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 September 27, 2008.

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

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

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

Number of shares of $1 par value common stock outstanding as of October 25, 2008: 106,285,574

AVERY DENNISON CORPORATION

FISCAL THIRD QUARTER 2008 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)	September 27, 2008	December 29, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 81.3	$ 71.5
Trade accounts receivable, less allowances of $61.3 and $64.2 at September 27, 2008 and December 29, 2007, respectively	1,120.7	1,113.8
Inventories, net	648.7	631.0
Current deferred and refundable income taxes	153.8	128.1
Other current assets	132.4	113.9
Total current assets	2,136.9	2,058.3
Property, plant and equipment	3,245.8	3,195.9
Accumulated depreciation	(1,702.5)	(1,604.5)
Property, plant and equipment, net	1,543.3	1,591.4
Goodwill	1,775.0	1,683.3
Other intangibles resulting from business acquisitions, net	298.0	314.2
Non-current deferred and refundable income taxes	80.1	59.9
Other assets	551.7	537.7
	$ 6,385.0	$ 6,244.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	$ 721.6	$ 1,110.8
Accounts payable	730.6	679.2
Current deferred and payable income taxes	42.4	31.4
Other current liabilities	630.8	656.2
Total current liabilities	2,125.4	2,477.6
Long-term debt	1,545.2	1,145.0
Long-term retirement benefits and other liabilities	382.6	391.5
Non-current deferred and payable income taxes	233.2	241.3
Commitments and contingencies (see Note 16)		
Shareholders' equity:		
Common stock, $1 par value, authorized – 400,000,000 shares at September 27, 2008 and December 29, 2007; issued – 124,126,624 shares at September 27, 2008 and December 29, 2007; outstanding – 98,329,439 shares and 98,386,897 shares at September 27, 2008 and December 29, 2007, respectively	124.1	124.1
Capital in excess of par value	747.4	781.1
Retained earnings	2,382.3	2,290.2
Cost of unallocated ESOP shares	(3.8)	(3.8)
Employee stock benefit trusts, 7,926,135 shares and 8,063,898 shares at September 27, 2008 and December 29, 2007, respectively	(358.7)	(428.8)
Treasury stock at cost, 17,841,050 shares and 17,645,829 shares at September 27, 2008 and December 29, 2007, respectively	(867.7)	(858.2)
Accumulated other comprehensive income	75.0	84.8
Total shareholders' equity	2,098.6	1,989.4
	$ 6,385.0	$ 6,244.8

See Notes to Unaudited Condensed Consolidated Financial Statements

Avery Dennison Corporation

CONSOLIDATED STATEMENT OF INCOME
(*Unaudited*)

(In millions, except per share amounts)	Three Months Ended September 27, 2008	Three Months Ended September 29, 2007	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Net sales	$ 1,724.8	$ 1,680.4	$ 5,198.9	$ 4,593.8
Cost of products sold	1,290.5	1,214.2	3,850.3	3,352.9
Gross profit	434.3	466.2	1,348.6	1,240.9
Marketing, general and administrative expense	325.5	330.4	994.5	849.5
Interest expense	29.0	35.7	87.8	70.9
Other expense, net	12.5	33.6	23.9	43.2
Income before taxes	67.3	66.5	242.4	277.3
Provision for income taxes	4.6	7.7	18.9	53.2
Net income	$ 62.7	$ 58.8	$ 223.5	$ 224.1
Per share amounts:				
Net income per common share	$ .64	$ .60	$ 2.27	$ 2.28
Net income per common share, assuming dilution	$ .63	$ .59	$ 2.26	$ 2.27
Dividends	$ .41	$ .40	$ 1.23	$ 1.20
Average shares outstanding:				
Common shares	98.5	98.3	98.5	98.1
Common shares, assuming dilution	98.9	98.9	98.9	98.9
Common shares outstanding at period end	98.3	98.3	98.3	98.3

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from last-in, first-out (“LIFO”) to first-in, first-out (“FIFO”) for certain businesses operating in the U.S.

See Notes to Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(*Unaudited*)

(In millions)	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Operating Activities		
Net income	$ 223.5	$ 224.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	154.8	128.8
Amortization	55.7	43.1
Provision for doubtful accounts	13.1	11.4
Asset impairment and net loss on sale and disposal of assets	16.4	36.4
Stock-based compensation	24.0	15.5
Other non-cash items, net	(8.9)	(15.1)
Changes in assets and liabilities and other adjustments	(96.3)	(138.6)
Net cash provided by operating activities	382.3	305.6
Investing Activities		
Purchase of property, plant and equipment	(97.8)	(136.3)
Purchase of software and other deferred charges	(49.2)	(39.9)
Payments for acquisitions	(130.6)	(1,285.2)
Proceeds from sale of investments, net	16.2	–
Other	7.0	2.6
Net cash used in investing activities	(254.4)	(1,458.8)
Financing Activities		
Net (decrease) increase in borrowings (maturities of 90 days or less)	(386.3)	1,263.1
Additional borrowings (maturities longer than 90 days)	400.1	248.8
Payments of debt (maturities longer than 90 days)	(.7)	(181.9)
Dividends paid	(131.4)	(128.0)
Purchase of treasury stock	(9.8)	(63.2)
Proceeds from exercise of stock options, net	2.3	34.4
Other	8.2	(2.5)
Net cash (used in) provided by financing activities	(117.6)	1,170.7
Effect of foreign currency translation on cash balances	(.5)	1.3
Increase in cash and cash equivalents	9.8	18.8
Cash and cash equivalents, beginning of year	71.5	58.5
Cash and cash equivalents, end of period	$ 81.3	$ 77.3

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from last-in, first-out (“LIFO”) to first-in, first-out (“FIFO”) for certain businesses operating in the U.S.

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 2007 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 2007 Annual Report on Form 10-K.

The third quarters of 2008 and 2007 consisted of thirteen-week periods ending September 27, 2008 and September 29, 2007, respectively. The interim results of operations are not necessarily indicative of future financial results.

Financial Presentation

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

Change in Accounting Method

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

The change in accounting method from LIFO to FIFO method was completed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Corrections." The Company applied the change in accounting principle by retrospectively restating prior years' financial statements. As a result of the change in the Company's policy for accounting for inventory, pretax income for the three and nine months ended September 29, 2007 was increased by $.6 million and $1.1 million, respectively.

Note 2. Acquisitions

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

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

Purchase Price Allocation

The total purchase price was approximately $1.33 billion for the outstanding shares of Paxar, including transaction costs of approximately $15 million.

In accordance with SFAS No. 141, "Business Combinations," the allocation of the purchase price has been made and recorded in the unaudited Condensed Consolidated Financial Statements.

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

(In millions)	June 15, 2007
Current assets (including cash and cash equivalents of approximately $47 million)	$ 358.8
Property, plant, and equipment, net	250.8
Other assets	1.1
Intangible assets	241.6
Goodwill	939.9
Total assets acquired	$ 1,792.2
Current liabilities	$ 220.4
Other long-term liabilities	214.0
Other equity	24.6
Total liabilities and other equity	$ 459.0
Net assets acquired	$ 1,333.2

As a result of the Paxar acquisition, the Company assumed liabilities of approximately $434 million, including accounts payable and other current and long-term liabilities. Included in this amount is approximately $5 million of long-term debt, which remains outstanding at September 27, 2008. In addition, the Company assumed additional standby letters of credit of $7.3 million.

The excess of the cost basis over the fair value of the net tangible assets acquired is approximately $1.18 billion, including goodwill of approximately $940 million and identified intangible assets of approximately $242 million, which includes amortizable and non-amortizable intangible assets. The goodwill from this acquisition is not expected to be deductible for U.S. tax purposes.

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

Refer also to Note 5, “Goodwill and Other Intangibles Resulting from Business Acquisitions.”

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

Paxar Integration Actions

As a result of the Paxar acquisition, the Company identified certain liabilities and other costs of $25 million for restructuring actions which were recorded as part of the Company’s purchase price allocation. Included in this amount are severance costs for involuntary terminations of approximately 1,365 Paxar employees of $21.1 million, lease cancellation costs of $3.2 million, and other related costs of $.7 million. Severance costs are included in “Other 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.

(In millions)	Purchase Price Adjustments
Total severance and other employee costs accrued during the quarters ended:	
June 30, 2007	$ 2.0
September 29, 2007	4.7
December 29, 2007	11.3
March 29, 2008	1.2
June 28, 2008	1.9
Total accrued	21.1
2007 Settlements	(5.8)
2008 Settlements	(8.8)
Balance at September 27, 2008	$ 6.5
Other	
Lease cancellations	$ 3.2
Other	.7
	$ 3.9

Included in the assumed current liabilities were accrued restructuring costs related to Paxar's pre-acquisition restructuring program. At September 27, 2008, approximately $1 million remained accrued in connection with this program.

Employee-Related Items

In connection with this acquisition, certain change-in-control provisions provided that $27.8 million was to be paid to certain key executives of Paxar. This amount includes severance, bonuses, accelerated vesting of stock options, performance share awards, restricted stock, and other items. In connection with these items, $.2 million remained accrued in "Other current liabilities" in the unaudited Condensed Consolidated Balance Sheet at September 27, 2008. New employment agreements for certain key executives retained by the Company provided for approximately $8 million to be accrued over their requisite service periods, of which $5 million was recorded during 2007 and $1.3 million was recorded during the first nine months of 2008 in the unaudited Consolidated Statement of Income.

The estimated fair value of equity includes the total amount related to converted Paxar stock options and performance share awards of approximately $24 million. This total includes amounts related to converted but unvested stock options and performance share awards (approximately $5 million), which will be recognized in the Company's operating results over the remaining vesting periods of these equity awards.

Pro Forma Results of Operations

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

(In millions, except per share amounts)	Nine Months Ended September 29, 2007(1)
Net sales	$ 5,008.3
Net income	199.0
Net income per common share	2.03
Net income per common share, assuming dilution	2.01

(1) The pro forma results of operations for the first nine months of 2007 include the impact of Paxar's restructuring costs and other charges of $1.8 and merger-related costs of $1.5, as well as the Company's restructuring costs and other charges discussed in Note 17, "Segment Information."

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

Other Acquisitions

On April 1, 2008, the Company acquired DM Label Group ("DM Label"). DM Label operations are included in the Company's Retail Information Services segment. Since the acquisition, the impact of this acquisition on the Company's revenues was approximately $26 million.

The preliminary balance sheet allocation of the purchase price as of September 27, 2008 has been made and recorded in the unaudited Condensed Consolidated Financial Statements. The preliminary allocation of the purchase price included an estimated $67 million of goodwill. Refer also to Note 5, "Goodwill and Other Intangibles Resulting from Business Acquisitions."

