

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 29, 2007

Commission file number 1-7685

AVERY DENNISON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

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

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

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

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

Not applicable.

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of voting stock held by non-affiliates as of June 29, 2007, was approximately \$6,506,934,094.

Number of shares of common stock, \$1 par value, outstanding as of January 25, 2008: 106,480,795.

The following documents are incorporated by reference into the Parts of this report below indicated:

<u>Document</u>	<u>Incorporated by reference into:</u>
Portions of Annual Report to Shareholders for fiscal year ended December 29, 2007 (the "2007 Annual Report")	Parts I, II
Portions of Definitive Proxy Statement for Annual Meeting of Stockholders to be held April 24, 2008 (the "2008 Proxy Statement")	Parts III, IV

AVERY DENNISON CORPORATION
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PART I

Item 1. BUSINESS

Avery Dennison Corporation (“Avery Dennison,” the “Company,” “Registrant,” “Issuer,” which may be referred to as “we” or “us”) was incorporated in 1977 in the state of Delaware as Avery International Corporation, the successor corporation to a California corporation of the same name, which was incorporated in 1946. In 1990, the Company merged one of its subsidiaries into Dennison Manufacturing Company (“Dennison”), as a result of which Dennison became a wholly-owned subsidiary of the Company, and in connection with which Company’s name was changed to Avery Dennison Corporation. *Our homepage on the internet is www.averydennison.com and you can learn more about us by visiting our Web site. Our Web site address provided in this annual report on Form 10-K is not intended to function as a hyperlink and the information on our Web site is not and should not be considered part of this report and is not incorporated by reference in this document.*

Our businesses include the production of pressure-sensitive materials, office products and a variety of tickets, tags, labels and other converted products. Some pressure-sensitive materials are “converted” into labels and other products through embossing, printing, stamping and die-cutting, and some are sold in unconverted form as base materials, tapes and reflective sheeting. We also manufacture and sell a variety of office products and other converted products and other items not involving pressure-sensitive components, such as binders, organizing systems, markers, fasteners, business forms, as well as tickets, tags, and imprinting equipment for retail and apparel manufacturers.

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

Self-adhesive materials may initially cost more than materials using heat or moisture activated adhesives, but the use of self-adhesive materials often provides cost savings because of their easy and instant application, without the need for adhesive activation. They also provide consistent and versatile adhesion, with minimal adhesive deterioration and are available in a large selection of materials in nearly any size, shape and color.

Our reporting segments are:

- Pressure-sensitive Materials
- Office and Consumer Products
- Retail Information Services

In addition to our reporting segments, we have other specialty converting businesses comprised of several businesses that produce specialty tapes and highly engineered labels including radio frequency identification (“RFID”) inlays and labels, and other converted products.

Although our segment structure remained the same as reported in the prior year, in 2006, we transferred our business media division from the Retail Information Services segment into other specialty converting businesses to align with a change in our internal reporting structure. Prior year amounts included herein have been reclassified to conform to the current year presentation.

On June 15, 2007, we completed the acquisition of Paxar Corporation (“Paxar”), a global leader in retail tag, ticketing, and branding systems. The Paxar operations were included in the Company’s Retail Information Services segment. In accordance with the terms of the acquisition agreement, each outstanding share of Paxar common stock was converted into the right to receive \$30.50 in cash. See Retail Information Services Segment below for further information.

In 2007, the Pressure-sensitive Materials segment contributed approximately 55% of our total sales, while the Retail Information Services and Office and Consumer Products segments contribute approximately 19% and 16%, respectively, of our total sales.

In 2007, international operations constituted a significant portion of our business and represented approximately 60% of our sales. We expanded our operations, focusing particularly on Asia, Latin America and Eastern Europe. As of December 29, 2007, we operated approximately 200 manufacturing and distribution facilities located in 60 countries, and employed approximately 37,000 persons worldwide.

We are subject to certain risks referred to in Item 1A, "Risk Factors" and Item 3, "Legal Proceedings" below, including those normally attending international and domestic operations, such as changes in economic or political conditions, currency fluctuations, exchange control regulations and the effect of international relations and domestic affairs of foreign countries on the conduct of business, legal proceedings, and the availability and pricing of raw materials.

Except as set forth below, no single customer represented 10% or more of our net sales or trade receivables at year end 2007 and 2006. However, our ten largest customers at year end 2007 represented approximately 17% of trade accounts receivable and consisted of six customers of our Office and Consumer Products segment, three customers of our Pressure-sensitive Materials segment and one customer of both these segments. The financial position and operations of these customers are monitored on an ongoing basis (see "Critical Accounting Policies and Estimates" of Item 7, "Management's Discussion and Analysis of Results of Operations and Financial Condition"). United States export sales are not a significant part of our business. Backlogs are not considered material in the industries in which we compete.

Corporate Governance and Information Related to SEC Filings

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed with, or furnished to, the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge by way of a third-party hyperlink service through our Web site, www.averydennison.com (in the "Investors" section), as soon as reasonably practical after electronic filing with or furnishing of such material to the SEC. We make available at the Web site our (i) Corporate Governance Guidelines, (ii) Code of Ethics and Business Conduct, which applies to our directors and employees, (iii) Code of Ethics for the Chief Executive Officer and Senior Financial Officers, (iv) the charters of the Audit, Compensation and Executive Personnel, and Nominating and Governance Committees of our Board of Directors, and (v) Audit Committee Complaint Handling Procedures. These materials are also available free of charge in print to stockholders who request them by writing to: Secretary, Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, California 91103.

On December 1, 2005, Kent Kresa was elected non-executive Chairman. Mr. Kresa presides at executive sessions of the Board. During 2007, the Board held five executive sessions with non-management directors only during regularly scheduled Board meetings, as well as one additional executive session with independent directors only. Stockholders and other interested parties may write to Mr. Kresa concerning matters other than accounting and auditing matters c/o Secretary, Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, California 91103. Stockholders may also write to John T. Cardis, Chairman of the Audit Committee, regarding accounting and auditing matters c/o Secretary at the same address.

