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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 4, 2009.

OR

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

For the transition period from ____________________ to ____________________

Commission file number: 1-7685

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

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

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

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

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

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

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

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

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

AVERY DENNISON CORPORATION

FISCAL SECOND QUARTER 2009 FORM 10-Q QUARTERLY REPORT

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET
(*Unaudited*)

(Dollars in millions)	July 4, 2009	December 27, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 91.9	$ 105.5
Trade accounts receivable, less allowances of $55.9 and $57.3 for 2009 and 2008, respectively	975.6	988.9
Inventories, net	518.4	583.6
Current deferred and refundable income taxes	103.5	115.6
Other current assets	104.7	136.8
Total current assets	1,794.1	1,930.4
Property, plant and equipment	3,170.1	3,173.1
Accumulated depreciation	(1,766.1)	(1,680.1)
Property, plant and equipment, net	1,404.0	1,493.0
Goodwill	940.0	1,716.7
Other intangibles resulting from business acquisitions, net	277.1	303.6
Non-current deferred and refundable income taxes	204.6	168.9
Other assets	423.4	423.1
	$ 5,043.2	$ 6,035.7
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	$ 791.6	$ 665.0
Accounts payable	608.0	672.9
Current deferred and payable income taxes	34.9	59.6
Other current liabilities	581.6	660.5
Total current liabilities	2,016.1	2,058.0
Long-term debt	1,134.9	1,544.8
Long-term retirement benefits and other liabilities	551.0	566.5
Non-current deferred and payable income taxes	139.9	116.4
Commitments and contingencies (see Note 15)		
Shareholders' equity:		
Common stock, $1 par value, authorized - 400,000,000 shares at July 4, 2009 and December 27, 2008; issued - 124,126,624 shares at July 4, 2009 and December 27, 2008; outstanding - 105,094,566 shares and 98,366,621 shares at July 4, 2009 and December 27, 2008, respectively	124.1	124.1
Capital in excess of par value	623.1	642.9
Retained earnings	1,432.7	2,381.3
Cost of unallocated ESOP shares	–	(1.2)
Employee stock benefit trusts, 7,635,096 shares and 7,888,953 shares at July 4, 2009 and December 27, 2008, respectively	(188.3)	(246.9)
Treasury stock at cost, 11,381,962 shares and 17,841,050 shares at July 4, 2009 and December 27, 2008, respectively	(570.8)	(867.7)
Accumulated other comprehensive loss	(219.5)	(282.5)
Total shareholders' equity	1,201.3	1,750.0
	$ 5,043.2	$ 6,035.7

See Notes to Unaudited Condensed Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF OPERATIONS
(*Unaudited*)

(In millions, except per share amounts)	Three Months Ended July 4, 2009	Three Months Ended June 28, 2008	Six Months Ended July 4, 2009	Six Months Ended June 28, 2008
Net sales	$ 1,455.4	$ 1,828.9	$ 2,881.6	$ 3,474.1
Cost of products sold	1,065.1	1,338.6	2,146.2	2,559.8
Gross profit	390.3	490.3	735.4	914.3
Marketing, general and administrative expense	300.1	341.0	604.3	669.0
Goodwill and indefinite-lived intangible asset impairment charges	–	–	832.0	–
Interest expense	20.4	29.3	47.9	58.8
Other expense, net	29.6	5.8	126.9	11.4
Income (loss) before taxes	40.2	114.2	(875.7)	175.1
Provision for (benefit from) income taxes	.4	21.8	(16.6)	14.3
Net income (loss)	$ 39.8	$ 92.4	$ (859.1)	$ 160.8
Per share amounts:				
Net income (loss) per common share	$ .38	$ .94	$ (8.41)	$ 1.63
Net income (loss) per common share, assuming dilution	$ .38	$ .93	$ (8.41)	$ 1.62
Dividends	$ .41	$ .41	$ .82	$ .82
Average shares outstanding:				
Common shares	105.0	98.5	102.2	98.5
Common shares, assuming dilution	105.7	98.9	102.2	98.9
Common shares outstanding at period end	105.1	98.5	105.1	98.5

See Notes to Unaudited Condensed Consolidated Financial Statements

Avery Dennison Corporation

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(*Unaudited*)

(In millions)	Six Months Ended July 4, 2009	Six Months Ended June 28, 2008
Operating Activities		
Net (loss) income	$ (859.1)	$ 160.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	94.0	101.6
Amortization	38.6	37.0
Provision for doubtful accounts	9.5	8.2
Goodwill and indefinite-lived intangible asset impairment charges	832.0	–
Asset impairment and net loss on sale and disposal of assets	28.0	14.4
Loss from debt extinguishment	21.2	–
Stock-based compensation	13.2	16.9
Other non-cash expense and loss	12.1	–
Other non-cash income and gain	(7.2)	(17.2)
Changes in assets and liabilities and other adjustments, net of the effect of business acquisitions	(49.5)	(133.0)
Net cash provided by operating activities	132.8	188.7
Investing Activities		
Purchase of property, plant and equipment	(30.5)	(69.1)
Purchase of software and other deferred charges	(14.9)	(33.0)
Payments for acquisitions	–	(125.0)
Proceeds from sale of investments, net	.1	13.0
Other	(4.2)	5.1
Net cash used in investing activities	(49.5)	(209.0)
Financing Activities		
Net increase (decrease) in borrowings (maturities of 90 days or less)	65.4	(285.1)
Additional borrowings (maturities longer than 90 days)	–	400.1
Payments of debt (maturities longer than 90 days)	(73.4)	(.3)
Dividends paid	(89.6)	(87.6)
Proceeds from exercise of stock options, net	.2	1.9
Other	–	5.4
Net cash (used in) provided by financing activities	(97.4)	34.4
Effect of foreign currency translation on cash balances	.5	1.5
(Decrease) increase in cash and cash equivalents	(13.6)	15.6
Cash and cash equivalents, beginning of year	105.5	71.5
Cash and cash equivalents, end of period	$ 91.9	$ 87.1

See Notes to Unaudited Condensed Consolidated Financial Statements

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

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

The Company's 2009 fiscal year includes a 53-week period, with the extra week reflected in the first quarter. Normally, each fiscal year consists of 52 weeks, but every fifth or sixth year consists of 53 weeks. The second quarters of 2009 and 2008 consisted of thirteen-week periods ending July 4, 2009 and June 28, 2008, respectively.

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

The Company has evaluated subsequent events through the time of filing this Form 10-Q with the Securities and Exchange Commission ("SEC") on August 12, 2009.

Financial Presentation

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

Note 2. Acquisitions

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

Note 3. Inventories

Inventories consisted of:

(In millions)	July 4, 2009	December 27, 2008
Raw materials	$ 221.0	$ 256.2
Work-in-progress	124.3	143.4
Finished goods	241.3	248.6
Inventories at lower of FIFO cost or market (approximates replacement cost)	586.6	648.2
Inventory reserves	(68.2)	(64.6)
Inventories, net	$ 518.4	$ 583.6

Note 4. Goodwill and Other Intangibles Resulting from Business Acquisitions

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

The Company performs its goodwill impairment test in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." In performing the required goodwill impairment test, the Company primarily applies a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. The Company's reporting units, which are composed of either a discrete business or an aggregation of businesses with similar economic characteristics, consist of roll materials; retail information services; office and consumer products; graphics and reflective products; industrial products; and business media.

The Company performs its annual goodwill impairment test during the fourth quarter. However, certain factors may result in the need to perform a goodwill impairment test prior to the fourth quarter, including significant underperformance of the Company's business relative to expected operating results, significant adverse economic and industry trends, significant decline in the Company's market

capitalization for an extended period of time relative to net book value, or a decision to divest an individual business within a reporting unit. Based upon the Company's assessment of these factors in connection with the preparation of the Company's first quarter financial statements, the Company determined that there was a need to initiate an interim goodwill impairment test. The factors considered included both a sustained decline in the Company's stock price and a decline in the Company's 2009 revenue projections for the retail information services reporting unit, following lower than expected revenues in March 2009, which continued in April 2009. The peak season for the retail information services reporting unit has traditionally been March through the end of the second quarter.

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

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

Goodwill

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

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

(In millions)	Pressure-sensitive Materials	Retail Information Services	Office and Consumer Products	Other specialty converting businesses	Total
Balance as of December 29, 2007	$ 354.0	$ 1,137.7	$ 177.6	$ 14.0	$ 1,683.3
Goodwill acquired during the period[1]	–	45.1	–	–	45.1
Acquisition adjustments[2]	.3	10.3	–	–	10.6
Transfers[3]	–	10.4	–	(10.4)	–
Translation adjustments	(19.9)	8.1	(10.4)	(.1)	(22.3)
Balance as of December 27, 2008	$ 334.4	$ 1,211.6	$ 167.2	$ 3.5	$ 1,716.7
Acquisition adjustments[4]	–	30.9	–	–	30.9
Goodwill impairment charges	–	(820.0)	–	–	(820.0)
Translation adjustments	7.3	1.4	3.7	–	12.4
Balance as of July 4, 2009	$ 341.7	$ 423.9	$ 170.9	$ 3.5	$ 940.0
Goodwill Summary:					
Goodwill	$ 341.7	$ 1,243.9	$ 170.9	$ 3.5	$ 1,760.0
Accumulated impairment losses	–	(820.0)	–	–	(820.0)
Balance as of July 4, 2009	$ 341.7	$ 423.9	$ 170.9	$ 3.5	$ 940.0

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

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

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

(4) Acquisition adjustments in 2009 consisted of opening balance sheet adjustments associated with the DM Label acquisition in April 2008 of $31.1, and other acquisition adjustments of $(.2).

As of July 4, 2009, goodwill and other intangible assets and their related useful lives include the allocations of the purchase price of the DM Label acquisition based on valuations of the acquired assets.

Indefinite-Lived Intangible Assets

In connection with the acquisition of Paxar, the Company acquired approximately $30 million of intangible assets, consisting of certain trade names and trademarks, which are not subject to amortization because they have an indefinite useful life. As part of the interim goodwill impairment test completed in the second quarter of 2009, which is discussed above, the Company recorded an additional non-cash impairment charge of $12 million related to these indefinite-lived intangible assets in the first quarter of 2009, with no additional impairment charge in the second quarter of 2009. The carrying value of these indefinite-lived intangible assets was $17.8 million and $29.5 million at July 4, 2009 and December 27, 2008, respectively, which include $.2 million and $.5 million of negative currency impact, respectively.

Finite-Lived Intangible Assets

The following table sets forth the Company's finite-lived intangible assets resulting from business acquisitions at July 4, 2009 and December 27, 2008, which continue to be amortized:

	July 4, 2009			December 27, 2008		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 297.8	$ 81.8	$ 216.0	$ 295.9	$ 67.4	$ 228.5
Patents and other acquired technology	53.6	21.2	32.4	53.6	18.8	34.8
Trade names and trademarks (1)	46.1	38.7	7.4	45.1	38.1	7.0
Other intangibles	8.8	5.3	3.5	8.8	5.0	3.8
Total	$ 406.3	$ 147.0	$ 259.3	$ 403.4	$ 129.3	$ 274.1

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

Amortization expense on finite-lived intangible assets resulting from business acquisitions was $8.4 million and $17 million for the three and six months ended July 4, 2009, respectively, and $7.9 million and $15.8 million for the three and six months ended June 28, 2008, respectively. As of July 4, 2009, the estimated amortization expense for finite-lived intangible assets resulting from completed business acquisitions for this fiscal year and each of the next four fiscal years is expected to be approximately $30 million per year.

The weighted-average amortization periods from the date of acquisition for finite-lived intangible assets resulting from business acquisitions are thirteen years for customer relationships, eleven years for trade names and trademarks, thirteen years for patents and other acquired technology, eight years for other intangibles and thirteen years in total. As of July 4, 2009, the weighted-average remaining useful life of acquired finite-lived intangible assets are nine years for customer relationships, five years for trade names and trademarks, seven years for patents and other acquired technology, four years for other intangibles and eight years in total.

Note 5. Debt

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

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

2010, and $280 million payable upon maturity.

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

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

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

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

As of July 4, 2009, approximately two million HiMEDS units with a carrying value of approximately $109 million remained outstanding. The purchase contracts related to these units obligate the holders to purchase from the Company a certain number of shares in 2010 (depending on the stock price at the time).

The fair value of the Company's debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debt of similar remaining maturities. As of July 4, 2009, the carrying value and fair value of the Company's total debt, including short-term borrowings, was $1.93 billion and $1.85 billion, respectively.

Note 6. Pension and Other Postretirement Benefits

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

	Pension Benefits							
	Three Months Ended				Six Months Ended			
	July 4, 2009		June 28, 2008		July 4, 2009		June 28, 2008	
(In millions)	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l
Components of net periodic benefit cost:								
Service cost	$ 4.6	$ 2.9	$ 5.1	$ 3.6	$ 10.0	$ 5.7	$ 9.8	$ 7.1
Interest cost	9.3	6.2	8.7	7.4	19.1	12.4	18.0	14.4
Expected return on plan assets	(12.1)	(6.5)	(12.7)	(7.6)	(24.3)	(12.9)	(25.5)	(14.9)
Recognized net actuarial loss	1.8	.5	1.6	.9	5.1	1.0	3.0	1.8
Amortization of prior service cost	.2	.1	.3	.2	.4	.2	.6	.3
Amortization of transition asset	–	(.2)	–	(.2)	–	(.3)	–	(.3)
Net periodic benefit cost	$ 3.8	$ 3.0	$ 3.0	$ 4.3	$ 10.3	$ 6.1	$ 5.9	$ 8.4

(In millions)	U.S. Postretirement Health Benefits			
	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Components of net periodic benefit cost:				
Service cost	$ .3	$ .2	$ .5	$ .5
Interest cost	.5	.5	1.0	.9
Recognized net actuarial loss	.4	.4	.8	.8
Amortization of prior service cost	(.5)	(.5)	(1.0)	(1.0)
Net periodic benefit cost	$ .7	$ .6	$ 1.3	$ 1.2

The Company contributed $3.8 million and $1.8 million to its U.S. pension plans during the six months ended July 4, 2009 and June 28, 2008, respectively. The Company expects to contribute an additional $4.2 million to its U.S. pension plans for the remainder of 2009. Additionally, the Company contributed $1.3 million and $1.7 million to its U.S. postretirement health benefit plan during the six months ended July 4, 2009 and June 28, 2008, respectively. For the remainder of 2009, the Company expects to contribute an additional $1.5 million to its U.S. postretirement health benefit plan.

The Company contributed approximately $20 million and approximately $9 million to its international pension plans during the six months ended July 4, 2009 and June 28, 2008, respectively. Contributions made during the six months ended July 4, 2009 included $11 million of contributions to the Dutch pension plan made in the form of borrowings payable by the Company (included in “Long-term debt” in the unaudited Condensed Consolidated Balance Sheet) to the pension plan over the next three years. For the remainder of 2009, the Company expects to contribute an additional $9 million to its international pension plans.

During the six months ended July 4, 2009, the Company recognized approximately $4 million related to its match to participant contributions in the Company’s defined contribution plan. This expense was recorded in marketing, general and administrative expense and was funded through the issuance of shares from the Company’s Employee Stock Benefit Trust.

Note 7. Research and Development

Research and development expense for the three and six months ended July 4, 2009 was $21.6 million and $44.8 million, respectively. For the three and six months ended June 28, 2008, research and development expense was $23.9 million and $48.4 million, respectively.

Note 8. Stock-Based Compensation

Net income included stock-based compensation expense related to stock options, performance units (“PUs”), restricted stock units (“RSUs”) and restricted stock of $6.8 million and $13.2 million for the three and six months ended July 4, 2009, respectively, and $8.9 million and $16.9 million for the three and six months ended June 28, 2008, respectively. Total stock-based compensation expense was included in “Marketing, general and administrative expense” and was recorded in corporate expense and the Company’s operating segments, as appropriate.

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

In February 2009, the Company granted its annual stock-based awards to employees and directors. The provision of SFAS No. 123(R), “Share-Based Payment,” requires that such awards granted to retirement-eligible employees be treated as though they were immediately vested; as a result, the compensation expense related to these awards (approximately $.9 million) was recognized during the six months ended July 4, 2009 and is included in the stock-based compensation expense noted above.

As of July 4, 2009, the Company had approximately $53 million of unrecognized compensation expense related to unvested stock options, PUs, RSUs and restricted stock under the Company’s plans. The total unrecognized compensation expense is expected to be recognized over the remaining weighted-average requisite service period of approximately two years for PUs, and approximately three years for stock options, RSUs and restricted stock.

Note 9. Cost Reduction Actions

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

Severance, asset impairment, and lease cancellation charges recorded for the three and six months ended July 4, 2009 and June 28, 2008 are summarized by reportable segment in Note 16, "Segment Information."