Note 3. Accounts Receivable

The Company recorded expenses related to the allowances for trade accounts receivable of $13.1 million and $11.4 million for the nine months ended September 27, 2008 and September 29, 2007, respectively. The Company records these allowances based on estimates related to the following factors:

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

Note 4. Inventories

Inventories consisted of:

(In millions)	September 27, 2008	December 29, 2007
Raw materials	$ 272.8	$ 252.6
Work-in-progress	157.7	151.5
Finished goods	289.7	304.2
Inventories at lower of FIFO cost or market (approximates replacement cost)	720.2	708.3
Inventory reserves	(71.5)	(77.3)
Inventories, net	$ 648.7	$ 631.0

Note 5. Goodwill and Other Intangibles Resulting from Business Acquisitions

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 30, 2006	$ 332.4	$ 200.5	$ 169.1	$ 13.9	$ 715.9
Goodwill acquired during the period (1)	–	935.7	–	–	935.7
Acquisition adjustments (2)	–	(.5)	–	–	(.5)
Translation adjustments	21.6	2.0	8.5	.1	32.2
Balance as of December 29, 2007	$ 354.0	$ 1,137.7	$ 177.6	$ 14.0	$ 1,683.3
Goodwill acquired during the period (3)	–	66.5	–	–	66.5
Acquisition adjustments (4)	–	8.3	–	–	8.3
Transfers (5)	–	10.4	–	(10.4)	–
Translation adjustments	(1.1)	19.7	(1.7)	–	16.9
Balance as of September 27, 2008	$ 352.9	$ 1,242.6	$ 175.9	$ 3.6	$ 1,775.0

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

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

(3) Goodwill acquired during the period consisted of the DM Label acquisition in April 2008.

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

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

As of September 27, 2008, goodwill and other intangible assets and related useful lives include the allocations of the purchase price of the Company's recent acquisitions, based on valuations of the acquired assets. Refer to Note 2, "Acquisitions," for further information.

In connection with the Paxar acquisition, the Company acquired approximately $30 million of intangible assets, consisting of certain trade names and trademarks, which are not subject to amortization because they have an indefinite useful life. These intangible assets are not included in the table below, had a negative currency impact of $.1 million at September 27, 2008.

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

(In millions)	September 27, 2008 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	December 29, 2007 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets:						
Customer relationships	$ 283.1	$ 62.0	$ 221.1	$ 276.1	$ 41.8	$ 234.3
Patents and other acquired technology	53.6	17.7	35.9	52.4	14.1	38.3
Trade names and trademarks	46.3	39.1	7.2	46.2	38.6	7.6
Other intangibles	8.9	5.0	3.9	8.6	4.6	4.0
Total	$ 391.9	$ 123.8	$ 268.1	$ 383.3	$ 99.1	$ 284.2

Amortization expense on other intangible assets resulting from business acquisitions was $8.9 million and $24.7 million for the three and nine months ended September 27, 2008, respectively, and $7 million and $12.5 million for the three and nine months ended September 29, 2007, respectively. The estimated amortization expense for other intangible assets resulting from completed business acquisitions as of September 27, 2008 for this fiscal year and each of the next four fiscal years is expected to be approximately $30 million, $30 million, $29 million, $29 million and $29 million, respectively.

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

Note 6. Debt

In February 2008, a wholly-owned subsidiary of the Company entered into a credit agreement for a term loan credit facility with fifteen domestic and foreign banks for a total commitment of $400 million, maturing February 8, 2011. The subsidiary's payment and performance under the agreement are guaranteed by the Company. Financing available under the agreement was permitted to be used for working capital and other general corporate purposes, including acquisitions. The term loan credit facility typically bears interest at an annual rate of, at the subsidiary's option, either (i) between LIBOR plus 0.300% and LIBOR plus 0.850%, depending on the Company's debt ratings by either Standard & Poor's Rating Service ("S&P") or Moody's Investors Service ("Moody's"), or (ii) the higher of (A) the federal funds rate plus 0.50% or (B) the prime rate. The Company used the term loan credit facility to reduce commercial paper borrowings previously issued to fund the acquisition of Paxar. The term loan credit facility is subject to customary financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio.

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

The terms of various loan agreements in effect at September 27, 2008 require that the Company maintain specified ratios on total debt and interest expense in relation to certain measures of income. Under the loan agreements, the ratio of total debt to earnings before interest, taxes, depreciation, amortization, and other adjustments for the most recent twelve-month fiscal period may not exceed 3.5 to 1.0. In addition, earnings before interest, taxes, and other adjustments, as a ratio to interest for the most recent twelve-month fiscal period may not be less than 3.5 to 1.0. As of September 27, 2008, the Company was in compliance with these debt covenants.

Note 7. Pension and Other Postretirement Benefits

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

	Pension Benefits							
	Three Months Ended				Nine Months Ended			
	September 27, 2008		September 29, 2007		September 27, 2008		September 29, 2007	
(In millions)	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l
Components of net periodic benefit cost:								
Service cost	$ 4.9	$ 3.6	$ 4.6	$ 3.4	$ 14.7	$ 10.7	$ 13.9	$ 10.0
Interest cost	9.0	7.2	8.4	6.0	27.0	21.6	25.1	17.8
Expected return on plan assets	(12.7)	(7.5)	(12.2)	(6.1)	(38.2)	(22.4)	(36.7)	(18.0)
Recognized net actuarial loss	1.5	1.0	2.4	2.0	4.5	2.8	7.1	5.9
Amortization of prior service cost	.2	.1	.4	.2	.8	.4	1.4	.5
Amortization of transition asset	–	(.1)	–	(.3)	–	(.4)	–	(.8)
Net periodic benefit cost	$ 2.9	$ 4.3	$ 3.6	$ 5.2	$ 8.8	$ 12.7	$ 10.8	$ 15.4

(In millions)	U.S. Postretirement Health Benefits			
	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Components of net periodic benefit cost:				
Service cost	$ .3	$ .3	$ .8	$ .8
Interest cost	.5	.3	1.4	1.2
Recognized net actuarial loss	.3	.2	1.1	.9
Amortization of prior service cost	(.5)	(.6)	(1.5)	(1.5)
Net periodic benefit cost	$ .6	$ .2	$ 1.8	$ 1.4

The Company contributed $2.7 million and $1.8 million to its U.S. pension plans during the nine months ended September 27, 2008 and September 29, 2007, respectively. The Company expects to contribute an additional $1 million to its U.S. pension plans for the remainder of 2008. Additionally, the Company contributed $2.4 million and $4.6 million to its U.S. postretirement health benefit plan during the nine months ended September 27, 2008 and September 29, 2007, respectively. For the remainder of 2008, the Company expects to contribute an additional $.8 million to its U.S. postretirement health benefit plan.

The Company contributed $11.4 million and $10.3 million to its international pension plans during the nine months ended September 27, 2008 and September 29, 2007, respectively. For the remainder of 2008, the Company expects to contribute an additional $5.2 million to its international pension plans.

For the nine months ended September 27, 2008, actual returns for the Company's defined benefit plans were below the expected rate of return due to adverse conditions in the equity and debt markets. Continued actual returns below the expected rate of return would impact the amount and timing of the Company's future contributions to these defined benefit plans.

Note 8. Research and Development

Research and development expense for the three and nine months ended September 27, 2008 was $23.8 million and $72.2 million, respectively. For the three and nine months ended September 29, 2007, research and development expense was $25.2 million and $71 million, respectively.

Note 9. Stock-Based Compensation

Net income included pretax stock-based compensation expense related to stock options, performance units ("PUs"), restricted stock units ("RSUs") and restricted stock of $24 million and $15.5 million for the nine months ended September 27, 2008 and September 29, 2007, respectively. Total stock-based compensation expense was recorded in corporate expense and the Company's operating segments, as appropriate.

During the second quarter 2008, following the Company's shareholders' approval of the amended and restated stock option and incentive plan on April 24, 2008, the Company granted PUs to certain eligible employees of the Company. These PUs are payable in shares of the Company's common stock at the end of a three-year cliff vesting period provided that certain performance objective metrics are achieved at the end of the period ending December 31, 2010. During the first nine months of 2008, the Company recognized $2.7 million of pretax compensation expense related to PUs, which is included in the stock-based compensation expense noted above.

On February 28, 2008, the Company granted its annual stock option awards to employees and directors. The provision of SFAS No. 123(R), "Share-Based Payment," requires that options granted to retirement-eligible employees be treated as though they were immediately vested; as a result, the pretax compensation expense related to such options (approximately $3 million) was recognized during the nine months ended September 27, 2008 and is included in the stock-based compensation expense noted above.

As of September 27, 2008, the Company has approximately $56 million of unrecognized compensation cost related to unvested stock options, PUs, RSUs and restricted stock under the Company's plans. Total unrecognized compensation cost is expected to be recognized over the remaining weighted-average requisite service period of approximately 3 years for stock options, and 2 years for PUs, RSUs and restricted stock.

Note 10. Cost Reduction Actions

Severance charges recorded under the restructuring actions below 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 Income.

Third Quarter 2008

In the third quarter of 2008, the Company recorded a pretax charge of $12.5 million consisting of $8.7 million of severance and other employee costs resulting in the elimination of approximately 310 positions impacting all segments, as well as $2.9 million of asset impairment charges and $.9 million of lease cancellation charges. As of September 27, 2008, approximately 175 employees impacted by these actions remain with the Company, and are expected to leave by early 2009.

(In millions)	Pressure-sensitive Materials Segment	Retail Information Services Segment	Office and Consumer Products Segment	Other specialty converting businesses	Corporate	Total
Total severance and other employee costs accrued during the quarter ended:						
September 27, 2008	$ .9	$ .8	$ 2.7	$ 1.3	$ 3.0	$ 8.7
2008 Settlements	(.2)	(.3)	(.3)	–	–	(.8)
Balance at September 27, 2008	$ .7	$ .5	$ 2.4	$ 1.3	$ 3.0	$ 7.9
Asset Impairment						
Machinery and equipment	$ 2.3	$ –	$ .6	$ –	$ –	$ 2.9
Other						
Lease cancellations	.9	–	–	–	–	.9
	$ 3.2	$ –	$ .6	$ –	$ –	$ 3.8

Second Quarter 2008

In the second quarter of 2008, the Company recorded a pretax charge of $10.3 million consisting of $7.2 million of severance and other employee costs resulting in the elimination of approximately 310 positions impacting all segments, as well as $1.7 million of asset impairment charges and $1.4 million of lease cancellation charges. As of September 27, 2008, approximately 110 employees impacted by these actions remain with the Company, and are expected to leave by early 2009.

(In millions)	Pressure-sensitive Materials Segment	Retail Information Services Segment	Office and Consumer Products Segment	Corporate	Total
Total severance and other employee costs accrued during the quarter ended:					
June 28, 2008	$ .1	$ 2.7	$ 4.2	$ .2	$ 7.2
2008 Settlements	(.1)	(1.0)	(1.9)	–	(3.0)
Balance at September 27, 2008	$ –	$ 1.7	$ 2.3	$ .2	$ 4.2
Asset Impairment					
Machinery and equipment	$ .3	$ 1.3	$ –	$ –	$ 1.6
Buildings	–	.1	–	–	.1
Other					
Lease cancellations	–	1.4	–	–	1.4
	$ .3	$ 2.8	$ –	$ –	$ 3.1

First Quarter 2008

In the first quarter of 2008, the Company recorded a pretax charge of $5.6 million consisting of $3.3 million of severance and other employee costs resulting in the elimination of approximately 155 positions impacting all segments, as well as $2.3 million of asset impairment charges. As of September 27, 2008, approximately 60 employees impacted by these actions remain with the Company, and are expected to leave by early 2009.