Pressure-sensitive Materials Segment

The Pressure-sensitive Materials segment manufactures and sells Fasson-, JAC-, and Avery Dennison-brand pressure-sensitive materials, Avery-brand graphics and graphic films, Avery Dennison-brand reflective products, and performance polymers. The business of this segment is generally not seasonal, except for certain outdoor graphics and highway safety products and operations in Western Europe. Pressure-sensitive materials consist primarily of papers, plastic films, metal foils and fabrics, which are coated with Company-developed and purchased adhesives, and then laminated with specially coated backing papers and films. They are sold in roll or sheet form with either solid or patterned adhesive coatings, and are available in a wide range of face materials, sizes,

thicknesses and adhesive properties. These materials are sold to label printers and converters for labeling, decorating, fastening, electronic data processing and special applications on a worldwide basis.

Graphic products consist of a variety of films and other products sold to the architectural, commercial sign, digital printing, and other related markets. We also sell durable cast and reflective films to the construction, automotive, and fleet transportation markets, scrim-reinforced vinyl material for banner sign applications, and reflective films for traffic and safety applications. Our graphic and reflective businesses are organized on a worldwide basis to serve the expanding commercial graphic arts market, including wide-format digital printing applications. We also manufacture and sell proprietary films that are used for outdoor, weather-resistant applications.

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

In this segment, our larger competitors are Raflatac, a subsidiary of UPM-Kymmene; Morgan Adhesives (“MACTac”), a division of the Bemis Company; and 3M Company (for graphic and reflective products). Entry of competitors into the field of pressure-sensitive adhesives and materials may be limited by capital requirements and a need for technical knowledge. We believe that our relative size and scale of operations, our ability to serve our customers with a broad line of quality products and service programs, our distribution and brand strength, and the development and commercialization of new products are among the more significant factors in developing and maintaining our competitive position.

Retail Information Services Segment

The Retail Information Services segment designs, manufactures and sells a wide variety of price marking and brand identification products for retailers, apparel manufacturers, distributors and industrial customers on a worldwide basis. This business is seasonal, with higher volume in advance of the back-to-school and holiday shipping periods.

Our brand identification products include woven and printed labels, graphic tags and barcode tags. Our information management products include price tickets, carton labels, RFID tags and printing applications for supply chain and security management. Our solution enabling products include barcode printers, molded plastic fastening and application devices and security management products.

As discussed above, we completed the acquisition of Paxar in June 2007. The combination of the Paxar business into this segment increases our presence in the expanding and fragmented 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.

In this segment, some of our competitors are SML Group, Checkpoint and Shore To Shore. We believe that our ability to serve our customers with product innovation, a comprehensive brand identification and information management product line, our global distribution network, service, quality, and geographic reach are the key advantages in developing and maintaining our competitive position.

Office and Consumer Products Segment

The Office and Consumer Products segment manufactures and sells a wide range of Avery-brand printable media and other products. The business of this segment is seasonal, with higher volume related to the back-to-school season.

This segment’s products are generally sold through office products superstores, mass market distributors, wholesalers and dealers. We manufacture and sell a wide range of Avery-brand products for office, school and home uses: printable media, such as copier, ink-jet and laser printer labels, related computer software, ink-jet and laser printer card and index products; and organization, filing and presentation products, such as binders, dividers and sheet protectors. We also offer a wide range of other stationery products, including writing instruments, markers,

adhesives and specialty products under brand names such as Avery, Marks-A-Lot and HI-LITER. The extent of product offerings varies by geographic market.

In this segment, our larger competitors are Acco Brands Corporation, Esselte Corporation and manufacturers of private brands. We believe that our brand strength, a large installed base of software that facilitates the use of many of our products, our ability to serve our customers with a broad line of quality products, and the development and commercialization of new products are among the more significant factors in developing and maintaining our competitive position.

Other specialty converting businesses

Other specialty converting businesses include our specialty tape, industrial, performance films and automotive products, business media, RFID and security printing businesses. These businesses manufacture and sell specialty tapes, highly engineered films, RFID inlays, pressure-sensitive postage stamps and other converted products. These businesses are generally not seasonal, except for certain automotive products due to typical summer plant shutdowns by automotive manufacturers.

The specialty tape business manufactures and sells single- and double-coated tapes and adhesive transfer tapes for use in non-mechanical fastening, bonding and sealing systems in various industries, which are sold to industrial and medical original equipment manufacturers, converters, and disposable diaper producers worldwide. These products are sold in roll form and are available in a wide range of face materials, sizes, thicknesses and adhesive properties.

Our industrial and automotive products businesses primarily consist of custom pressure-sensitive and heat-seal labels for the automotive and durable goods industries. These products are sold primarily to original equipment manufacturers.

Our performance films business produces a variety of decorative and functional films, primarily for the automotive industry, that are designed for injection mold applications.

Our business media business designs and markets customized products for printing and information workflow applications.

Our RFID business manufactures RFID inlays and labels and makes use of our existing distribution by marketing to our label converting customers.

Our security printing business manufactures and sells self-adhesive battery labels to a battery manufacturer, and self-adhesive stamps to the U.S. Postal Service.

In addition, we sell specialty print-receptive films to the industrial label market, metallic dispersion products to the packaging industry, and proprietary wood grain and other patterns of film laminates for housing exteriors and interior and exterior automotive applications.

We compete with a number of diverse businesses. Our largest competitor for this group of businesses is 3M Company in the specialty tape business. Entry of competitors into these specialty converting businesses may be limited by capital and technical requirements. We believe that our ability to serve our customers with quality, cost effective products and the development and commercialization of new products are among the more significant factors in developing and maintaining our competitive position.

Research and Development

Many of our current products are the result of our research and development efforts. Our expenses for research, design and testing of new products and applications by our operating units and the Avery Research Center (the "Research Center") located in Pasadena, California were \$95.5 million in 2007, \$87.9 million in 2006, and \$85.4 million in 2005. A significant number of our research and development activities are conducted at the Research Center, which supports each of our operating segments.

Our operating units' research efforts are directed primarily toward developing new products and operating techniques and improving product performance, often in close association with customers. The Research Center

supports our operating units' patent and product development work, and focuses on improving adhesives, materials and coating processes, as well as related product applications and ventures. These efforts often focus on projects relating to printing and coating technologies and adhesive, release and ink chemistries.

The loss of individual patents or licenses would not be material to us taken as a whole, nor to our operating segments individually. Our principal trademarks are Avery, Fasson, Avery Dennison and the Company's symbol. These trademarks are significant in the markets in which our products compete.