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

2009

In 2009, the Company continued the implementation of the cost reduction action initiated in the fourth quarter of 2008, and recorded charges of $68.7 million consisting of $42.9 million of severance and other employee costs resulting in the elimination of approximately 1,930 positions impacting all segments, as well as $25.2 million of asset impairment charges, and $.6 million of lease cancellation charges. As of July 4, 2009, approximately 205 employees related to these charges remain with the Company, and are expected to leave in 2009. The table below details the accruals and payments recorded in 2009:

(In millions)	Pressure-sensitive Materials	Retail Information Services	Office and Consumer Products	Other specialty converting businesses	Total
Total severance and other employee costs accrued during the period ended:					
April 4, 2009	$ 7.6	$ 5.8	$ .9	$ 2.8	$ 17.1
July 4, 2009	13.4	4.6	.3	7.5	25.8
2009 Settlements	(5.8)	(8.5)	(.5)	(3.3)	(18.1)
Balance at July 4, 2009	$ 15.2	$ 1.9	$ .7	$ 7.0	$ 24.8
Asset Impairment					
Machinery and equipment	$ 1.5	$ 2.9	$ .2	$ 11.2	$ 15.8
Buildings	.4	.7	3.9	.9	5.9
Patents	1.9	.2	.4	1.0	3.5
Other					
Lease cancellations	.1	.5	–	–	.6
	$ 3.9	$ 4.3	$ 4.5	$ 13.1	$ 25.8

2008

In 2008, the Company implemented cost reduction actions, including the cost reduction action initiated in the fourth quarter, resulting in a headcount reduction of approximately 1,475 positions, impairment of certain assets and software, and lease cancellations. Charges related to these actions totaled $40.7 million, including severance and related costs of $29.8 million, impairment of fixed assets and buildings of $7.7 million, lease cancellation charges of $2.3 million and software impairment of $.9 million. At July 4, 2009, approximately 90 employees related to these charges remain with the Company, and are expected to leave in 2009. The table below details the accruals and payments recorded in 2008:

(In millions)	Pressure-sensitive Materials	Retail Information Services	Office and Consumer Products	Other specialty converting businesses	Total
Total severance and other employee costs accrued during the period ended:					
March 29, 2008	$ 1.5	$ 1.4	$ .2	$ .2	$ 3.3
June 28, 2008	.2	2.8	4.2	–	7.2
September 27, 2008	2.5	1.4	3.2	1.6	8.7
December 27, 2008	2.5	3.8	3.1	1.2	10.6
Total expense accrued during 2008	6.7	9.4	10.7	3.0	29.8
2008 Settlements	(1.5)	(4.7)	(5.2)	(1.1)	(12.5)
2009 Settlements	(2.7)	(4.1)	(4.0)	(1.8)	(12.6)
Balance at July 4, 2009	$ 2.5	$ .6	$ 1.5	$ .1	$ 4.7

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

Note 10. Financial Instruments and Foreign Currency

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

As of July 4, 2009, the U.S. dollar equivalent notional values of the Company's outstanding commodity contracts and foreign currency contracts were approximately $19 million and $1.1 billion, respectively.

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with SFAS No. 133, the Company designates commodity forward contracts on forecasted purchases of commodities and foreign currency contracts on forecasted transactions as cash flow hedges and foreign currency contracts on existing balance sheet items as fair value hedges.

The following table provides the balances and locations of derivatives as of July 4, 2009:

	Asset		Liability	
(In millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under SFAS No. 133:				
Foreign exchange contracts	Other current assets	$ 6.4	Other current liabilities	$ 5.6
Commodity contracts	Other current assets	–	Other current liabilities	5.9
		$ 6.4		$ 11.5

Fair Value Hedges

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

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

(In millions)	Location of Gain (Loss) in Income	Three Months Ended July 4, 2009	Six Months Ended July 4, 2009
Foreign exchange contracts	Cost of products sold	$ (.6)	$ (1.7)
Foreign exchange contracts	Marketing, general and administrative expense	.7	24.9
		$ .1	$ 23.2

Cash Flow Hedges

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

components excluded from the assessment of effectiveness are recognized in current earnings.

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

(In millions)	Three Months Ended July 4, 2009	Six Months Ended July 4, 2009
Foreign exchange contracts	$ (3.6)	$ (3.7)
Commodity contracts	.4	(2.9)
	$ (3.2)	$ (6.6)

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

(In millions)	Location of Gain (Loss) in Income	Three Months Ended July 4, 2009	Six Months Ended July 4, 2009
Interest rate contracts	Interest expense	$ (.9)	$ (4.8)
Foreign exchange contracts	Cost of products sold	(1.9)	.3
Commodity contracts	Cost of products sold	(1.0)	(3.1)
		$ (3.8)	$ (7.6)

The aggregate reclassification from other comprehensive income to earnings for settlement or ineffectiveness of hedge activity was a net gain of $2 million and $.6 million during the three and six months ended June 28, 2008, respectively. As of July 4, 2009, a net loss of approximately $10 million is expected to be reclassified from other comprehensive income to earnings within the next 12 months.

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

The amount of gain or loss recognized in income related to the ineffective portion of, and the amounts excluded from, effectiveness testing for cash flow hedges and derivatives not designated as hedging instruments under SFAS No. 133 were not significant.

Foreign Currency

Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency) decreased net income by $2.2 million and $1.8 million for the three and six months ended July 4, 2009, respectively. Transactions in foreign currencies increased net income by $3.6 million and $11.6 million for the three and six months ended June 28, 2008, respectively, which included a foreign currency net gain related to certain intercompany transactions of approximately $2 million and $6 million during the three and six months ended June 28, 2008, respectively. These results exclude the effects of translation of foreign currencies on the Company’s financial statements.

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

Note 11. Taxes Based on Income

The effective tax rate for the three and six months ended July 4, 2009 was approximately 1% and approximately 2%, respectively, compared to approximately 19% and approximately 8% for the three and six months ended June 28, 2008, respectively. The effective tax rate for the first six months of 2009 includes a benefit of $18.4 million from discrete events, primarily the tax effect of impairments of goodwill and indefinite-lived intangible assets, partially offset by certain valuation allowance and other items. The Company’s effective tax rate is lower than the U.S. federal statutory rate of 35% due to the Company’s operations outside the U.S. where the statutory tax rates are generally lower. Additional taxes are not provided for most foreign earnings because the Company currently plans to indefinitely reinvest these amounts.

The amount of income taxes the Company pays is subject to ongoing audits by taxing jurisdictions around the world. The Company’s

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

It is reasonably possible that during the next 12 months, the Company may realize a decrease in its gross uncertain tax positions by approximately $46 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 $18 million relating to gross uncertain tax positions could be paid within the next 12 months.

Note 12. Net Income (Loss) Per Share

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

(In millions, except per share amounts)	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
(A) Net income (loss) available to common shareholders	$ 39.8	$ 92.4	$ (859.1)	$ 160.8
(B) Weighted-average number of common shares outstanding	105.0	98.5	102.2	98.5
Dilutive shares (additional common shares issuable under employee stock options, PUs, RSUs and restricted stock)	.7	.4	–	.4
(C) Weighted-average number of common shares outstanding, assuming dilution	105.7	98.9	102.2	98.9
Net income (loss) per common share (A) ÷ (B)	$ .38	$ .94	$ (8.41)	$ 1.63
Net income (loss) per common share, assuming dilution (A) ÷ (C)	$ .38	$ .93	$ (8.41)	$ 1.62

In the six months ended July 4, 2009, the effect of dilutive securities (for example, employee stock options, PUs, RSUs and shares of restricted stock) was not dilutive because the Company generated a net operating loss.

Certain employee stock options, PUs, RSUs and shares of restricted stock were not included in the computation of net income per common share, assuming dilution, because they would not have had a dilutive effect. Employee stock options, PUs, RSUs and shares of restricted stock excluded from the computation totaled 11 million shares and 12.1 million shares for the three and six months ended July 4, 2009, respectively, and 10.5 million shares and 9.9 million shares for the three and six months ended June 28, 2008, respectively.

As further discussed in Note 17, "Recent Accounting Pronouncements," effective at the beginning of 2009, the Company adopted provisions of FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," which did not have a material impact on net income (loss) per share.

Note 13. Comprehensive (Loss) Income

Comprehensive income (loss) includes net income (loss), foreign currency translation adjustment, net actuarial loss, prior service cost and net transition assets, net of tax, and the gains or losses on the effective portion of cash flow and firm commitment hedges, net of tax, that are currently presented as a component of shareholders' equity. The Company's total comprehensive income (loss) was $102.9 million and $(839.1) million for the three and six months ended July 4, 2009, respectively, and $118.8 million and $271.3 million for the three and six months ended June 28, 2008, respectively.

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

(In millions)	July 4, 2009	December 27, 2008
Foreign currency translation adjustment	$ 123.8	$ 65.8
Net actuarial loss, prior service cost and net transition assets, less amortization	(328.5)	(332.5)
Net loss on derivative instruments designated as cash flow and firm commitment hedges	(14.8)	(15.8)
Accumulated other comprehensive loss	$ (219.5)	$ (282.5)

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

(In millions)	July 4, 2009	December 27, 2008
Beginning accumulated derivative loss	$ (15.8)	$ (16.8)
Net loss (gain) reclassified to earnings	7.6	(2.9)
Net change in the revaluation of hedging transactions	(6.6)	3.9
Ending accumulated derivative loss	$ (14.8)	$ (15.8)

Note 14. Fair Value Measurement

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of July 4, 2009:

		Fair Value Measurements Using		
(In millions)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Available for sale securities	$ 11.7	$ 11.7	$ –	$ –
Derivative assets	6.4	–	6.4	–
Liabilities:				
Derivative liabilities	$ 11.5	$ 5.9	$ 5.6	$ –

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

The following table summarizes the fair value measurements of assets measured on a non-recurring basis during the six months ended July 4, 2009:

		Fair Value Measurements Using			
(In millions)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Gains (Losses)
Goodwill	$ 415.0	$ –	$ –	$ 415.0	$ (820.0)
Indefinite-lived intangible asset	18.0	–	–	18.0	(12.0)
Long-lived assets held and used	5.5	–	2.6	2.9	(15.0)

In accordance with the provisions of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” long-lived assets held and used with carrying amounts totaling $20.5 million were written down to their fair values totaling $5.5 million, resulting in impairment charges of $2.6 million and $15 million for the three and six months ended July 4, 2009, respectively. These charges are included in “Other expense, net” in the unaudited Consolidated Statement of Operations.

In accordance with SFAS No. 142, goodwill with a carrying amount of $1.2 billion was written down to its estimated implied fair value of $415 million, resulting in a non-cash impairment charge of $820 million. Additionally, certain indefinite-lived assets with a carrying value of approximately $30 million were written down to their estimated implied fair value of $18 million, resulting in a non-cash impairment of $12 million. These charges are included in “Goodwill and indefinite-lived intangible asset impairment charges” in the unaudited Consolidated Statement of Operations for the three and six months ended July 4, 2009, respectively. Refer to Note 4, “Goodwill and Other Intangibles Resulting from Business Acquisitions,” for further information.

Note 15. Commitments and Contingencies

Legal Proceedings

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

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, with allegations including that the defendants attempted to limit competition among themselves through anticompetitive understandings. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for the City and County of San Francisco on March 30, 2004. On September 30, 2004, the Harman Press amended its complaint to add Bemis' subsidiary Morgan Adhesives Company ("MACtac") as a defendant. On January 21, 2005, American International Distribution Corporation filed a purported class action on behalf of indirect purchasers in the Superior Court for Chittenden County, Vermont. Similar actions were filed by Richard Wrobel, on February 16, 2005, in the District Court of Johnson County, Kansas; and by Chad and Terry Muzzey, on February 16, 2005 in the District Court of Scotts Bluff County, Nebraska. On February 17, 2005, Judy Benson filed a purported multi-state class action on behalf of indirect purchasers in the Circuit Court for Cocke County, Tennessee. 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 independent directors to oversee the foregoing matters.

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

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

Environmental

As of July 4, 2009, the Company has been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at fourteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed. The Company is participating with other PRPs at such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

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

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

(In millions)	July 4, 2009	December 27, 2008
Balance at beginning of year	$ 58.5	$ 37.8
Purchase price adjustments related to acquisitions	2.1	24.6
Accruals	.7	.9
Payments	(2.1)	(4.8)
Balance at end of period	$ 59.2	$ 58.5

As of July 4, 2009, approximately $12 million of the total balance is classified as short-term.

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

Product Warranty

The Company provides for an estimate of costs that may be incurred under its basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of the product. Factors that affect the Company's warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy the Company's warranty obligation and availability of insurance coverage. Because these factors are impacted by actual experience and future expectations, the Company assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. As of July 4, 2009, the Company's product warranty liabilities were approximately $2 million.

Other

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

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

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

The Company participates in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At July 4, 2009, the Company had guaranteed approximately $13 million.

As of July 4, 2009, the Company guaranteed up to approximately $22 million of certain foreign subsidiaries' obligations to their suppliers, as well as approximately $505 million of certain subsidiaries' lines of credit with various financial institutions.

As of July 4, 2009, approximately two million HiMEDS units with a carrying value of approximately $109 million remained outstanding. The purchase contracts related to these units obligate the holders to purchase from the Company a certain number of shares in 2010 (depending on the stock price at the time). Refer to Note 5, "Debt," for more information.

Note 16. Segment Information

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

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

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

	Three Months Ended		Six Months Ended	
(In millions)	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Net sales to unaffiliated customers:				
Pressure-sensitive Materials	$ 793.6	$ 979.9	$ 1,602.4	$ 1,899.5
Retail Information Services	331.5	438.2	647.5	810.2
Office and Consumer Products	216.9	255.4	401.3	449.8
Other specialty converting businesses	113.4	155.4	230.4	314.6
Net sales to unaffiliated customers	$ 1,455.4	$ 1,828.9	$ 2,881.6	$ 3,474.1
Intersegment sales:				
Pressure-sensitive Materials	$ 36.0	$ 45.8	$ 73.4	$ 86.6
Retail Information Services	.2	.1	.5	1.3
Office and Consumer Products	.1	.3	.4	.6
Other specialty converting businesses	3.7	8.0	7.0	14.8
Eliminations	(40.0)	(54.2)	(81.3)	(103.3)
Intersegment sales	$ –	$ –	$ –	$ –
Income (loss) before taxes:				
Pressure-sensitive Materials	$ 50.6	$ 82.4	$ 50.4	$ 154.2
Retail Information Services	(5.9)	20.3	(859.3)	16.6
Office and Consumer Products	34.5	40.7	57.9	62.6
Other specialty converting businesses	(10.4)	5.8	(37.9)	15.3
Corporate expense	(8.2)	(5.7)	(38.9)	(14.8)
Interest expense	(20.4)	(29.3)	(47.9)	(58.8)
Income (loss) before taxes	$ 40.2 (1)	$ 114.2 (2)	$ (875.7) (3)	$ 175.1 (4)

(1) Operating income for the second quarter of 2009 included "Other expense, net" totaling $29.6, consisting of restructuring costs of $25.8, asset impairment charges of $3.3, and lease cancellation charges of $.5. Of the total $29.6, the Pressure-sensitive Materials segment recorded $13.8, the Retail Information Services segment recorded $5.1, the Office and Consumer Products segment recorded $3, and the other specialty converting businesses recorded $7.7.

(2) Operating income for the second quarter of 2008 included "Other expense, net" totaling $5.8, consisting of restructuring costs of $7.2, asset impairment charges of $1.7, and lease cancellation charges of $1.4, partially offset by a gain on sale of investments of $(4.5). Of the total $5.8, the Pressure-sensitive Materials segment recorded $.5, the Retail Information Services segment recorded $5.6, the Office and Consumer Products segment recorded $4.2, and Corporate recorded $(4.5).

Additionally, operating income for the Retail Information Services segment for the second quarter of 2008 included $5.7 of transition costs associated with the Company's acquisitions.

(3) Operating loss for the first six months of 2009 included "Other expense, net" totaling $126.9, consisting of restructuring costs of $42.9, asset impairment charges of $25.2, lease cancellation charges of $.6, legal settlement costs of $37, and a loss of $21.2 from debt extinguishment. Of the total $126.9, the Pressure-sensitive Materials segment recorded $61.9, the Retail Information Services segment recorded $14.7, the Office and Consumer Products segment recorded $5.7, the other specialty converting businesses recorded $23.4, and Corporate recorded $21.2.

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

(4) Operating income for the first six months of 2008 included "Other expense, net" totaling $11.4, consisting of restructuring costs of $10.5, asset impairment charges of $4, and lease cancellation charges of $1.4, partially offset by a gain on sale of investments of $(4.5). Of the total $11.4, the Pressure-sensitive Materials segment recorded $4.3, the Retail Information Services segment recorded $7.1, the Office and Consumer Products segment recorded $4.3, the other specialty converting businesses recorded $.2, and Corporate recorded $(4.5).

Additionally, operating income for the Retail Information Services segment for the first six months of 2008 included $12.7 of transition costs associated with the Company's acquisitions.

Note 17. Recent Accounting Requirements

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." SFAS No. 168 establishes the FASB Accounting Standards Codification (the "Codification") as the single source of authoritative non-governmental U.S. GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009. The adoption of this standard will not have a material impact on the Company's financial condition, results of operations, cash flows, or disclosures.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." Among other items, SFAS No. 167 responds to concerns about the application of certain key provisions of FIN 46(R), including those regarding the transparency of the involvement with variable interest entities. SFAS No. 167 is effective for calendar year companies beginning on January 1, 2010. The adoption of this standard will not have a material impact on the Company's financial condition, results of operations, cash flows, or disclosures.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." SFAS No. 165 defines what qualifies as a subsequent event—those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued—and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009. The Company adopted the provisions of SFAS No. 165 in the second quarter of 2009. Refer to Note 1, "General," for further information.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB28-1, "Interim Disclosures about Fair Value of Financial Instruments," which require disclosure about fair value of financial instruments, whether recognized or not recognized in the statement of financial position, in interim financial information. This issue also requires fair value information to be presented together with the related carrying amount and disclosure regarding the methods and significant assumptions used to estimate fair value. This issue is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has included the disclosures required under this issue in Note 5, "Debt."

The FASB issued in December 2007, and amended in April 2009, 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 adoption of SFAS No. 141(R) did not have a material impact on the Company's financial results of operations and financial condition.