(In millions)	Pressure-sensitive Materials Segment	Retail Information Services Segment	Office and Consumer Products Segment	Other specialty converting businesses	Corporate	Total
Total severance and other employee costs accrued during the quarter ended:						
March 29, 2008	$ 1.1	$ 1.3	$ .1	$ .1	$ .7	$ 3.3
2008 Settlements	(.3)	(1.2)	(.1)	(.1)	(.7)	(2.4)
Balance at September 27, 2008	$ .8	$ .1	$ –	$ –	$ –	$ .9
Asset Impairment						
Machinery and equipment	$ 2.3	$ –	$ –	$ –	$ –	$ 2.3

2007

In 2007, the Company continued its cost reduction efforts that were initiated in late 2006 and implemented additional actions resulting in a headcount reduction of approximately 615 positions, impairment of certain assets and software, as well as lease cancellations. At September 27, 2008, approximately 70 employees impacted by these actions remain with the Company, and are expected to leave by early 2009. Pretax charges related to these actions totaled $57.5 million, including severance and other employee costs of $21.6 million, impairment of fixed assets and buildings of $17.4 million, software impairment of $17.1 million and lease cancellation charges of $1.4 million. The table below details the accruals and payments related to these actions:

(In millions)	Pressure-sensitive Materials Segment	Retail Information Services Segment	Office and Consumer Products Segment	Other specialty converting businesses	Corporate	Total
Total severance and other employee costs accrued during the quarters ended:						
March 31, 2007	$ 1.5	$ –	$ .6	$ –	$ –	$ 2.1
June 30, 2007	.5	.4	–	–	–	.9
September 29, 2007	3.1	3.1	.1	1.2	–	7.5
December 29, 2007	1.0	6.2	3.4	1.1	(.6)	11.1
Total expense accrued during 2007	6.1	9.7	4.1	2.3	(.6)	21.6
2007 Settlements	(1.9)	(3.0)	(.8)	(1.0)	.6	(6.1)
2008 Settlements	(3.8)	(2.4)	(2.1)	(1.2)	–	(9.5)
Balance at September 27, 2008	$ .4	$ 4.3	$ 1.2	$ .1	$ –	$ 6.0
Asset Impairment						
Machinery and equipment	$ 10.9	$ 3.1	$ –	$ 1.9	$ .8	$ 16.7
Buildings	–	.7	–	–	–	.7
Other						
Software impairment	–	17.1	–	–	–	17.1
Lease cancellations	–	.6	.4	–	.4	1.4
	$ 10.9	$ 21.5	$ .4	$ 1.9	$ 1.2	$ 35.9

Note 11. Financial Instruments and Foreign Currency

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

The aggregate reclassification from other comprehensive income to earnings for settlement or ineffectiveness of hedge activity was a net gain of $.6 million and $1.2 million during the three and nine months ended September 27, 2008, respectively. This reclassification was a net loss of $7.6 million and $12.9 million during the three and nine months ended September 29, 2007, respectively. These aggregate reclassifications were reported in “Marketing, general and administrative expense” in the unaudited Consolidated Statement of Income. The effect of the settlement of currency hedges included in this reclassification is offset by the currency impact of the underlying hedged activity. A net loss of approximately $5 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.

Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency) increased net income by $3.1 million and $14.4 million for the three and nine months ended September 27, 2008, respectively, which included a foreign currency net gain related to certain intercompany transactions of approximately $1 million and approximately $7 million during the three and nine months ended September 27, 2008, respectively. Transactions in foreign currencies had a positive impact of $.6 million and $1.7 million on the Company’s net income for the three and nine months ended September 29, 2007, respectively. These results exclude the effects of translation of foreign currencies on the Company’s financial statements.

In the first nine months of 2007 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 12. Taxes Based on Income

The effective tax rate for the third quarter of 2008 was approximately 7%, compared to approximately 12% for the same period in 2007. The effective tax rate for the nine months ended September 27, 2008 was approximately 8%, compared to approximately 19% for the nine months ended September 29, 2007. The effective tax rate for the first nine months of 2008 includes the benefit of approximately $37 million from discrete events. Discrete events include a benefit of approximately $42 million for the increased realizability of deferred tax assets, a net benefit of approximately $3 million of infrequent tax benefits and return filing adjustments, and a detriment of approximately $8 million from tax contingency accruals. 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, and the favorable impact of our global tax structure. Additional taxes are not provided for most foreign earnings because the Company currently plans to indefinitely reinvest these amounts.

In June 2008, the Company identified and committed to a plan that will utilize tax loss carryforwards, resulting in a valuation allowance release of approximately $11 million. This is distinct from the plan in the first quarter of 2008 described below.

In March 2008, the Company identified and committed to a plan that resulted in a partial valuation allowance release of approximately $21 million. During implementation of this plan in the third quarter of 2008, an additional benefit of approximately $9 million was recognized for the increased realizability of deferred tax assets. One aspect of the plan will result in taxable income from financing for a finite period of approximately three years in a jurisdiction that historically has had tax losses. Notwithstanding an unlimited carryforward period in this jurisdiction, deferred tax assets for the prior year losses were subject to a full valuation allowance as of December 29, 2007, due to the lack of sufficient evidence of future profitability in the jurisdiction. The Company does not expect to utilize the remaining tax losses in that jurisdiction and has continued to maintain a valuation allowance for the remaining tax losses.

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 2003.

It is reasonably possible that during the next 12 months, the Company may realize a decrease in its gross uncertain tax positions by approximately $35 million, primarily as the result of the expiration of statutes of limitations in various jurisdictions, settlements of tax audits and cash payments. The Company anticipates that it is reasonably possible that payments of approximately $11 million will be made in the next 12 months.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was signed into law extending the U.S. Research and Experimentation credit for 2008 and 2009. As this event occurred subsequent to the end of the quarter, the benefit for this tax credit is not included in the Company's results for the period ended September 27, 2008.

Note 13. Net Income Per Share

Net income per common share amounts were computed as follows:

(In millions, except per share amounts)	Three Months Ended September 27, 2008	Three Months Ended September 29, 2007	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
(A) Net income available to common shareholders	$ 62.7	$ 58.8	$ 223.5	$ 224.1
(B) Weighted-average number of common shares outstanding	98.5	98.3	98.5	98.1
Dilutive shares (additional common shares issuable under employee stock options, PUs, RSUs and restricted stock)	.4	.6	.4	.8
(C) Weighted-average number of common shares outstanding, assuming dilution	98.9	98.9	98.9	98.9
Net income per common share (A) ÷ (B)	$ .64	$ .60	$ 2.27	$ 2.28
Net income per common share, assuming dilution (A) ÷ (C)	$ .63	$ .59	$ 2.26	$ 2.27

Certain employee stock options and RSUs were not included in the computation of net income per common share, assuming dilution, because they would not have had a dilutive effect. Employee stock options and RSUs excluded from the computation represented an aggregate of 10.4 million shares and 10 million shares for the three and nine months ended September 27, 2008, respectively, and 4.3 million shares and 3.1 million shares for the three and nine months ended September 29, 2007, respectively.

Note 14. Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments, net actuarial loss, prior service cost and net transition assets, net of tax, and the gains or losses on the effective portion of cash flow and firm commitment hedges, net of tax, that are currently presented as a component of shareholders' equity. The Company's total comprehensive (loss) income was ($57.6) million and $213.7 million for the three and nine months ended September 27, 2008, respectively, and $102.1 million and $304.7 million for the three and nine months ended September 29, 2007, respectively.

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

(In millions)	September 27, 2008	December 29, 2007
Foreign currency translation adjustment	$ 226.5	$ 243.1
Net actuarial loss, prior service cost and net transition assets, less amortization	(136.2)	(141.5)
Net loss on derivative instruments designated as cash flow and firm commitment hedges	(15.3)	(16.8)
Accumulated other comprehensive income	$ 75.0	$ 84.8

Cash flow and firm commitment hedging instrument activity in other comprehensive income, net of tax, was as follows:

(In millions)	September 27, 2008
Beginning accumulated derivative loss	$ (16.8)
Net gain reclassified to earnings	(1.2)
Net change in the revaluation of hedging transactions	2.7
Ending accumulated derivative net loss	$ (15.3)

Note 15. Fair Value Measurement

In September 2006, the Financial Accounting Standards Board ("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 FASB Staff Positions ("FSP") Nos. 157-1 and 157-2. FSP No. 157-1 amends SFAS No. 157 to exclude SFAS No. 13, "Accounting for Leases," and its related interpretive accounting pronouncements that address leasing transactions. FSP No. 157-2 delays the effective date of the application of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

The Company adopted SFAS No. 157 as of the beginning of 2008 fiscal year, with the exception of the application of the statement to non-recurring non-financial assets and non-financial liabilities. Non-recurring non-financial assets and non-financial liabilities for which the Company has not applied the provisions of SFAS No. 157 include those measured at fair value in goodwill impairment testing, indefinitely-lived intangible assets measured at fair value for impairment testing, and those initially measured at fair value in business combinations. SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions to determine the best estimate of fair value.

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

		Fair Value Measurements Using		
(In millions)	Total as of September 27, 2008	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Available for sale securities	$ 11.1	$ 11.1	$ –	$ –
Derivative assets	12.4	–	12.4	–
Liabilities:				
Derivative liabilities	$ 8.5	$ 2.0	$ 6.5	$ –

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

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

The adoption of SFAS No. 157 did not have a significant impact on the Company's financial results of operations or financial position.

Note 16. Commitments and Contingencies

Industry Investigations

On August 26, 2008, the Company was notified that the Australian Competition & Consumer Commission had closed its investigation (initiated in August 2005) into the Company's activities in the label stock industry without further action.

In April 2003, the U.S. Department of Justice ("DOJ") filed a complaint challenging the then proposed merger of UPM-Kymmene ("UPM") and the Morgan Adhesives ("MACtac") division of Bemis Co., Inc. ("Bemis"). The complaint alleged, among other things, that "UPM and [Avery Dennison] have already attempted to limit competition between themselves, as reflected in written and oral communications to each other through high level executives regarding explicit anticompetitive understandings, although the extent to which these efforts have succeeded is not entirely clear to the United States at the present time.” The DOJ concurrently announced a criminal investigation into competitive practices in the label stock industry. Other investigations into competitive practices in the label stock industry were subsequently initiated by the European Commission, the Competition Law Division of the Department of Justice of Canada, and the Australian Competition & Consumer Commission. The Company cooperated with all of these investigations, and all have subsequently been terminated without further action by the authorities.

On April 24, 2003, Sentry Business Products, Inc. filed a purported class action on behalf of direct purchasers of label stock in the United States District Court for the Northern District of Illinois against the Company, UPM, Bemis and certain of their subsidiaries seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ merger complaint. Ten similar complaints were filed in various federal district courts. In November 2003, the cases were transferred to the United States District Court for the Middle District of Pennsylvania and consolidated for pretrial purposes. Plaintiffs filed a consolidated complaint on February 16, 2004, which the Company answered on March 31, 2004. On April 14, 2004, the court separated the proceedings as to class certification and merits discovery, and limited the initial phase of discovery to the issue of the appropriateness of class certification. On January 4, 2006, plaintiffs filed an amended complaint. On January 20, 2006, the Company filed an answer to the amended complaint. On August 14, 2006, the plaintiffs moved to certify a proposed class. The Company and other defendants opposed this motion. On March 1, 2007, the court heard oral argument on the issue of the appropriateness of class certification. On August 28, 2007, plaintiffs moved to lift the discovery stay, which the Company opposed. The court substantively granted class certification on November 19, 2007. The Company filed a petition to appeal this decision on December 4, 2007, which was denied on March 6, 2008. On July 22, 2008, the district court held a hearing to set a schedule for merits discovery. The court subsequently entered an order that requires the parties to complete fact discovery by June 22, 2009. Dispositive motions are due on March 19, 2010. The Company intends to defend these matters vigorously.

