecasted hedged transactions.

The carrying value of the foreign exchange forward and natural gas futures contracts approximated the fair value, which, based on quoted market prices of comparable instruments, was a net liability of $42.5 million and $1.4 million at December 27, 2008 and December 29, 2007, respectively.

The carrying value of the foreign exchange option contracts, based on quoted market prices of comparable instruments, was a net asset of $.1 million and $.2 million at December 27, 2008 and December 29, 2007, respectively. The carrying value of the foreign exchange option contracts approximated the fair market value.

The counterparties to foreign exchange and natural gas forward, option and swap contracts consist primarily of major international financial institutions. The Company centrally monitors its positions and the financial strength of its counterparties. Therefore, although the Company may be exposed to losses in the event of nonperformance by these counterparties, it does not anticipate such losses. During 2008, the Company did not experience any losses.

NOTE 6. PENSION AND OTHER POSTRETIREMENT BENEFITS

Defined Benefit Plans

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

The Company's U.S. defined benefit pension plans and early retiree medical plan were closed to employees hired after December 31, 2008. Employees who participated in these plans before December 31, 2008 will continue to participate and accrue pension benefits after satisfying the eligibility requirements of these plans. In connection with these closures, the Avery Dennison Corporation Employee Savings Plan ("Savings Plan" — a 401(k) savings plan covering its U.S. employees) has increased the Company's maximum matching contribution. This enhancement is only available to employees who are not eligible to participate in the Company's defined benefit pension plans and early retiree medical plan.

Plan Assets

Assets of the Company's U.S. defined benefit pension plans are invested in a diversified portfolio that consists primarily of equity and fixed income securities. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, including growth, value, and both small and large capitalization stocks. The Company's target plan asset investment allocation in the U.S. is 75% in equity securities and 25% in fixed income securities, subject to periodic fluctuations in the respective asset classes above. As of December 31, 2007, the Plan assets included investments in the Company's stock, which totaled approximately 630,000 shares. This amount, however, does not include any shares that may be held in index or other equity funds.

Assets of the Company's international plans are invested in accordance with local accepted practice, with asset allocations and investments varying by country and plan. Investments utilized by the various plans include equity securities, fixed income securities, real estate and insurance contracts.

The weighted-average asset allocations for the Company's defined benefit pension plans at year end 2008 and 2007, by asset category are as follows:

	2008		2007	
	U.S.	Int'l	U.S.	Int'l
Equity securities	60%	43%	74%	55%
Fixed income securities	40	49	26	35
Real estate and insurance contracts	–	8	–	10
Total	100%	100%	100%	100%

Postretirement Health Benefits

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

Measurement Date

The Company uses a calendar year end measurement date for both its U.S. and international plans.

Plan Assumptions

Discount Rate

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

Long-term Return on Assets

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

Healthcare Cost Trend Rate

For measurement purposes, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009. This rate is expected to decrease to approximately 5% by 2011.

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

(In millions)	One-percentage-point increase	One-percentage-point decrease
Effect on total of service and interest cost components	$ .01	$ (.01)
Effect on postretirement benefit obligation	1.05	(1.24)

Plan Balance Sheet Reconciliations

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

Plan Benefit Obligations

	Pension Benefits				U.S. Postretirement Health Benefits	
	2008		2007			
(In millions)	U.S.	Int'l	U.S.	Int'l	2008	2007
Change in projected benefit obligation:						
Projected benefit obligation at beginning of year	$581.7	$515.7	$557.2	$507.2	$29.7	$32.9
Service cost	19.5	14.1	18.5	14.3	1.0	1.0
Interest cost	36.1	28.1	34.1	24.1	1.8	1.6
Participant contribution	–	4.0	–	3.4	–	–
Amendments	–	.8	–	(.5)	–	–
Actuarial (gain) loss	8.1	(45.7)	(9.9)	(44.0)	2.4	(.1)
Plan transfer(1)	1.9	–	3.9	–	–	–
Benefits paid	(35.4)	(18.7)	(34.1)	(19.7)	(3.1)	(6.0)
Net transfer in(2)	–	6.5	12.0	–	–	.3
Pension curtailment	–	(.2)	–	–	–	–
Pension settlements	–	(.8)	–	–	–	–
Foreign currency translation	–	(53.9)	–	30.9	–	–
Projected benefit obligation at end of year	$611.9	$449.9	$581.7	$515.7	$31.8	$29.7
Accumulated benefit obligation at end of year	$586.8	$417.7	$551.5	$476.0		

(1) Plan transfer represents transfer from the Company's savings plan.

(2) Net transfer in represents certain retirement plans assumed from DM Label in 2008 and Paxar in 2007.

Plan Assets

(In millions)	Pension Benefits 2008 U.S.	Pension Benefits 2008 Int'l	Pension Benefits 2007 U.S.	Pension Benefits 2007 Int'l	U.S. Postretirement Health Benefits 2008	U.S. Postretirement Health Benefits 2007
Change in plan assets:						
Fair value of plan assets at beginning of year	$ 601.1	$ 461.6	$601.9	$416.0	$ –	$ –
Actual return on plan assets	(184.5)	(100.5)	26.0	17.7	–	–
Plan transfer(1)	1.9	–	3.9	–	–	–
Employer contribution	3.5	16.6	3.4	15.4	3.1	6.0
Participant contribution	–	4.0	–	3.4	–	–
Benefits paid	(35.4)	(18.7)	(34.1)	(19.7)	(3.1)	(6.0)
Net transfer in(2)	–	(.3)	–	1.2	–	–
Pension settlements	–	(.8)	–	–	–	–
Foreign currency translation	–	(36.9)	–	27.6	–	–
Fair value of plan assets at end of year	$ 386.6	$ 325.0	$601.1	$461.6	$ –	$ –

(1) Plan transfer represents transfer from the Company's savings plan.

(2) Net transfer in represents valuation of additional pension plans.

Funded Status

(In millions)	Pension Benefits 2008 U.S.	Pension Benefits 2008 Int'l	Pension Benefits 2007 U.S.	Pension Benefits 2007 Int'l	U.S. Postretirement Health Benefits 2008	U.S. Postretirement Health Benefits 2007
Funded status of the plans:						
Noncurrent assets	$ –	$ .8	$ 81.5	$ 32.7	$ –	$ –
Current liabilities	(7.7)	(2.4)	(3.6)	(2.8)	(2.7)	(3.1)
Noncurrent liabilities	(217.6)	(123.3)	(58.5)	(84.0)	(29.1)	(26.6)
Plan assets in excess of (less than) benefit obligation	$(225.3)	$(124.9)	$ 19.4	$(54.1)	$(31.8)	$(29.7)

	Pension Benefits 2008 U.S.	Pension Benefits 2008 Int'l	Pension Benefits 2007 U.S.	Pension Benefits 2007 Int'l	Pension Benefits 2006 U.S.	Pension Benefits 2006 Int'l	U.S. Postretirement Health Benefits 2008	U.S. Postretirement Health Benefits 2007	U.S. Postretirement Health Benefits 2006
Weighted-average assumptions used for determining year end obligations:									
Discount rate	6.60%	5.74%	6.55%	5.53%	5.90%	4.67%	6.60%	6.30%	5.75%
Rate of increase in future compensation levels	3.59	2.59	3.59	2.66	3.59	2.90	–	–	–

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets for both the U.S. and international plans were $1,057.9 million and $706.9 million, respectively, at year end 2008 and $634.3 million and $485.8 million, respectively, at year end 2007.

The accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for the U.S. and international plans were $797.4 million and $498.9 million, respectively, at year end 2008 and $597.6 million and $467.7 million, respectively, at year end 2007.