In December 2008, the FASB issued 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 adoption of FSP-EITF 08-07 did not have an impact on the Company’s financial results of operations and financial condition because there have been no acquisitions since the effective date of this issue.

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 adoption of FSP-EITF 03-6-1 did not have a material impact on the Company’s financial results of operations and financial condition.

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.” The adoption of SFAS No. 162 did not have a material effect on the Company’s 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 adoption of FSP No.142-3 did not have a material impact on the Company’s financial results of operations and financial condition.

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 has included the disclosures required under SFAS No. 161 in Note 10, “Financial Instruments and Foreign Currency.”

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 adoption of SFAS No. 160 did not have a material impact on the Company’s financial results of operations and financial condition.

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. As allowed for under FSP No. 157-2, the Company applied the provisions of SFAS No. 157 to assets and liabilities measured on a non-recurring basis as of the beginning of the 2009 fiscal year. The adoption of SFAS No. 157 did not have a significant impact on the Company’s financial results of operations or financial position.

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

ORGANIZATION OF INFORMATION

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

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DEFINITION OF TERMS

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

We use the following terms:

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

FORWARD-LOOKING STATEMENTS

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

OVERVIEW AND OUTLOOK

Overview

Sales

Our sales decreased 20% and 17% in the first three and six months of 2009, respectively, compared to the same period last year.

	Three Months Ended		Six Months Ended	
Estimated change in sales due to:	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Organic sales decline	(14)%	(1)%	(14)%	(1)%
Extra week in fiscal year 2009 (1)	–	–	4	–
Foreign currency translation	(7)	7	(7)	7
Acquisitions, net of divestitures	–	14	–	14
Reported sales (decline) growth (2)	(20)%	20%	(17)%	19%

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

(2) Totals may not sum due to rounding.

Net Income

In the first six months of 2009, we had a net loss of approximately $860 million compared to a net income of approximately $161 million in the same period in 2008.

Negative factors affecting net income included:

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

Positive factors affecting net income included:

- Cost savings from productivity improvement initiatives, including savings from restructuring actions
- Pricing
- Lower tax rate, resulting in a tax benefit for the first six months of 2009
- Lower transition costs related to acquisition integrations

Impairment of Goodwill and Indefinite-Lived Intangible Assets

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

We perform our goodwill impairment test in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." In performing the required goodwill impairment test, we primarily apply a present value (discounted cash flow) method to determine the fair value of the reporting units with goodwill. Our reporting units, which are composed of either a discrete business or an aggregation of businesses with similar economic characteristics, consist of roll materials; retail information services; office and consumer products; graphics and reflective products; industrial products; and business media.

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

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

Goodwill

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

Indefinite-Lived Intangible Assets

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

Acquisitions

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

Cost Reduction Actions

Q4 2008 — 2009 Actions

In the fourth quarter of 2008, we initiated restructuring actions that are now expected to generate over $160 million in annualized savings by the middle of 2010, of which an estimated $75 million, net of transition costs, is expected to benefit 2009. We expect to incur approximately $100 million to $110 million of cash restructuring charges associated with these actions, with the majority to be incurred in 2009. At the end of the second quarter, we achieved run-rate savings representing approximately 50% of our target.

During the fourth quarter of 2008 and the first six months of 2009, we recorded $81 million in charges related to these restructuring actions, consisting of severance and related employee costs, asset impairment charges, and lease cancellation costs. Severance and employee related costs related to approximately 2,600 positions, impacting all of our segments and geographic regions.

Q1 2008 — Q3 2008 Actions

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

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

Effective Rate of Taxes on Income

The effective tax rate for the first six months of 2009 was approximately 2%, compared with approximately 8% for the same period in 2008. The effective tax rate for the first six months of 2009 includes a benefit of $18.4 million from discrete events, primarily the tax effect of impairments of goodwill and indefinite-lived intangible assets, partially offset by the build of certain valuation allowances and other items. Refer to Note 11, “Taxes Based on Income,” to the unaudited Condensed Consolidated Financial Statements for further information.

Free Cash Flow

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

	Six Months Ended	
(In millions)	July 4, 2009	June 28, 2008
Net cash provided by operating activities	$ 132.8	$ 188.7
Purchase of property, plant and equipment	(30.5)	(69.1)
Purchase of software and other deferred charges	(14.9)	(33.0)
Proceeds from sale of investments, net	.1	13.0
Free cash flow	$ 87.5	$ 99.6

Free cash flow in the first six months of 2009 declined by $12.1 million compared to the same period in 2008 due to lower income from operations, partially offset by reduced working capital and lower spending on property, plant, and equipment, software, and other deferred charges.

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

Dividend

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

Legal Proceedings

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

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

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

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

Outlook

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

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

We expect incremental pension and other employee-related expenses and contributions in 2009. In addition, we currently expect increased pension contributions in the range of $200 million to $300 million from the end of the second quarter of 2009 through 2013.

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

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

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 $115 million to $130 million in 2009, including increased investment in new business opportunities to drive future growth and profitability.

We are targeting a reduction of debt of at least $350 million from the end of the second quarter of 2009 through 2010.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE SECOND QUARTER

Income Before Taxes

(In millions)	2009	2008
Net sales	$ 1,455.4	$ 1,828.9
Cost of products sold	1,065.1	1,338.6
Gross profit	390.3	490.3

(In millions)	2009	2008
Marketing, general and administrative expense	300.1	341.0
Interest expense	20.4	29.3
Other expense, net	29.6	5.8
Income before taxes	$ 40.2	$ 114.2
As a Percent of Sales:		
Gross profit (margin)	26.8%	26.8%
Marketing, general and administrative expense	20.6	18.6
Income before taxes	2.8	6.2

Sales

Sales decreased 20% in the second quarter of 2009 compared to the same period last year, due largely to the decline in volume, partially offset by the benefit from pricing. Foreign currency translation had an unfavorable impact on the change in sales of approximately $147 million in the second quarter of 2009.

On an organic basis, sales declined 14% in the second quarter of 2009, as continued deterioration in the global macroeconomic environment contributed to volume declines across all segments and geographic regions, except Asia.

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

Gross Profit Margin

Gross profit margin for the second quarter of 2009 remained flat compared to the same period in 2008, as reduced fixed-cost leverage was offset by benefits from pricing, productivity improvement initiatives, and restructuring.

Marketing, General and Administrative Expenses

The decrease in marketing, general and administrative expense in the second quarter of 2009 compared to the same period last year primarily reflected cost reductions and benefits from productivity and the impact of currency translation.

Other Expense, net

(In millions)	2009	2008
Restructuring costs	$ 25.8	$ 7.2
Asset impairment charges and lease cancellation costs	3.8	3.1
Other	–	(4.5)
Other expense, net	$ 29.6	$ 5.8

In the second quarter of 2009, "Other expense, net" consisted of restructuring costs including severance and other employee-related costs, as well as asset impairment and lease cancellation charges. Restructuring costs in the second quarter of 2009 relate to a reduction in headcount of approximately 1,205 positions across all segments and geographic regions.

In the second quarter of 2008, "Other expense, net" consisted of restructuring costs including severance and other employee-related costs, asset impairment and lease cancellation charges (primarily in the Retail Information Services segment), and a gain on sale of investments. Restructuring costs in the second quarter of 2008 relate to a reduction in headcount of approximately 310 positions across all segments and geographic regions.

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

Net Income and Earnings per Share

(In millions, except per share)	2009	2008
Income before taxes	$ 40.2	$ 114.2
Provision for income taxes	.4	21.8
Net income	$ 39.8	$ 92.4
Net income per common share	$ .38	$ .94
Net income per common share, assuming dilution	$ .38	$ .93
Net income as a percent of sales	2.7%	5.1%

(In millions, except per share)	2009	2008
Percent change in:		
Net income	(56.9)%	7.2%
Net income per common share	(59.6)	6.8
Net income per common share, assuming dilution	(59.1)	6.9

Provision for Income Taxes

Our effective tax rate for the second quarter of 2009 was approximately 1%, compared with approximately 19% for the same period in 2008. The effective tax rate for the second quarter of 2009 includes a benefit of $.6 million from discrete events, primarily the impact of tax law changes and the build of certain valuation allowances, partially offset by the release of certain tax contingencies. Refer to Note 11, "Taxes Based on Income," to the unaudited Condensed Consolidated Financial Statements for further information.

RESULTS OF OPERATIONS BY SEGMENT FOR THE SECOND QUARTER

Pressure-sensitive Materials Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 829.6	$ 1,025.7
Less intersegment sales	(36.0)	(45.8)
Net sales	$ 793.6	$ 979.9
Operating income (1)	50.6	82.4
(1) Includes lease cancellation costs in 2009, and restructuring costs and asset impairment charges in both years	$ 13.8	$ .5

Net Sales

Sales in our Pressure-sensitive Materials segment decreased 19% in the second quarter of 2009 compared to the same period in 2008, which included the unfavorable impact of foreign currency translation (approximately $102 million). On an organic basis, sales declined 10% in the second quarter of 2009, as the benefits from pricing were more than offset by the decline in volume.

On an organic basis, sales in our roll materials business in the second quarter of 2009 declined at a low double-digit rate in Europe, a mid single-digit rate (excluding intercompany sales) in North America, and a low single-digit rate in emerging markets (mid single-digit decline in Eastern Europe and South America, partially offset by mid single-digit increase in Asia) compared to the same period last year. These declines reflected continued weakness in end-markets.

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

Operating Income

Decreased operating income in the second quarter of 2009 reflected the impact of lower volume, partially offset by the benefits from pricing and cost savings from restructuring and productivity improvement initiatives. In addition, operating income in 2009 included lease cancellation costs and higher restructuring and asset impairment charges compared to the same period in 2008.

Retail Information Services Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 331.7	$ 438.3
Less intersegment sales	(.2)	(.1)
Net sales	$ 331.5	$ 438.2
Operating (loss) income (1) (2)	(5.9)	20.3
(1) Includes asset impairment charges in 2008, and restructuring and lease cancellation costs in both years	$ 5.1	$ 5.6
(2) Includes transition costs related to acquisition integrations in 2008	$ –	$ 5.7

Net Sales

Sales in our Retail Information Services segment decreased 24% in the second quarter of 2009 compared to the same period last year,

which included the unfavorable impact of foreign currency translation (approximately $23 million). On an organic basis, sales declined 20% in the second quarter of 2009 due primarily to lower volume from continued weakness of the retail apparel market in the U.S. and Europe.

Operating (Loss) Income

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

Office and Consumer Products Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 217.0	$ 255.7
Less intersegment sales	(.1)	(.3)
Net sales	$ 216.9	$ 255.4
Operating income (1)	34.5	40.7
(1) Includes asset impairment charges in 2009 and restructuring costs in both years	$ 3.0	$ 4.2

Net Sales

Sales in our Office and Consumer Products segment decreased 15% in the second quarter of 2009 compared to the same period last year, which included the unfavorable impact of foreign currency translation (approximately $13 million). On an organic basis, sales declined 11% in the second quarter of 2009 due primarily to lower volume from weak end-market demand led by slower corporate purchasing activity, partially offset by the benefit from pricing.

Operating Income

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

Other specialty converting businesses

(In millions)	2009	2008
Net sales including intersegment sales	$ 117.1	$ 163.4
Less intersegment sales	(3.7)	(8.0)
Net sales	$ 113.4	$ 155.4
Operating (loss) income (1)	(10.4)	5.8
(1) Includes restructuring costs and asset impairment charges in 2009	$ 7.7	$ –

Net Sales

Sales in our other specialty converting businesses decreased 27% in the second quarter of 2009 compared to the same period last year, which included the unfavorable impact of foreign currency translation (approximately $9 million). On an organic basis, sales declined 22% in the second quarter of 2009, primarily reflecting lower volume in products sold to the automotive, housing, and construction industries.

Operating (Loss) Income

Operating loss in the second quarter of 2009 reflected lower sales on an organic basis, partially offset by the benefits of restructuring and productivity improvement initiatives. Operating loss in 2009 included restructuring costs and asset impairment charges.

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

(Loss) Income Before Taxes

(In millions)	2009	2008
Net sales	$ 2,881.6	$ 3,474.1
Cost of products sold	2,146.2	2,559.8

(In millions)	2009	2008
Gross profit	735.4	914.3
Marketing, general and administrative expense	604.3	669.0
Goodwill and indefinite-lived intangible asset impairment charges	832.0	–
Interest expense	47.9	58.8
Other expense, net	126.9	11.4
(Loss) income before taxes	$ (875.7)	$ 175.1

As a Percent of Sales:		
Gross profit (margin)	25.5%	26.3%
Marketing, general and administrative expense	21.0	19.3
(Loss) income before taxes	(30.4)	5.0

Sales

Sales decreased 17% in the first six months of 2009 compared to the same period last year, due largely to the decline in sales on an organic basis, partially offset by incremental sales from the DM Label acquisition (approximately $9 million) and the impact of the extra week in the first quarter of 2009. Foreign currency translation had an unfavorable impact on the change in sales of approximately $261 million in the first six months of 2009.

On an organic basis, sales declined 14% in the first six months of 2009, as continued deterioration in the global macroeconomic environment contributed to volume declines across all segments and geographic regions, except Asia.

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

Gross Profit Margin

Gross profit margin for the first six months of 2009 declined compared to the same period in 2008, reflecting reduced fixed-cost leverage due to lower sales on an organic basis, and higher raw material costs, partially offset by benefits from pricing, productivity improvement initiatives, and restructuring.

Marketing, General and Administrative Expenses

The decrease in marketing, general and administrative expense in the first six months of 2009 compared to the same period last year primarily reflected cost reductions and the impact of currency translation, partially offset by costs associated with the extra week.

Goodwill and Indefinite-Lived Intangible Asset Impairment Charges

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

Other Expense, net

(In millions)	2009	2008
Restructuring costs	$ 42.9	$ 10.5
Asset impairment charges and lease cancellation costs	25.8	5.4
Other	58.2	(4.5)
Other expense, net	$ 126.9	$ 11.4

In the first six months of 2009, “Other expense, net” consisted of restructuring costs including severance and other employee-related costs, asset impairment charges and lease cancellation costs, as well as legal settlement costs ($37 million) and a loss from debt extinguishment (approximately $21 million). Restructuring costs in the first six months of 2009 relate to a reduction in headcount of approximately 1,930 positions across all segments and geographic regions. For more information regarding the debt extinguishment, refer to “Financial Condition” in this report and Note 5, “Debt,” to the unaudited Condensed Consolidated Financial Statements. For more information regarding the legal settlement, refer to Note 15, “Commitments and Contingencies,” to the unaudited Condensed Consolidated Financial Statements.

In the first six months of 2008, “Other expense, net” consisted of restructuring costs including severance and other employee-related costs, asset impairment and lease cancellation charges (in the Pressure-sensitive Materials and Retail Information Services segments), and a gain on sale of investments. Restructuring costs in the first six months of 2008 relate to a reduction in headcount of approximately 465 positions across all segments and geographic regions.

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

Net (Loss) Income and Earnings per Share

(In millions, except per share)	2009	2008
(Loss) income before taxes	$ (875.7)	$ 175.1
(Benefit from) provision for income taxes	(16.6)	14.3
Net (loss) income	$ (859.1)	$ 160.8
Net (loss) income per common share	$ (8.41)	$ 1.63
Net (loss) income per common share, assuming dilution	$ (8.41)	$ 1.62
Net (loss) income as a percent of sales	(29.8)%	4.6%
Percent change in:		
Net (loss) income	(634.3)%	(2.7)%
Net (loss) income per common share	(616.0)	(3.6)
Net (loss) income per common share, assuming dilution	(619.1)	(3.0)

(Benefit from) Provision for Income Taxes

Our effective tax rate for the first six months of 2009 was approximately 2%, compared with approximately 8% for the same period in 2008. The effective tax rate for the first six months of 2009 includes a benefit of $18.4 million from discrete events, primarily the tax effect of impairments of goodwill and indefinite-lived intangible assets, partially offset by the build of certain valuation allowances and other items. Refer to Note 11, “Taxes Based on Income,” to the unaudited Condensed Consolidated Financial Statements for further information.

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

Pressure-sensitive Materials Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 1,675.8	$ 1,986.1
Less intersegment sales	(73.4)	(86.6)
Net sales	$ 1,602.4	$ 1,899.5
Operating income [(1)]	50.4	154.2
[(1)] Includes legal settlement and lease cancellation costs in 2009, and restructuring costs and asset impairment charges in both years	$ 61.9	$ 4.3

Net Sales

Sales in our Pressure-sensitive Materials segment decreased 16% in the first six months of 2009 compared to the same period in 2008, which included the unfavorable impact of foreign currency translation (approximately $180 million), partially offset by the impact of the extra week in the first quarter of 2009. On an organic basis, sales declined 7% in the first six months of 2009, as the benefits from pricing were more than offset by the decline in volume.

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

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

Operating Income

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

Retail Information Services Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 648.0	$ 811.5
Less intersegment sales	(.5)	(1.3)
Net sales	$ 647.5	$ 810.2
Operating (loss) income (1) (2)	(859.3)	16.6

	2009	2008
(1) Includes restructuring costs, asset impairment charges and lease cancellation costs in both years	$ 14.7	$ 7.1
(2) Includes goodwill and indefinite-lived intangible asset impairment charges in 2009 and transition costs related to acquisition integrations in 2008	$ 832.0	$ 12.7

Net Sales

Sales in our Retail Information Services segment decreased 20% in the first six months of 2009 compared to the same period last year, which included the unfavorable impact of foreign currency translation (approximately $42 million), partially offset by the impact of the extra week in the first quarter of 2009 and incremental sales from the DM Label acquisition (approximately $9 million). On an organic basis, sales declined 17% in the first six months of 2009 due primarily to lower volume from continued weakness of the retail apparel market in the U.S. and Europe.