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM’s subsidiary Raflatac (“Raflatac”), seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ merger complaint. 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.

On August 18, 2005, the Australian Competition & Consumer Commission notified two of the Company’s subsidiaries in Australia, that it was seeking information in connection with a label stock investigation. The Company cooperated with the now closed investigation.

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.

Environmental

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 nineteen waste disposal or waste recycling sites, including Paxar sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company’s liability has been agreed. The Company is participating with other PRPs at such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

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

As of September 27, 2008, the Company’s estimated accrued liability associated with compliance and remediation costs was approximately $60 million, including estimated liabilities related to the Company's recent acquisitions.

Other amounts currently accrued are not significant to the consolidated financial position of the Company, and, based upon current information, management believes it is unlikely that the resolution of these matters will significantly impact the Company's consolidated financial position, results of operations or cash flows.

Product Warranty

The Company provides for an estimate of costs that may be incurred under its basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of the product. Factors that affect the Company's warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy the Company's warranty obligation and availability of insurance coverage. As these factors are impacted by actual experience and future expectations, the Company assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. As of September 27, 2008, 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 relatively minor in amount and of limited duration. Corrective and disciplinary actions have been taken. Sales of the Company's reflective business in China in 2005 were approximately $7 million. Based on findings to date, no changes to the Company's previously filed financial statements are warranted as a result of these matters. However, the Company expects that fines or other penalties could be incurred. While the Company is unable to predict the financial or operating impact of any such fines or penalties, it believes that its behavior in detecting, investigating, responding to and voluntarily disclosing these matters to authorities should be viewed favorably.

In addition, on or about October 10, 2008, the Company notified relevant authorities that it had discovered questionable payments to certain foreign customs and other regulatory officials by some employees of its recently acquired companies. These payments do not appear to have been made for the purpose of obtaining business from any governmental entity. The Company is in the process of conducting a review and is taking remedial measures to comply with the provisions of the U.S. Foreign Corrupt Practices Act.

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

The Company participates in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At September 27, 2008, the Company had guaranteed approximately $14 million.

As of September 27, 2008, the Company guaranteed up to approximately $22 million of certain foreign subsidiaries' obligations to their suppliers, as well as approximately $573 million of certain subsidiaries' lines of credit with various financial institutions.

In November 2007, the Company issued $400 million of 7.875% Corporate HiMEDS units, a mandatory convertible debt issue. An additional $40 million of HiMEDS units were issued in December 2007 as a result of the exercise of the overallotment allocation from the initial issuance. Each HiMEDS unit is comprised of two components – a purchase contract obligating the holder to purchase from the Company a certain number of shares of the Company's common stock in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the quoted price per share of the Company's common stock at that time) and a senior note due in 2020. The net proceeds from the offering were approximately $427 million, which were used to reduce commercial paper borrowings initially used to finance the Paxar acquisition.

Note 17. Segment Information

As discussed in Note 2, "Acquisitions," the Company completed the acquisition of Paxar during the second quarter of 2007 and the acquisition of DM Label during the second quarter of 2008. The operating results for the Company's recent acquisitions are included in the Retail Information Services segment.

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

(In millions)	Three Months Ended September 27, 2008	Three Months Ended September 29, 2007	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Net sales to unaffiliated customers:				
Pressure-sensitive Materials	$ 936.2	$ 868.3	$ 2,835.7	$ 2,607.6
Retail Information Services	379.1	388.7	1,189.3	764.6
Office and Consumer Products	260.4	266.9	710.2	744.0
Other specialty converting businesses	149.1	156.5	463.7	477.6
Net sales to unaffiliated customers	$ 1,724.8	$ 1,680.4	$ 5,198.9	$ 4,593.8
Intersegment sales:				
Pressure-sensitive Materials	$ 46.1	$ 43.1	$ 132.7	$ 119.6
Retail Information Services	.5	.6	1.8	1.4
Office and Consumer Products	.4	.3	1.0	1.2
Other specialty converting businesses	7.0	5.3	21.8	14.4
Eliminations	(54.0)	(49.3)	(157.3)	(136.6)
Intersegment sales	$ –	$ –	$ –	$ –
Income before taxes:				
Pressure-sensitive Materials	$ 60.6	$ 68.3	$ 210.5	$ 239.7
Retail Information Services	(.1)	(15.0)	14.8	(7.0)
Office and Consumer Products	40.9	48.8	102.5	117.5
Other specialty converting businesses	.8	7.9	15.5	26.4
Corporate expense	(5.9)	(7.8)	(13.1)	(28.4)
Interest expense (5)	(29.0)	(35.7)	(87.8)	(70.9)
Income before taxes	$ 67.3(1)	$ 66.5(2)	$ 242.4(3)	$ 277.3(4)

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from last-in, first-out (LIFO) to first-in, first-out (FIFO) for certain businesses operating in the U.S.

(1) Operating income for the third quarter of 2008 included "Other expense, net" totaling $12.5 consisting of restructuring costs of $8.7 and asset impairment and lease cancellation charges of $3.8. Of the total $12.5, the Pressure-sensitive Materials segment recorded $4.1, the Retail Information Services segment recorded $.8, the Office and Consumer Products segment recorded $3.3, the other specialty converting businesses recorded $1.3 and Corporate recorded $3.

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

(2) Operating income for the third quarter of 2007 included "Other expense, net" totaling $33.6 consisting of asset impairment and lease cancellation charges of $12.4, integration-related asset impairment charges of $8.9, restructuring costs of $7.5 and certain non-recurring financing costs of $4.8. Of the total $33.6, the Pressure-sensitive Materials segment recorded $14, the Retail Information Services segment recorded $12, the Office and Consumer Products segment recorded $.5, the other specialty converting businesses recorded $1.5 and Corporate recorded $5.6.

Additionally, operating income for the Retail Information Services segment for the third quarter of 2007 included $16 of transition costs associated with the Paxar acquisition.

(3) Operating income for the first nine months of 2008 included "Other expense, net" totaling $23.9 consisting of restructuring costs of $19.2 and asset impairment and lease cancellation charges of $9.2, partially offset by a gain on sale of investments of ($4.5). Of the total $23.9, the Pressure-sensitive Materials segment recorded $7.9, the Retail Information Services segment recorded $7.6, the Office and Consumer Products segment recorded $7.6, the other specialty converting businesses recorded $1.4 and Corporate recorded ($.6).

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

(4) Operating income for the first nine months of 2007 included "Other expense, net" totaling $43.2 consisting of integration-related asset impairment charges of $18.4, asset impairment and lease cancellation charges of $12.4, restructuring costs of $10.5, certain non-recurring financing costs of $4.8 and expenses related to a divestiture of $.3, partially offset by a reversal of an accrual of ($3.2) related to a lawsuit. Of the total $43.2, the Pressure-sensitive Materials segment recorded $12.8, the Retail Information Services segment recorded $21.9, the Office and Consumer Products segment recorded $1.4, the other specialty converting businesses recorded $1.5 and Corporate recorded $5.6.

Additionally, operating income for the Retail Information Services segment for the first nine months of 2007 included $26.2 of transition costs associated with the Paxar acquisition.

(5) Interest expense for the three and nine months ended September 27, 2008 included interest associated with borrowings to fund the Company's recent acquisitions of $16.4 and $49.2, respectively. Interest expense for the three and nine months ended September 29, 2007 included interest associated with borrowings to fund the Paxar acquisition of $18.9 and $22.1, respectively.

Note 18. Recent Accounting Requirements

In June 2008, the FASB issued FSP Emerging Issues Task Force ("EITF") 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities". Under this issue, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP-EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years and requires retrospective application. The Company is currently evaluating the impact of adopting FSP-EITF 03-6-1 on its earnings per share.

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

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

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

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

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." This Statement replaces SFAS No. 141, "Business Combinations," and defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This Statement's scope is broader than that of SFAS No. 141, which applied only to business combinations in which control was obtained by transferring consideration. In general, SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the fair value of all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date as the fair value measurement point; and modifies the disclosure requirements. This Statement applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. However, starting fiscal 2009, accounting for changes in valuation allowances for acquired deferred tax assets and the resolution of uncertain tax positions for prior business combinations will impact tax expense instead of goodwill. The Company is currently evaluating the impact of this Statement on the Company's financial results of operations and financial position.

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

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosure about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Relative to 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 and its related interpretive accounting pronouncements that address leasing transactions. FSP No. 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted SFAS No. 157, as amended, with the exception of the application of the Statement to non-recurring non-financial assets and non-financial liabilities. The adoption of SFAS No. 157 did not have a significant impact on the Company's financial results of operations or financial position. See Note 15, "Fair Value Measurements," for further discussion.

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:

DEFINITION OF TERMS

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

We use the following terms:

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

Change in Accounting Method

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

The discussion that follows reflects our results that have been restated due to the accounting change.

OVERVIEW AND OUTLOOK

Overview

Sales

Our sales increased 3% and 13% in the first three and nine months of 2008, respectively, reflecting the factors summarized in the table below:

Estimated change in sales due to:	Three Months Ended September 27, 2008	Three Months Ended September 29, 2007	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Organic sales growth (decline)	(2)%	–	(2)%	1%
Foreign currency translation	5	4	6	4
Acquisitions, net of divestitures	1	15	9	5
Reported sales growth (1)	3%	19%	13%	10%

(1) Totals may not sum due to rounding

On an organic basis, the decline of 2% in the three and nine months ended September 27, 2008 was primarily due to declines in economic conditions in mature markets, partially offset by growth in emerging markets.

Net Income

Net income decreased $0.6 million, or 0.3%, in the first nine months of 2008 compared to the same period in 2007.

Negative factors affecting the change in net income included:

- Cost inflation, including raw material and energy costs
- Incremental interest expense and amortization of intangibles related to the acquisition of Paxar Corporation ("Paxar")
- The carryover effect of a more competitive pricing environment in the roll materials business in the prior year, partially offset by current year price increases

Positive factors affecting the change in net income included:

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

Acquisitions

We completed the Paxar acquisition on June 15, 2007. The combination of the Paxar business into our Retail Information Services segment increases our presence in the retail information and brand identification market, combines complementary strengths and broadens the range of our product and service capabilities, improves our ability to meet customer demands for product innovation and improved quality of service, and facilitates expansion into new product and geographic segments. The integration of the acquisition into our operations is also expected to result in significant cost synergies. Refer to the "Outlook" section herein for further information.

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

Paxar Acquisition-related Actions

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

(Dollars in millions)	Paxar Acquisition-related costs(1)	Headcount Reduction
2007 Restructuring (2)	$ 31.2	200
2007 Transition costs (2)	43.0	–
2008 Restructuring (2)	5.6	130
2008 Transition costs (2)	17.9	–
2007 Purchase price adjustments	20.5	855
2008 Purchase price adjustments	6.0	510
Total Paxar integration actions	$124.2	1,695
Change-in-control costs (Purchase price adjustment)	27.8	
Total Paxar acquisition-related costs	$152.0	

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

(2) Recorded in the Consolidated Statement of Income

Cost synergies resulting from the integration of Paxar were approximately $20 million in 2007 and approximately $52 million incrementally in the first nine months of 2008. Incremental cost synergies expected to be achieved through the balance of the integration are discussed in the "Outlook" section below.

Refer to Note 2, "Acquisitions" and Note 10, "Cost Reduction Actions," to the unaudited Condensed Consolidated Financial Statements for further detail.