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

Accumulated Other Comprehensive Income (“AOCI”)

The pretax amounts recognized in “Accumulated other comprehensive (loss) income” in the Consolidated Balance Sheet:

	Pension Benefits				U.S. Postretirement Health Benefits	
	2008		2007		2008	2007
(In millions)	U.S.	Int'l	U.S.	Int'l		
Net actuarial loss (gain)	$344.3	$ (1.8)	$106.7	$78.8	$ 21.8	$ 21.0
Prior service cost (credit)	5.6	4.8	6.6	5.4	(20.5)	(22.5)
Net transition obligation (asset)	–	133.9	–	(2.4)	–	–
Net amount recognized in AOCI	$349.9	$136.9	$113.3	$81.8	$ 1.3	$ (1.5)

The after-tax amounts and reconciliation of AOCI components as of December 27, 2008 are as follows:

	Pension Benefits				U.S. Postretirement Health Benefits		
(In millions)	Before-Tax Amounts U.S.	Before-Tax Amounts Int'l	Tax Effect	Net-of-Tax Amount	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
AOCI at December 29, 2007	$113.3	$ 81.8	$ (52.7)	$142.4	$(1.5)	$ .6	$ (.9)
Less: amortization	(7.1)	(4.3)	3.7	(7.7)	.4	(.2)	.2
Net AOCI	106.2	77.5	(49.0)	134.7	(1.1)	.4	(.7)
Net actuarial loss	243.7	58.6[(1)]	(105.9)	196.4	2.4	(.9)	1.5
Prior service cost	–	.8	(.2)	.6	–	–	–
AOCI at December 27, 2008	$349.9	$136.9	$(155.1)	$331.7	$ 1.3	$(.5)	$ .8

(1) Net of foreign currency translation gain of $25.1.

Plan Income Statement Reconciliations

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

	Pension Benefits						U.S. Postretirement Health Benefits		
	2008		2007		2006		2008	2007	2006
(In millions)	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Components of net periodic benefit cost:									
Service cost	$ 19.5	$ 14.1	$ 18.5	$ 14.4	$ 19.2	$ 13.3	$ 1.0	$ 1.0	$ .9
Interest cost	36.1	28.1	34.1	24.1	29.7	19.6	1.8	1.6	1.7
Expected return on plan assets	(50.9)	(29.0)	(48.9)	(24.4)	(46.8)	(19.9)	–	–	–
Recognized net actuarial loss	6.0	3.6	9.6	8.0	8.0	6.6	1.5	1.3	1.4
Amortization of prior service cost	1.1	1.4	1.9	.7	1.9	.6	(2.0)	(2.0)	(1.9)
Amortization of transition obligation (asset)	–	(.6)	–	(1.1)	–	(1.3)	–	–	–
Special termination benefit recognized	–	–	–	–	–	.1	–	–	–
Recognized gain on curtailment and settlement of obligation	–	(.1)	–	–	–	(1.9)[(1)]	–	–	–
Net periodic benefit cost	$ 11.8	$ 17.5	$ 15.2	$ 21.7	$ 12.0	$ 17.1	$ 2.3	$ 1.9	$ 2.1

(1) Recognized gain is related to the divestiture of the Company's filing business in Europe.

	Pension Benefits						U.S. Postretirement Health Benefits		
	2008		2007		2006		2008	2007	2006
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Weighted-average assumptions used for determining net periodic cost:									
Discount rate	6.55%	5.53%	5.90%	4.67%	5.75%	4.49%	6.30%	5.75%	5.50%
Expected long-term rate of return on plan assets	8.75	6.66	8.75	6.30	8.75	5.77	–	–	–
Rate of increase in future compensation levels	3.59	2.66	3.59	2.90	3.59	2.79	–	–	–

Plan Contributions

In 2009, the Company expects to contribute approximately $33 million to its U.S. pension plans and a minimum of $14.2 million to its international pension plans, respectively, and approximately $2.8 million to its postretirement benefit plan.

Future Benefit Payments

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

	Pension Benefits		U.S. Postretirement Health Benefits
(In millions)	U.S.	Int'l	
2009	$ 41.9	$ 15.9	$ 2.8
2010	38.8	18.9	2.8
2011	40.0	18.5	2.7
2012	41.2	20.0	2.5
2013	42.5	21.1	2.5
2014-2018	234.4	123.1	12.9

Estimated Amortization Amounts in Accumulated Other Comprehensive Income

The Company's estimates of fiscal year 2009 amortization of amounts included in accumulated other comprehensive income are as follows:

	Pension Benefits		U.S. Postretirement Health Benefits
	2008		2008
(In millions)	U.S.	Int'l	
Net actuarial loss	$12.9	$1.9	$ 1.5
Prior service cost (credit)	.8	.5	(2.0)
Net transition obligation (asset)	–	(.6)	–
Net amount to be recognized	$13.7	$1.8	$ (.5)

Defined Contribution Plans

The Company sponsors various defined contribution plans worldwide, with the largest plan being the Savings Plan. The Company matches participant contributions to the Savings Plan based on a formula within the plan. The Savings Plan has a leveraged employee stock ownership plan ("ESOP") feature, which allows the plan to borrow funds to purchase shares of the Company's common stock at market prices. Savings Plan expense consists primarily of stock contributions from the ESOP to participant accounts.

ESOP expense is accounted for under the cost of shares allocated method. Net ESOP expense for 2008, 2007 and 2006 was $1 million, $.2 million, and $.4 million, respectively. Company contributions to pay interest or principal on ESOP borrowings were $3.7 million, $2.4 million, and $2.5 million, in 2008, 2007 and 2006, respectively.

Interest costs incurred by the ESOP for 2008, 2007 and 2006 were $.3 million, $.6 million, and $.7 million, respectively. Dividends on unallocated ESOP shares used for debt service were $.4 million, $.7 million, and $.9 million for 2008, 2007 and 2006, respectively.

The cost of shares allocated to the ESOP for 2008, 2007 and 2006 was $2.8 million, $2.1 million, and $2.2 million, respectively. Of the total shares held by the ESOP, .8 million shares were allocated and .1 million shares were unallocated at year end 2008, and 1.3 million shares were allocated and .3 million shares were unallocated at year end 2007.

Other Retirement Plans

The Company has deferred compensation plans which permit eligible employees and directors to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns specified and variable rates of return. As of year end 2008 and 2007, the Company had accrued $131.7 million and $155.6 million, respectively, for its obligations under these plans. These obligations are funded by corporate-owned life insurance contracts and standby letters of credit. As of year end 2008 and 2007, these obligations were secured by standby letters of credit of $28 million and $34 million, respectively. To assist in the funding of these plans, the Company has purchased corporate-owned life insurance contracts. Proceeds from the insurance policies are payable to the Company upon the death of covered participants. The cash surrender value of these policies, net of outstanding loans, included in "Other assets" in the Consolidated Balance Sheet, was $165.4 million and $191.1 million at year end 2008 and 2007, respectively.

The Company's expense, which includes Company contributions and interest expense, was $9.5 million, $3.1 million, and $12 million for 2008, 2007 and 2006, respectively. A portion of the interest on certain Company contributions may be forfeited by participants if employment is terminated before age 55 other than by reason of death, disability or retirement.

NOTE 7. COMMITMENTS

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

Year	(In millions)
2009	$ 64.6
2010	49.6
2011	39.2
2012	30.5
2013	20.1
Thereafter	46.9
Total minimum lease payments	$250.9

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

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 group. The Facility consists generally of land, buildings, equipment and office furnishings. The Company has leased the Facility under an operating lease arrangement, which contains a residual value guarantee of $33.4 million. The Company estimates that the residual value of the Facility will not be less than the amount guaranteed.

Rent expense for operating leases was approximately $105 million in 2008, approximately $95 million in 2007 and approximately $76 million in 2006.

NOTE 8. 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, 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 explicit 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 Company and other defendants opposed this motion. On March 1, 2007, the court heard oral argument on the issue of the appropriateness of class certification. On August 28, 2007, plaintiffs moved to lift the discovery stay, which the Company opposed. The court substantively granted class certification on November 19, 2007. The Company filed a petition to appeal this decision on December 4, 2007, which was denied on March 6, 2008. On July 22, 2008, the district court held a hearing to set a schedule for merits discovery. The court subsequently entered an order that required the parties to complete fact discovery by June 22, 2009. Dispositive motions are due on March 19, 2010. On January 27, 2009, the Company moved the court to decertify the class. The Company intends to defend these matters vigorously.