Operating (Loss) Income

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

Office and Consumer Products Segment

(In millions)	2009	2008
Net sales including intersegment sales	$ 401.7	$ 450.4
Less intersegment sales	(.4)	(.6)
Net sales	$ 401.3	$ 449.8
Operating income (1)	57.9	62.6

	2009	2008
(1) Includes asset impairment charges in 2009 and restructuring costs in both years	$ 5.7	$ 4.3

Net Sales

Sales in our Office and Consumer Products segment decreased 11% in the first six months of 2009 compared to the same period last year, which included the unfavorable impact of foreign currency translation (approximately $23 million), partially offset by the impact of the extra week in the first quarter of 2009. On an organic basis, sales declined 6% in the first six months of 2009 due primarily to lower volume from weak end-market demand led by slower corporate purchasing activity, partially offset by the benefit from pricing.

Operating Income

Decreased operating income in the first six months of 2009 reflected the impact of lower volume, partially offset by the benefits from pricing, restructuring, and productivity improvement initiatives. Operating income included asset impairment charges in 2009 and restructuring costs in both years.

Other specialty converting businesses

(In millions)	2009	2008
Net sales including intersegment sales	$ 237.4	$ 329.4
Less intersegment sales	(7.0)	(14.8)
Net sales	$ 230.4	$ 314.6
Operating (loss) income (1)	(37.9)	15.3

	2009	2008
(1) Includes asset impairment charges in 2009 and restructuring costs in both years	$ 23.4	$ .2

Net Sales

Sales in our other specialty converting businesses decreased 27% in the first six months of 2009 compared to the same period last year, which included the unfavorable impact of foreign currency translation (approximately $16 million), partially offset by the impact of the extra week in the first quarter of 2009. On an organic basis, sales declined 23% in the first six months of 2009, primarily reflecting lower volume in products sold to the automotive, housing, and construction industries.

Operating (Loss) Income

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

FINANCIAL CONDITION

Liquidity

Cash Flow from Operating Activities for the First Six Months:

(In millions)	2009	2008
Net (loss) income	$ (859.1)	$ 160.8
Depreciation and amortization	132.6	138.6
Provision for doubtful accounts	9.5	8.2
Goodwill and indefinite-lived intangible asset impairment charges	832.0	–
Asset impairment and net loss on sale and disposal of assets	28.0	14.4
Loss from debt extinguishment	21.2	–
Stock-based compensation	13.2	16.9
Other non-cash expense and loss	12.1	–
Other non-cash income and gain	(7.2)	(17.2)
Changes in assets and liabilities and other adjustments, net of the effect of business acquisitions	(49.5)	(133.0)
Net cash provided by operating activities	$ 132.8	$ 188.7

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

In 2009, cash flow provided by operating activities decreased by $55.9 million compared to 2008 as lower income from operations was partially offset by reduced working capital.

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

Cash Flow from Investing Activities for the First Six Months:

(In millions)	2009	2008
Purchase of property, plant and equipment	$ (30.5)	$ (69.1)
Purchase of software and other deferred charges	(14.9)	(33.0)
Payments for acquisitions	–	(125.0)
Proceeds from sale of investments, net	.1	13.0
Other	(4.2)	5.1
Net cash used in investing activities	$ (49.5)	$ (209.0)

Capital and Software Spending

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

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

Payments for Acquisitions

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

Proceeds from Sale of Investments

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

Cash Flow from Financing Activities for the First Six Months:

(In millions)	2009	2008
Net change in borrowings and payments of debt	$ (8.0)	$ 114.7
Dividends paid	(89.6)	(87.6)
Proceeds from exercise of stock options, net	.2	1.9
Other	–	5.4
Net cash (used in) provided by financing activities	$ (97.4)	$ 34.4

Borrowings and Repayment of Debt

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

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

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

Shareholders' Equity

Our shareholders' equity was approximately $1.2 billion at July 4, 2009 compared to approximately $2.2 billion at June 28, 2008. The decrease in our shareholders' equity was primarily due to the non-cash impairment charges of $832 million in the first quarter of 2009. Refer to Note 4, "Goodwill and Other Intangibles Resulting from Business Acquisitions," to the unaudited Condensed Consolidated Financial Statements for more information. Our dividend per share was $.82 in both the first six months of 2009 and 2008.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

Goodwill decreased approximately $777 million during the first six months of 2009, which reflected a non-cash impairment charge associated with our retail information services reporting unit ($820 million), partially offset by purchase price adjustments associated with the DM Label acquisition ($31 million) and the impact of foreign currency translation ($12 million).

Other intangibles resulting from business acquisitions, net decreased approximately $27 million during the first six months of 2009, which reflected a non-cash impairment charge associated with our retail information services reporting unit ($12 million), normal amortization expense ($17 million), partially offset by an asset reclassification from "Other assets" ($1 million) and the impact of foreign currency translation ($1 million).

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

During the first six months of 2009, other assets reflected an increase in cash surrender value of corporate-owned life insurance ($8.7 million), an increase in third-party loan receivable ($5 million), the impact of foreign currency translation ($.8 million), as well as software and other deferred charges purchases ($14.9 million), and other additions ($1 million). These increases were partially offset by normal amortization and impairment of software and other deferred charges ($24.5 million), the write-off of unamortized debt issuance costs associated with the exchange of the HiMEDS units, net of additional financing costs related to the covenant amendments ($4.5 million) discussed above in "Borrowings and Repayment of Debt," as well as an asset reclassification to "Other intangibles resulting from business acquisitions, net" ($1 million).

Other Shareholders' Equity Accounts

The value of our employee stock benefit trusts increased by $59 million during the first six months of 2009 due to higher market value of shares held in the trusts of approximately $52 million, and the issuance of shares under our employee stock option and defined contribution plans of approximately $7 million.

Treasury Stock

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

Impact of Foreign Currency Translation for the First Six Months:

(In millions)	2009	2008
Change in net sales	$ (261)	$ 172
Change in net income	(9)	10

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

Sales from currency translation in the first six months of 2009 primarily reflected a negative impact from sales denominated in Euros, as well as sales in the currencies of Great Britain, Australia and Brazil, partially offset by a benefit from sales in the currency of China.

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 annualized net sales, decreased in 2009 primarily due to a decrease in net trade accounts receivable and inventories, partially offset by a decrease in accounts payable.

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

Operational Working Capital for the First Six Months:

(In millions)	2009	2008
(A) Working capital (current assets minus current liabilities)	$ (222.0)	$ (8.3)
Reconciling items:		
Cash and cash equivalents	(91.9)	(87.1)
Current deferred and refundable income taxes and other current assets	(208.2)	(302.0)
Short-term and current portion of long-term debt	791.6	825.8
Current deferred and payable income taxes and other current liabilities	616.5	685.7
(B) Operational working capital	$ 886.0	$ 1,114.1
(C) Annualized net sales (year-to-date sales, multiplied by 2)	$ 5,549.7(1)	$ 6,948.2
Working capital, as a percent of annualized net sales (A) ¸ (C)	(4.0)%	(.1)%
Operational working capital, as a percent of annualized net sales (B) ¸ (C)	16.0%	16.0%

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

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

Accounts Receivable Ratio

The average number of days sales outstanding was 61 days in the first six months of 2009 compared to 62 days in the first six months of 2008, calculated using the two-quarter average trade accounts receivable balance divided by the average daily sales for the first six months of 2009 and 2008, respectively. During the first six months of 2009, the average number of days sales outstanding was primarily impacted by the timing of sales and improvement in collections.

Inventory Ratio

Average inventory turnover was 7.9 in the first six months of 2009 compared to 7.7 in the first six months of 2008, calculated using the annualized cost of sales (cost of sales for the first six months multiplied by two, adjusted for the extra week in the first quarter of 2009) divided by the two-quarter average inventory balance for the first six months of 2009 and 2008, respectively. During the first six months of 2009, the average inventory turnover was primarily impacted by a decrease in inventory purchases as a result of lower sales.

Accounts Payable Ratio

The average number of days payable outstanding was 51 days in the first six months of 2009 compared to 55 days in the first six months of 2008, calculated using the two-quarter average accounts payable balance divided by the average daily cost of products sold for the first six months of 2009 and 2008, respectively. During the first six months of 2009, the average number of days payable outstanding was primarily impacted by lower purchases, as well as the timing of payments which was impacted by the extra week in the first quarter of 2009.

Capital Resources

Capital resources include cash flows from operations, cash and cash equivalents and debt financing. At July 4, 2009, we had cash and cash equivalent of $92 million held in accounts managed by third-party financial institutions. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however, there is no assurance that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

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

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

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

Capital from Debt

Our total debt decreased approximately $283 million in the first six months of 2009 to approximately $1.93 billion compared to approximately $2.21 billion at year end 2008, reflecting a decrease in long-term borrowings, partially offset by an increase in commercial paper borrowings. Refer to “Borrowings and Repayment of Debt” above for further information.

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

Our Credit Ratings as of July 4, 2009:

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

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

Legal Proceedings

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

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

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

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

Environmental

As of July 4, 2009, we have been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at fourteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of our liability has been agreed upon. We are participating with other PRPs at such sites, and anticipate that our share of cleanup costs will be determined pursuant to remedial agreements to be entered into in the normal course of negotiations with the EPA or other governmental authorities.

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

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

(In millions)	July 4, 2009	December 27, 2008
Balance at beginning of year	$ 58.5	$ 37.8
Purchase price adjustments related to acquisitions	2.1	24.6
Accruals	.7	.9
Payments	(2.1)	(4.8)
Balance at end of period	$ 59.2	$ 58.5

As of July 4, 2009, approximately $12 million of the total balance is classified as short-term.

These estimates could change depending on various factors, such as modification of currently planned remedial actions, changes in

remediation technologies, changes in site conditions, a change in the estimated time to complete remediation, changes in laws and regulations affecting remediation requirements and other factors.

Product Warranty

We provide for an estimate of costs that may be incurred under our basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of products. Factors that affect our warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy our warranty obligation and availability of insurance coverage. Because these factors are impacted by actual experience and future expectations, we assess the adequacy of the recorded warranty liability and adjust the amounts as necessary. As of July 4, 2009, our product warranty liabilities were approximately $2 million.

Other

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

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

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

We participate in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by us. At July 4, 2009, we had guaranteed approximately $13 million.

As of July 4, 2009, we guaranteed up to approximately $22 million of certain of our foreign subsidiaries’ obligations to their suppliers, as well as approximately $505 million of certain of our subsidiaries’ lines of credit with various financial institutions.

As of July 4, 2009, approximately two million HiMEDS units with a carrying value of approximately $109 million remained outstanding. The purchase contracts related to these units obligate the holders to purchase from the Company a certain number of shares in 2010 (depending on the stock price at the time). Refer to Note 5, “Debt,” to the unaudited Condensed Consolidated Financial Statements for more information.

USES AND LIMITATIONS OF NON-GAAP MEASURES

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

Limitations associated with the use of our non-GAAP measures include (1) the exclusion of foreign currency translation, the impact of acquisitions and divestitures, and the impact of the extra week in fiscal year 2009 from the calculation of organic sales growth; (2) the exclusion of mandatory debt service requirements, as well as the exclusion of other uses of the cash generated by operating activities

that do not directly or immediately support the underlying business (such as discretionary debt reductions, dividends, share repurchases, acquisitions, etc.) for calculation of free cash flow; and (3) the exclusion of cash and cash equivalents, short-term debt, deferred taxes, and other current assets and other current liabilities, as well as current assets and current liabilities of held-for-sale businesses, for the calculation of operational working capital. While some of the items the Company excludes from GAAP measures recur, these items tend to be disparate in amount and timing. Based upon feedback from investors and financial analysts, we believe that supplemental non-GAAP measures provide information that is useful to the assessment of the Company's performance and operating trends.

RECENT ACCOUNTING REQUIREMENTS

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

SAFE HARBOR STATEMENT

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

Certain of such risks and uncertainties are discussed in more detail in Part I, Item 1A, "Risk Factors," to the Company's Annual Report on Form 10-K for the year ended December 27, 2008, and include, but are not limited to, risks and uncertainties relating to investment in development activities and new production facilities; fluctuations in cost and availability of raw materials; ability of the Company to achieve and sustain targeted cost reductions; ability of the Company to generate sustained productivity improvement; successful integration of acquisitions; successful implementation of new manufacturing technologies and installation of manufacturing equipment; the financial condition and inventory strategies of customers; customer and supplier concentrations; changes in customer order patterns; loss of significant contract(s) or customer(s); timely development and market acceptance of new products; fluctuations in demand affecting sales to customers; impact of competitive products and pricing; selling prices; business mix shift; volatility of capital and credit markets; 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 tax laws and regulations; changes in governmental regulations; changes in political conditions; fluctuations in foreign currency exchange rates and other risks associated with foreign operations; worldwide and local economic conditions; impact of epidemiological events on the economy and the Company's customers and suppliers; acts of war, terrorism, natural disasters; impairment of capitalized assets, including goodwill and other intangibles; and other factors.

The Company believes that the most significant risk factors that could affect its financial performance in the near-term include (1) the impact of economic conditions on underlying demand for the Company's products and on the carrying value of its assets; (2) the impact of competitors' actions, including pricing, expansion in key markets, and product offerings; (3) the degree to which higher costs can be offset with productivity measures and/or passed on to customers through selling price increases, without a significant loss of volume; (4) the impact of an increase in costs associated with the Company's debt; and (5) the ability of the Company to achieve and sustain targeted cost reductions.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of July 4, 2009, the Company has been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at fourteen waste disposal or waste recycling sites which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed. The Company is participating with other PRPs at such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

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

As of July 4, 2009, the Company's estimated accrued liability associated with compliance and remediation costs was approximately $59 million, including estimated liabilities related to the Company's acquisitions. As of July 4, 2009, approximately $12 million of the total balance is classified as short-term. These estimates could change depending on various factors, such as modification of currently planned remedial actions, changes in remediation technologies, changes in site conditions, a change in the estimated time to complete remediation, changes in laws and regulations affecting remediation requirements and other factors.

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

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, with allegations including that the defendants attempted to limit competition between themselves through anticompetitive understandings. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for the City and County of San Francisco on March 30, 2004. On September 30, 2004, the Harman Press amended its complaint to add Bemis' subsidiary Morgan Adhesives Company ("MACtac") as a defendant. On January 21, 2005, American International Distribution Corporation filed a purported class action on behalf of indirect purchasers in the Superior Court for Chittenden County, Vermont. Similar actions were filed by Richard Wrobel, on February 16, 2005, in the District Court of Johnson County, Kansas; and by Chad and Terry Muzzey, on February 16, 2005 in the District Court of Scotts Bluff County, Nebraska. On February 17, 2005, Judy Benson filed a purported multi-state class action on behalf of indirect purchasers in the Circuit Court for Cocke County, Tennessee. 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 independent directors to oversee the foregoing matters.

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

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

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

ITEM 1A. RISK FACTORS

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

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

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

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

(a) Not Applicable

(b) Not Applicable

(c) Purchases of Equity Securities by Issuer

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

Information called for in this Item during the period is incorporated by reference to Part II, Item 4 in the Company's Form 10-Q filed on May 14, 2009.

ITEM 5. OTHER INFORMATION

On August 10, 2009, the form of employment agreement for certain executive officers of Avery Dennison Corporation (the “Company”) was amended, effective January 1, 2008, with the intention to provide that the employment arrangements and the payments thereunder either comply with or are exempt from Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), and the Department of Treasury regulations and other guidance issued thereunder (“Section 409A”). The amendments modify the definitions of “change of control” and “good reason” and add a new section to the employment agreements entitled “Compliance with Code Section 409A.” This section states the intention that the payment of any compensation or benefits that constitute “nonqualified deferred compensation” subject to the requirements of Section 409A is intended to comply with Section 409A and that the agreements should be so interpreted. Among other things, the section also provides that the payment of any compensation or benefits that constitute “nonqualified deferred compensation” subject to the requirements of Section 409A will be delayed for a six-month period following the date of termination of employment, if the terminated executive is deemed to be a “specified employee” (within the meaning of Section 409A) as of such date. The amendment also provides that any payment related to excise taxes imposed under Section 4999 of the Code shall be paid in compliance with Section 409A. The amendments do not materially modify or otherwise affect the economic terms of the employment agreements. The foregoing description of the amendments is qualified in its entirety by reference to the form of Amendment to Employment Agreement, which is filed as Exhibit 10.8.3.2 to this report and is incorporated herein by reference.

On August 11, 2009, the form of employment agreement between the Company and certain executive officers was further amended, effective as of January 1, 2008, for compliance with Section 409A. The amendments clarify the timing of the payment of certain bonuses, certain payments upon termination of employment and the reimbursement of attorneys fees and provide that the pro-rata bonus payment payable with respect to certain terminations of employment shall be based on the highest bonus payment in the prior three annual bonus payment periods. The amendments do not otherwise materially modify or affect the economic terms of the employment agreements. The foregoing description of the amendments is qualified in its entirety by reference to the form of Second Amendment to Employment Agreement, which is filed as Exhibit 10.8.3.3 to this report and is incorporated herein by reference.