Three-Year Summary of Segment Information

Certain financial information on our reporting segments and other specialty converting businesses for the three years ended December 29, 2007, which appear in Note 12, "Segment Information," in the Notes to Consolidated Financial Statements beginning on page 72 of our 2007 Annual Report to Shareholders, are incorporated herein by reference.

Other Matters

We use various raw materials, primarily paper, plastic films and resins, and specialty chemicals, which we purchase from a variety of commercial and industrial sources and which are subject to price fluctuations. Although from time to time shortages could occur, these raw materials currently are generally available.

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

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

We have developed adhesives and adhesive processing systems that minimize the use of solvents. Emulsion adhesives, hot-melt adhesives or solventless silicone systems have been installed in our facilities in Peachtree City, Georgia; Fort Wayne and Greenfield, Indiana; and Quakertown, Pennsylvania; as well as in other plants in the United States, Argentina, Australia, Belgium, Brazil, Canada, China, Colombia, France, Germany, India, Korea, Luxembourg, Malaysia, Mexico, the Netherlands, South Africa, Thailand and United Kingdom.

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

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

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, the following:

The demand for our products is impacted by economic conditions of the principal countries in which we operate. A decline in the economies in these countries could have an adverse effect on our sales and profitability.

We have operations in 60 countries and our domestic and international operations are strongly influenced by matters beyond our control, including changes in the political, social, economic, tax and regulatory environments (including tariffs) in the countries in which we operate, as well as the impact of economic conditions on underlying demand for our products. In addition, approximately 60% of our sales are from international operations.

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Fluctuations in currencies can cause transaction, translation and other losses to us, which can negatively impact our sales and profitability.

We operate in some highly competitive markets. If we do not compete effectively, we could lose market share and experience falling prices, adversely affecting our financial results.

We are at risk that our competitors will expand in our key markets and implement new technologies making them more competitive. There is also the possibility that competitors will be able to offer additional products, services, lower prices, or other incentives that we cannot or will not offer or that will make our products less profitable. There can be no assurance that we will be able to compete successfully against current and future competitors.

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

We have acquired companies and our interest in various acquisition opportunities has increased. Acquisitions come with significant risks and uncertainties, including those related to integration, technology and personnel.

In order to grow our product lines and expand into new markets, we have made acquisitions and may do so in the future, for example, we acquired Paxar Corporation in 2007. Various risks, uncertainties, and costs are associated with the acquisitions. Effective integration of systems, controls, objectives, personnel, product lines, markets, customers, suppliers, production facilities and cost savings can be difficult to achieve and the results are uncertain, particularly across our geographically dispersed organization. We may not be able to retain key personnel of an acquired company and we may not be able to successfully execute integration strategies or achieve projected performance targets set for the business segment into which an acquired company is integrated. Both prior to and after the closing of the transactions, our business and those of the acquired companies may suffer due to uncertainty or diversion of management attention.

There can be no assurance that acquisitions will be successful and contribute to our profitability and we may not be able to identify new acquisition opportunities in the future.

Our increased level of indebtedness following the Paxar acquisition could limit our ability to incur additional debt to fund business needs over the medium term.

As a result of the Paxar acquisition, our debt levels approximately doubled. Although significant debt reduction is anticipated over the medium term from both the cash flow generation of our underlying businesses and the synergies expected from the acquisition, circumstances both within and beyond our control could cause debt levels to remain elevated for a longer time frame than anticipated. These higher debt levels could negatively impact our ability to meet other business needs or opportunities and could result in higher financing costs.

Potential adverse developments in legal proceedings and an investigation regarding competitive activities and other legal, compliance and regulatory matters, including those involving product and trade compliance, Foreign Corrupt Practices Act issues and other matters, could impact us materially.

Our financial results could be materially adversely impacted by an unfavorable outcome to pending or future litigation and investigations, including an Australian Competition and Consumer Commission investigation into industry competitive practices, lawsuits pertaining to this investigation or to the subject matter of now concluded investigations by the U.S. Department of Justice, the European Commission, and the Competition Law Division of the Department of Justice of Canada (including purported class actions in the United States seeking treble damages for alleged unlawful competitive practices, and a purported class action related to alleged disclosure and fiduciary duty violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the U.S. Department of Justice investigation), the impact of potential violations of the U.S. Foreign Corrupt Practices Act based on issues in China, and other legal, compliance and regulatory matters, including product and trade compliance. See Item 1, "Legal Proceedings." There can be no assurance that any investigation or litigation outcome will be favorable.

Our future results may be affected if we generate less productivity improvement than projected.

We are undertaking efforts to reduce costs in many of our operations, including closure of facilities, headcount reductions, organizational simplification and restructuring, process standardization, and manufacturing relocation, and using a variety of tools such as Lean Sigma and Kaizen events, to increase productivity, which is not assured. Lower levels of productivity could reduce profitability. In addition, cost reduction actions could expose us to additional production risk and loss of sales.

As a manufacturer, our sales and profitability are also dependent upon the cost and availability of raw materials and energy, which are subject to price fluctuations, and the ability to control or pass on costs of raw materials and labor.

Inflationary and other increases in the costs of raw materials, labor and energy have occurred in the past and are expected to recur, and our performance depends in part on our ability to pass on these cost increases to customers in our selling prices for products, and to effect improvements in productivity. Also, it is important that we are able to obtain timely delivery of materials, equipment, and packaging from suppliers, and to make timely delivery to customers. A disruption to our supply chain could adversely affect our sales and profitability.

Slower growth in key markets could adversely affect our profitability.

Our business could be negatively impacted by a decline in key end use markets or applications for our products. Our overall performance will be influenced by these markets.

Our customers are widely diversified, but in certain portions of our business, industry concentration has increased the importance and decreased the number of significant customers.

In particular, sales of our office and consumer products in the United States are concentrated in a few major customers, principally office product superstores, mass market distributors and wholesalers. The business risk associated with this concentration, including increased credit risks for these and other customers, and the possibility of related bad debt write-offs, could negatively affect our margins and profits.

Our ability to develop and successfully market new products and applications is important in maintaining growth.