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 defendant parties 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. The Nebraska, Kansas and Vermont cases are currently stayed. Defendants' motion to dismiss the Tennessee case, filed on March 30, 2006, is pending. The Company intends to defend these matters 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 Matters

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 seventeen waste disposal or waste recycling sites, including former Paxar 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 which could be identified in the future for cleanup could be higher than the liability currently accrued.

Environmental liabilities, which include costs associated with compliance and remediation, were as follows:

(In millions)	December 27, 2008	December 29, 2007
Balance at beginning of year	$37.8	$22.9
Purchase price adjustments related to acquisitions	24.6	21.5
Accruals	.9	2.8
Payments	(4.8)	(9.4)
Balance at end of year	$58.5	$37.8

As of December 27, 2008, approximately $2 million associated with these environmental liabilities is estimated to be paid within the next 12 months.

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

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. Corrective and disciplinary actions have been taken. Sales of the Company's reflective business in China in 2005 were approximately $7 million. Based on findings to date, no changes to the Company's previously filed financial statements are warranted as a result of these matters. However, the Company expects that fines or other penalties could be incurred. While the Company is unable to predict the financial or operating impact of any such fines or penalties, it believes that its behavior in detecting, investigating, responding to and voluntarily disclosing these matters to authorities should be viewed favorably.

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 do not appear to have been made for the purpose of obtaining business from any governmental entity. The Company is in the process of conducting a review and is taking remedial measures to comply with the provisions of the U.S. Foreign Corrupt Practices Act.

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.

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 December 27, 2008, the Company had guaranteed approximately $13 million.

As of December 29, 2007, the Company guaranteed up to approximately $22 million of certain foreign subsidiaries' obligations to their suppliers, as well as approximately $556 million of certain subsidiaries' lines of credit with various financial institutions.

In the fourth quarter of 2007, the Company issued $440 million of 7.875% Corporate HiMEDS units, a mandatory convertible debt issue. These HiMEDS units are comprised of two components — purchase contracts obligating the holders to purchase from us a certain number of shares in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price at that time) and senior notes due in 2020. The net proceeds from the offering were approximately $427 million. Refer to Note 15, "Subsequent Events," for further information regarding the Company's offer to exchange up to approximately 8.4 million shares, or 95%, of these HiMEDS units.

NOTE 9. SHAREHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Common Stock and Common Stock Repurchase Program

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

The Board of Directors previously authorized the issuance of up to 18 million shares to be used for the issuance of stock options and the funding of other Company obligations arising from various employee benefit plans. As of December 27, 2008, the remaining shares available of approximately 8 million are held in the Company's Employee Stock Benefit Trust ("ESBT"). The ESBT common stock is carried at market value with changes in share price from prior reporting periods reflected as an adjustment to capital in excess of par value.

On October 26, 2006, the Board of Directors authorized the repurchase of an additional 5 million shares of the Company's outstanding common stock, resulting in a total authorization of approximately 7.4 million shares at that date. The repurchased shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. At December 27, 2008, approximately 3.9 million shares were available for repurchase under the Board of Directors' authorization.

Stock Option and Incentive Plans

The Company maintains various stock option and incentive plans. Under these plans, stock options granted to directors and employees may be granted at no less than 100% of the fair market value of the Company's common stock on the date of the grant. Options generally vest ratably over a two-year period for directors and over a four-year period for employees. Prior to fiscal year 2005, options for certain officers may cliff-vest over a three- to 9.75-year period based on the Company's performance. Unexercised options expire ten years from the date of grant. All stock options granted under these plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant.

The Company's stock-based compensation expense is the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period. The fair value of the Company's stock option awards is estimated as of the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for the Company's expected dividend yield, expected volatility, risk-free interest rate and the expected life of the options. The following describes the assumptions used in estimating fair value of granted stock-options.

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

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

Risk-free rate was based on the 52-week average of the Treasury-Bond rate that has a term corresponding to the expected option term of 6 years.

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

Forfeiture rate of 5% was determined based on historical data of the Company's stock option forfeitures.

The weighted-average fair value per share of options granted during 2008 was $13.82, compared to $15.07 for the year ended 2007, and $15.50 for the year ended 2006.

The underlying assumptions used were as follows:

	2008	2007	2006
Risk-free interest rate	4.15%	4.68%	4.74%
Expected stock price volatility	29.86	24.75	22.51
Expected dividend yield	2.76	2.53	2.58
Expected option term	6 years	5.8 years	5.8 years

The following table sets forth stock option information related to the Company's stock option plans during 2008:

	Number of options (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at December 29, 2007	9,619.2	$57.29	5.86	$18.2
Granted	2,167.8	51.42		
Exercised	(182.4)	36.66		
Forfeited or expired	(768.9)	54.37		
Outstanding at December 27, 2008	10,835.7	$56.67	5.88	$ 1.7
Options vested and expected to vest at December 27, 2008	10,443.6	56.67	5.38	1.7
Options exercisable at December 27, 2008	7,997.2	$57.08	4.87	$ 1.6

The total intrinsic value of stock options exercised was $1.9 million in 2008, $15.4 million in 2007 and $16.8 million in 2006. Cash received by the Company from the exercise of these stock options was approximately $3 million in 2008, $38 million in 2007 and $54 million in 2006. The cash tax benefit realized by the Company from these options exercised was $.6 million in 2008, $5 million in 2007 and $5.5 million in 2006. The intrinsic value of the stock options is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The following table provides a summary of the Company's stock option plans for the last three years:

	2008		2007		2006	
	Number of options (in thousands)	Weighted-average exercise price	Number of options (in thousands)	Weighted-average exercise price	Number of options (in thousands)	Weighted-average exercise price
Outstanding at beginning of year	9,619.2	$57.29	10,188.4	$58.47	10,853.2	$56.32
Granted	2,167.8	51.42	52.5	61.62	1,494.1	67.68
Converted from Paxar	–	–	955.4	31.82	–	–
Exercised	(182.4)	36.66	(1,011.5)	48.91	(1,217.5)	50.11
Forfeited or expired	(768.9)	54.37	(565.6)	53.87	(941.4)	59.12
Outstanding at year end	10,835.7	$56.67	9,619.2	$57.29	10,188.4	$58.47

In February 2008, the Company granted its annual stock option awards to employees and directors. The provision of SFAS No. 123(R), "Share-Based Payment," requires that stock-based compensation awards granted to retirement-eligible employees be treated as though they were immediately vested; as a result, the pretax compensation expense related to stock options granted to retirement-eligible of approximately $3 million and $5 million were recognized during 2008 and 2006, respectively, and are included in the stock option expense noted below. During 2007, the recognized pretax compensation expense related to stock options granted to retirement-eligible employees was not significant, as the Company did not grant its annual stock option awards to employees and directors.

Net income for 2008, 2007 and 2006 included pretax stock option expense of $18.6 million, $15.8 million and $20.9 million, respectively. These expenses were included in "Marketing, general and administrative expense" and were recorded in corporate expense and the Company's operating segments, as appropriate. No stock-based compensation cost was capitalized for the years ended 2008, 2007 and 2006, respectively.

The following table summarizes the Company's unvested stock options during 2008:

	Number of options (in thousands)	Weighted-average exercise price
Unvested options outstanding at December 29, 2007	2,955.5	$61.42
Granted	2,167.8	51.42
Vested	(2,077.3)	59.28
Forfeited	(207.5)	59.35
Unvested options outstanding at December 27, 2008	2,838.5	$55.50

As of December 27, 2008, the Company had approximately $32 million of unrecognized compensation cost related to unvested stock option awards granted under the Company's plans. This cost is expected to be recognized over the weighted-average remaining requisite service period for these awards of approximately 3 years.

The following table summarizes information on stock options outstanding and exercisable at December 27, 2008:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding (in thousands)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Number exercisable (in thousands)	Weighted-average exercise price
$19.53 to 28.63	179.0	3.48	$22.80	141.5	$21.26
30.05 to 45.53	412.8	4.78	34.76	398.3	34.64
49.31 to 57.96	4,480.5	6.16	53.42	2,576.4	54.61
58.72 to 67.80	5,763.4	5.81	61.82	4,881.0	61.26
$19.53 to 67.80	10,835.7	5.88	$56.67	7,997.2	$57.08

The following section presents the same information as above, but excludes the impact of Paxar converted stock options.