On August 11, 2009, the retention agreement between the Company and Daniel R. O’Bryant, the Company’s Executive Vice President, Finance and Chief Financial Officer, was amended, effective as of January 1, 2008, with the intention to provide that the payments thereunder either comply with or are exempt from Section 409A. The amendment provides for alternate “vesting event” and “payment event” definitions for a “change in control” and adds a new section entitled “Compliance with Code Section 409A.” This section states the intention that the payment of any compensation or benefits which constitute “nonqualified deferred compensation” subject to the requirements of Section 409A is intended to comply with Section 409A and that the agreement should be so interpreted. Among other things, the section also provides that the payment of any compensation or benefits which constitute “nonqualified deferred compensation” subject to the requirements of Section 409A will be delayed for a six-month period following Mr. O’Bryant’s date of termination of employment if he is deemed to be a “specified employee” (within the meaning of Section 409A) as of such date. The amendment also provides that any payment related to excise taxes imposed under Section 4999 of the Code shall be paid in compliance with Section 409A. The amendment also clarifies the timing of certain stock option grants. The amendment does not materially modify or otherwise affect the economic terms of the retention agreement. The foregoing description of the amendment is qualified in its entirety by reference to the Amendment to Retention Agreement, dated as of August 11, 2009, between the Company and Mr. O’Bryant, which is filed as Exhibit 10.8.4.1 to this report and is incorporated herein by reference.

On August 11, 2009, the Compensation and Executive Personnel Committee (the “Committee”) of the Company’s Board of Directors (the “Board”) approved the Company’s Amended and Restated Avery Dennison Corporation Supplemental Executive Retirement Plan (the “SERP”), which was amended and restated, effective January 1, 2009, with the intention to provide that benefits or payments granted thereunder either comply with or are exempt from Section 409A. The definition of “good reason” was modified and the SERP was amended to further modify existing Section 409A provisions by clarifying the timing and form of payment thereunder upon a participant’s death following another payment event or during the “specified employee” six-month delay period under Section 409A and to provide that the SERP can be further amended as needed to comply with the provisions of Section 409A. The foregoing description is qualified in its entirety by reference to the SERP, which is filed as Exhibit 10.11.1 to this report and is incorporated herein by reference.

On August 11, 2009, the Committee approved the Letter of Grant under the Company’s SERP between the Company and Dean A. Scarborough, the Company’s President and Chief Executive Officer, which was amended and restated, effective as of January 1, 2009, to incorporate the provisions of the amended SERP and with the intent that the SERP benefit payable under the Letter of Grant would either comply with or be exempt from Section 409A. Certain actuarial calculations in the Projected Account Balance exhibit were updated, and the Letter of Grant was further amended to provide for benefits upon an early retirement, beginning at age 60. The foregoing description is qualified in its entirety by reference to the Letter of Grant, which is filed as Exhibit 10.11.2.1 to this report and is incorporated herein by reference.

On August 11, 2009, the Committee approved the Letter of Grant under the Company's SERP between the Company and Daniel R. O'Bryant, the Company's Executive Vice President, Finance and Chief Financial Officer, which was amended and restated, effective as of January 1, 2009, to incorporate the provisions of the amended SERP, including the provisions relating to a participant's death during the "specified employee" six-month delay period under Section 409A, and with the intent that the SERP benefit payable under the Letter of Grant would either comply with or be exempt from Section 409A. Certain actuarial calculations in the Projected Account Balance exhibit were updated. The foregoing description is qualified in its entirety by reference to the Letter of Grant, which is filed as Exhibit 10.11.4.1 to this report and is incorporated herein by reference.

ITEM 6. EXHIBITS

Exhibit 10.8.3.2:	Form of Amendment to Employment Agreement
Exhibit 10.8.3.3:	Form of Second Amendment to Employee Agreement
Exhibit 10.8.4.1:	Amendment of Retention Agreement
Exhibit 10.11.1:	Supplemental Executive Retirement Plan, amended and restated ("SERP")
Exhibit 10.11.2.1:	Letter of Grant to D.A. Scarborough under SERP
Exhibit 10.11.4.1:	Letter of Grant to D.R. O'Bryant under SERP
Exhibit 12:	Computation of Ratio of Earnings to Fixed Charges
Exhibit 31.1:	D. A. Scarborough Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2:	D. R. O'Bryant Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1:	D. A. Scarborough Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2:	D. R. O'Bryant Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

AVERY DENNISON CORPORATION
(Registrant)

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

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

August 12, 2009

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment to Employment Agreement (“Amendment”) is entered into by and between Avery Dennison Corporation, a Delaware corporation (the “Company”) and ___________ (the “Executive”), effective as of January 1, 2008.

WHEREAS the Company and the Executive have previously entered into that certain Employment Agreement effective as of ___________ (the “Employment Agreement”);

WHEREAS with the enactment of section 409A of the Internal Revenue Code of 1986, as amended (“Code Section 409A”), certain modifications are made to the Employment Agreement on or before December 31, 2008 with retroactive effect to January 1, 2008; and

WHEREAS the Company and the Executive desire to amend the Employment Agreement to comply with Code Section 409A,

NOW, THEREFORE, the Employment Agreement is hereby amended as follows:

1. **Change of Control.** The definition of “Change of Control” in the Employment Agreement is amended in its entirety to provide as follows:

For the purpose of this Agreement, a “Change of Control” shall mean “a change in the ownership or effective control,” or in “the ownership of a substantial portion of the assets of” the Company, within the meaning of Code Section 409A, and shall include any of the following events as such concepts are interpreted under Code Section 409A:

(i) the date on which a majority of members of the Company’s Board of Directors is replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company’s Board of Directors before the date of the appointment or election; or

(ii) the acquisition, by any one person, or by a corporation owned by a group of persons that has entered into a merger, acquisition, consolidation, purchase, stock acquisition, asset acquisition, or similar business transaction with the Company, of:

(a) ownership of stock of the Company, that, together with any stock previously held by such person or group, constitutes more than fifty percent (50%) of either (i) the total fair market value or (ii) the total voting power of the stock of the Company;

(b) ownership of stock of the Company possessing thirty percent (30%) or more of the total voting power of the Company, during the twelve-month period ending on the date of such acquisition; or

(c) assets from the Company that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Company during the twelve-month period ending on the date of such acquisition; provided, however, that any transfer of assets to a related person as defined under Section 409A shall not constitute a Change of Control.

2. **Good Reason.** The definition of termination for "Good Reason" in the Employment Agreement is amended in its entirety to provide as follows:

For purposes of this Agreement, "Good Reason" shall mean a "separation from service for good reason" as set forth in Code Section 409A, which shall mean that, without the express written consent of the Executive, one or more of the following shall have occurred without being timely remedied in the manner set forth below:

(i) A material diminution in the Executive's base compensation;

(ii) A material diminution in the Executive's authority, duties, or responsibilities;

(iii) A material change in the geographic location at which the Executive must perform the services; or

(iv) Any other action or inaction that constitutes a material breach by the Company of the agreement under which the Executive provides services.

The Executive shall have "Good Reason" in connection with any or all of the above solely if (A) the Executive provides notice to the Company of the existence of the particular condition, action or inaction which the Executive considers to give the Executive "Good Reason" within ninety (90) days of the initial existence of the condition, or the action or inaction, and (B) the Company shall not have remedied the condition, action or inaction within thirty (30) days of its receipt of the Executive's notice. The effective date of any termination for "Good Reason" shall be no later than twelve (12) months after the initial existence of such condition, action or inaction constituting "Good Reason."

3. **Certain Additional Payments by the Company.** The Employment Agreement is hereby amended to provide that any Gross-Up Payment or Underpayment related to excise taxes imposed under Code Section 4999 which is due under the terms of the Employment Agreement shall be paid in compliance with Code Section 409A by the end of the calendar year next following the calendar year in which the Executive pays the applicable Excise Tax to taxing authorities.

4. **Compliance With Code Section 409A.** The Employment Agreement is amended to add the following additional provision entitled "Compliance With Code Section 409A."

(a) All payments of "nonqualified deferred compensation" (within the meaning of Code Section 409A) are intended to comply with the requirements of Code Section

409A, and shall be interpreted in accordance therewith. Neither party individually or in combination may accelerate any such deferred payment, except in compliance with Code Section 409A, and no amount shall be paid prior to the earliest date on which it is permitted to be paid under Code Section 409A. In the event that the Executive is determined to be a "specified employee" (as defined and determined under Code Section 409A) of Company at a time when its stock is deemed to be publicly traded on an established securities market, payments determined to be "nonqualified deferred compensation" payable as a result of termination of employment, to the extent required under Code Section 409A, shall be made after the earlier of (i) the last day of the sixth (6th) complete calendar month following such termination of employment, or (ii) the Executive's death. Any payment delayed by reason of the prior sentence shall be paid out in a single lump sum on the first day of the month following the end of such required delay period in order to catch up to the original payment schedule. Notwithstanding anything herein to the contrary, no amendment may be made to this Agreement if it would cause the Agreement or any payment hereunder not to be in compliance with Code Section 409A.

(b) Unless otherwise expressly provided, any payment of compensation by Company to the Executive (or to the Executive's estate, as applicable), whether pursuant to this Agreement (including, but not limited to, any payment or benefit provided under Section 6 of the Employment Agreement) or otherwise, shall be made within two and one-half months ($2^1/_2$ months) after the end of the later of the calendar year or the Company's fiscal year in which the Executive's right to such payment vests (i.e., is not subject to a substantial risk of forfeiture for purposes of Code Section 409A). Such amounts shall not be subject to the requirements of subsection (a) above applicable to "nonqualified deferred compensation." Notwithstanding any provision of Section 6(a)(iii) of the Employment Agreement to the contrary, any such provision of outplacement services shall terminate on the first anniversary of the Executive's separation from service from the Company.

(c) Section (a) above shall not apply to that portion of any amounts payable upon termination of employment which shall qualify as "involuntary separation from service" under Section 409A because such amount does not exceed the lesser of (1) two hundred percent (200%) of the Executive's annualized compensation from the Company for the calendar year immediately preceding the calendar year during which the Date of Termination occurs, or (2) two hundred percent (200%) of the annual limitation amount under Section 401(a)(17) of the Code (the maximum amount of compensation that may be taken into account for purposes of a tax-qualified retirement plan) for the calendar year during which the Date of Termination occurs; provided that the amounts must be paid no later than the last day of the second taxable year following the taxable year in which the separation from service occurs.

(d) All benefit plans, programs and policies sponsored by the Company shall comply with all requirements of Code Section 409A or be structured so as to be exempt from the application of Code Section 409A. In particular, all taxable expense reimbursement payments and in kind benefits provided to the Executive shall be structured in compliance with Code Section 409A and reimbursements shall be paid by the Company to the Executive by no later than the end of the calendar year following the calendar year in which the Executive incurs such expenses, and the Executive shall take all actions necessary to claim all such reimbursements on a timely basis to permit the Company to make all such reimbursement payments prior to the end of said period.

(e) Notwithstanding anything in this Agreement to the contrary, to the extent that any payment or benefit constitutes non-exempt "nonqualified deferred compensation" for purposes of Section 409A, and such payment or benefit would otherwise be payable or distributable hereunder by reason of Executive's termination of employment, all references to Executive's termination of employment shall be construed to mean a "separation from service," as defined in Treasury Regulation Section 1.409A-1(h), and Executive shall not be considered to have a termination of employment unless such termination constitutes a "separation from service" with respect to Executive.

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the day and year first above written.

AVERY DENNISON CORPORATION	**EXECUTIVE**
By: ______________________________	______________________________

SECOND AMENDMENT TO EMPLOYMENT AGREEMENT

This Second Amendment to Employment Agreement (“Amendment”) is entered into by and between Avery Dennison Corporation, a Delaware corporation (the “Company”) and ___________ (the “Executive”), effective as of January 1, 2008.

WHEREAS the Company and the Executive have previously entered into that certain Employment Agreement effective as of ___________ (the “Employment Agreement”);

WHEREAS with the enactment of Section 409A of the Internal Revenue Code of 1986, as amended (“Code Section 409A”), certain modifications were made to the Employment Agreement pursuant to that certain Amendment to Employment Agreement effective as of January 1, 2008 (the “First Amendment”);

WHEREAS the Company and the Executive desire to further amend the Employment Agreement to comply with Code Section 409A,

NOW, THEREFORE, the Employment Agreement is hereby amended as follows:

1. **Annual Bonus.** The last sentence of Section 4(b)(ii) of the Employment Agreement is amended in its entirety to provide as follows:

> “Each such Annual Bonus shall be paid no later than the March 15th next following the end of the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus in a manner permitted under Code Section 409A.”

2. **Obligations of the Company upon Termination.**

The first sentence of Section 6(a)(i) of the Employment Agreement is amended in its entirety to provide as follows:

> “the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination an amount equal to the present value, determined in accordance with Section 280G(d)(4) of the Internal Revenue Code of 1986, as amended (the “Code”), of the aggregate of the following amounts under A, B and C below:”

Section 6(a)(i)(A) of the Employment Agreement is amended in its entirety to provide as follows:

> “the sum of (1) the Executive’s Annual Base Salary through the Date of Termination to the extent not theretofore paid and (2) the excess of (A) the product of (x) (i) if a Change of Control does not occur during the fiscal year which includes the Date of Termination, the Annual Bonus which would have been payable to the Executive for such entire fiscal year (which for this purpose shall conclusively be determined to be equal to the highest bonus award received by the Executive in the prior three annual bonus plan periods under the Annual Bonus Plan) or (ii) if a Change of Control does occur during the fiscal year which includes the Date of Termination, the higher of (I) the Recent Annual Bonus

and (II) the Annual Bonus paid or payable, including any bonus or portion thereof which has been earned but deferred, to the extent permitted under Code Section 409A, (and annualized for any fiscal year consisting of less than twelve full months or during which the Executive was employed for less than twelve full months) for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the “Highest Annual Bonus”) and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365, over (B) any amounts previously paid to the Executive pursuant to the terms of the Annual Bonus Plans as bonuses with respect to the year that includes the Date of Termination (the sum of the amounts described in clauses (1) and (2) shall be hereinafter referred to as the “Accrued Obligations”); and”

3. **Compliance With Code Section 409A.**

The section entitled “Compliance with Code Section 409A” added to the Employment Agreement pursuant to the First Amendment shall be referred to as “Section 14” of the Employment Agreement.

Section 14(d) of the Employment Agreement, as amended, shall be amended to add the following two sentences to the end thereof:

“Notwithstanding anything to the contrary in the Employment Agreement, any reimbursements or in-kind benefits (including, to the extent applicable, continued medical and welfare benefits) for which the Executive is eligible following the Date of Termination shall be provided in a manner that complies with Code Section 409A. For the avoidance of doubt, (A) the right to reimbursements or in-kind benefits is not subject to liquidation or exchange for another benefit, (B) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during any taxable year for the Executive shall not affect the expenses eligible for reimbursement, or in-kind benefits provided, in any other taxable year, and (C) any reimbursement of attorneys’ fees pursuant to Section 13(d) shall be provided no later than the last day of the Executive’s taxable year following the later of (i) the year in which such attorneys’ fees were incurred and (ii) the year in which the arbitrator determines that the Executive is the successful party.”

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the day and year first above written.

AVERY DENNISON CORPORATION	**EXECUTIVE**
By: ______________________________	______________________________

AMENDMENT TO RETENTION AGREEMENT

This Amendment to Retention Agreement is entered into by and between Avery Dennison Corporation, a Delaware corporation (the "Company") and Daniel R. O'Bryant (the "Executive"), effective as of January 1, 2008.

WHEREAS the Company and the Executive have previously entered into that certain Retention Agreement effective as of March 31, 2005 (the "Retention Agreement");

WHEREAS with the enactment of section 409A of the Internal Revenue Code of 1986, as amended ("Code Section 409A"), certain modifications are made to the Retention Agreement with retroactive effect to January 1, 2008; and

WHEREAS the Company and the Executive desire to amend the Retention Agreement to comply with Code Section 409A;

NOW, THEREFORE, the Retention Agreement is hereby amended as follows:

1. **Annual Stock Option Grants.** Section 3(iii) of the Retention Agreement is amended to provide that the three remaining stock options grants for each of 2009, 2010 and 2011 shall be granted at the time of the Company's annual grant with respect to such year, which annual grant may occur in the following year; provided, that the final grant of stock options under Section 3(iii) is expected to be made in February 2012.

2. **Change in Control.** The Retention Agreement is amended to rename Section 4 "Termination of Employment and Change in Control" and to add the following new Sections 4(f) and 4(g):

(f) Vesting Event Change in Control.

For purposes of this Agreement, "Vesting Event Change in Control" shall mean:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (A) the then-outstanding shares of common stock of the Company (the "Outstanding Common Stock") or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control: (1) any acquisition directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii); or

(ii) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(g) Payment Event Change in Control.

For purposes of this Agreement, "Payment Event Change in Control" shall mean a change in "the ownership or effective control" or in "the ownership of a substantial portion of the assets" of the Company, within the meaning of Code Section 409A, and shall include any of the following events as such concepts are interpreted under Code Section 409A:

(i) the date on which a majority of members of the Company's Board of Directors is replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company's Board of Directors before the date of the appointment or election; or

(ii) the acquisition, by any one person, or by a corporation owned by a group of persons that has entered into a merger, acquisition, consolidation, purchase, stock acquisition, asset acquisition, or similar business transaction with the Company, of: (A) ownership of stock of the Company, that, together with any stock previously held by such person or group, constitutes more than fifty percent (50%) of either (1) the total fair market value or (2) the total voting power of the stock of the Company; (B) ownership of stock of the Company possessing thirty percent (30%) or more of the total voting power of the Company, during the twelve-month period ending on the date of such acquisition; or (C) assets from the Company that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Company during the twelve-month period ending on the date of such acquisition; provided, however, that any transfer of assets to a related person as defined under Section 409A shall not constitute a Change of Control.