Cost Reduction Actions

In addition to cost synergies from the integration of Paxar discussed above, cost reduction actions initiated from late 2006 through the end of 2007 (see table below) are expected to yield annualized pretax savings of $45 million to $50 million. Savings from these actions, net of transition costs, were approximately $5 million in 2007 and approximately $28 million in the first nine months of 2008. Incremental savings associated with these actions in the fourth quarter of 2008 are expected to be approximately $4 million, with the balance expected to be realized in 2009.

(Dollars in millions)	Accrued Expense(1)	Headcount Reduction
Q4 2006 restructuring	$ 5.1	140
2007 restructuring (excluding Paxar integration-related actions)	26.3	415
Total Q4 2006-2007 restructuring actions	$ 31.4	555

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

We are undertaking additional restructuring actions in 2008, in addition to Paxar acquisition-related actions. The 2008 actions identified to date (see table below) are expected to yield annualized savings of approximately $20 million, most of which is expected to benefit 2009.

(Dollars in millions)	Accrued Expense(1)	Headcount Reduction
Q1 2008 restructuring	$ 4.3	105
Q2 2008 restructuring	6.0	230
Q3 2008 restructuring	12.5	310
Total 2008 restructuring actions	$ 22.8	645

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

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

Effective Rate of Taxes on Income

The effective tax rate for the first nine months of 2008 was approximately 8%, compared with approximately 19% for the same period in 2007. The effective tax rate for the first nine months of 2008 includes the recognition of tax benefits of approximately $37 million due to discrete events. Discrete events include a benefit of approximately $42 million for the increased realizability of deferred tax assets, a net benefit of approximately $3 million of infrequent tax benefits and return filing adjustments, and a detriment of approximately $8 million from tax contingency accruals. Refer to Note 12, "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. Management believes that it is appropriate to measure cash flow (including net proceeds from sale of investments) after spending on property, plant, equipment, software and other deferred charges because such spending is considered integral to maintaining or expanding our underlying business. This measure is not intended to represent the residual cash available for discretionary purposes. Refer to the "Uses and Limitations of Non-GAAP Measures" section for further information regarding limitations of this measure.

(In millions)	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Net cash provided by operating activities	$ 382.3	$ 305.6
Purchase of property, plant and equipment	(97.8)	(136.3)
Purchase of software and other deferred charges	(49.2)	(39.9)
Proceeds from sale of investments, net (1)	16.2	–
Free cash flow	$ 251.5	$ 129.4

(1) Net proceeds from sale of investments are related to the sale of securities held by our captive insurance company and other investments.

In the first nine months of 2008, free cash flow increased primarily due to increased cash flow provided by operating activities and reduced capital spending targets consistent with current economic conditions. See "Analysis of Results of Operations" and "Liquidity" sections below for more information.

Investigations

We previously announced that we had been notified by the European Commission ("EC"), the United States Department of Justice ("DOJ"), the Competition Law Department of the Department of Justice of Canada and the Australian Competition & Consumer Commission of their respective investigations into competitive practices in the label stock industry. We cooperated with all of these investigations, and all have been terminated without further action by the authorities.

We are a named defendant in purported class actions in the U.S. seeking treble damages and other relief for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation.

As disclosed, we have discovered instances of conduct by certain employees that potentially violate the U.S. Foreign Corrupt Practices Act. We reported that conduct to authorities in the U.S. and we believe it is possible that fines or other penalties may be incurred.

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 16, "Commitments and Contingencies," to the unaudited Condensed Consolidated Financial Statements.

Outlook

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

Recent market and economic conditions have been volatile and challenging with tighter credit conditions and slower growth through the third quarter of 2008. We are not able to predict the duration and severity of the current disruption in financial markets and adverse economic conditions in the U.S. and other countries.

For the full year of 2008, we expect high single-digit revenue growth, including the benefit from our recent acquisitions and a favorable effect from foreign currency translation based on current exchange rates. On an organic basis, we expect sales to decline approximately 2% for the full year of 2008. On an organic basis, we expect sales in the fourth quarter to decline at a rate greater than the decline in the first nine months of 2008.

We estimate the total annual cost synergies associated with the Paxar integration to be approximately $120 million, of which $20 million benefited 2007 and an incremental $52 million benefited the first nine months of 2008. To accomplish our synergy target, we expect to incur aggregate pretax cash costs in the range of $165 million to $180 million, of which approximately $75 million was incurred in 2007 and approximately $50 million was incurred in the first nine months of 2008.

In addition to the synergies resulting from the Paxar integration described above, we anticipate our prior year restructuring and business realignment efforts to yield incremental savings in 2008 of $30 million to $35 million, net of transition costs. Restructuring actions implemented in the first nine months of 2008 are expected to yield savings of approximately $20 million, most of which is expected to benefit 2009.

We expect the above benefits to be more than offset by higher costs, including those related to raw material and energy, as well as investments for future growth.

We anticipate price increases and productivity improvements in 2008 to partially offset raw material and other cost inflation.

We estimate interest expense in 2008 to be in the range of $115 million to $120 million, approximately $10 million to $15 million higher than 2007, due to acquisition-related debt. Our estimate is subject to changes in average debt outstanding and changes in market rates associated with the portion of our debt tied to variable interest rates.

The annual effective tax rate, expected to be in the range of 8% to 10% for 2008, will be impacted by future events including changes in tax laws, geographic income mix, tax audits, closure of tax years, legal entity restructuring, and the release of valuation allowances on deferred tax assets. The effective tax rate can potentially have wide variances from quarter to quarter, resulting from interim reporting requirements and the recognition of discrete events.

We anticipate our capital and software expenditures to be approximately $180 million in 2008. This includes one-time cash costs associated with capital expenditures to integrate Paxar (included in the cash cost estimate discussed above), of which approximately $14 million was incurred in the first nine months of 2008.

Reflecting the foregoing assumptions, we expect an increase in annual earnings and free cash flow in 2008 in comparison with 2007.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE THIRD QUARTER

Income Before Taxes

(In millions)	2008	2007
Net sales	$ 1,724.8	$ 1,680.4
Cost of products sold	1,290.5	1,214.2
Gross profit	434.3	466.2
Marketing, general and administrative expense	325.5	330.4
Interest expense	29.0	35.7
Other expense, net	12.5	33.6
Income before taxes	$ 67.3	$ 66.5

As a Percent of Sales:		
Gross profit (margin)	25.2%	27.7%
Marketing, general and administrative expense	18.9	19.7
Income before taxes	3.9	4.0

Sales

Sales increased 3% in the third quarter of 2008 compared to the same period last year. Foreign currency translation had a favorable impact on the change in sales of approximately $76 million in the third quarter of 2008. The acquisition of DM Label increased sales by approximately $10 million in the third quarter of 2008.

On an organic basis, the decline of approximately 2% in the third quarter of 2008 compared to the same period last year was primarily due to declines in economic conditions in mature markets, partially offset by growth in emerging markets.

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

Gross Profit

Gross profit margin for the third quarter of 2008 declined compared to the same period in 2007, as savings from prior year restructuring and other sources of productivity and benefits from pricing actions were more than offset by raw material and other cost inflation and reduced fixed cost leverage on an organic basis.

Marketing, General and Administrative Expenses

The decrease in marketing, general and administrative expense in the third quarter of 2008 compared to the same period last year primarily reflected benefits from productivity improvements and lower net transition costs associated with the Paxar integration, partially offset by the negative effects of foreign currency (approximately $10 million), higher employee costs, costs associated with the recently acquired DM Label business and related integration costs (totaling approximately $5 million), and incremental amortization of intangibles (approximately $2 million).

Other Expense, net

(In millions, pretax)	2008	2007
Restructuring costs	$ 8.7	$ 7.5
Asset impairment and lease cancellation charges	3.8	12.4
Asset impairment charges — acquisition integration-related	—	8.9
Other	—	4.8
Other expense, net	$ 12.5	$ 33.6

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

In the third quarter of 2007, "Other expense, net" consisted of asset impairment charges of $21.3 million (including $8.9 million related to the integration of Paxar) and severance and other employee-related costs of $7.5 million, as well as certain non-recurring financing costs of $4.8 million. The restructuring costs in the third quarter of 2007 related to a reduction in headcount of approximately 230 positions across all segments and geographic regions.

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

Net Income and Earnings per Share

(In millions, except per share)	2008	2007
Income before taxes	$ 67.3	$ 66.5
Provision for income taxes	4.6	7.7
Net income	$ 62.7	$ 58.8
Net income per common share	$ .64	$ .60
Net income per common share, assuming dilution	$ .63	$ .59
Net income as a percent of sales	3.6%	3.5%
Percent change in:		
Net income	6.6%	(31.5)%
Net income per common share	6.7	(30.2)
Net income per common share, assuming dilution	6.8	(30.6)

Provision for Income Taxes

The effective tax rate for the third quarter of 2008 was approximately 7%, compared with approximately 12% for the same period in 2007. The effective tax rate for the third quarter of 2008 includes the recognition of tax benefits of approximately $9 million due to discrete events. Discrete events include a benefit of approximately $9 million for the increased realizability of deferred tax assets, a net benefit of approximately $3 million of infrequent tax benefits and return filing adjustments, and a detriment of approximately $3 million from tax contingency accruals. Refer to Note 12, "Taxes Based on Income," to the unaudited Condensed Consolidated Financial Statements for further information.

RESULTS OF OPERATIONS BY SEGMENT FOR THE THIRD QUARTER

Pressure-sensitive Materials Segment

(In millions)	2008	2007
Net sales including intersegment sales	$ 982.3	$ 911.4
Less intersegment sales	46.1	43.1
Net sales	$ 936.2	$ 868.3
Operating income (1)	60.6	68.3
(1) Includes lease cancellation charges in 2008 and restructuring costs and asset impairment charges in both years	$ 4.1	$ 14.0

Net Sales

Sales in our Pressure-sensitive Materials segment increased 8% in the third quarter of 2008 compared to the same period in 2007, reflecting the favorable impact of foreign currency translation (approximately $55 million) and organic sales growth of approximately 1%.

On an organic basis, sales in our roll materials business in Europe in the third quarter of 2008 remained flat compared to the same period last year. Market expansion in our roll materials business contributed to double-digit organic growth in Asia and high single-digit organic growth in Latin America. Largely offsetting this growth, our North American roll materials business declined at a low single-digit rate (excluding intercompany sales).

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

Operating Income

Decreased operating income in the third quarter of 2008 reflected raw material and other cost inflation and negative product mix, partially offset by the benefits of price increases, higher unit volume, and cost savings from restructuring and productivity improvement initiatives. Operating income for the quarter included restructuring costs and asset impairment charges in both years, and lease cancellation charges in 2008.

Retail Information Services Segment

(In millions)	2008	2007
Net sales including intersegment sales	$ 379.6	$ 389.3
Less intersegment sales	.5	.6
Net sales	$ 379.1	$ 388.7
Operating income (loss) (1) (2)	(.1)	(15.0)

(1) Includes integration-related software impairment charges in 2007 and restructuring costs in both years	$ .8	$ 12.0
(2) Includes transition costs related to acquisition integrations	$ 5.2	$ 16.0

Net Sales

Sales in our Retail Information Services segment decreased 2% in the third quarter of 2008 compared to the same period last year, reflecting lower sales on an organic basis, partially offset by sales from the DM Label acquisition (approximately $10 million) and the favorable impact of foreign currency translation (approximately $9 million). On an organic basis, sales declined 7% in the third quarter of 2008 due to a decline in orders for apparel shipped to North American retailers and brand owners, partially offset by increased sales for the European retail market. Growth in the European retail market weakened sequentially from previous quarters.