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

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

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

We also could have our intellectual property infringed. We attempt to protect and restrict access to our intellectual property and proprietary information, by relying on the patent, trademark, copyright and trade secret laws of the U.S. and other countries, as well as on nondisclosure agreements, but it may be possible for a third party to obtain our information without our authorization, to independently develop similar technologies, or to breach non-disclosure agreement entered into with us. In addition, many of the countries in which we operate do not have intellectual property laws that protect proprietary rights as fully as in the U.S. The use of our intellectual property by someone else without our authorization could reduce or eliminate certain competitive advantage we have, cause us

to lose sales, or otherwise harm our business. Further, the costs involved to protect our intellectual property rights could adversely impact our profitability.

We have obtained and applied for some U.S. and foreign trademark registrations and patents, and will continue to evaluate whether to register additional trademarks and seek patents as appropriate. We cannot guarantee that any of the pending applications will be approved by the applicable government authorities. Further, we cannot assure that the validity of our patents or our trademarks will not be challenged. In addition, third parties might be able to develop competing products using technology that avoids our patents.

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

Our estimate of the potential outcome of uncertain tax issues is subject to our assessment of relevant risks, facts, and circumstances existing at that time. We use these assessments to determine the adequacy of our provision for income taxes and other tax-related accounts. Our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate and/or our financial results. We are in the process of reviewing Paxar's compliance with such requirements.

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

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

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

Assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension plan and other postretirement benefit plans are evaluated by us in consultation with outside actuaries. In the event that we determine that changes are warranted in the assumptions used, such as the discount rate, expected long term rate of return, or health care costs, our future pension and projected postretirement benefit expenses could increase or decrease. Due to changing market conditions or changes in the participant population, the actuarial assumptions that we use may differ from actual results, which could have a significant impact on our pension and postretirement liability and related costs. Funding obligations are determined based on the value of assets and liabilities on a specific date as required under relevant government regulations for each plan. Future pension funding requirements, and the timing of funding payments, could be affected by legislation enacted by the relevant governmental authorities.

In order for us to remain competitive, it is important to recruit and retain highly-skilled employees. We also utilize various outsourcing arrangements for certain services.

There is significant competition to recruit and retain skilled employees. Due to rapid expansion in certain markets and the ongoing productivity efforts and recent employee reductions, it may be difficult for us to retain and recruit sufficient numbers of highly-skilled employees. We have outsourced certain services to multiple third-party service providers, and may outsource other services in the future to achieve cost savings and efficiencies. Service provider delays, resource availability, business issues or errors may lead to disruption in our businesses and/or increased costs. If we do not effectively develop, implement and manage outsourcing strategies, third-party providers do not perform effectively and timely, or we experience problems with a transition, we may experience disruption in our businesses, we may not be able to achieve the expected cost savings, and we may have to incur additional costs to correct errors made by such service providers.

We need to comply with many environmental, health, and safety laws.

Due to the nature of our business, we are subject to environmental, health, and safety laws and regulations, including those related to the disposal of hazardous waste from our manufacturing processes. Compliance with existing and future environmental, health and safety laws could subject us to future costs or liabilities; impact our production capabilities; constrict our ability to sell, expand or acquire facilities; and generally impact our financial performance. We have accrued liabilities for environmental clean-up sites, including sites for which governmental agencies have designated us as a potentially responsible party, where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. We are in the process of reviewing the environmental matters related to Paxar. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate currently identified sites and other sites, which could be identified in the future for cleanup, could be higher than the liability currently accrued.

In order to mitigate risk, it is important that we obtain various types of insurance.

We have various types of insurance including property, workers compensation and general liability. Insurance costs can be unpredictable and may adversely impact our financial results.

Significant disruption to our information technology infrastructure could adversely impact our operations, sales, customer relations, and financial results.

We rely on the efficient and uninterrupted operation of a large and complex information technology infrastructure to link our worldwide divisions. Like other information technology systems, ours is susceptible to damage or interruptions caused by obsolescence, natural disasters, power failures, viruses and security breaches. We upgrade and install new systems, which if installed or programmed incorrectly or if installation is delayed, could cause significant disruptions. We have implemented certain measures to reduce our risk related to system and network disruptions, but if a disruption occurs, we could incur losses and costs for remediation and interruption of operations. Additionally, we rely on services provided by third-party vendors for a significant portion of our information technology support, development and implementation.

Our share price may be volatile.

Our stock price is influenced by changes in the overall stock market and demand for equity securities in general. Other factors, including market expectations for our performance, the level of perceived growth of our industries, and announcements concerning industry investigations, have also impacted our share price. There can be no assurance that our stock price will be less volatile in the future.

If our credit ratings are downgraded, we may have difficulty obtaining acceptable short- and long-term financing from capital markets.

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. If our credit ratings were further downgraded, our financial flexibility could decrease and the cost to borrow would increase.

Our reputation, sales, and earnings could be affected adversely if the quality of our products and services does not meet customer expectations.

There are occasions when we manufacture products with quality issues resulting from defective materials, manufacturing, packaging or design. Many of these issues are discovered before shipping but this causes delays in shipping, delays in the manufacturing process, and occasionally cancelled orders. When the issues are discovered after shipment, this causes additional shipping costs, possible discounts, possible refunds, and potential loss of future sales. Both pre-shipping and post-shipping quality issues can result in financial consequences along with a negative impact on our reputation.

Some of our products are sold by third parties.

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

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

We manufacture most of our products, but we also use third-party manufacturers, for example, for specialty jobs or capacity overflow. Outsourced manufacturers reduce our ability to prevent product quality issues, late deliveries, customer dissatisfaction and compliance with customer requirements for labor standards. Because of possible quality issues and customer dissatisfaction, outsourced manufacturers could have an adverse effect on our business and financial results.