3. **Obligations of the Company upon Certain Terminations and Change in Control.** The Retention Agreement is amended to rename Section 5 "Obligations of the Company upon Termination and Change in Control" and to amend and restate Section 5(a) in its entirety to provide as follows:

If the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate his employment for Good Reason or if there should be a Vesting Event Change in Control, the benefits provided to the Executive under paragraph 3(i) and 3(ii) shall vest as of the date of such termination or Vesting Event Change in Control. If the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate his employment for Good Reason or if there should be a Payment Event Change in Control, the Company will pay to the Executive the remaining value of the benefit under paragraph 3(iii) (such payment to be calculated as $180,000 times the number of years remaining for which the Executive had not received incremental annual stock options under said paragraph.

4. **Certain Additional Payments by the Company.** Section 7 of the Retention Agreement is amended to provide that any Gross-Up Payment or Underpayment pursuant to Section 7 of the Retention Agreement shall be paid in compliance with Code Section 409A in all events, by the end of the calendar year next following the calendar year in which the Executive pays the applicable Excise Tax to applicable taxing authorities.

5. **Compliance With Code Section 409A.** The Retention Agreement is amended to add the following new Section 12 entitled "Compliance With Code Section 409A."

(a) All payments of "nonqualified deferred compensation" (within the meaning of Code Section 409A) are intended to comply with the requirements of Code Section 409A, and shall be interpreted in accordance therewith. Neither party individually or in combination may accelerate any such deferred payment, except in compliance with Code Section 409A, and no amount shall be paid prior to the earliest date on which it is

permitted to be paid under Code Section 409A. In the event that the Executive is determined to be a “specified employee” (as defined and determined under Code Section 409A) of Company at a time when its stock is deemed to be publicly traded on an established securities market, payments determined to be “nonqualified deferred compensation” payable following termination of employment or Change in Control, to the extent required under Code Section 409A, shall be made after the earlier of (i) the last day of the sixth (6th) complete calendar month following such termination of employment, or (ii) the Executive’s death. Any payment delayed by reason of the prior sentence shall be paid out in a single lump sum on the first day of the month following the end of such required delay period in order to catch up to the original payment schedule. Notwithstanding anything herein to the contrary, no amendment may be made to this Agreement if it would cause the Agreement or any payment hereunder not to be in compliance with Code Section 409A.

(b) Unless otherwise expressly provided, any payment of compensation by Company to the Executive (or to Executive’s estate, as applicable), whether pursuant to this Agreement or otherwise, shall be made within two and one-half months (2½ months) after the end of the later of the calendar year or the Company’s fiscal year in which the Executive’s right to such payment vests (i.e., is not subject to a substantial risk of forfeiture for purposes of Code Section 409A). Such amounts shall not be subject to the requirements of subsection (a) above applicable to “nonqualified deferred compensation.”

(c) Section (a) above shall not apply to that portion of any amounts payable upon termination of employment which shall qualify as “involuntary severance” under Section 409A because such amount does not exceed the lesser of (1) two hundred percent (200%) of the Executive’s annualized compensation from the Company for the calendar year immediately preceding the calendar year during which the Date of Termination occurs, or (2) two hundred percent (200%) of the annual limitation amount under Section 401(a)(17) of the Code (the maximum amount of compensation that may be taken into account for purposes of a tax-qualified retirement plan) for the calendar year during which the Date of Termination occurs.

(d) All benefit plans, programs and policies sponsored by the Company shall comply with all requirements of Code Section 409A or be structured so as to be exempt from the application of Code Section 409A. In particular, all taxable expense reimbursement payments and in kind benefits provided to the Executive shall be structured in compliance with Code Section 409A and reimbursements shall be paid by the Company to the Executive by no later than the end of the calendar year following the calendar year in which the Executive incurs such expenses, and the Executive shall take all actions necessary to claim all such reimbursements on a timely basis to permit the Company to make all such reimbursement payments prior to the end of said period.

(e) Notwithstanding anything in this Agreement to the contrary, to the extent that any payment or benefit constitutes non-exempt “nonqualified deferred compensation” for purposes of Section 409A, and such payment or benefit would otherwise be payable or distributable hereunder by reason of Executive’s termination of employment, all references to Executive’s termination of employment shall be construed to mean a “separation from service,” as defined in Treasury Regulation Section 1.409A-1(h), and Executive shall not be considered to have a termination of employment unless such termination constitutes a “separation from service” with respect to Executive.

IN WITNESS WHEREOF, the parties have executed this Amendment to Retention Agreement effective as of the day and year first above written.

AVERY DENNISON CORPORATION	**EXECUTIVE**
By: ______________________	______________________
August 11, 2009	August 11, 2009

Exhibit 10.11.1

AMENDED AND RESTATED
AVERY DENNISON CORPORATION
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
ARTICLE I – GENERAL

Section 1.1 Background

Avery Dennison Corporation (the "Company" and successor to Avery International Corporation), a corporation organized under the laws of the State of Delaware, by resolution of its Board of Directors dated November 17, 1983, adopted the Avery International Corporation Supplemental Executive Retirement Plan effective as of December 1, 1983, and which by action of the Compensation and Executive Personnel Committee of the Board of Directors on April 23, 1998, was amended and restated to be the Avery Dennison Corporation Supplemental Executive Retirement Plan (the "Plan") effective as of April 23, 1998, and which Plan by action of the Committee was further amended and restated effective as of April 22, 2004, as set forth herein. Between January 1, 2005 and December 31, 2008, the Plan was operated in accordance with transition relief established by the Treasury Department and Internal Revenue Service pursuant to Code Section 409A. The Plan is amended and restated effective as of January 1, 2009 to bring the Plan into compliance with Code Section 409A and the Treasury Regulations issued by the Treasury Department on April 10, 2007 and effective January 1, 2009.

The Plan constitutes an unfunded "excess benefit plan" within the meaning of Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Plan is maintained primarily for the purpose of providing deferred Compensation for a select group of management or highly compensated employees, within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1).

The Plan is intended to comply with Code Section 409A and the Treasury Regulations thereunder. Any provision of this document that is contrary to the requirements of Code Section 409A or the Treasury Regulations thereunder shall be null void and of no effect and the Plan shall be interpreted and administered consistent with the requirements of Code Section 409A, which shall govern the administration of the Plan in the event of a conflict between the Plan terms and the requirements of Code Section 409A and the Treasury Regulations thereunder.

Section 1.2 Purpose

The purpose of the Plan is to provide its participants with (i) additional incentive to further the growth, development and financial success of the Company, and (ii) an inducement to remain in the service of the Company, by offering benefits to supplement other benefits they may be entitled to receive at the time of their retirement.

Section 1.3 Definitions

Whenever the terms below are used in the Plan with the first letter capitalized, they shall have

the meaning specified below. Capitalized terms used in the Plan and not defined below or in a Letter of Grant shall have the meanings attributed to those terms under the BRP.

(a) "**Average Compensation**" shall mean base compensation plus annual bonus over the last three years of a Participant's employment, subject to any adjustments under a Letter of Grant.

(b) "**BRP**" shall mean the Amended and Restated Benefit Restoration Plan of Avery Dennison Corporation.

(c) "**Cause**" shall mean (i) a Participant's commission of a crime or other act that could materially damage the reputation of the Company; (ii) a Participant's theft, misappropriation, or embezzlement of Company property; (iii) a Participant's falsification of records maintained by the Company; (iv) a Participant's substantial failure to comply with the written policies and procedures of the Company as they may be published or revised from time-to-time; (v) a Participant's misconduct; or (vi) a Participant's substantial failure to perform the material duties of Participant's job with the Company, which failure is not cured within 30 days after written notice from the Company specifying the act or acts of non-performance. Determination of Cause shall be made by the Committee or one or more individuals designated by the Committee, in its sole and exclusive discretion.

(d) "**Change in Control**" shall mean a Change in Control as defined under the BRP.

(e) "**Committee**" shall mean the Compensation and Executive Personnel Committee of the Board of Directors of the Company.

(f) "**Company**" shall mean Avery Dennison Corporation.

(g) "**Death Benefit**" shall mean the SERP Benefit payable to a surviving spouse in accordance with Section 5.1 and Section 5.2.

(h) "**Disability**" shall mean, with respect to a Participant, the approval for long term disability under the applicable long term disability plan maintained by the Company or an Affiliate under which the Participant is covered.

(i) "**Good Reason**" shall mean a "separation from service for good reason" as set forth in Code Section 409A, so long as, without the express written consent of the Participant, one or more of the following shall have occurred without being timely remedied in the manner set forth below:

(i) A material diminution in the Participant's base compensation;

(ii) A material diminution in the Participant's authority, duties, or responsibilities;

(iii) A material diminution in the authority, duties, or responsibilities of the supervisor to whom the Participant is required to report;

(iv) A material change in the geographic location at which the Participant must perform the services; or

(v) Any other action or inaction that constitutes a material breach by the Company of the agreement under which the Participant provides services.

The Participant shall have “Good Reason” in connection with any or all of the above solely if (A) the Participant provides notice to the Company of the existence of the particular condition, action or inaction which the Participant considers to give the Participant “Good Reason” within ninety (90) days of the initial existence of the condition, or the action or inaction, and (B) the Company shall not have remedied the condition, action or inaction within thirty (30) days of its receipt of the Participant’s notice. The effective date of any termination for “Good Reason” shall be no later than twelve (12) months after the initial existence of such condition, action or inaction constituting “Good Reason.”

(j) “**Interest**” shall mean, except as otherwise stated in the Letter of Grant from the Company to the Participant, “Interest” as defined under the BRP.

(k) “**Key Employee**” shall mean an individual determined to be a “Key Employee” under the Company’s Key Employee Policy, or any other definition adopted by the Committee with respect to all plans and arrangements subject to Code Section 409A.

(l) “**Letter of Grant**” shall mean a letter to a Participant describing the SERP Benefit payable to a Participant, and any terms of the Plan that may apply to such Participant. Provisions of a Letter of Grant shall control to the extent inconsistent with the Plan.

(m) “**Lump Sum**” shall mean the single sum payment that is Actuarially Equivalent to the SERP Benefit payable as of a specified date.

(n) “**Plan**” shall mean the Amended and Restated Avery Dennison Corporation Supplemental Executive Benefit Plan.

(o) “**Participant**” shall mean an individual who is described under Article II.

(p) “**Qualified Plan**” shall mean the Qualified Plan as defined in the BRP. The Qualified Plan is a qualified employer plan as defined under Treasury Regulation Section 1.409A-1(a)(2).

(q) “**SERP Benefit**” shall mean the benefit payable under the Plan.

(r) “**2008 Transition Election**” shall mean the 2008 Transition Election as defined under the BRP.

Section 1.4 Source of Benefits

The Plan shall be an unfunded promise of the Company or applicable Company Affiliates to make payments in accordance with its terms. All SERP Benefits payable under the Plan shall be paid from the Company’s general assets, and nothing contained in the Plan shall require the Company to set aside or hold in trust any funds for the benefit of a Participant or his Beneficiary, each of whom shall have the status of a general unsecured creditor with respect to the

Company's obligation to make payments under the Plan. Any funds of the Company available to pay SERP Benefits under the Plan shall be subject to the claims of general creditors of the Company and may be used for any purpose by the Company. Notwithstanding the foregoing, the Company, in its sole discretion, shall have the authority to allocate the total liability to pay a SERP Benefit for a Participant who is an Employee of a Company Affiliate (and not the Company) to such Company Affiliate as it deems appropriate.

Section 1.5 Administration

Responsibility for the administration of the Plan shall rest exclusively with the Committee.

ARTICLE II – ELIGIBILITY

The Participants in the Plan shall be those Employees of the Company or any Company Affiliate who are so designated by the Committee.

ARTICLE III – BENEFITS

Section 3.1 Benefit Formula

The SERP Benefit payable to a Participant under the Plan, including any preretirement death benefits payable to his Beneficiary, shall be determined by the Committee at the time he is designated as a Participant and shall be set forth in a Letter of Grant. In general terms, the benefit will be based on a designated percentage of his Average Compensation.

Section 3.2 Vesting

A Participant shall be fully vested in his SERP Benefit upon attaining age 65 while an employee of the Company, or upon any such earlier date as the Committee designates with respect to him. Otherwise non-vested SERP Benefits shall vest upon the Participant's death or Disability while an employee of the Company; or upon his involuntary Separation from Service without Cause, which includes an involuntary Separation from Service due to a Change in Control; or upon his Separation from Service for Good Reason; provided, however, the vesting provisions set forth in a Letter of Grant if different shall control.

ARTICLE IV – TIME AND FORM OF PAYMENT

Section 4.1 Form of Payment

The form in which each Participant's SERP Benefit is paid under the Plan shall be the same form of payment either specified or, if applicable, elected under the terms of the BRP. A Participant who had not received or commenced to receive SERP Benefits as of December 31, 2008, was permitted to make a 2008 Transition Election regarding the form of payment.

Section 4.2 Time of Payment

(a) **Benefit Commencement Date**. A Participant's SERP Benefit shall be paid as of the same Benefit Commencement Date determined under the BRP based on the Payment Events described thereunder.

(b) **6-month Delay**. As provided for in the BRP, to the extent a Participant is a Key Employee and is entitled to a SERP Benefit as a result of a Separation from Service, the Participant's Benefit Commencement Date shall be the first day of the month coincident with or next following the date that is six months after the Participant's Separation from Service, unless an earlier payment complies with a permissible Code Section 409A exception (*e.g.*, the payment of employment taxes).

(c) **Interest on Delayed Payments**. At the end of the six-month period described in Section 4.2(b), the Plan shall provide the Participant with a one-time payment equal to the amount the participant would have been entitled to receive if his Benefit Commencement Date had been the first day of the month following his Separation from Service, together with Interest.

(d) **2008 Transition Election**. A Participant who had not received or commenced to receive SERP Benefits under the Plan as of December 31, 2008, was permitted to make a 2008 Transition Election with respect to a time of payment for the Participant's BRP Benefit and SERP Benefit payable upon Separation from Service, and the Participant's SERP Benefit hereunder shall be paid in accordance with the elected, or deemed elected, time of payment, if he has a Separation from Service except if the Participant is subject to the time of payment restriction described in Section 5.2(c) of BRP (which relates to an election to change the form of payment). On and after January 1, 2009, a Participant will not be permitted to elect a Benefit Commencement Date, except to the extent the election permitted under Section 5.2(c) of the BRP is made, which shall require that the vested SERP Benefit be paid at the same time as the BRP Benefit based on the applicable restrictions for such election.

Section 4.3 Combined Cashout

(a) **De Minimis Cashout**. Pursuant to the terms of the BRP, if the Actuarially Equivalent Lump Sum present value of all nonaccount balance nonqualified plan benefits is less than the Code Section 402(g) limit as of the Participant's Separation from Service, the Company shall pay the Participant (or Beneficiary) the entire SERP Benefit (or Death Benefit) in a Lump Sum; provided, all of the Participant's nonaccount balance nonqualified plan benefits are also paid in a lump sum as of the same date.

(b) **Large Cashout**. Pursuant to the terms of the BRP, if the combined Actuarially Equivalent Lump Sum present value of the SERP Benefit and the BRP Benefit is less than or equal to $50,000 as of the Participant's Benefit Commencement Date, the Company shall pay the Participant (or Beneficiary) the entire SERP Benefit (or Death Benefit) in a Lump Sum; provided, the Participant's BRP benefit is also to be paid at the same time and in the same form.

Section 4.4 Other Permissible Delays or Accelerations

If the Committee determines that a delay or an acceleration of a benefit is appropriate and complies with the requirements under Code Section 409A (*e.g.*, a delay to comply with Code

Section 162(m) or an acceleration to pay employment taxes), the Committee may either delay or accelerate the payment of a Benefit in accordance with the terms of Code Section 409A in its sole discretion as it deems advisable. If any payment is delayed in accordance with this provision, the Company shall pay such delayed payments together with Interest upon the expiration of the period of the delay.

ARTICLE V — DEATH BENEFIT

Section 5.1 Death Benefit

To the extent a vested SERP Benefit is first payable due to the death of the Participant, and the Participant is survived by the spouse to whom he was married on his date of his death, such spouse shall be entitled to a Death Benefit paid at the same time and in the same form as the "death benefit" as set forth in Section 5.3 of the BRP. The Death Benefit payable under the Plan shall be the Actuarial Equivalent amount of the SERP Benefit that would be payable if, before the Participant's date of the death, the Participant attained age 65 (or such other age specified in a Letter of Grant), commenced his SERP Benefit in the form of a Joint and Survivor Annuity (based on a percentage designated by the Committee, which generally shall be 50%), and then died.

Section 5.2 Death After Another Payment Event

If a Participant dies after another Payment Event has occurred, but before his Benefit Commencement Date, then, to the extent an accelerated payment is permissible under Code Section 409A and the Treasury Regulations thereunder, in lieu of the SERP Benefit payable as a result of such Payment Event, the surviving spouse shall instead receive the Death Benefit paid in the form of a Lump Sum on the Benefit Commencement Date for the Death Benefit.

Section 5.3 Death During the Key Employee Delay

(a) If (i) a Participant dies after his Separation from Service, (ii) his Benefit Commencement Date is delayed pursuant to Section 4.2(b), and (iii) a benefit is payable to his surviving spouse under Section 5.2, then the surviving spouse shall be entitled to an "additional death benefit" such that the total of the Death Benefit received under Section 5.2 and the "additional death benefit" received under this Section 5.3(a) is Actuarially Equivalent to the amount (including Interest through the Benefit Commencement Date for the Death Benefit) that the Participant (and, if applicable, the surviving spouse) would have received if the Participant's Benefit Commencement Date had not been subject to a delay. The "additional death benefit" shall be paid to the surviving spouse in a Lump Sum as of the Benefit Commencement Date for the Death Benefit.