Operating Income

Lower operating loss in the third quarter of 2008 reflected incremental synergies and lower transition costs related to the Paxar integration, and savings from restructuring and productivity improvement initiatives, partially offset by lower sales, raw material and other cost inflation, and incremental amortization of acquisition intangibles. Operating income for the quarter included restructuring costs in both years, and integration-related software impairment charges in 2007.

Office and Consumer Products Segment

(In millions)	2008	2007
Net sales including intersegment sales	$ 260.8	$ 267.2
Less intersegment sales	.4	.3
Net sales	$ 260.4	$ 266.9
Operating income (1)	40.9	48.8

(1) Includes asset impairment charges in 2008, lease cancellation charges in 2007, and restructuring costs in both years	$ 3.3	$ .5

Net Sales

Sales in our Office and Consumer Products segment decreased 2% in the third quarter of 2008 compared to the same period last year, reflecting lower sales on an organic basis, partially offset by the favorable impact of foreign currency translation (approximately $6 million). On an organic basis, sales declined 4% as the benefit from the delay in orders related to back-to-school season from the second quarter to the third quarter was more than offset by weak end market demand.

Operating Income

Decreased operating income in the third quarter of 2008 reflected lower sales and cost inflation, partially offset by savings from restructuring actions and other productivity improvement initiatives. Operating income for the quarter included restructuring costs in both years, asset impairment charges in 2008, and lease cancellation charges in 2007.

Other specialty converting businesses

(In millions)	2008	2007
Net sales including intersegment sales	$ 156.1	$ 161.8
Less intersegment sales	7.0	5.3
Net sales	$ 149.1	$ 156.5
Operating income	.8	7.9
(1) Includes asset impairment charges in 2007 and restructuring costs in both years	$ 1.3	$ 1.5

Net Sales

Sales in our other specialty converting businesses decreased 5% in the third quarter of 2008 compared to the same period in 2007. Reported sales growth included the favorable impact of foreign currency translation (approximately $6 million). On an organic basis, sales declined 8% in the third quarter of 2008, reflecting lower volume in automotive and housing construction, and the negative effect of exiting certain low-margin products in our specialty tape business, partially offset by growth in our radio-frequency identification ("RFID") division.

Operating Income

Decreased operating income in the third quarter of 2008 reflected lower sales and cost inflation, partially offset by the benefit of productivity improvement initiatives and a reduction in operating loss in our RFID division. Operating income for the quarter included restructuring costs in both years, and asset impairment charges in 2007.

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

Income Before Taxes

(In millions)	2008	2007
Net sales	$ 5,198.9	$ 4,593.8
Cost of products sold	3,850.3	3,352.9
Gross profit	1,348.6	1,240.9
Marketing, general and administrative expense	994.5	849.5
Interest expense	87.8	70.9
Other expense, net	23.9	43.2
Income before taxes	$ 242.4	$ 277.3
As a Percent of Sales:		
Gross profit (margin)	25.9%	27.0%
Marketing, general and administrative expense	19.1	18.5
Income before taxes	4.7	6.0

Sales

Sales increased approximately 13% in the first nine months of 2008 compared to the same period in the prior year. Foreign currency translation had a favorable impact on the change in sales of approximately $248 million in the first nine months of 2008. The acquisition of DM Label increased sales by approximately $26 million in the first nine months of 2008.

On an organic basis, the decline of approximately 2% in the first nine months of 2008 was primarily due to declines in economic conditions in mature markets, partially offset by growth in emerging markets.

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

Gross Profit

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

Marketing, General and Administrative Expenses

The increase in marketing, general and administrative expense in the first nine months of 2008 compared to the same period last year primarily reflected costs associated with the recently acquired businesses (totaling approximately $122 million, including $13 million in incremental amortization of intangibles), the negative effects of foreign currency (approximately $22 million), as well as higher employee costs, partially offset by the benefits from productivity improvement initiatives and lower net transition costs related to the recent acquisitions.

Other Expense, net

(In millions, pretax)	2008	2007
Restructuring costs	$ 19.2	$ 10.5
Asset impairment and lease cancellation charges	9.2	12.4
Asset impairment charges — acquisition integration-related	—	18.4
Other	(4.5)	1.9
Other expense, net	$ 23.9	$ 43.2

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

In the first nine months of 2007, "Other expense, net" consisted of asset impairment charges of $30.8 million (including $18.4 million related to the integration of Paxar) and severance and other employee-related costs of $10.5 million. Restructuring charges in the first nine months of 2007 related to a reduction in headcount of approximately 325 positions.

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

- certain non-recurring financing costs of $4.8 million
- reversal of an accrual related to a lawsuit of ($3.2) million
- expenses related to a divestiture of $.3 million

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

Net Income and Earnings per Share

(In millions, except per share)	2008	2007
Income before taxes	$ 242.4	$ 277.3
Provision for income taxes	18.9	53.2
Net income	$ 223.5	$ 224.1
Net income per common share	$ 2.27	$ 2.28
Net income per common share, assuming dilution	$ 2.26	$ 2.27
Net income as a percent of sales	4.3%	4.9%
Percent change in:		
Net income	(.3)%	(16.5)%
Net income per common share	(.4)	(15.2)
Net income per common share, assuming dilution	(.4)	(15.0)

Provision for Income Taxes

The effective tax rate for the first nine months of 2008 was 8%, compared with 19% for the same period in 2007. The effective tax rate for the first nine months of 2008 includes the recognition of tax benefits of approximately $37 million due to discrete events. Discrete events include a benefit of approximately $42 million for the increased realizability of deferred tax assets, a net benefit of approximately $3 million of infrequent tax benefits and return filing adjustments, and a detriment of approximately $8 million from tax contingency accruals. Refer to Note 12, "Taxes Based on Income," to the unaudited Condensed Consolidated Financial Statements for further information.

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

Pressure-sensitive Materials Segment

(In millions)	2008	2007
Net sales including intersegment sales	$ 2,968.4	$ 2,727.2
Less intersegment sales	132.7	119.6
Net sales	$ 2,835.7	$ 2,607.6
Operating income (1)	210.5	239.7
(1) Includes lease cancellation charges in 2008, reversal of an accrual related to a lawsuit in 2007, and restructuring costs and asset impairment charges in both years	$ 7.9	$ 12.8

Net Sales

Sales in our Pressure-sensitive Materials segment increased 9% in the first nine months of 2008 compared to the same period in 2007, reflecting the favorable impact of foreign currency translation (approximately $185 million) and organic sales growth of approximately 2%.

On an organic basis, sales in our roll materials business in Europe in the first nine months of 2008 grew at a low single-digit rate compared to the same period last year. Market expansion in our roll materials business contributed to double-digit organic growth in Asia, and mid single-digit organic growth in Latin America. Largely offsetting this growth, our North American roll materials business declined at a low single-digit rate (excluding intercompany sales).

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

Operating Income

Decreased operating income in the first nine months of 2008 reflected the negative effects of cost inflation and prior year price reductions, which more than offset the initial benefits of recent price increases, as well as negative product mix, partially offset by higher unit volume, and cost savings from restructuring and productivity improvement initiatives. Operating income for the nine month period included restructuring costs and asset impairment charges in both years, lease cancellation charges in 2008, and reversal of an accrual related to a lawsuit in 2007.

Retail Information Services Segment

(In millions)	2008	2007
Net sales including intersegment sales	$ 1,191.1	$ 766.0
Less intersegment sales	1.8	1.4
Net sales	$ 1,189.3	$ 764.6
Operating income (loss) (1)(2)	14.8	(7.0)
(1) Includes integration-related software impairment charges in 2007, asset impairment and lease cancellation charges in 2008, and restructuring costs in both years	$ 7.6	$ 21.9
(2) Includes transition costs related to acquisition integrations, primarily Paxar	$ 17.9	$ 26.2

Net Sales

Sales in our Retail Information Services segment increased 56% in the first nine months of 2008 compared to the same period last year, reflecting the Paxar and DM Label acquisitions, which increased sales by an estimated $415 million and $26 million, respectively, and the favorable impact of foreign currency translation (approximately $22 million). On an organic basis, sales declined 4% in the first nine months of 2008 due to a decline in orders for apparel shipped to North American retailers and brand owners, partially offset by increased sales for the European retail market.

Operating Income

Increased operating income in the first nine months of 2008 reflected higher sales, incremental synergies and lower transition costs related to the Paxar integration, and savings from restructuring and productivity improvement initiatives, partially offset by raw material and other cost inflation, and incremental amortization of acquisition intangibles. Operating income for the nine month period included restructuring costs in both years, asset impairment and lease cancellation charges in 2008, and integration-related software impairment charges in 2007.

Office and Consumer Products Segment

(In millions)	2008	2007
Net sales including intersegment sales	$ 711.2	$ 745.2
Less intersegment sales	1.0	1.2
Net sales	$ 710.2	$ 744.0
Operating income (1)	102.5	117.5
(1) Includes asset impairment in 2008, lease cancellation charges and expenses related to a divestiture in 2007, and restructuring costs in both years	$ 7.6	$ 1.4

Net Sales

Sales in our Office and Consumer Products segment decreased 5% in the first nine months of 2008 compared to the same period last year, reflecting lower sales on an organic basis, partially offset by the favorable impact of foreign currency translation (approximately $21 million). On an organic basis, sales declined 7% due to customer inventory reductions (an estimated $18 million) and weak end market demand.

Operating Income

Decreased operating income in the first nine months of 2008 reflected lower sales and cost inflation, partially offset by savings from restructuring actions and other productivity improvement initiatives. Operating income for the nine month period included restructuring costs and asset impairment charges in both years, and lease cancellation charges and expenses related to a divestiture in 2007.

Other specialty converting businesses

(In millions)	2008	2007
Net sales including intersegment sales	$ 485.5	$ 492.0
Less intersegment sales	21.8	14.4
Net sales	$ 463.7	$ 477.6
Operating income (1)	15.5	26.4
(1) Includes asset impairment charges in 2007 and restructuring costs in both years	$ 1.4	$ 1.5

Net Sales

Sales in our other specialty converting businesses decreased 3% in the first nine months of 2008 compared to the same period in 2007. Reported sales growth included the favorable impact of foreign currency translation (approximately $20 million). On an organic basis, sales declined 7% in the first nine months of 2008, reflecting lower volumes in automotive and housing construction, and the negative effect of exiting certain low-margin products in our specialty tape business, partially offset by growth in our RFID division.

Operating Income

Decreased operating income in the first nine months of 2008 reflected lower sales and cost inflation, partially offset by the benefit of productivity improvement initiatives and a reduction in operating loss in our RFID division. Operating income in the first nine months of 2008 included restructuring costs in both years, and asset impairment charges in 2007.

FINANCIAL CONDITION

Liquidity

Cash Flow Provided by Operating Activities for the First Nine Months:

(In millions)	2008	2007
Net income	$ 223.5	$ 224.1
Depreciation and amortization	210.5	171.9
Provision for doubtful accounts	13.1	11.4
Asset impairment and net loss on sale and disposal of assets	16.4	36.4
Stock-based compensation	24.0	15.5
Other non-cash items, net	(8.9)	(15.1)
Changes in assets and liabilities and other adjustments	(96.3)	(138.6)
Net cash provided by operating activities	$ 382.3	$ 305.6

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

In the first nine months of 2008, cash flow provided by operating activities increased approximately $77 million compared to the same period in 2007, primarily due to improved payment terms on accounts payable, decreases in purchases and better management of inventory during the period, partially offset by higher material costs.