The risks described above are not exclusive. Additional risks not presently known to us or that we currently consider to be less significant may also have an adverse effect on us. If any of the above risks actually occur, our business, results of operations, cash flows or financial condition could suffer, which might cause the value of our securities to decline.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

As of December 29, 2007, we operated over forty principal manufacturing facilities in excess of 100,000 square feet. The following sets forth the locations of such principal facilities and the operating segments for which they are presently used:

Pressure-sensitive Materials Segment

Domestic	Peachtree City, Georgia; Fort Wayne, Greenfield and Lowell, Indiana; Fairport Harbor, Hamilton, Mentor and Painesville, Ohio; Quakertown, Pennsylvania; and Neenah, Wisconsin
Foreign	Adelaide and Melbourne, Australia; Vinhedo, Brazil; Kunshan and Guangzhou, China; Champ-sur-Drac, France; Gotha and Schwelm, Germany; Chungju, Korea; Rodange, Luxembourg; Queretaro, Mexico; Rayong, Thailand; Hazerswoude, the Netherlands; and Cramlington, United Kingdom

Retail Information Services Segment

Domestic	Greensboro and Lenoir, North Carolina; Miamisburg, Ohio
Foreign	Hong Kong, Nansha, Shenzhen, Suzhou and Panyu, China

Office and Consumer Products Segment

Domestic	Chicopee, Massachusetts; and Meridian, Mississippi
Foreign	Oberlindern, Germany; and Juarez and Tijuana, Mexico

Other specialty converting businesses

Domestic	Schererville, Indiana; Painesville, Ohio; and Clinton, South Carolina
Foreign	Turnhout, Belgium

In addition to our principal manufacturing facilities described above, our other principal facilities include our corporate headquarters facility and research center in Pasadena, California, and offices located in Brea and Westlake Village, California; Framingham, Massachusetts; Mentor, Ohio; Hong Kong and Kunshan, China; Leiden, the Netherlands; and Zug, Switzerland.

All of our principal properties identified above are owned except certain facilities in Brea and Westlake Village, California; Hong Kong, Shenzhen, and Panyu, China; Oberlaindern, Germany; Juarez, Mexico; Greensboro, North Carolina; Hamilton and Mentor, Ohio; and Zug, Switzerland, which are leased.

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

Item 3. LEGAL PROCEEDINGS

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 eighteen 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 December 29, 2007, the Company’s estimated liability associated with compliance and remediation costs was approximately \$38 million, including preliminary liabilities related to the acquisition of Paxar. See also Note 2, “Acquisitions,” in the Notes to Consolidated Financial Statements beginning on page 50 of the Company’s 2007 Annual Report to Shareholders, which is incorporated herein by reference.

During 2006, the Company recognized \$15 million for estimated environmental remediation costs for a former operating facility. Of the amount accrued, which represented the lower end of the current estimated range of \$15 million to \$17 million for costs expected to be incurred, approximately \$9 million remained accrued as of December 29, 2007. Management considered additional information provided by outside consultants in revising its previous estimates of expected costs. This estimate could change depending on various factors, such as modification of currently planned remedial actions, changes in the site conditions, a change in the estimated time to complete remediation, changes in laws and regulations affecting remediation requirements and other factors.

Other 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 final resolution of these matters will significantly impact the Company’s consolidated financial position, results of operations or cash flows.

In April 2003, the U.S. Department of Justice (“DOJ”) filed a complaint challenging the then proposed merger 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 and Consumer Commission. The Company cooperated with all of these investigations, and all, except the Australian investigation which is continuing, 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. On November 19, 2007, the court certified a class consisting of all direct purchasers of paper-based label stock from the defendants during the period from January 1, 1996 to July 25, 2003. The Company filed a petition to appeal this decision on December 4, 2007. The Company's petition is still pending. 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 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. These cases remain stayed pending the outcome of class certification proceedings in the federal actions. The Company intends to defend these matters vigorously.

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

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

In 2005, the Company contacted relevant authorities in the U.S. and reported on the results of an internal investigation of potential violations of the U.S. Foreign Corrupt Practices Act. The transactions at issue were carried out by a small number of employees of the Company's reflective business in China, and involved, among other things, impermissible payments or attempted impermissible payments. The payments or attempted payments and the contracts associated with them appear to have been 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.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF AVERY DENNISON(1)

Name	Age	Served as Executive Officer since	Former Positions and Offices with Avery Dennison
Dean A. Scarborough(2) President and Chief Executive Officer (also Director of Avery Dennison)	52	August 1997	2000-2005 President and Chief Operating Officer
Robert G. van Schoonenberg Executive Vice President, Chief Legal Officer and Secretary	61	December 1981	1997-2000 S.V.P., General Counsel and Secretary
Daniel R. O'Bryant Executive Vice President, Finance and Chief Financial Officer	50	January 2001	2001-2005 S.V.P., Finance and Chief Financial Officer
Diane B. Dixon Senior Vice President, Corporate Communications and Advertising	56	December 1985	1997-2000 V.P., Worldwide Communications and Advertising
Anne Hill(3) Senior Vice President, Chief Human Resources Officer	48	May 2007	2004-2006 V.P., Global Human Resources, Chiron Corporation 2003-2004 V.P., Global Human Resources, Baxter BioSciences Corporation
Robert M. Malchione Senior Vice President, Corporate Strategy and Technology	50	August 2000	2000-2001 S.V.P., Corporate Strategy
Mitchell R. Butier Vice President, Controller and Chief Accounting Officer	36	May 2007	2004-2006 V.P., Finance, Retail Information Services 2003 Group Finance Director, Roll Materials — Europe
Karyn E. Rodriguez Vice President and Treasurer	48	June 2001	1999-2001 Assistant Treasurer, Corporate Finance and Investments
Timothy S. Clyde Group Vice President, Specialty Materials and Converting	45	February 2001	2000-2001 G.V.P., Office Products
Terrence L. Hemmelgam Group Vice President, Retail Information Services	44	June 2007	2003-2006 V.P. and General Manager, Retail Information Services
Christian A. Simcic Group Vice President, Roll Materials(4)	51	May 2000	1997-2000 V.P. and Managing Director, Asia Pacific

(1) All officers are elected to serve a one-year term and until their successors are elected and qualify.

(2) Mr. Scarborough was elected President and Chief Executive Officer effective May 1, 2005.

(3) Business experience during past 5 years prior to service with the Company.

(4) Mr. Simcic stepped down as Group Vice President for the Company's roll materials business at the end of 2007.

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

(a) (b) The information called for by this item appears on pages 19 and 80 of our 2007 Annual Report to Shareholders and under the Equity Compensation Plan Information table in the 2008 Proxy Statement, and the information on page 80 and under the Equity Compensation Plan Information table in the 2008 Proxy Statement called for by this item are incorporated herein by reference. The information on page 19 of our 2007 Annual Report to Shareholders is not being incorporated herein by reference.