(b) If (i) a Participant dies after his Separation from Service, (ii) his Benefit Commencement Date is delayed pursuant to Section 4.2(b), and (iii) a benefit is not payable to his surviving spouse under Section 5.2 (i.e., the Participant dies on or after the first day of the third month after his Separation from Service and before the Benefit Commencement Date under Section 4.2(b)), then the Beneficiary shall receive, in addition to any survivor benefit payable pursuant to the Participant's benefit election (or deemed election), a Lump Sum on the delayed Benefit Commencement Date equal to the amount (including Interest under Section 4.2(c)) that the Participant and Beneficiary, if applicable, would have received if the Participant's Benefit Commencement Date had not been subject to a delay.

Section 5.4 Pre-Commencement Death With No Surviving Spouse

Except as described in Section 5.3(b), if a Participant is not married at the time of his death before his Benefit Commencement Date, then all SERP Benefits with respect to the Participant shall be forfeited.

ARTICLE VI — DESIGNATION OF JOINT/CONTINGENT ANNUITANTS

Section 6.1 Designation

At any time prior to the first payment hereunder a Participant shall have the right to designate, revoke or redesignate a Joint/Contingent Annuitant to receive the survivor portion of any SERP Benefits paid in the form of an Annuity under the Plan in accordance with the Participant's designated form of benefit; provided, that the Joint /Contingent Annuitant shall be the same individual designated by the Participant for an Annuity under the BRP. Designation, revocation and redesignation of Joint/Contingent Annuitant shall be made in writing in accordance with procedures established by the Committee.

ARTICLE VII — ADMINISTRATION

Section 7.1 Administrative Authority and Actions

The "Administrator" (the Committee or its delegate), shall conduct the general administration of the Plan and shall have the necessary power and authority to interpret any provisions of the Plan and specifically to determine a person's status as a Participant and the SERP Benefits which he shall receive. In carrying out its responsibilities, the Administrator shall have the power and authority to engage actuaries, attorneys, accountants or other consultants necessary to provide advice and consultation if, in the determination of the Committee, such consultation is required to interpret or implement any provision of the Plan properly and equitably.

Section 7.2 Binding Determinations

All actions taken and all determinations made by the Administrator in good faith shall be final and binding upon all Participants and any person interested in the Plan.

ARTICLE VIII — CLAIMS PROCEDURES

Section 8.1 Claims Procedures

The claims procedures hereunder shall be in accordance with the claims procedures set forth in the Qualified Plan; provided that for purposes of the claims procedures under this Plan, the review official described in the Qualified Plan shall be the Committee.

ARTICLE IX — MISCELLANEOUS PROVISIONS

Section 9.1 Payment

The receipt of any person entitled to payment under the Plan (or payment to such person at the last address on file with the Company) shall be a complete discharge to the Company, its directors and employees, and the Administrator. If the Administrator determines that a person entitled to a payment under the Plan is unable (by reason of physical or mental condition) to give a valid receipt for such payment, payment shall instead be made to such other person found by the Administrator to have assumed the care of such person.

Section 9.2 Amendment, Termination or Suspension of the Plan

(a) The Plan may be amended or terminated by the Committee at any time. Such amendment or termination may modify or eliminate any benefit hereunder other than a benefit or a portion of a benefit that is vested. Notwithstanding the foregoing, the Committee may not amend or terminate the Plan in a manner that violates the applicable provisions of Code Section 409A and the Treasury Regulations thereunder, including, but not limited to, the applicable time and form of payment requirements set forth in Treasury Regulations Section 1.409A-2(b), the applicable prohibitions on accelerations set forth in Treasury Regulations Section 1.409A-3(j), and the plan termination and liquidation provisions set forth in Treasury Regulations Section 1.409A-3(j)(4)(ix).

(b) If the Committee determines that payments under the Plan would jeopardize the ability of the Company to continue as a going concern in accordance with Treasury Regulations Section 1.409A-3(d), the Committee may suspend payments under the Plan temporarily for such time as in its sole discretion it deems advisable; provided, the payments shall resume no later than the first taxable year in which the Company determines that making such payments would not jeopardize the ability of the Company to continue as a going concern. The Company shall pay such suspended payments immediately upon the expiration of the period of suspension together with Interest.

(c) The Plan is intended to provide benefits for a “select group of management or highly compensated employees” within the meaning of Sections 201, 301 and 401 of ERISA, and therefore to be exempt from the provisions of Parts 2, 3 and 4 of Title I of ERISA. Accordingly, the Plan shall terminate and, except for benefits or portions of benefits that have vested, no further benefits shall be paid hereunder in the event it is determined by a court of competent jurisdiction or by an opinion of the Company’s regular outside employee benefits counsel that the Plan constitutes an employee pension benefit plan within the meaning of Section 3(2) of ERISA which is not so exempt.

Section 9.3 Limitation on Rights of Employees

Nothing contained in the Plan shall give any Employee the right to be retained in the service of the Company or to interfere with or restrict the right of the Company, which is hereby expressly reserved, to discharge or retire any Employee, except as provided by law, at any time without notice and with or without cause. Inclusion under the Plan will not give any Employee any right or claim to any benefit hereunder except to the extent such right has specifically become fixed under the terms of the Plan and there are funds available therefore in the hands of the

Company. The doctrine of substantial performance shall have no application to Employees, Participants or any other persons entitled to payments under the Plan. Each condition and provision, including numerical items, has been carefully considered and constitutes the minimum limit on performance, which will give rise to the applicable right.

Section 9.4 Plan Binding in Event of Consolidation or Merger; Adoption of Plan by Other Companies

(a) In the event of the consolidation or merger of a Company with or into any other corporation, this Plan shall be binding on such new corporation.

(b) Any Company Affiliate may, with the approval of the Committee, adopt the Plan as a whole company or as to any one or more divisions by resolution of its own board of directors or agreement of its partners in order to become an Employer. Such Company Affiliate shall give written notice of such adoption to the Committee by its duly authorized officers.

Section 9.5 Assignments, etc. Prohibited

(a) Except for the withholding of any tax under the laws of the United States or any state or locality, no part of a Participant’s Benefit hereunder shall be liable for the debts, contracts or engagements of any Participant, his beneficiaries, contingent annuitants, or successors in interest, or be taken in execution by levy, attachment or garnishment or by any other legal or equitable proceeding prior to distribution, nor shall any such person have any rights to alienate, anticipate, commute, pledge, encumber or assign any Benefits or payments hereunder in any manner whatsoever except to designate a beneficiary or contingent annuitant as provided in the Plan.

(b) Notwithstanding the foregoing, payment may be made from a Participant’s SERP Benefit under the Plan to an alternate payee pursuant to an approved domestic relations order as permitted under Treasury Regulations Sections 1.409A-2(b)(4) and 1.409A-3(j)(4)(ii).

    (i) The Committee shall establish reasonable procedures for reviewing court orders made, pursuant to state domestic relations law (including a community property law), relating to child support, alimony payments, or marital property rights of a spouse, former spouse, child, or other dependent of a Participant and for notifying Participants and alternate payees of the receipt of such orders and of the Plan’s procedures for determining if the orders are approved domestic relations orders and for administering distributions under approved domestic relations orders.

    (ii) Except as may otherwise be required by applicable law, such domestic relations orders may not require a retroactive transfer of all or part of a Participant’s SERP Benefit.

Section 9.6 Errors and Misstatements

Only to the extent permitted under Code Section 409A and any correction program that may be issued thereunder, in the event of any misstatement or omission of fact by a Participant to the Committee or any clerical error resulting in payment of SERP Benefits in an incorrect amount,

the Committee shall promptly cause the amount of future payments to be corrected upon discovery of the facts and shall cause the Company to pay the Participant or any other person entitled to payment under the Plan any underpayment in cash in a Lump Sum or to recoup any overpayment from future payments to the Participant or any other person entitled to payment under the Plan in such amounts as the Committee shall direct or to proceed against the Participant or any other person entitled to payment under the Plan for recovery of any such overpayment.

Section 9.7 Payment on Behalf of Minor, Etc.

In the event any amount becomes payable under the Plan to a minor or a person who, in the sole judgment of the Committee is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Committee may direct that such payment be made to any person found by the Committee in its sole judgment, to have assumed the care of such minor or other person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Company, the Board, the Committee and their officers, directors and employees.

Section 9.8 Governing Law

This Plan shall be construed, administered and governed in all respects under and by applicable federal laws and, where, state law is applicable, the laws of the State of California.

Section 9.9 Pronouns and Plurality

The masculine pronoun shall include the feminine pronoun, and the singular the plural where the context so indicates.

Section 9.10 Titles

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

Section 9.11 References

Unless the context clearly indicates to the contrary, a reference to a statute, regulation or document shall be construed as referring to any subsequently enacted, adopted or executed statute, regulation or document.

AVERY DENNISON CORPORATION

By: /s/ David E. I. Pyott
Chairman of the Committee

Date: August 11, 2009

LETTER OF GRANT
as of
January 1, 2009

Mr. Dean A. Scarborough
President and Chief Executive Officer
Avery Dennison Corporation
150 North Orange Grove Boulevard
Pasadena, California 91103

Dear Mr. Scarborough:

Avery Dennison Corporation (“Company”) is adopting an amended and restated Avery Dennison Corporation Supplemental Executive Retirement Plan (“Plan”) effective as of January 1, 2009. The amended and restated Plan contains the necessary provisions to bring the Plan into compliance with Internal Revenue Code Section 409A (“Section 409A”). By complying with the requirements of Section 409A, the benefits provided under such nonqualified deferred compensation plan may continue to be tax deferred. This letter is written to advise you of the changes that the Compensation and Executive Personnel Committee of the Board of Directors of the Company has made to the Plan in order to comply with Section 409A.

Calculation of SERP Benefit. As an inducement for you to remain in the service of the Company, and to provide you with additional incentive to further the growth, development and financial success of the Company, the Company will continue to provide you with a SERP Benefit that is determined in accordance with the provisions below and subject to the terms of the Plan.

Your “SERP Benefit” is equal to the annual payment of a straight life annuity commencing the first day of the month following the month in which you attain age 65 (or the month in which a Payment Event occurs, if later) with each annual payment equal to sixty-two and one-half percent (62.5%) of your Average Compensation. The amount determined in the preceding sentence will be reduced for early commencement:

(1) In the same manner as provided in the Qualified Plan to the extent your Benefit Commencement Date is on or after the date you attain age 55; and

(2) To the extent your Benefit Commencement Date is before the date you attain age 55 and your SERP Benefit is payable to you in a Lump Sum, then the Lump Sum SERP Benefit will be Actuarially Equivalent to the

SERP Benefit payable to you on the first day of the month following the date you attain age 55, taking into account the applicable early commencement factors that would be applied under the Qualified Plan as of such date.

Finally, your SERP Benefit will be further reduced by the Specified Formula Reductions. For the avoidance of doubt, the rate at which your SERP Benefit accrues will not be adversely affected if the benefit under the Amended and Restated Benefit Restoration Plan of Avery Dennison Corporation ("BRP") is paid prior to the payment of your SERP Benefit by reason of a Change in Control.

Time and Form of Payment. Your SERP Benefit will be paid on the Benefit Commencement Date determined under the BRP and in accordance with the form of payment specified or, if applicable, elected under the BRP.

Key Employee Delay. If you are a Key Employee, as determined under the Avery Dennison Corporation Key Employee Policy or by the Committee for all nonqualified plans in accordance with the requirements of Code Section 409A, and your SERP Benefit is payable due to your Separation from Service, as described under the BRP, your Benefit Commencement Date will be no earlier than the first day of the month that is coincident with or next following the date that is six months after your Separation from Service, unless an earlier payment complies with a permissible Section 409A exception (*e.g.*, the payment of employment taxes). To the extent your status as a Key Employee results in a delayed payment, then, following the end of such six-month period, the Plan will provide you with a one-time payment equal to the amount you would have been entitled to receive if your Benefit Commencement Date had not been delayed due to your status as a Key Employee, together with Interest.

Vesting. You will become vested in your SERP Benefit upon the earliest of the following dates provided, in the event of (1), (2), or (3), you are an Employee on that date:

(1) The date you attain age 60;

(2) The date you suffer a Disability;

(3) The date of your death;

(4) The date you have an involuntary Separation from Service from the Company without Cause, including an involuntary Separation from Service on account of a Change in Control; and

(5) The date of your Separation from Service for Good Reason.

Forfeiture. In the event you are terminated by the Company for Cause before you attain age 65, you will forfeit your entire SERP Benefit under the Plan.

Death Benefit. Upon your death, a Death Benefit will be paid only to the spouse to whom you were married on the date of your death; payment will be made in a Lump Sum (which is the form in which the “death benefit” under the BRP is paid) at the same time as the “death benefit” under the BRP, provided such spouse is then living.

The amount of the Lump Sum Death Benefit payable to your spouse will be Actuarially Equivalent to the amount that would have been payable to your spouse as a survivor benefit hereunder if before your date of death you attained age 60 (or your actual age, if you are older), commenced benefits in the form of a 50% Joint and Survivor Annuity, and then died.

No Death Benefit will be payable hereunder or under the Plan if you die while unmarried before any scheduled Benefit Commencement Date.

Definitions. For purposes of determining your rights hereunder and under the Plan, the terms:

(1) Cause, Disability, Good Reason, Lump Sum and SERP Benefit will have the meanings set forth in the Plan;

(2) Actuarial Equivalent and/or Actuarially Equivalent, Average Compensation, and Specified Formula Reductions will have the meanings set forth in Appendix A hereto; and

(3) Benefit Commencement Date, Change in Control, Employee, Interest (except for purposes of the definition of Actuarial Equivalent in Appendix A), Joint and Survivor Annuity, Key Employee, Qualified Plan, Payment Event, and Separation from Service will have the meanings set forth in the BRP.

Notwithstanding Section 9.2 of the Plan, neither future amendments nor termination of the Plan will adversely affect the SERP Benefit to be provided hereunder or under the Plan without your prior written consent. Notwithstanding Section 4.4 of the Plan, the Committee may not delay or accelerate the payment of the SERP Benefit without your prior written consent; provided, however, that in the event the Committee recommends a delay or an acceleration of the SERP Benefit to comply with Code Section 409A and you do not consent, you hereby acknowledge and agree that the Company shall not be liable for any taxes or penalties incurred under Code Section 409A or otherwise by reason of your lack of consent. (For the avoidance of doubt, the foregoing sentence shall not be construed to imply that the Company would have any such liability regardless). The rights provided hereunder and under the Plan may not be sold, pledged, assigned or transferred in any manner other than by will or by the laws of descent and distribution, or in accordance with a domestic relations order as described in the Plan.

Please acknowledge your receipt and acceptance of this Letter of Grant, and your agreement to be bound by all of the terms hereof and of the Plan, by countersigning and dating the enclosed copy of this letter in the space provided below and returning the same to me.

Very truly yours,

AVERY DENNISON CORPORATION

By: /s/ David E. I. Pyott
Chairman of the Compensation and Executive Personnel Committee

Date: August 11, 2009

I hereby acknowledge having received, read and understood this Letter of Grant and the Plan, and agree to be bound by the terms hereof and of the Plan.

/s/ Dean A. Scarborough

APPENDIX A

As used in the Letter of Grant to which this Appendix is attached, and herein, the following terms will have the meanings specified:

1. "Actuarial Equivalent" or "Actuarially Equivalent" shall mean the equivalent of a given amount (or series of amounts) payable in another manner or by another means in accordance with actuarial principles, methods and assumptions as approved for this purpose by the Compensation and Executive Personnel Committee of the Board of Directors of the Company and which will include the following:

   (a) Mortality – the Applicable Mortality Table defined in Internal Revenue Code Section 417(e)(3)(B) in effect each September, for adjustments made during the one-year period beginning the subsequent December 1.

   (b) Interest – The Applicable Interest Rate defined in Internal Revenue Code Section 417(e)(3)(C) as of September of each year, for adjustments made during the one-year period beginning the subsequent December 1; provided, however, for purposes of the reductions described in paragraphs (3), (4), and (5) of Appendix B, Interest shall be determined as if the "applicable percentage" referred to in Code Section 417(e)(3)(D)(iii) were 100 percent for all years.

2. "Average Compensation" shall mean the annual average of (a) and (b) below:

   (a) Your salary for the three highest twelve month periods out of your last sixty months of employment with the Company; plus

   (b) Your three highest earned annual bonuses during your last sixty months of employment with the Company.

   For this purpose your salary and bonus will include any such compensation that is deferred by you under any Company deferred compensation plan or arrangement.

3. "Specified Formula Reductions" means the specific reductions to the Plan formula attributable to Company-provided retirement benefits under plans and arrangements other than the Plan and certain other amounts determined before January 1, 2009. Said reduction will equal the sum of the amounts listed in the Specified Formula Reductions Schedule in Appendix B. To the extent necessary, each amount will be converted to an Actuarially Equivalent straight life annuity commencing on your Benefit Commencement Date.

APPENDIX B
Specified Formula Reduction Schedule

The Specified Formula Reduction Schedule is the schedule of amounts attributable to Company-provided benefits and contributions for or in respect of you and certain other amounts determined before January 1, 2009, which are taken into account in determining the Specified Formula Reduction. The amounts are described below and such reduction will be applied as of your applicable Benefit Commencement Date. Accordingly, to the extent necessary, each such amount will be converted to an Actuarially Equivalent straight life annuity commencing on your Benefit Commencement Date before such reduction is applied.

(1) The Actuarial Equivalent amount payable to or in respect of you under the Qualified Plan (without regard to any offsets thereunder) and any successor qualified defined benefit retirement plan offered by the Company; provided such amount satisfies the requirements of Treasury Regulation Section 1.409A-1(a)(2).