Stock Option Awards Excluding Paxar Converted Stock Options

The following table sets forth stock option information relative to the Company's stock option plans, excluding Paxar converted stock options during 2008:

	Number of options (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at December 29, 2007	8,974.3	$59.20	5.95	$3.6
Granted	2,167.8	51.42		
Exercised	(81.7)	45.19		
Forfeited or expired	(764.3)	54.49		
Outstanding at December 27, 2008	10,296.1	$58.02	5.97	$ .1
Options vested and expected to vest at December 27, 2008	9,906.3	58.07	5.45	.1
Options exercisable at December 27, 2008	7,472.1	$58.93	4.94	$ –

The total intrinsic value of stock options exercised was $.3 million in 2008, $13.4 million in 2007 and $16.8 million in 2006. Cash received by the Company from the exercise of these stock options was $.2 million in 2008, $36.2 million in 2007 and $54.1 million in 2006. The cash tax benefit realized by the Company from these options exercised was $.1 million in 2008, $4.7 million in 2007 and $5.5 million in 2006. The intrinsic value of the stock options is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The pretax compensation expense related to stock options granted to retirement-eligible of approximately $3 million and $5 million were recognized during 2008 and 2006, respectively, and are included in the stock option expense noted below. During 2007, the recognized pretax compensation expense related to stock options granted to retirement-eligible employees was not significant, as the Company did not grant its annual stock option awards to employees and directors.

Net income for 2008, 2007 and 2006 included pretax stock option expense of $18 million, $14.7 million and $20.9 million, respectively. These expenses were included in "Marketing, general and administrative expense" and were recorded in corporate expense and the Company's operating segments, as appropriate. No stock-based compensation cost was capitalized for the years ended 2008, 2007 and 2006, respectively.

The following table provides a summary of the Company's stock option plans, excluding Paxar converted stock options for the last three years:

	2008		2007		2006	
	Number of options (in thousands)	Weighted-average exercise price	Number of options (in thousands)	Weighted-average exercise price	Number of options (in thousands)	Weighted-average exercise price
Outstanding at beginning of year	8,974.3	$59.20	10,188.4	$58.47	10,853.2	$56.32
Granted	2,167.8	51.42	52.5	61.62	1,494.1	67.68
Exercised	(81.7)	45.19	(940.4)	50.33	(1,217.5)	50.11
Forfeited or expired	(764.3)	54.49	(326.2)	61.80	(941.4)	59.12
Outstanding at year end	10,296.1	$58.02	8,974.3	$59.20	10,188.4	$58.47

The following table summarizes the Company's unvested stock options, excluding Paxar converted stock options, during 2008:

	Number of options (in thousands)	Weighted-average exercise price
Unvested options outstanding at December 29, 2007	2,901.7	$61.91
Granted	2,167.8	51.42
Vested	(2,039.2)	59.75
Forfeited	(206.3)	59.47
Unvested options outstanding at December 27, 2008	2,824.0	$55.59

As of December 27, 2008, the Company had approximately $32 million of unrecognized compensation cost related to unvested stock option awards granted under the Company's plans. This cost is expected to be recognized over the weighted-average remaining requisite service period for these awards of approximately 3 years.

The following table summarizes information on stock options outstanding and exercisable, excluding Paxar converted stock options, at December 27, 2008:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding (in thousands)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Number exercisable (in thousands)	Weighted-average exercise price
$28.63 to 28.63	37.5	9.93	$28.63	–	$ –
45.53 to 57.96	4,495.1	6.15	53.39	2,591.1	54.56
58.72 to 67.80	5,763.5	5.81	61.82	4,881.0	61.26
$28.63 to 67.80	10,296.1	5.97	$58.02	7,472.1	$58.93

Performance Units

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 granted performance units ("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 ending December 31, 2010. The pretax compensation expense related to PUs was $1.2 million for the year ended 2008. As of December 27, 2008, the Company had approximately $2 million of unrecognized compensation cost related to these PUs, which reflects the Company's current expectation of meeting certain performance objective metrics. This cost is expected to be recognized over the weighted-average remaining requisite service period for these awards of approximately 2 years.

The following table summarizes information about awarded PUs:

	Number of PUs (in thousands)	Weighted-average grant-date fair value
Granted	263.1	$43.95
Forfeited	(8.3)	44.41
Unvested at December 27, 2008[1]	254.8	$43.94

(1) At the end of the performance period, the actual number of shares issued can range from 0% to 200% of the target shares granted for the 2008 performance period.

Restricted Stock Units and Restricted Stock

In December 2005, the Compensation and Executive Personnel Committee of the Board of Directors approved the award of RSUs, which were issued under the Company's stock option and incentive plan. RSUs are granted to two groups of employees as described below. These RSUs include dividend equivalents in the form of additional RSUs, which are equivalent to the amount of the dividend paid or property distributed on a single share of common stock multiplied by the number of RSUs in the employee's account. Vesting for the two groups of RSUs is as follows:

- A vesting period of 3 years provided that a certain performance objective is met at the end of the third year after the year of the award. If the performance objective is not achieved at the end of the third year, the same unvested RSUs will be subject to meeting the performance objective at the end of the fourth year, and if not achieved at the end of the fourth year, then the fifth year following the year of grant, or
- A vesting period of 1 to 5 years, provided that employment continues for 1 to 5 years after the date of the award.

For both groups, if the above vesting conditions are not met, the RSUs will be forfeited.

The following table summarizes information about awarded RSUs:

	Number of RSUs (in thousands)	Weighted-average grant-date fair value
Unvested at December 29, 2007	270.1	$62.07
Granted	232.9	47.76
Vested	(56.3)	39.33
Forfeited	(22.9)	56.53
Unvested at December 27, 2008	423.8	$57.53

The total compensation expense related to RSUs and restricted stock is amortized on a straight-line basis over the requisite service period.

The pretax compensation expense related to RSUs was $7.8 million, $4.3 million and $2.9 million for the years ended 2008, 2007 and 2006, respectively. The cash tax benefit realized by the Company from the vesting of RSUs and the related issuance of common stock was $.8 million in 2008 and $.1 million in 2007.

During 2005, the Company also awarded 30,000 shares of restricted stock, which vest in two equal increments, the first in 2009 and the second in 2012. Pretax compensation expense for this award was $.3 million each in 2008, 2007 and 2006.

The provisions of SFAS No. 123(R) require that stock-based compensation awards granted to retirement-eligible employees be treated as though they were immediately vested; as a result, the pretax compensation expense related to RSUs granted to retirement-eligible employees (none in 2008, $.1 million in 2007 and $.7 million in 2006) was recognized and included in the compensation expense noted above.

As of December 27, 2008, the Company has approximately $10 million of unrecognized compensation cost related to unvested RSUs and restricted stock. This cost is expected to be recognized over the remaining requisite service period for these awards (weighted-average remaining service period of approximately 2 years for RSUs and restricted stock, respectively).

Paxar Converted Stock Option Awards

In connection with the Paxar acquisition, the Company converted Paxar's stock options based on the acquisition price of $30.50 per share divided by the Company's twenty-day average stock price prior to the acquisition date, which was $64.82. The total number of stock options resulting from this conversion was approximately 955,000 shares, of which approximately 234,000 shares were associated with change-in-control provisions. In accordance with SFAS No. 123(R), the total equity compensation recorded in "Capital in excess of par value" in the Shareholders' equity section of the Consolidated Balance Sheet was approximately $24 million for Paxar's converted stock options. This amount was reduced by approximately $2 million related to unvested stock options.

The Company's stock-based compensation expense associated with Paxar converted stock options was based on the estimated fair value as of June 15, 2007, using the Black-Scholes option-pricing model, amortized on a straight-line basis over the remaining requisite service period. The Black-Scholes assumptions used were consistent with those used by the Company during the second quarter of 2007.