(c) Purchases of Equity Securities by Issuer

On October 26, 2006, the Board of Directors authorized the repurchase of an additional 5 million shares of the Company's outstanding common stock. This authorization increased the total shares authorized for repurchase to approximately 7.4 million. Repurchased shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. Included in the total shares repurchased were 136,665 shares that were delivered (actually or constructively) to the Company by participants exercising stock options during the fourth quarter of 2006 under the Company's stock option plans in payment of the option exercise price and/or to satisfy withholding tax obligations.

The following table sets forth the monthly repurchases of our common stock:

<i>(Shares in thousands, except per share amounts)</i> Fourth Quarter	Total shares repurchased (1)	Average price per share	Remaining authorization to repurchase shares
September 30, 2007 — October 27, 2007	6.5	\$ 43.38	4,154.7
October 28, 2007 — November 24, 2007	3.0	43.38	4,154.7
November 25, 2007 — December 29, 2007	7.9	43.38	4,154.7
Quarterly Total	<u>17.4</u>	<u>\$ 43.38</u>	<u>4,154.7</u>

(1) Includes shares exchanged or surrendered in connection with the exercise of options under the Company's stock option plans.

Item 6. SELECTED FINANCIAL DATA

Selected financial data for each of the Company's last five fiscal years appears on page 18 of our 2007 Annual Report to Shareholders and is incorporated herein by reference.

Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

ORGANIZATION OF INFORMATION

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

• Definition of Terms	15
• Overview and Outlook	16
• Analysis of Results of Operations	20
• Results of Operations by Segment	23
• Financial Condition	26
• Uses and Limitations of Non-GAAP Measures	35
• Related Party Transactions	36
• Critical Accounting Policies and Estimates	36
• Recent Accounting Requirements	41
• Safe Harbor Statement	41

DEFINITION OF TERMS

Our discussion of financial results includes several non-GAAP measures to provide additional information concerning Avery Dennison Corporation’s (the “Company’s”) performance. These non-GAAP financial measures are not in accordance with, nor are they a substitute for, GAAP financial measures. These non-GAAP financial measures are intended to supplement the presentation of our financial results, prepared in accordance with GAAP. Refer to “Uses and Limitations of Non-GAAP Measures.”

We use the following terms:

- *Organic sales growth* refers to the change in sales excluding the estimated impact of currency translation, acquisitions and divestitures;
- *Segment operating income* refers to income before interest and taxes;
- *Free cash flow* refers to cash flow from operations, less payments for capital expenditures, software and other deferred charges; and
- *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 Consolidated Balance Sheet; provides better matching of revenue and expense in the 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 will be consistent with our accounting of inventories for U.S. income tax purposes.

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

OVERVIEW AND OUTLOOK

Overview

Sales

Our sales from continuing operations increased 13% in 2007 compared to growth of 2% in 2006, driven primarily by the acquisition of Paxar Corporation (“Paxar”) and currency translation. Due to the diverse mix of our businesses and the expansion of our Retail Information Services segment, the allocation of organic sales growth into its components of volume growth and price and mix have become less useful in our analysis. We will continue to provide this information for those segments where it is useful.

Estimated change in sales due to:	<u>2007</u>	<u>2006</u>	<u>2005</u>
Organic sales growth	1%	3%	1%
Foreign currency translation	5	—	2
Acquisitions, net of divestitures	8	(1)	—
Reported sales growth ⁽¹⁾	<u>13%</u>	<u>2%</u>	<u>3%</u>

(1) Columns may not sum due to rounding

Organic sales growth of 1% in 2007 and 3% in 2006 reflected increases in most of our businesses outside of the U.S., particularly in the emerging markets of Asia, Eastern Europe and Latin America. Organic sales growth (or decline) by our major regions of operation was as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
U.S.	(4)%	—	(3)%
Europe	3%	3%	3%
Asia	9%	13%	13%
Latin America	4%	11%	4%

Outside of the U.S., sales increased on an organic basis by 4% and 5% in 2007 and 2006, respectively, due to market expansion and share gain in certain businesses.

In the U.S., sales on an organic basis declined 4% in 2007 due primarily to the slowdown in the U.S. retail environment, particularly in our Retail Information Services and Office and Consumer Products segments, as retailers lowered inventories in the face of slowing consumer demand. Our roll materials businesses in North America and Europe also experienced soft market conditions, especially in the second half of the year. These conditions, combined with capacity and demand imbalances, impacted pricing in these markets as well.

In 2006, U.S. sales were approximately even with 2005. The North American roll materials business was weak due to market share loss (related to price increases implemented in 2005 and early 2006, to offset higher raw material costs), as well as generally slow market conditions. The benefit from growth of Avery-brand products and a strong back-to-school season in our Office and Consumer Products segment in the U.S. was offset by the loss of sales from exiting certain low-margin private label business in that segment.

Net Income

Net income decreased \$70 million in 2007 compared to 2006.

Negative factors affecting net income included:

- Higher interest expense and amortization of intangibles related to the Paxar acquisition

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- Transition costs related to the integration of Paxar operations and other restructuring actions
- Higher asset impairment and restructuring charges (including acquisition-related charges)
- More competitive pricing environment and unfavorable product mix in the roll materials business
- Higher raw material costs
- Higher effective tax rate

Positive factors affecting net income included:

- Higher sales, including sales from the Paxar acquisition, and a benefit from foreign currency translation
- Cost savings from productivity improvement initiatives, including savings from restructuring actions

Acquisitions

On June 15, 2007, we completed the acquisition of Paxar Corporation (“Paxar”), a global leader in retail tag, ticketing, and branding systems. The combination of the Paxar business into our Retail Information Services segment increases our presence in the expanding and fragmented 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 this acquisition into our operations is also expected to result in significant cost synergies. Refer to the “Outlook” section herein for further information.

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

Divestitures

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

In December 2005, we also announced the divestiture of two product lines. These divestitures were completed in the first quarter of 2006. The first product line, which was included in the Office and Consumer Products segment, had estimated sales of \$60 million in 2005, with minimal impact to income from operations. The second product line, which was included in other specialty converting businesses, had annual sales of approximately \$10 million in 2005, with minimal impact to income from operations. As part of these divestitures, in 2005, we recorded severance and other employee-related charges of approximately \$6 million and asset impairments of approximately \$9 million. These charges were included in the “Other Expense, net” line of our Consolidated Statement of Income. Refer to Note 10, “Cost Reduction Actions,” to the Consolidated Financial Statements for further detail.