Cash Flow Used in Investing Activities for the First Nine Months:

(In millions)	2008	2007
Purchase of property, plant and equipment	$ (97.8)	$ (136.3)
Purchase of software and other deferred charges	(49.2)	(39.9)
Payments for acquisitions	(130.6)	(1,285.2)
Proceeds from sale of investments, net	16.2	—
Other	7.0	2.6
Net cash used in investing activities	$ (254.4)	$ (1,458.8)

Payments for Acquisitions

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

On June 15, 2007, we completed the acquisition of Paxar. In accordance with the terms of the acquisition agreement, each outstanding share of Paxar common stock, par value $0.10 was converted into the right to receive $30.50 in cash. The total purchase price for this transaction was approximately $1.33 billion, including transaction costs of approximately $15 million.

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

Capital Spending

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

Proceeds from Sale of Investments

Net proceeds from sale of investments are related to the sale of securities primarily held by our captive insurance company.

Cash Flow Used in Financing Activities for the First Nine Months:

(In millions)	2008	2007
Net change in borrowings and payments of debt	$ 13.1	$ 1,330.0
Dividends paid	(131.4)	(128.0)
Purchase of treasury stock	(9.8)	(63.2)
Proceeds from exercise of stock options, net	2.3	34.4
Other	8.2	(2.5)
Net cash (used in) provided by financing activities	$ (117.6)	$ 1,170.7

Borrowings and Repayment of Debt

In February 2008, one of our subsidiaries entered into a credit agreement for a term loan credit facility with fifteen domestic and foreign banks for a total commitment of $400 million, which we guaranteed, maturing February 8, 2011. Financing available under the agreement is permitted to be used for working capital and other general corporate purposes, including acquisitions. The term loan credit facility typically bears interest at an annual rate of, at the subsidiary's option, either (i) between LIBOR plus 0.300% and LIBOR plus 0.850%, depending on the Company's debt ratings by either Standard & Poor's Rating Service ("S&P") or Moody's Investors Service ("Moody's"), or (ii) the higher of (A) the federal funds rate plus 0.50% or (B) the prime rate. We used the term loan credit facility to reduce commercial paper borrowings previously issued to fund the acquisition of Paxar. The term loan credit facility is subject to customary financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio.

During the first nine months of 2007, we increased our short-term borrowings to initially fund the Paxar acquisition transaction. Additionally, proceeds from borrowings were used to support seasonal operational requirements and share repurchases.

Shareholders' Equity

Our shareholders' equity was approximately $2.10 billion at September 27, 2008 compared to approximately $1.91 billion at September 29, 2007. Our dividend per share increased to $1.23 in the first nine months of 2008 from $1.20 in the first nine months of 2007.

Share Repurchases

During the first nine months of 2008 and 2007, we repurchased approximately .2 million shares totaling $9.8 million, and approximately .8 million shares totaling $52 million, respectively. We also made cash payments of $11 million related to shares repurchased in 2006, but settled in 2007.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

Goodwill increased approximately $92 million during the first nine months of 2008 due to preliminarily identified goodwill associated with the DM Label acquisition (approximately $67 million), foreign currency translation (approximately $17 million), and purchase price adjustments (approximately $8 million) associated with the Paxar acquisition.

Other intangible assets resulting from business acquisitions decreased approximately $16 million during the first nine months of 2008, which reflected normal amortization expense (approximately $25 million), partially offset by incremental adjustments to intangible assets for the Paxar acquisition (approximately $8 million) and the impact of foreign currency translation (approximately $1 million).

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

Other assets increased approximately $14 million during the first nine months of 2008 due primarily to purchases of software and other deferred charges, net of related amortization (approximately $21 million) and the impact of foreign currency translation (approximately $1 million), partially offset by a change in long-term pension assets (approximately $3 million), a decrease in the cash surrender value of corporate-owned life insurance (approximately $3 million), and sales and/or disposals of software and other deferred charges (approximately $2 million).

Other Shareholders' Equity Accounts

The value of our employee stock benefit trusts decreased approximately $70 million during the first nine months of 2008 due to a decrease in the market value of shares held in the trust of approximately $63 million, and the issuance of shares under our employee stock option and incentive plans having a value of approximately $7 million.

Impact of Foreign Currency Translation for the First Nine Months:

(In millions)	2008	2007
Change in net sales	$ 248	$ 145
Change in net income	13	8

International operations generated approximately 67% of our net sales in the first nine months of 2008. Our future results are subject to changes in political and economic conditions and the impact of fluctuations in foreign currency exchange and interest rates.

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

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 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, changed in 2008 primarily due to the impact of the Paxar acquisition, a decrease in short-term debt, as well as an increase in other receivables and refundable and deferred income taxes, partially offset by an increase in accounts payable, accrued payroll and benefits, and income taxes 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 due to our financing and other activities (that affect cash and cash equivalents, deferred taxes and other current assets and other current liabilities) that tend to be disparate in amount and timing and therefore, may increase the volatility of the working capital ratio from period to period. Additionally, the items excluded from this measure are not necessarily indicative of the underlying trends of our operations and are not significantly influenced by the day-to-day activities that are managed at the operating level. Refer to "Uses and Limitations of Non-GAAP Measures." Our objective is to minimize our investment in operational working capital, as a percentage of sales, by reducing this ratio to maximize cash flow and return on investment.

Operational Working Capital for the First Nine Months:

(In millions)	2008	2007
(A) Working capital (current assets minus current liabilities)	$ 11.5	$ (790.1)
Reconciling items:		
Cash and cash equivalents	(81.3)	(77.3)
Current deferred and refundable income taxes and other current assets	(286.2)	(231.2)
Short-term and current portion of long-term debt	721.6	1,572.3
Current deferred and payable income taxes and other current liabilities	673.2	635.5
(B) Operational working capital	$ 1,038.8	$ 1,109.2
(C) Annualized net sales (year-to-date sales divided by 3, multiplied by 4)	$ 6,931.9	$ 6,125.1
Working capital, as a percent of annualized net sales (A) ¸ (C)	.2%	(12.9)%
Operational working capital, as a percent of annualized net sales (B) ¸ (C)	15.0%	18.1%

As a percent of annualized sales, operational working capital in the first nine months of 2008 decreased compared to the same period in the prior year. The primary factors contributing to this change, which includes the impact of the Paxar acquisition and currency translation, are discussed below.

Accounts Receivable Ratio

The average number of days sales outstanding was 61 days in the first nine months of 2008 compared to 63 days in the first nine months of 2007, calculated using the three-quarter average trade accounts receivable balance divided by the average daily sales for the first nine months. The current year average number of days sales outstanding was impacted by a decrease in sales, partially offset by changes in payment terms with our customers. The prior year average number of days sales outstanding was impacted primarily by the Paxar acquisition in June 2007.

Inventory Ratio

Average inventory turnover was 7.8 in the first nine months of 2008 compared to 7.3 in the first nine months of 2007, calculated using the annualized cost of sales (cost of sales for the first nine months divided by 3, and multiplied by 4) divided by the three-quarter average inventory balance for the first nine months. The change is primarily due to improved inventory management, partially offset by higher material costs. The prior year average inventory turnover was primarily impacted by the Paxar acquisition in June 2007.

Accounts Payable Ratio

The average number of days payable outstanding was 54 days in the first nine months of 2008 compared to 53 days in the first nine months of 2007, calculated using the three-quarter average accounts payable balance divided by the average daily cost of products sold for the first nine months. The current year average number of days payable outstanding was primarily due to improved payment terms, partially offset by a decrease in purchases. The prior year average number of days payable outstanding was impacted primarily by the Paxar acquisition in June 2007.

Debt and Shareholders' Equity Ratios

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Total debt to total capital	51.9%	54.9%
Return on average shareholders' equity	14.2	16.6
Return on average total capital	9.2	10.9

The decrease in the total debt to total capital ratio was primarily due to an increase in shareholders' equity, as well as a net decrease in debt related to the funding of the Paxar acquisition in June 2007.

Our various loan agreements in effect as of September 27, 2008 require that we maintain specified ratios of total debt and interest expense in relation to certain measures of income. Under the loan agreements, the ratio of total debt to earnings before interest, taxes, depreciation, amortization, and other adjustments for the most recent twelve-month fiscal period may not exceed 3.5 to 1.0. In addition, earnings before interest, taxes, and other adjustments, as a ratio to interest for the most recent twelve-month fiscal period may not be less than 3.5 to 1.0. As of September 27, 2008, we are in compliance with these debt covenants.

Decreases in the returns on average shareholders' equity and total capital in the first nine months of 2008 compared to the first nine months of 2007 were primarily due to higher equity, partially offset by lower total debt outstanding. These ratios are computed using annualized net income (year-to-date net income divided by 3, multiplied by 4) and a three-quarter average denominator for equity and total debt accounts.

Capital Resources

Capital resources include cash flows from operations, cash and cash equivalents and debt financing. At September 27, 2008, we had cash and cash equivalents of $81.3 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 necessary to fund our operations. During the recent turmoil in the financial markets, we did not experience interruptions in our access to funding.

We have $50 million of long-term debt maturities in the fourth quarter of 2008 and no long-term debt maturities in 2009. Our intention is to fund these debt maturities with cash flow from operations and/or commercial paper borrowings.

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

Capital from Debt

Our total debt increased approximately $11 million in the first nine months of 2008 to approximately $2.27 billion compared to approximately $2.26 billion at year end 2007, reflecting primarily an increase in short-term borrowings associated with the DM Label acquisition, partially offset by a reduction of short-term borrowings used for general operational requirements. Refer to "Borrowings and Repayment of Debt" in the "Cash Flow Used in Financing Activities" section 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 on our commercial paper and other borrowings. When determining a credit rating, the rating agencies place significant weight on our competitive position, business outlook, consistency of cash flows, debt level and liquidity, geographic dispersion and management team. We remain committed to retaining a solid investment grade rating.

Our Credit Ratings as of September 27, 2008:

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

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

Industry Investigations

We previously announced that we had been notified by the European Commission, the United States Department of Justice ("DOJ"), the Competition Law Department of the Department of Justice of Canada and the Australian Competition & Consumer Commission of their respective investigations into competitive practices in the label stock industry. We cooperated with all of these investigations, and all have been terminated without further action by the authorities.

We are a named defendant in purported class actions in the U.S. seeking treble damages and other relief for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation.

The Board of Directors created an ad hoc committee comprised of 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 16, "Commitments and Contingencies," to the unaudited Condensed Consolidated Financial Statements.

Environmental

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

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

As of September 27, 2008, our estimated accrued liability associated with compliance and remediation costs was approximately $60 million, including estimated liabilities related to our recent acquisitions.

Other amounts currently accrued are not significant to our consolidated financial position, and based upon current information, we believe that it is unlikely that the resolution of these matters will significantly impact our consolidated financial position, results of operations or cash flows.