The following table sets forth stock option information relative to Paxar converted stock option plans during 2008:

	Number of options (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at December 29, 2007	644.9	$30.77	4.55	$14.6
Exercised	(100.7)	29.74		
Forfeited or expired	(4.6)	35.11		
Outstanding at December 27, 2008	539.6	$30.93	4.07	$ 1.6
Options vested and expected to vest at December 27, 2008	537.3	30.90	4.06	1.6
Options exercisable at December 27, 2008	525.1	$30.73	4.01	$ 1.6

The total intrinsic value of Paxar converted stock options exercised was $1.6 million in 2008 and $2 million in 2007. Cash received by the Company from the exercise of these stock options was $2.5 million in 2008 and $1.9 million in 2007. The cash tax benefit realized by the Company from these exercised options was $.5 million in 2008 and $.2 million in 2007. The intrinsic value of the stock options is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The following table summarizes Paxar converted unvested stock options during 2008:

	Number of options (in thousands)	Weighted-average exercise price
Unvested options outstanding at December 29, 2007	53.8	$35.15
Vested	(38.1)	33.94
Forfeited	(1.2)	38.07
Unvested options outstanding at December 27, 2008	14.5	$38.07

The pretax compensation expense related to Paxar converted stock options was approximately $.6 million and $1 million for the fiscal years ended 2008 and 2007, respectively. As of December 27, 2008, the Company had approximately $.2 million of unrecognized compensation cost related to unvested Paxar converted stock option awards. This cost is expected to be recognized over the weighted-average remaining requisite service period for these awards of approximately 1 year.

The following table summarizes information on the Paxar converted stock options outstanding and exercisable at December 27, 2008:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding (in thousands)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Number exercisable (in thousands)	Weighted-average exercise price
$19.53 to 24.68	141.4	1.77	$21.26	141.4	$21.26
30.05 to 43.25	398.2	4.89	34.36	383.7	34.22
$19.53 to 43.25	539.6	4.07	$30.93	525.1	$30.73

Paxar Converted Performance Share Awards

Additionally, the Company converted Paxar's performance share awards into approximately 80,000 shares of the Company's common stock, based on the acquisition price of $30.50 per share divided by the Company's twenty-day average stock price prior to the acquisition date, which was $64.82. The total equity compensation of approximately $5 million for vested and unvested performance share awards, recorded in "Capital in excess of par value" in the Shareholders' equity section of the Consolidated Balance Sheet was calculated using the Company's ending stock price at June 15, 2007 of $66.69. This amount was reduced by approximately $3 million related to unvested performance share awards.

The pretax compensation expense related to Paxar converted performance share awards was $1.1 million and $.9 million for the fiscal years ended 2008 and 2007, respectively. The cash tax benefit realized by the Company from the vesting of performance shares and the related issuance of common stock was $.2 million in 2008.

As of December 27, 2008, the Company had approximately $.5 million of unrecognized compensation cost related to unvested converted Paxar performance share awards. This cost is expected to be recognized over the weighted-average remaining requisite service period of approximately 1 year.

NOTE 10. COST REDUCTION ACTIONS

Severance charges recorded under the restructuring actions below are included in "Other accrued liabilities" in the Consolidated Balance Sheet. Severance and other employee costs represent cash paid or to be paid to employees terminated under these actions. Asset impairments are based on the estimated market value of the assets. Charges below are included in "Other expense, net" in the Consolidated Statement of Income.

2008

In 2008, the Company implemented cost reduction actions, including the new action initiated in the fourth quarter, resulting in a headcount reduction of approximately 1,475 positions, impairment of certain assets and software, as well as lease cancellations. At December 27, 2008, approximately 640 employees impacted by these actions remain with the Company, and are expected to leave in 2009. Pretax 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. The table below details the accruals and payments related to these actions:

(In millions)	Pressure-sensitive Materials Segment	Retail Information Services Segment	Office and Consumer Products Segment	Other specialty converting businesses	Corporate	Total
Total severance and other employee costs accrued during the period ended						
March 29, 2008	$ 1.1	$ 1.3	$ .1	$ .1	$ .7	$ 3.3
June 28, 2008	.1	2.7	4.2	–	.2	7.2
September 27, 2008	.9	.8	2.7	1.3	3.0	8.7
December 27, 2008	2.5	3.8	3.1	1.2	–	10.6
Total expense accrued during 2008	4.6	8.6	10.1	2.6	3.9	29.8
2008 Settlements	(1.2)	(4.6)	(5.1)	(1.0)	(.6)	(12.5)
Balance at December 27, 2008	$ 3.4	$ 4.0	$ 5.0	$ 1.6	$3.3	$ 17.3
Asset Impairments						
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

2007

In 2007, the Company continued its cost reduction efforts that were initiated in late 2006 and implemented additional actions resulting in a headcount reduction of approximately 615 positions, impairment of certain assets and software, as well as lease cancellations. At December 27, 2008, approximately 35 employees impacted by these actions remain with the Company, and are expected to leave by early 2009. Pretax charges related to these actions totaled $57.5 million, including severance and other employee costs of $21.6 million, impairment of fixed assets and buildings of $17.4 million, software impairment of $17.1 million and lease cancellation charges of $1.4 million. The table below details the accruals and payments related to these actions:

(In millions)	Pressure-sensitive Materials Segment	Retail Information Services Segment	Office and Consumer Products Segment	Other specialty converting businesses	Corporate	Total
Total severance and other employee costs accrued during the period ended						
March 31, 2007	$ 1.5	$ –	$ .6	$ –	$ –	$ 2.1
June 30, 2007	.5	.4	–	–	–	.9
September 29, 2007	3.1	3.1	.1	1.2	–	7.5
December 29, 2007	1.0	6.2	3.4	1.1	(.6)	11.1
Total expense accrued during 2007	6.1	9.7	4.1	2.3	(.6)	21.6
2007 Settlements	(1.9)	(3.0)	(.8)	(1.0)	.6	(6.1)
2008 Settlements	(4.1)	(3.5)	(3.3)	(1.2)	–	(12.1)
Balance at December 27, 2008	$ .1	$ 3.2	$ –	$ .1	$ –	$ 3.4
Asset Impairments						
Machinery and equipment	$10.9	$ 3.1	$ –	$ 1.9	$ .8	$ 16.7
Buildings	–	.7	–	–	–	.7
Other						
Software impairment	–	17.1	–	–	–	17.1
Lease cancellations	–	.6	.4	–	.4	1.4
	$10.9	$21.5	$ .4	$ 1.9	$1.2	$ 35.9

NOTE 11. TAXES BASED ON INCOME

Taxes based on income were as follows:

(In millions)	2008	2007	2006
Current:			
U.S. federal tax	$ 34.1	$ 23.9	$ (4.5)
State taxes	4.2	1.3	4.7
International taxes	96.6	80.8	73.8
	134.9	106.0	74.0
Deferred:			
U.S. federal tax	(36.5)	(15.4)	12.1
State taxes	2.3	(1.7)	1.1
International taxes	(96.2)	(17.1)	(25.2)
	(130.4)	(34.2)	(12.0)
Taxes on income	$ 4.5	$ 71.8	$ 62.0

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

(In millions)	2008	2007	2006
Computed tax at 35% of income from continuing operations before taxes	$ 94.7	$ 131.4	$152.3
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	3.5	(1.2)	3.7
Foreign earnings taxed at different rates	(62.9)	(117.1)	(54.7)
Valuation allowance	(45.3)	59.9	(5.2)
Tax credits	(5.2)	(4.4)	(4.9)
Tax contingencies and audit settlements	24.8	.8	(8.1)
Other items, net	(5.1)	2.4	(6.4)
Taxes on income from continuing operations	4.5	71.8	76.7
Taxes on income from and gain on sale of discontinued operations	–	–	(14.7)
Taxes on income	$ 4.5	$ 71.8	$ 62.0

Consolidated income before taxes for U.S. and international operations was as follows:

(In millions)	2008	2007	2006
U.S.	$ (14.2)	$ 19.8	$117.0
International	284.8	355.5	318.2
Income from continuing operations before taxes	270.6	375.3	435.2
Income (loss) from discontinued operations before taxes	–	–	–
Income before taxes	$270.6	$375.3	$435.2

The effective tax rate was approximately 2% for the full year 2008 compared with approximately 19% for the full year 2007. The 2008 effective tax rate reflects $45.3 million of benefit from changes in the valuation allowance against certain deferred tax assets, favorable geographic income mix, and a $24.8 million detriment from accruals for uncertain tax positions.