Cost Reduction Actions

(Dollars in millions)

	<u>Accrued Expense⁽¹⁾</u>	<u>Headcount Reduction</u>
Q4 2006 restructuring	\$ 5.1	140
2007 restructuring (excluding Paxar integration-related actions)	26.3	415
Total Q4 2006-2007 restructuring actions	<u>\$ 31.4</u>	<u>555</u>

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

From late 2006 through the end of 2007, we initiated new cost reduction actions that are expected to yield annualized pretax savings of \$45 million to \$50 million, in addition to cost synergies from the integration of Paxar discussed below. In 2007, savings from these actions, net of transition costs, were approximately \$5 million.

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Incremental savings in 2008 associated with these actions are expected to be approximately \$30 million, with the balance expected to be realized in 2009. These restructuring actions result in headcount reductions of approximately 555 positions, impacting all of our segments and geographic regions.

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

In 2005, we also incurred charges related to the planned divestitures of several low-margin businesses and product lines, as discussed in the “Divestitures” section.

Refer to Note 10, “Cost Reduction Actions,” to the Consolidated Financial Statements for further detail.

Paxar Acquisition-related Actions

<i>(Dollars in millions)</i>	Paxar Acquisition- related costs⁽¹⁾	Headcount Reduction
2007 Restructuring (P&L)	\$ 31.2	200
2007 Transition costs (P&L)	43.0	—
Purchase Price Adjustments	27.7	855
Total Paxar integration actions	<u>\$ 101.9</u>	<u>1,055</u>
Change-in-control costs (Purchase price adjustment)	27.1	
Total Paxar acquisition-related costs	<u>\$ 129.0</u>	

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

In 2007, cost synergies resulting from the integration of Paxar were approximately \$20 million. Incremental cost synergies expected to be achieved through 2010 are discussed in the “Outlook” section below. These integration actions result in headcount reductions of approximately 1,055 positions in our Retail Information Services segment.

Refer to Note 2, “Acquisitions” and Note 10, “Cost Reduction Actions,” to the Consolidated Financial Statements for further detail.

Effective Rate of Taxes on Income

The effective tax rate was 19.1% for the full year 2007 compared with 17.6% for the full year 2006.

Unlike 2007, our effective tax rate for 2006 benefited from the following events:

- Several favorable tax audit settlements in various jurisdictions and the closure of certain tax years
- Release of certain valuation allowances

Free Cash Flow

Free cash flow, which is a non-GAAP measure, refers to cash flow from operating activities 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 after spending on property, plant, and equipment, software and other deferred charges because such spending is considered integral to maintaining or expanding our underlying business. This measure is not intended to represent the residual cash available for discretionary purposes. Refer to “Uses and Limitations of Non-GAAP Measures” section for further information regarding limitations of this measure.

<i>(In millions)</i>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net cash provided by operating activities	\$ 499.4	\$ 510.8	\$ 441.6
Purchase of property, plant and equipment	(190.5)	(161.9)	(162.5)
Purchase of software and other deferred charges	(64.3)	(33.4)	(25.8)
Free cash flow	<u>\$ 244.6</u>	<u>\$ 315.5</u>	<u>\$ 253.3</u>

The decrease in free cash flow in 2007 of \$71 million reflects higher spending on property, plant and equipment and software and other deferred charges, as well as lower net income compared to 2006. See “Analysis of Results of Operations” and the Liquidity section of “Financial Condition” below for more information.

Investigations and Legal Proceedings

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 and Consumer Commission of their respective criminal investigations into competitive practices in the label stock industry. We cooperated with all of these investigations, and all, except the Australian investigation which is continuing, 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.

We have discovered instances of conduct by certain employees in China that potentially violate the U.S. Foreign Corrupt Practices Act. We have 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 8, “Contingencies,” to the Consolidated Financial Statements.

Outlook

In 2008, we anticipate a high single-digit to low double-digit rate of revenue growth, including both the benefit from the Paxar acquisition (approximately 6.5% benefit) and a modest benefit from foreign currency translation based on year end exchange rates. Our revenue assumptions are subject to changes in economic and market conditions.

We estimate that the total annual cost synergies associated with the Paxar integration to be in the range of \$115 million to \$125 million, with an estimated \$60 million to \$70 million of these cost synergies expected to represent incremental savings during 2008. To accomplish our synergy target, we will incur pretax cash costs estimated to be in the range of \$165 million to \$180 million. Approximately \$75 million of these costs were incurred in 2007, and we estimate approximately \$60 million to \$70 million will be incurred in 2008.

We anticipate continued benefit from our ongoing productivity improvement initiatives. In addition to the synergies resulting from the Paxar integration described above, we anticipate our restructuring and business realignment efforts to yield incremental savings in 2008 of an estimated \$30 million, net of transition costs. We

assume the benefits from these and other productivity initiatives will be partially offset by approximately 2% inflation of raw material costs (approximately \$50 million to \$55 million) based on current commodity pricing trends, as well as higher costs associated with general inflation and investments for growth during 2008.

We anticipate price increases in 2008 to at least partially offset raw material inflation.

We estimate interest expense to be in the range of \$125 million to \$135 million, approximately \$20 million to \$30 million higher than 2007, driven by 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.

We anticipate total restructuring and asset impairment charges in 2008 to be lower than the charges taken in 2007.

The annual effective tax rate will be impacted by future events including changes in tax laws, geographic income mix, tax audits, closure of tax years, legal entity restructuring, and 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 before Paxar integration-related activities to be approximately \$195 million in 2008. Capital and software expenditures related to the Paxar integration are expected to total \$40 million to \$45 million, of which approximately \$25 million to \$30 million is expected to be incurred during 2008. These costs are included in the total one-time cash cost estimate for the integration, discussed above.