(2) The Actuarial Equivalent amount payable to or in respect of you under the BRP at the same time and in the same form as your SERP Benefit.

(3) The Actuarial Equivalent of the Lump Sum amount of your “Company Contributions Account” and your “Prior Account” under the Avery Dennison Employee Savings Plan and any successor qualified defined contribution retirement plan offered by the Company; provided such amount satisfies the requirements of Treasury Regulation Section 1.409A-1(a)(2).

(4) The Actuarial Equivalent of the fixed Lump Sum amounts shown in the following table, where such fixed amounts equal the Company contributions (plus interest) in your account as of December 31, 2008 under the Avery Dennison Corporation Executive Deferred Retirement Plan, and the Avery Dennison Corporation Executive Variable Deferred Retirement Plan projected with fixed assumed contributions with earnings (as specified in the table) as follows:

Projected Account Balance as of December 31

Year-End	Age	Company Contributions	Earnings	Account Balance
2008	53			$ 271,475 (actual)
2009	54	$ 53,110	5.86%	$ 340,493
2010	55	$ 55,200	5.86%	$ 415,646
2011	56	$ 57,550	5.86%	$ 497,553
2012	57	$ 59,870	5.86%	$ 586,579
2013	58	$ 62,320	5.86%	$ 683,273
2014	59	$ 64,820	7.35%	$ 798,313
2015	60	$ 67,470	7.35%	$ 924,459
2016	61	$ 70,210	7.35%	$1,062,617
2017	62	$ 73,100	7.35%	$1,213,820
2018	63	$ 75,990	7.35%	$1,379,025
2019	64	$ 79,120	7.35%	$1,559,504
2020	65	$ 82,700	7.35%	$1,756,827

For Benefit Commencement Dates between the dates in the table above, earnings (under the table) for the applicable year to be applied to the Reduction Amount for the immediately preceding year will be computed by multiplying the applicable amount of earnings for the year shown in the table by a fraction the numerator of which equals the number of whole calendar months after the preceding date shown in the table, and the denominator of which is 12. The contribution amount shown in the table will not be added to the Reduction Amount or adjusted for earnings (under the table) until the last day of the applicable year. These amounts are not subject to any additional changes on and after January 1, 2009.

(5) The Actuarial Equivalent of the fixed Lump Sum amounts shown in the following table (representing the estimated lump sum value, determined as of December 31, 2008, of 12 times your estimated monthly Primary Social Security Benefit as of the first day of the month next following the date you attain age 65).

Date	Lump Sum Value
December 31, 2008	$168,000
December 31, 2009	$179,000
December 31, 2010	$192,000
December 31, 2011	$205,000
December 31, 2012	$220,000
December 31, 2013	$236,000
December 31, 2014	$253,000
December 31, 2015	$272,000
December 31, 2016	$294,000
December 31, 2017	$318,000
December 31, 2018	$344,000
December 31, 2019	$371,000
December 31, 2020	$401,000

For Benefit Commencement Dates between the dates in the table above, an interpolated amount will be computed by multiplying the difference between the values shown in the table at the most recent and the next succeeding dates by a fraction the numerator of which equals the number of whole calendar months after the most recent date shown in the table, and the denominator of which is 12. These amounts will not be subject to any additional changes on and after January 1, 2009.

LETTER OF GRANT
as of
January 1, 2009

Mr. Daniel R. O'Bryant
Executive Vice President and Chief Financial Officer
Avery Dennison Corporation
150 North Orange Grove Boulevard
Pasadena, California 91103

Dear Mr. O'Bryant:

Avery Dennison Corporation ("Company") is adopting an amended and restated Avery Dennison Corporation Supplemental Executive Retirement Plan ("Plan") effective as of January 1, 2009. The amended and restated Plan contains the necessary provisions to bring the Plan into compliance with Internal Revenue Code Section 409A ("Section 409A"). By complying with the requirements of Section 409A, the benefits provided under such nonqualified deferred compensation plan may continue to be tax deferred. This letter is written to advise you of the changes that the Compensation and Executive Personnel Committee of the Board of Directors of the Company has made to the Plan in order to comply with Section 409A.

Calculation of SERP Benefit. As an inducement for you to remain in the service of the Company, and to provide you with additional incentive to further the growth, development and financial success of the Company, the Company will continue to provide you with a SERP Benefit that is determined in accordance with the provisions below and subject to the terms of the Plan.

Your "SERP Benefit" is equal to the annual payment of a straight life annuity commencing the first day of the month following the month in which you attain age 65 (or the month in which a Payment Event occurs, if later) with each annual payment equal to fifty-two and one-half percent (52.5%) of your Average Compensation. The amount determined in the preceding sentence will be reduced for early commencement:

(1) In the same manner as provided in the Qualified Plan to the extent your Benefit Commencement Date is on or after the date you attain age 55. In addition, a 10 percent reduction to the gross benefit (before offsets) will apply to retirement commencing between the ages 62 to 65; and,

(2) To the extent your Benefit Commencement Date is before the date you attain age 55 and your SERP Benefit is payable to you in a Lump Sum, then the Lump Sum SERP Benefit will be Actuarially Equivalent to the SERP Benefit payable to you on the first day of the month following the date you attain age 55, taking into account the applicable early commencement factors that would be applied under the Qualified Plan as of such date.

Finally, your SERP Benefit will be further reduced by the Specified Formula Reductions. For the avoidance of doubt, the rate at which your SERP Benefit accrues will not be adversely affected if the benefit under the Amended and Restated Benefit Restoration Plan of Avery Dennison Corporation ("BRP") is paid prior to the payment of your SERP Benefit by reason of a Change in Control.

Time and Form of Payment. Your SERP Benefit will be paid on the Benefit Commencement Date determined under the BRP and in accordance with the form of payment specified or, if applicable, elected under the BRP.

Key Employee Delay. If you are a Key Employee, as determined under the Avery Dennison Corporation Key Employee Policy or by the Committee for all nonqualified plans in accordance with the requirements of Code Section 409A, and your SERP Benefit is payable due to your Separation from Service, as described under the BRP, your Benefit Commencement Date will be no earlier than the first day of the month that is coincident with or next following the date that is six months after your Separation from Service, unless an earlier payment complies with a permissible Section 409A exception (*e.g.*, the payment of employment taxes). To the extent your status as a Key Employee results in a delayed payment, then, following the end of such six-month period, the Plan will provide you with a one-time payment equal to the amount you would have been entitled to receive if your Benefit Commencement Date had not been delayed due to your status as a Key Employee, together with Interest.

Vesting. You will become vested in your SERP Benefit upon the earliest of the following dates provided, in the event of (1), (2), or (3), you are an Employee on that date:

(1) The date you attain age 55;

(2) The date you suffer a Disability;

(3) The date of your death;

(4) The date you have an involuntary Separation from Service from the Company without Cause, including an involuntary Separation from Service on account of a Change in Control; and

(5) The date of your Separation from Service for Good Reason.

Forfeiture. In the event you are terminated by the Company for Cause before you attain age 65, you will forfeit your entire SERP Benefit under the Plan.

Death Benefit. Upon your death, a Death Benefit will be paid only to the spouse to whom you were married on the date of your death; payment will be made in a Lump Sum (which is the form in which the "death benefit" under the BRP is paid) at the same time as the "death benefit" under the BRP, provided such spouse is then living.

The amount of the Lump Sum Death Benefit payable to your spouse will be Actuarially Equivalent to the amount that would have been payable to your spouse as a survivor benefit hereunder if before your date of death you attained age 55 (or your actual age, if you are older), commenced benefits in the form of a 50% Joint and Survivor Annuity, and then died. An additional death benefit, as described in the SERP, will be payable for a limited time upon your death following your Separation from Service if you are a Key Employee. This additional death benefit is intended to place your surviving spouse or, if applicable, your Beneficiary in a position similar to the position in which your surviving spouse or, if applicable, your Beneficiary would have been if your Benefit Commencement Date had not been delayed solely due to your status as a Key Employee.

No Death Benefit will be payable hereunder or under the Plan if you die while unmarried before any scheduled Benefit Commencement Date.

Definitions. For purposes of determining your rights hereunder and under the Plan, the terms:

(1) Cause, Disability, Good Reason, Lump Sum and SERP Benefit will have the meanings set forth in the Plan;

(2) Actuarial Equivalent and/or Actuarially Equivalent, Average Compensation, and Specified Formula Reductions will have the meanings set forth in Appendix A hereto; and

(3) Benefit Commencement Date, Change in Control, Employee, Interest (except for purposes of the definition of Actuarial Equivalent in Appendix A), Joint and Survivor Annuity, Key Employee, Qualified Plan, Payment Event, and Separation from Service will have the meanings set forth in the BRP.

Notwithstanding Section 9.2 of the Plan, neither future amendments nor termination of the Plan will adversely affect the SERP Benefit to be provided hereunder or under the Plan without your prior written consent. Notwithstanding Section 4.4 of the Plan, the Committee may not delay or accelerate the payment of the SERP Benefit without your prior written consent; provided, however, that in the event the Committee recommends a delay or an acceleration of the SERP Benefit to comply with Code Section 409A and you do not consent, you hereby

acknowledge and agree that the Company shall not be liable for any taxes or penalties incurred under Code Section 409A or otherwise by reason of your lack of consent. (For the avoidance of doubt, the foregoing sentence shall not be construed to imply that the Company would have any such liability regardless). The rights provided hereunder and under the Plan may not be sold, pledged, assigned or transferred in any manner other than by will or by the laws of descent and distribution, or in accordance with a domestic relations order as described in the Plan.

Please acknowledge your receipt and acceptance of this Letter of Grant, and your agreement to be bound by all of the terms hereof and of the Plan, by countersigning and dating the enclosed copy of this letter in the space provided below and returning the same to me.

Very truly yours,

AVERY DENNISON CORPORATION

By: /s/ David E. I. Pyott
Chairman of the Compensation and Executive Personnel Committee

Date: August 11, 2009

I hereby acknowledge having received, read and understood this Letter of Grant and the Plan, and agree to be bound by the terms hereof and of the Plan.

/s/ Daniel R. O’Byrant

APPENDIX A

As used in the Letter of Grant to which this Appendix is attached, and herein, the following terms will have the meanings specified:

1. “Actuarial Equivalent” or “Actuarially Equivalent” shall mean the equivalent of a given amount (or series of amounts) payable in another manner or by another means in accordance with actuarial principles, methods and assumptions as approved for this purpose by the Compensation and Executive Personnel Committee of the Board of Directors of the Company and which will include the following:

   (a) Mortality – the Applicable Mortality Table defined in Internal Revenue Code Section 417(e)(3)(B) in effect each September, for adjustments made during the one-year period beginning the subsequent December 1.

   (b) Interest – The Applicable Interest Rate defined in Internal Revenue Code Section 417(e)(3)(C) as of September of each year, for adjustments made during the one-year period beginning the subsequent December 1; provided, however, for purposes of the reductions described in paragraphs (3), (4), and (5) of Appendix B, Interest shall be determined as if the “applicable percentage” referred to in Code Section 417(e)(3)(D)(iii) were 100 percent for all years.

2. “Average Compensation” shall mean the annual average of (a) and (b) below:

   (a) Your salary for the three highest twelve month periods out of your last sixty months of employment with the Company; plus

   (b) Your three highest earned annual bonuses during your last sixty months of employment with the Company.

   For this purpose your salary and bonus will include any such compensation that is deferred by you under any Company deferred compensation plan or arrangement.

3. “Specified Formula Reductions” means the specific reductions to the Plan formula attributable to Company-provided retirement benefits under plans and arrangements other than the Plan and certain other amounts determined before January 1, 2009. Said reduction will equal the sum of the amounts listed in the Specified Formula Reductions Schedule in Appendix B. To the extent necessary, each amount will be converted to an Actuarially Equivalent straight life annuity commencing on your Benefit Commencement Date.

APPENDIX B
Specified Formula Reduction Schedule

The Specified Formula Reduction Schedule is the schedule of amounts attributable to Company-provided benefits and contributions for or in respect of you and certain other amounts determined before January 1, 2009, which are taken into account in determining the Specified Formula Reduction. The amounts are described below and such reduction will be applied as of your applicable Benefit Commencement Date. Accordingly, to the extent necessary, each such amount will be converted to an Actuarially Equivalent straight life annuity commencing on your Benefit Commencement Date before such reduction is applied.

(1) The Actuarial Equivalent amount payable to or in respect of you under the Qualified Plan (without regard to any offsets thereunder) and any successor qualified defined benefit retirement plan offered by the Company; provided such amount satisfies the requirements of Treasury Regulation Section 1.409A-1(a)(2).

(2) The Actuarial Equivalent amount payable to or in respect of you under the BRP at the same time and in the same form as your SERP Benefit.

(3) The Actuarial Equivalent of the Lump Sum amount of your “Company Contributions Account” and your “Prior Account” under the Avery Dennison Employee Savings Plan and any successor qualified defined contribution retirement plan offered by the Company; provided such amount satisfies the requirements of Treasury Regulation Section 1.409A-1(a)(2).

(4) The Actuarial Equivalent of the fixed Lump Sum amounts shown in the following table, where such fixed amounts equal the Company contributions (plus interest) in your account as of December 31, 2008 under the Avery Dennison Corporation Executive Variable Deferred Retirement Plan, excluding the ‘EVDRPSU1 2005’ sub-account, projected with fixed assumed contributions with earnings (as specified in the table) as follows:

Projected Account Balance as of December 31

Year-End	Age	Company Contributions	Earnings	Account Balance
2008	51			$115,724 (actual)
2009	52	$ 20,118	5.86%	$142,623
2010	53	$ 20,890	5.86%	$171,871
2011	54	$ 21,870	5.86%	$203,813
2012	55	$ 22,730	5.86%	$238,486
2013	56	$ 23,650	5.86%	$276,111
2014	57	$ 24,630	7.35%	$321,035
2015	58	$ 25,640	7.35%	$370,272
2016	59	$ 26,710	7.35%	$424,196
2017	60	$ 27,830	7.35%	$483,205
2018	61	$ 28,900	7.35%	$547,620
2019	62	$ 30,150	7.35%	$618,021
2020	63	$ 31,760	7.35%	$695,205
2021	64	$ 33,420	7.35%	$779,723
2022	65	$ 35,180	7.35%	$872,212

For Benefit Commencement Dates between the dates in the table above, earnings (under the table) for the applicable year to be applied to the Reduction Amount for the immediately preceding year will be computed by multiplying the applicable amount of earnings for the year shown in the table by a fraction the numerator of which equals the number of whole calendar months after the preceding date shown in the table, and the denominator of which is 12. The contribution amount shown in the table will not be added to the Reduction Amount or adjusted for earnings (under the table) until the last day of the applicable year. These amounts are not subject to any additional changes on and after January 1, 2009.

(5) The Actuarial Equivalent of the fixed Lump Sum amounts shown in the following table (representing the estimated lump sum value, determined as of December 31, 2008, of 12 times your estimated monthly Primary Social Security Benefit as of the first day of the month next following the date you attain age 65).

Date	Lump Sum Value
December 31, 2008	$157,000
December 31, 2009	$168,000
December 31, 2010	$180,000
December 31, 2011	$192,000
December 31, 2012	$206,000
December 31, 2013	$220,000
December 31, 2014	$236,000
December 31, 2015	$253,000
December 31, 2016	$271,000

Date	Lump Sum Value
December 31, 2017	$291,000
December 31, 2018	$315,000
December 31, 2019	$341,000
December 31, 2020	$369,000
December 31, 2021	$397,000
December 31, 2022	$430,000

For Benefit Commencement Dates between the dates in the table above, an interpolated amount will be computed by multiplying the difference between the values shown in the table at the most recent and the next succeeding dates by a fraction the numerator of which equals the number of whole calendar months after the most recent date shown in the table, and the denominator of which is 12. These amounts will not be subject to any additional changes on and after January 1, 2009.

Exhibit 12

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

(Dollars in millions)	Three Months Ended July 4, 2009	Three Months Ended June 28, 2008	Six Months Ended July 4, 2009	Six Months Ended June 28, 2008
Earnings:				
(Loss) income before taxes	$ 40.2	$ 114.2	$ (875.7)	$ 175.1
Add: Fixed charges [1]	30.8	40.1	69.0	80.5
Amortization of capitalized interest	.9	.8	1.7	1.6
Less: Capitalized interest	(.8)	(1.6)	(1.8)	(3.3)
	$ 71.1	$ 153.5	$ (806.8)	$ 253.9
Fixed charges: [1]				
Interest expense	$ 20.4	$ 29.3	$ 47.9	$ 58.8
Capitalized interest	.8	1.6	1.8	3.3
Interest portion of leases	9.6	9.2	19.3	18.4
	$ 30.8	$ 40.1	$ 69.0	$ 80.5
Ratio of Earnings to Fixed Charges [2]	2.3	3.8	—	3.2

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

(2) For the six months ended July 4, 2009, the Company’s earnings were not sufficient to cover fixed charges by $875.8. This loss primarily reflected the non-cash goodwill and other indefinite-lived intangible asset impairment charges of $832, legal settlement costs of $37 and loss on extinguishment of debt of approximately $21 recorded in the first quarter of 2009.

Exhibit 31.1

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

CERTIFICATION

I, Dean A. Scarborough, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Avery Dennison Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

August 12, 2009

Exhibit 31.2

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

CERTIFICATION

I, Daniel R. O’Bryant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Avery Dennison Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Daniel R. O’Bryant

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

August 12, 2009

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER*

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

(i) The Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended July 4, 2009 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 12, 2009

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

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

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER*

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended July 4, 2009 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 12, 2009

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

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