Income taxes have not been provided on certain undistributed earnings of foreign subsidiaries of approximately $1.63 billion and $1.37 billion at years ended 2008 and 2007, respectively, because such earnings are considered to be indefinitely reinvested. It is not practicable to estimate the amount of tax that would be payable upon distribution of these earnings. Deferred taxes have been accrued for earnings that are not considered indefinitely reinvested. The repatriation accrual for 2008 and 2007 is $12.5 million and $15.1 million, respectively.

The income from discontinued operations in 2006 included a $14.9 million tax benefit from the divestiture of the raised reflective pavement marker business. This tax benefit resulted from the capital loss recognized from the sale of the business, which was a stock sale. The capital loss was offset against capital gains recognized in 2006 related to the sale of an investment, as well as carried back to capital gains recognized in previous years.

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

(In millions)	2008	2007
Accrued expenses not currently deductible	$ 59.4	$ 57.9
Net operating losses	235.5	182.0
Tax Credit Carryforwards	70.5	28.7
Capital loss carryforward	14.5	15.1
Postretirement and postemployment benefits	57.7	50.7
Pension costs	114.9	11.9
Inventory reserves	10.6	10.2
Other Assets	11.3	6.5
Valuation allowance	(120.8)	(159.2)
Total deferred tax assets[(1)]	453.6	203.8
Depreciation and amortization	(210.5)	(228.1)
Repatriation accrual	(12.5)	(15.1)
Foreign Loss Subject to Recapture	(39.1)	–
Other liabilities	(11.1)	(9.1)
Total deferred tax liabilities[(1)]	(273.2)	(252.3)
Total net deferred tax assets (liabilities) from continuing operations	$ 180.4	$ (48.5)
Net deferred tax assets from discontinued operations	–	–
Total net deferred tax assets (liabilities)	$ 180.4	$ (48.5)

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

A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized. Pursuant to SFAS No. 109, "Accounting for Income Taxes," when establishing a valuation allowance, we consider future sources of taxable income such as "future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards" and "tax planning strategies."

Net operating loss carryforwards of foreign subsidiaries for 2008 and 2007 were $762.6 million and $563.7 million, respectively. The increase in 2008 is primarily attributable to $163.5 million of net operating losses resulting from the local statutory write down of certain investments in Europe. If unused, foreign net operating losses of $29.6 million will expire between 2009 and 2012, and $56.2 million will expire after 2012. Net operating losses of $676.8 million can be carried forward indefinitely. Tax credit carryforwards of both domestic and foreign subsidiaries for 2008 and 2007 totaled $70.5 million and $28.7 million, respectively. If unused, tax credit carryforwards of $1.2 million will expire between 2009 and 2011, $10.5 million will expire between 2012 and 2016, and $53.8 million will expire after 2016. Tax credit carryforwards of $5 million can be carried forward indefinitely. The Company has established a valuation allowance for the net operating loss and credit carryforwards not expected to be utilized. The valuation allowance for 2008 and 2007 is $120.8 million and $159.2 million, respectively. In 2008, a portion of the valuation allowance balance was released, when it was determined the deferred tax assets were more likely than not going to be realized as a result of tax planning actions. The Company modified certain intercompany financing arrangements, which will result in the generation of profits in jurisdictions that previously had recognized losses. These future profits will allow realization of net operating loss deferred tax assets, which resulted in the release of the related remaining valuation allowance. The portion of the valuation allowance related to Accumulated Other Comprehensive Income (which, if subsequently reversed, would not impact the effective tax rate), was $12.7 million for 2008 and $12.4 million for 2007.

The Company has been granted tax holidays in several jurisdictions including China, Thailand, Vietnam and Bangladesh. The tax holidays expire between 2009 and 2015. These tax holidays reduced the Company's consolidated effective tax rate on continuing operations by approximately 1%.

Tax Benefit Reserve

On December 27, 2008, the Company's unrecognized tax benefits totaled $163.7 million, including $97 million of unrecognized tax benefits which, if recognized, would reduce the annual effective income tax rate. This amount includes $48.2 million of unrecognized tax benefits which, if recognized, would have been recorded as an adjustment to goodwill under SFAS No. 141. However, under SFAS No. 141(R), which is effective the first annual reporting period beginning after December 15, 2008, this benefit, if recognized, would be an adjustment to the effective income tax rate. As of December 29, 2007, the Company's unrecognized tax benefits totaled $125 million, including $28.6 million of unrecognized tax benefits which, if recognized, would reduce the annual effective income tax rate and $49.1 million of unrecognized tax benefits which, if recognized, would be recorded as an adjustment to goodwill under SFAS No. 141.

Where applicable, the Company recognizes potential accrued interest and penalties related to unrecognized tax benefits from its global operations in income tax expense. The Company recognized $7.6 million and $.7 million of interest and penalties in the Consolidated Statement of Income in 2008 and 2007, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(In millions)	2008	2007
Balance at beginning of period	$114.5	$ 36.1
Acquired balance	–	61.0
Additions based on tax positions related to the current year	23.1	26.2
Additions for tax position of prior years	37.8	13.6
Reductions for tax positions of prior years:		
Changes in judgment	(0.2)	(7.5)
Settlements	(2.5)	(9.6)
Lapses of applicable statute	(23.0)	(9.7)
Changes due to translation of foreign currencies	(6.8)	4.4
Balance at end of period (excluding interest and penalties)	142.9	114.5
Interest and penalties associated with uncertain tax positions	20.8	10.5
Balance at end of period (including interest and penalties)	$163.7	$125.0

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 $44 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 $23 million relating to gross uncertain tax positions could be paid within the next 12 months.

NOTE 12. SEGMENT INFORMATION

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

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

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

(In millions)	2008	2007	2006
Net sales to unaffiliated customers:			
Pressure-sensitive Materials	$3,643.8	$3,497.7	$3,236.3
Retail Information Services	1,548.7	1,175.4	668.0
Office and Consumer Products	935.8	1,016.2	1,072.0
Other specialty converting businesses	582.1	618.5	599.6
Net sales to unaffiliated customers	$6,710.4	$6,307.8	$5,575.9
Intersegment sales:			
Pressure-sensitive Materials	$ 172.4	$ 164.9	$ 161.5
Retail Information Services	2.1	2.1	3.4
Office and Consumer Products	1.2	1.6	1.8
Other specialty converting businesses	26.4	19.9	14.4
Eliminations	(202.1)	(188.5)	(181.1)
Intersegment sales	$ –	$ –	$ –
Income from continuing operations before taxes:			
Pressure-sensitive Materials	$ 252.3	$ 318.7	$ 301.6
Retail Information Services	9.4	(5.7)	45.2
Office and Consumer Products	144.5	173.6	187.4
Other specialty converting businesses	6.0	27.1	17.8
Corporate expense	(25.7)	(33.2)	(61.3)
Interest expense(4)	(115.9)	(105.2)	(55.5)
Income from continuing operations before taxes	$ 270.6(1)	$ 375.3(2)	$ 435.2(3)
Capital expenditures:			
Pressure-sensitive Materials	$ 50.1	$ 78.3	$ 75.8
Retail Information Services	45.0	43.2	25.6
Office and Consumer Products	6.1	17.1	13.6
Other specialty converting businesses	16.6	46.2	36.1
Corporate	1.4	1.5	2.1
Discontinued operations	–	–	–
Capital expenditures(5)	$ 119.2	$ 186.3	$ 153.2
Depreciation expense:			
Pressure-sensitive Materials	$ 91.7	$ 91.2	$ 88.2
Retail Information Services	65.6	42.5	17.8
Office and Consumer Products	17.0	21.8	20.7
Other specialty converting businesses	26.3	24.6	23.1
Corporate	4.0	4.0	4.0
Discontinued operations	–	–	.5
Depreciation expense	$ 204.6	$ 184.1	$ 154.3

Prior year amounts have been restated to reflect 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.