Other

In 2005, we contacted relevant authorities in the U.S. and reported the results of an internal investigation of potential violations of the U.S. Foreign Corrupt Practices Act. The transactions at issue were carried out by a small number of employees of our reflective business in China, and involved, among other things, impermissible payments or attempted impermissible payments. The payments or attempted payments and the contracts associated with them appear to have been relatively minor in amount and of limited duration. Corrective and disciplinary actions have been taken. Sales of our reflective business in China in 2005 were approximately $7 million. Based on findings to date, no changes to our previously filed financial statements are warranted as a result of these matters. However, we believe that fines or other penalties could be incurred. While we are unable to predict the financial or operating impact of any such fines or penalties, we believe that our behavior in detecting, investigating, responding to and voluntarily disclosing these matters to authorities should be viewed favorably.

In addition, on or about October 10, 2008, we notified relevant authorities that we had discovered questionable payments to certain foreign customs and other regulatory officials by some employees of our recently acquired companies. These payments do not appear to have been made for the purpose of obtaining business from any governmental entity. We are in the process of conducting a review and are taking remedial measures to comply with the provisions of the U.S. Foreign Corrupt Practices Act.

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

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 September 27, 2008, we had guaranteed approximately $14 million.

As of September 27, 2008, we guaranteed up to approximately $22 million of certain of our foreign subsidiaries’ obligations to their suppliers, as well as approximately $573 million of certain of our subsidiaries’ lines of credit with various financial institutions.

In November 2007, we issued $400 million of 7.875% Corporate HiMEDS units, a mandatory convertible debt issue. An additional $40 million of HiMEDS units were issued in December 2007 as a result of the exercise of the overallotment allocation from the initial issuance. Each HiMEDS unit is comprised of two components — a purchase contract obligating the holder to purchase from us a certain number of shares of our common stock in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the quoted price per share of our common stock at that time) and a senior note due in 2020. The net proceeds from the offering were approximately $427 million, which were used to reduce commercial paper borrowings initially used to finance the Paxar acquisition.

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, effects of acquisitions and related costs, 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. We apply the anticipated full-year GAAP tax rate to the non-GAAP adjustments to determine adjusted non-GAAP net income.

Limitations associated with the use of our non-GAAP measures include: (1) for the calculation of organic sales growth, the exclusion of foreign currency translation and the impact of acquisitions and divestitures from reported sales growth; (2) for the calculation of free cash flow, the exclusion of any mandatory debt service requirements and 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 repurchase, acquisitions, etc.); (3) for the calculation of operational working capital, the exclusion of cash and cash equivalents, short-term debt, deferred taxes, and other current assets and other current liabilities from working capital. While some of the items the Company excludes from GAAP measures recur, these items tend to be disparate in amount and timing. Based upon feedback from investors and financial analysts, we believe that supplemental non-GAAP measures provide information that is useful to the assessment of the Company’s performance and operating trends.

RECENT ACCOUNTING REQUIREMENTS

During the first nine months of 2008, certain other accounting and financial disclosure requirements by the Financial Accounting Standards Board and the SEC were issued. Refer to Note 18, “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” intended to qualify for the safe harbor from liability established by 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,” “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 II, Item 1A, "Risk Factors," to this Form 10-Q for the quarter ended September 27, 2008 and Part I, Item 1A, "Risk Factors," to the Company's Annual Report on Form 10-K for the year ended December 29, 2007, 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, including synergies expected from the integration of the Paxar business in the time and at the cost anticipated; 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 previous government investigations into industry competitive practices, and any related proceedings or lawsuits pertaining thereto or to the subject matter thereof related to the concluded investigations by the U.S. Department of Justice ("DOJ"), the European Commission, the Australian Competition & Consumer Commission and the Canadian Department of Justice (including purported class actions seeking treble damages for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation), as well as the impact of potential violations of the U.S. Foreign Corrupt Practices Act; changes in governmental regulations; changes in political conditions; fluctuations in foreign currency exchange rates and other risks associated with foreign operations; worldwide and local economic conditions; impact of epidemiological events on the economy and the Company's customers and suppliers; acts of war, terrorism, natural disasters; and other factors.

The Company believes that the most significant risk factors that could affect its ability to achieve its stated financial expectations in the near-term include (1) the impact of economic conditions on underlying demand for the Company's products; (2) the degree to which higher raw material and energy-related costs can be passed on to customers through selling price increases, without a significant loss of volume; (3) the impact of competitors' actions, including pricing, expansion in key markets, and product offerings; (4) potential adverse developments in legal proceedings and/or investigations regarding competitive activities, including possible fines, penalties, judgments or settlements; and (5) the ability of the Company to achieve and sustain targeted cost reductions, including expected synergies associated with the Paxar acquisition.

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 29, 2007.

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

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 nineteen waste disposal or waste recycling sites, including Paxar sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed. The Company is participating with other PRPs at such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

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

As of September 27, 2008, the Company's estimated accrued liability associated with compliance and remediation costs was approximately $60 million, including estimated liabilities related to the Company's recent acquisitions.

Other amounts currently accrued are not significant to the consolidated financial position of the Company and, based upon current information, management believes it is unlikely that the resolution of these matters will significantly impact the Company's consolidated financial position, results of operations or cash flows.

On August 26, 2008, the Company was notified that the Australian Competition & Consumer Commission had closed its investigation (initiated in August 2005) into the Company's activities in the label stock industry without further action.

In April 2003, the U.S. Department of Justice ("DOJ") filed a complaint challenging the then proposed merger of UPM-Kymmene ("UPM") and the Morgan Adhesives ("MACtac") division of Bemis Co., Inc. ("Bemis"). The complaint alleged, among other things, that "UPM and [Avery Dennison] have already attempted to limit competition between themselves, as reflected in written and oral communications to each other through high level executives regarding explicit anticompetitive understandings, although the extent to which these efforts have succeeded is not entirely clear to the United States at the present time." The DOJ concurrently announced a criminal investigation into competitive practices in the label stock industry. Other investigations into competitive practices in the label stock industry were subsequently initiated by the European Commission, the Competition Law Division of the Department of Justice of Canada, and the Australian Competition & Consumer Commission. The Company cooperated with all of these investigations, and all have subsequently been terminated without further action by the authorities.

On April 24, 2003, Sentry Business Products, Inc. filed a purported class action on behalf of direct purchasers of label stock in the United States District Court for the Northern District of Illinois against the Company, UPM, Bemis and certain of their subsidiaries seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ merger complaint. Ten similar complaints were filed in various federal district courts. In November 2003, the cases were transferred to the United States District Court for the Middle District of Pennsylvania and consolidated for pretrial purposes. Plaintiffs filed a consolidated complaint on February 16, 2004, which the Company answered on March 31, 2004. On April 14, 2004, the court separated the proceedings as to class certification and merits discovery, and limited the initial phase of discovery to the issue of the appropriateness of class certification. On January 4, 2006, plaintiffs filed an amended complaint. On January 20, 2006, the Company filed an answer to the amended complaint. On August 14, 2006, the plaintiffs moved to certify a proposed class. The Company and other defendants opposed this motion. On March 1, 2007, the court heard oral argument on the issue of the appropriateness of class certification. On August 28, 2007, plaintiffs moved to lift the discovery stay, which the Company opposed. The court substantively granted class certification on November 19, 2007. The Company filed a petition to appeal this decision on December 4, 2007, which was denied on March 6, 2008. On July 22, 2008, the district court held a hearing to set a schedule for merits discovery. The court subsequently entered an order that requires the parties to complete fact discovery by June 22, 2009. Dispositive motions are due on March 19, 2010. The Company intends to defend these matters vigorously.

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ merger complaint. 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.

On August 18, 2005, the Australian Competition & Consumer Commission notified two of the Company's subsidiaries in Australia that it was seeking information in connection with a label stock investigation. The Company cooperated with the now closed investigation.

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. These and other matters are reported in Note 16, "Commitments and Contingencies," to the unaudited Condensed Consolidated Financial Statements.

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

In addition, on or about October 10, 2008, the Company notified relevant authorities that it had discovered questionable payments to certain foreign customs and other regulatory officials by some employees of its recently acquired companies. These payments do not appear to have been made for the purpose of obtaining business from any governmental entity. The Company is in the process of conducting a review and is taking remedial measures to comply with the provisions of the U.S. Foreign Corrupt Practices Act.

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

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 29, 2007. Set forth below is an update to such risk factors.

Adverse conditions in the global economy and disruption of financial markets could negatively impact our customers, suppliers, and our business.

Financial markets in the United States, Europe and Asia have experienced extreme disruption in recent months, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades, declines in asset valuations, inflation, reduced consumer spending, and fluctuations in foreign currency exchange rates. While currently these conditions have not impaired our ability to access credit markets and finance our operations, there can be no assurance that there will not be a further deterioration in financial markets in major economies. These economic developments affect our customers and our suppliers and businesses such as ours. In addition, they could have a variety of negative effects such as reduction in revenues, increased costs, lower gross margin percentages, increased allowances for doubtful accounts and/or write-offs of accounts receivable, require recognition of impairments of capitalized assets, including goodwill and other intangibles, and could otherwise have material adverse effects on our business, results of operations, financial condition and cash flows.

We are not able to predict the duration and severity of the current disruption in financial markets and adverse economic conditions in the U.S. and other countries.

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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. Repurchases of equity securities during the third quarter ended September 27, 2008 are listed in the following table.

(Shares in thousands, except per share amounts)	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans	Maximum number of shares that may yet be purchased under the plans
August 24, 2008 - September 27, 2008	202.7	$ 48.43	202.7	3,952

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 August 7, 2008.

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

Exhibit 3.1	Restated Certification of Incorporation, filed August 2, 2002 with the Office of Delaware Secretary of State, is incorporated by reference to the third quarterly report for 2002 on Form 10-Q, filed November 12, 2002
Exhibit 3.2	By-laws, as amended, is incorporated by reference to the current reports on Form 8-K, filed July 30, 2007 and December 13, 2006
Exhibit 10.1	Avery Dennison Office Products Company — Credit Agreement, amended and restated, is incorporated by reference to the second quarterly report for 2008 on Form 10-Q, filed August 7, 2008
Exhibit 10.2	Revolving Credit Agreement, amended and restated, is incorporated by reference to the third quarterly report for 2007 on Form 10-Q, filed November 7, 2007
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

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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)

November 6, 2008

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

(Dollars in millions)	Three Months Ended September 27, 2008	Three Months Ended September 29, 2007	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Earnings:				
Income before taxes	$ 67.3	$ 66.5	$ 242.4	$ 277.3
Add: Fixed charges (1)	39.9	43.9	120.4	95.7
Amortization of capitalized interest	.8	.7	2.4	2.2
Less: Capitalized interest	(1.7)	(1.4)	(5.0)	(4.4)
	$ 106.3	$ 109.7	$ 360.2	$ 370.8
Fixed charges: (1)				
Interest expense	$ 29.0	$ 35.7	$ 87.8	$ 70.9
Capitalized interest	1.7	1.4	5.0	4.4
Interest portion of leases	9.2	6.8	27.6	20.4
	$ 39.9	$ 43.9	$ 120.4	$ 95.7
Ratio of Earnings to Fixed Charges	2.7	2.5	3.0	3.9

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from last-in, first-out (LIFO) to first-in, first-out (FIFO) for certain businesses operating in the U.S.

(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.

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

CERTIFICATION

I, Dean A. Scarborough, certify that:

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

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

November 6, 2008

Exhibit 31.2

Avery Dennison Corporation

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

CERTIFICATION

I, Daniel R. O'Bryant, certify that:

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

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

November 6, 2008

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 September 27, 2008 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 6, 2008

/s/ Dean A. Scarborough

Dean A. Scarborough
President and Chief Executive Officer

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

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 September 27, 2008 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 6, 2008

/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.