(1) Results for 2008 included "Other expense, net" totaling $36.2, consisting of restructuring costs, asset impairment charges and lease cancellation costs of $40.7, partially offset by a gain on sale of investments of $(4.5). Of the total $36.2, the Pressure-sensitive Materials segment recorded $10.4, the Retail Information Services segment recorded $11.4, the Office and Consumer Products segment recorded $12.2, the other specialty converting businesses recorded $2.8 and Corporate recorded $(.6).

Additionally, 2008 operating income for the Retail Information Services segment included $24.1 of transition costs associated with the Paxar and DM Label acquisitions.

(2) Results for 2007 included "Other expense, net" totaling $59.4, consisting of asset impairment charges, restructuring costs and lease cancellation charges of $57.5, a cash flow hedge loss of $4.8, and expenses related to a divestiture of $.3, partially offset by a reversal related to a lawsuit of $(3.2). Of the total $59.4, the Pressure-sensitive Materials segment recorded $13.8, the Retail Information Services segment recorded $31.2, the Office and Consumer Products segment recorded $4.8, the other specialty converting businesses recorded $4.2 and Corporate recorded $5.4. See Note 10, "Cost Reduction Actions," for further information.

Additionally, 2007 operating income for the Retail Information Services segment included $43 of transition costs associated with the Paxar acquisition.

(3) Results for 2006 included "Other expense, net" totaling $36.2, which consists of restructuring costs, asset impairment and lease cancellation charges of $29.8, environmental remediation costs of $13, costs of $.4 related to a divestiture, accrual related to a lawsuit of $.4 and charitable contribution of $10 to the Avery Dennison Foundation, partially offset by gain on sale of investment of $(10.5), gain on sale of assets of $(5.3) and gain on curtailment and settlement of a pension obligation of $(1.6). Of the $36.2 total, the Pressure-sensitive Materials segment recorded $9.3, the Retail Information Services segment recorded $11.2, the Office and Consumer Products segment recorded $(2.3), the other specialty converting businesses recorded $3.7 and Corporate recorded $14.3. See Note 10, "Cost Reduction Actions," for further information.

(4) Interest expense during 2008 and 2007 included $65.5 and $40.8, respectively, of interest associated with borrowings to fund the Paxar and DM Label acquisitions.

(5) Capital expenditures accrued but not paid were approximately $5 in 2008, approximately $14 in 2007 and approximately $18 in 2006. Capital expenditures refer to purchases of property, plant and equipment.

Financial information relating to the Company's continuing operations by geographic area is set forth below:

(In millions)	2008	2007	2006
Net sales to unaffiliated customers:			
U.S.	$2,218.4	$2,333.2	$2,333.8
Europe	2,366.6	2,149.9	1,798.8
Asia	1,297.6	1,070.9	748.7
Latin America	448.0	396.7	332.4
Other international	379.8	357.1	362.2
Net sales	$6,710.4	$6,307.8	$5,575.9
Property, plant and equipment, net:			
U.S.	$ 604.2	$ 637.9	$ 562.5
International	888.8	953.5	746.9
Property, plant and equipment, net	$1,493.0	$1,591.4	$1,309.4

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

NOTE 13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In millions, except per share data)	First Quarter[1]	Second Quarter[2]	Third Quarter[3]	Fourth Quarter[4]
2008				
Net sales	$1,645.2	$1,828.9	$1,724.8	$1,511.5
Gross profit	424.0	490.3	434.3	378.4
Net income	68.4	92.4	62.7	42.6
Net income per common share	.70	.94	.64	.43
Net income per common share, assuming dilution	.69	.93	.63	.43
2007				
Net sales	$1,389.9	$1,523.5	$1,680.4	$1,714.0
Gross profit	364.3	410.4	466.2	481.5
Net income	79.1	86.2	58.8	79.4
Net income per common share	.81	.88	.60	.81
Net income per common share, assuming dilution	.80	.87	.59	.81

(1) Results in the first quarter of 2008 include pretax "Other expense" totaling $5.6 consisting of restructuring costs of $3.3 and asset impairment charges of $2.3. Additionally, results include transition costs associated with acquisition integrations of $7.
Results in the first quarter of 2007 include pretax "Other expense" totaling $2.1 consisting of restructuring costs.

(2) Results in the second quarter of 2008 include pretax "Other expense, net" totaling $5.8 consisting of restructuring costs of $7.2 and asset impairment and lease cancellation charges of $3.1, partially offset by a gain on sale of investments of $(4.5). Additionally, results include transition costs associated with acquisition integrations of $5.7.

Results in the second quarter of 2007 include pretax "Other expense, net" totaling $7.5 consisting of integration related asset impairment charges of $9.5, restructuring costs of $.9 and expenses related to a divestiture of $.3, partially offset by a reversal of an accrual related to a lawsuit of $(3.2). Additionally, results include transition costs associated with the Paxar integration of $10.2.

(3) Results in the third quarter of 2008 include pretax "Other expense" totaling $12.5 consisting of restructuring costs of $8.7 and asset impairment and lease cancellation charges of $3.8. Additionally, results include transition costs associated with acquisition integrations of $5.2.
Results in the third quarter of 2007 include pretax "Other expense" totaling $33.6 consisting of asset impairment and lease cancellation charges of $12.4, integration related asset impairment charges of $8.9, restructuring costs of $7.5, and a cash flow hedge loss of $4.8. Additionally, results include transition costs associated with the Paxar integration of $16.

(4) Results in the fourth quarter of 2008 include pretax "Other expense" totaling $12.3 consisting of restructuring costs of $10.6, asset impairment and lease cancellation charges of $1.7. Additionally, results include transition costs associated with acquisition integrations of $6.2.
Results in the fourth quarter of 2007 include pretax "Other expense" totaling $16.2 consisting of restructuring costs of $11.1, asset impairment and lease cancellation charges of $5.1. Additionally, results include transition costs associated with the Paxar integration of $16.8.

NOTE 14. FAIR VALUE MEASUREMENTS

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 27, 2008:

		Fair Value Measurements Using		
(In millions)	Total as of December 27, 2008	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Available for sale securities	$11.4	$11.4	$ –	$ –
Derivative assets	31.9	–	31.9	–
Liabilities:				
Derivative liabilities	$74.2	$ 6.1	$68.1	$ –

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 Company has deferred compensation obligations, which are not subject to fair value measurements. These obligations are funded by corporate-owned life insurance contracts and standby letters of credit.

NOTE 15. SUBSEQUENT EVENTS

On January 23, 2009, the Company entered into an amendment to the credit agreement for a $1 billion revolving credit facility (the "Revolver") with certain domestic and foreign banks (the "Revolver Lenders"), maturing August 10, 2012. The amendment increases the Company's flexibility for a specified period of time under the customary financial covenants to which the Revolver is subject and excludes certain restructuring charges from the calculation of certain ratios under those covenants. The amendment increases the typical annual interest rate of the Revolver to the annual rate of, at the Company's option, either (i) between LIBOR plus 1.800% and LIBOR plus 3.500%, 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 0.800% and 2.500%, 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 0.200% and 0.500%, 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 the credit agreement for a $400 million term loan credit facility ("Credit Facility") with certain domestic and foreign banks (the "Lenders"), 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 customary financial covenants to which the Credit Facility is subject and excludes certain restructuring charges from the calculation of certain ratios under those covenants. The amendment also increases the typical annual interest rate of the Credit Facility to the annual rate of, at the subsidiary's option, either (i) between LIBOR plus 2.000% and LIBOR plus 4.000%, 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 1.000% and 3.000%, depending on the Company's debt ratings by either S&P or Moody's. The amendment provides for 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

On February 3, 2009, the Company commenced an offer to exchange up to approximately 8.4 million units, or 95%, 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's 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 terms and conditions of the offer are set forth in the offer to exchange dated February 3, 2009 (the "offer to exchange") and the related letter of transmittal (the "letter of transmittal"). The offer is not subject to a minimum condition. As the exchange is not mandatory, there is no assurance that the exchange will occur in part or in its entirety.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company's evaluation under the framework in *Internal Control — Integrated Framework*, management has concluded that internal control over financial reporting was effective as of December 27, 2008. Management's assessment of the effectiveness of internal control over financial reporting as of December 27, 2008 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Management has excluded DM Label from its assessment of internal control over financial reporting as of December 27, 2008 because it was acquired by the Company in a purchase business combination during 2008. PricewaterhouseCoopers LLP has also excluded DM Label from their audit of internal control over financial reporting. DM Label is a wholly-owned subsidiary whose total assets and total revenues represent 3 percent and less than 1 percent, respectively, of the related consolidated financial statement amounts for the Company as of and for the year ended December 27, 2008.

Dean A. Scarborough
President and
Chief Executive Officer

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at December 27, 2008 and December 29, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 27, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the Company changed the manner in which it accounts for income taxes and the method in which it accounts for the cost of inventory for the Company's U.S. operations in 2007.

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

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

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded DM Label from its assessment of internal control over financial reporting as of December 27, 2008 because it was acquired by the Company in a purchase business combination during 2008. PricewaterhouseCoopers LLP has also excluded DM Label from their audit of internal control over financial reporting. DM Label is a wholly-owned subsidiary whose total assets and total revenues represent 3 percent and less than 1 percent, respectively, of the related consolidated financial statement amounts for the Company as of and for the year ended December 27, 2008.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Los Angeles, California
February 25, 2009

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Directors and Officers

BOARD OF DIRECTORS

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Chairman of the Board,
Avery Dennison Corporation
Chairman Emeritus,
Northrop Grumman Corporation,
an aeronautical and defense systems manufacturer
Board member since 1999

Dean A. Scarborough
President and
Chief Executive Officer,
Avery Dennison Corporation
Board member since 2000

Richard M. Ferry [1,2,5]
Founder Chairman,
Korn/Ferry International,
an international executive search firm
Board member since 1985

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Chairman Emeritus,
MullinTBG,
an executive compensation, benefit planning and corporate insurance consulting firm
Board member since 1988

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Chief Executive Officer,
Allergan, Inc.,
a global health care company
Board member since 1999

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Retired Partner,
Goldman, Sachs & Company,
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Board member since 2003

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Chief Executive Officer,
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a full-service restaurant company
Board member since 2003

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an audit, tax, consulting and financial advisory services firm
Board member since 2004

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Rexam PLC,
a consumer packaging and beverage can manufacturer
Board member since 2005

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The Carlyle Group,
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Board member since 2005

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Chief Merchandising Officer,
J. C. Penney Company, Inc.,
a leading retailer
Board member since 2007

Directors Emeriti
(non-voting)

Charles D. Miller
Retired Chairman and
Chief Executive Officer,
Avery Dennison Corporation

H. Russell Smith
Retired Chairman of the
Executive Committee,
Avery Dennison Corporation

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1 Member of Compensation and Executive Personnel Committee
2 Member of Audit Committee
3 Member of Finance Committee
4 Member of Ethics and Conflict of Interest Committee
5 Member of Nominating and Governance Committee

COMPANY LEADERSHIP

Dean A. Scarborough
President and
Chief Executive Officer

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

Donald A. Nolan
Group Vice President,
Roll Materials

Timothy S. Clyde
Group Vice President,
Specialty Materials and Converting

Terrence L. Hemmelgarn
Group Vice President,
Retail Information Services

Timothy G. Bond
Group Vice President,
Office Products

Anne Hill
Senior Vice President and
Chief Human Resources Officer

Susan C. Miller
Senior Vice President,
General Counsel and Secretary

Robert M. Malchione
Senior Vice President,
Corporate Strategy and Technology

Diane B. Dixon
Senior Vice President,
Corporate Communications and Advertising

Richard W. Hoffman
Senior Vice President
and Chief Information Officer

Gregory E. Temple
Vice President,
Global Operations and
Enterprise Lean Sigma

Mitchell R. Butier
Corporate Vice President,
Global Finance, and
Chief Accounting Officer

David N. Edwards
Vice President and
Chief Technology Officer

Karyn E. Rodriguez
Vice President and Treasurer

BUSINESS LEADERSHIP

Pressure-sensitive Materials

John L. Collins
Vice President, Sales,
Fasson Roll North America

Angelo Depietri
Vice President and
General Manager,
Roll Materials Europe

Georges Gravanis
Vice President, Sales,
Roll Materials Europe

Kathleen J. Hall
Vice President and
General Manager,
Graphics and Reflective
Products North America

Kamran Kian
Vice President,
Global Operations and
Supply Chain,
Roll Materials

Gary A. LePon
Vice President,
Business Development,
Asia Pacific and
General Manager, Japan

Dagang Li
Vice President and
General Manager,
Roll Materials Greater China

David R. Martin
Vice President and
General Manager,
Roll Materials Australia,
New Zealand and South Africa

John C. Quinn
Vice President and
General Manager,
Roll Materials Asia Pacific

Helen M. Saunders
Vice President and
General Manager,
Graphics and Reflective Products

John M. Wurzburger
Vice President and
General Manager,
Fasson Roll North America

Retail Information Services

Robert B. Cornick
Vice President and
General Manager,
Printer Systems Division,
Retail Information Services

Graham Diamond
Vice President and
General Manager,
Information and Brand
Management Division Americas,
Retail Information Services

David E. Herring
Vice President and
General Manager, Fastener,
Retail Information Services

Michael S. Johansen
Vice President and
General Manager,
Retail Information Services,
Asia Pacific

Kim P. Macaulay
Vice President,
Product Management and
Strategic Business Development,
Retail Information Services

Deon Stander
Vice President and
General Manager,
Information and Brand
Management Division,
Retail Information Services,
South China

James Wrigley
Vice President and
General Manager,
Information and Brand
Management Division,
Europe and South Asia,
Retail Information Services

Office and Consumer Products

Andy M. Cooper
Vice President and
General Manager,
Office Products Asia Pacific

Hans-Guenther Klenk
Vice President and
General Manager,
Office Products Europe

Other specialty converting businesses

John J. Farrell, Jr.
Vice President and
General Manager,
Radio Frequency Identification

William M. Goldsmith
Vice President and
General Manager,
Performance Films

Mathew S. Mellis
Vice President and
General Manager,
Specialty Converting

Kevin E. Young
Vice President and
General Manager,
Specialty Tape

Corporate Information

Counsel
Latham & Watkins LLP
Los Angeles, California

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
Los Angeles, California

Transfer Agent — Registrar
Computershare Trust Co., N.A.
P. O. Box 43078
Providence, RI 02940-3078
(877) 498-8861
(800) 952-9245 (hearing impaired number)
www.computershare.com/investor

Annual Meeting
The Annual Meeting of Shareholders will be held at 1:30 p.m. on April 23, 2009 in the Conference Center of the Avery Dennison Miller Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California.

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

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

Other Information
The Company is including, as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for fiscal year 2008 filing with the Securities and Exchange Commission ("SEC"), certificates of the Chief Executive Officer and Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and the Company submitted to the New York Stock Exchange ("NYSE"), the Company's annual written affirmation on April 29, 2008, along with the Chief Executive Officer's certificate that he is not aware of any violation by the Company of NYSE's Corporate Governance listing standards.

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

Corporate Headquarters
Avery Dennison Corporation
Miller Corporate Center
150 North Orange Grove Boulevard
Pasadena, California 91103
Phone: (626) 304-2000
Fax: (626) 792-7312

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

Stock and Dividend Data
Common shares of Avery Dennison are listed on the NYSE.
Ticker symbol: AVY

	2008		2007	
	High	Low	High	Low
Market Price(1)				
First Quarter	$53.14	$45.66	$69.67	$63.46
Second Quarter	53.07	43.61	66.70	62.20
Third Quarter	50.00	41.35	68.49	55.31
Fourth Quarter	44.49	25.02	59.30	49.69

(1) Prices shown represent closing prices on the NYSE

	2008	2007
Dividends Per Common Share		
First Quarter	$ .41	$ .40
Second Quarter	.41	.40
Third Quarter	.41	.40
Fourth Quarter	.41	.41
Total	$ 1.64	$ 1.61
Number of shareholders of record as of year end	8,584	8,998

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