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

ANALYSIS OF RESULTS OF OPERATIONS

Income from Continuing Operations Before Taxes:

<i>(In millions)</i>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net sales	\$6,307.8	\$5,575.9	\$5,473.5
Cost of products sold	4,585.4	4,037.9	3,996.6
Gross profit	1,722.4	1,538.0	1,476.9
Marketing, general and administrative expense	1,182.5	1,011.1	987.9
Interest expense	105.2	55.5	57.9
Other expense, net	59.4	36.2	63.6
Income from continuing operations before taxes	<u>\$ 375.3</u>	<u>\$ 435.2</u>	<u>\$ 367.5</u>

<i>As a Percent of Sales:</i>	<u>%</u>	<u>%</u>	<u>%</u>
Gross profit (margin)	27.3	27.6	27.0
Marketing, general and administrative expense	18.7	18.1	18.0
Income from continuing operations before taxes	<u>5.9</u>	<u>7.8</u>	<u>6.7</u>

In 2006, we reclassified shipping and handling costs from "Marketing, general and administrative expense" to "Cost of products sold" to align our businesses around a standard accounting policy. Previous results included herein have been reclassified for comparability to the current year.

Sales

Sales increased 13% in 2007 compared to an increase of 2% in 2006. The benefit of the Paxar acquisition, net of product line divestitures, increased sales by an estimated \$500 million in 2007. Product line divestitures, net of incremental sales from acquisitions, reduced sales by approximately \$54 million in 2006.

Foreign currency translation had a favorable impact on the change in sales of approximately \$232 million in 2007 compared to approximately \$21 million in 2006.

Organic sales growth was approximately 1% in 2007 compared to approximately 3% in 2006. Organic sales growth in 2007 reflected growth in our Pressure-sensitive Materials segment and other specialty converting businesses, driven by expansion of international markets. This international growth was partially offset by slower and more competitive market conditions in our North American roll materials business (where unit volume growth was more than offset by negative price and mix). The organic sales growth in Pressure-sensitive Materials and other specialty converting businesses was offset by a decline in our Office and Consumer Products segment, due primarily to customer inventory reductions. Our Retail Information Services segment experienced organic sales growth of 1% in 2007, reflecting increased sales for the European retail market, partially offset by a decline in orders related to apparel shipped to North American retailers and brand owners.

On an organic basis, sales in the U.S. were approximately even in 2006, compared to a decrease of approximately 3% in 2005. The North American roll materials business was impacted by slow market conditions and share loss resulting from price increases. The benefit from growth of Avery-brand products and a strong back-to-school season in our Office and Consumer Products segment in the U.S. was offset by the loss of sales from exiting certain low-margin private label business (approximate impact of \$22 million) in that segment.

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

Gross Profit

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

In 2006, the benefits of productivity improvement and cost reduction actions were partially offset by:

- Unfavorable segment mix (faster growth in segments with lower gross profit margin as a percent of sales)
- Energy-related cost inflation
- Transition costs associated with restructuring

Marketing, General and Administrative Expenses

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

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

Marketing, general and administrative expense in 2006 increased from 2005, as the benefits from productivity improvement initiatives and cost reduction actions were more than offset by:

- Recognition of stock option expense (approximately \$21 million)
- Increased spending on information systems and marketing (approximately \$19 million)
- Increase in pension, medical and other employee-related costs (approximately \$12 million)

Interest Expense

Interest expense increased 90%, or approximately \$50 million, in 2007 compared to 2006, due to an increase in borrowings to fund the Paxar acquisition, as well as an increase in interest rates.

Other Expense, net

<i>(In millions, pretax)</i>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Restructuring costs	\$21.6	\$21.1	\$37.5
Asset impairment and lease cancellation charges	17.5	8.7	28.1
Asset impairment — integration related	18.4	—	—
Other items	1.9	6.4	(2.0)
Other expense, net	<u>\$59.4</u>	<u>\$36.2</u>	<u>\$63.6</u>

In 2007 and 2006, “Other expense, net” consisted of charges for restructuring, including severance and other employee-related costs and asset impairment charges related to cost reduction actions and divestitures, as described above in the “Cost Reduction Actions” and “Paxar Integration Actions” sections herein. Refer also to Note 10, “Cost Reduction Actions,” to the Consolidated Financial Statements for more information.

The other items included in “Other expense, net” in 2007 included:

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

The other items included in “Other expense, net” in 2006 included:

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

In 2005, other items included in “Other expense, net” consisted of a gain on the sale of assets (\$5.8 million), partially offset by costs related to a lawsuit (\$3.8 million).

Net Income:

<i>(In millions, except per share amounts)</i>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income from continuing operations before taxes	\$ 375.3	\$ 435.2	\$ 367.5
Taxes on income	71.8	76.7	75.3
Income from continuing operations	303.5	358.5	292.2
Income (loss) from discontinued operations, net of tax	—	14.7	(65.4)
Net income	<u>\$ 303.5</u>	<u>\$ 373.2</u>	<u>\$ 226.8</u>
Net income per common share	<u>\$ 3.09</u>	<u>\$ 3.74</u>	<u>\$ 2.27</u>
Net income per common share, assuming dilution	<u>\$ 3.07</u>	<u>\$ 3.72</u>	<u>\$ 2.26</u>
Net income as a percent of sales	4.8%	6.7%	4.1%
Effective tax rate from continuing operations	19.1%	17.6%	20.5%

Taxes on Income

Both our 2007 and 2006 effective tax rates included the benefits from changes in the geographic mix of income and continued improvements in our global tax structure.

The effective tax rate in both years includes the impact from several tax audit settlements in various jurisdictions, reflecting a net expense of \$.8 million in 2007 and a net benefit of \$.1 million in 2006.

Income (Loss) from Discontinued Operations

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

Based on our estimated value of the raised reflective pavement markers business in 2005, we concluded that associated goodwill and intangible assets from our acquisition of this business were impaired. The resulting pretax impairment charge was approximately \$74 million in 2005.

Income from discontinued operations included net sales of approximately \$7 million in 2006, and \$23 million in 2005.

Refer to the Discontinued Operations section of Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information.

RESULTS OF OPERATIONS BY SEGMENT

Pressure-sensitive Materials Segment

<i>(In millions)</i>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net sales including intersegment sales	\$3,662.6	\$3,397.8	\$3,277.7
Less intersegment sales	(164.9)	(161.5)	(163.2)
Net sales	\$3,497.7	\$3,236.3	\$3,114.5
Operating income ⁽¹⁾	<u>318.7</u>	<u>301.6</u>	<u>264.1</u>
⁽¹⁾ Includes restructuring costs, asset impairment charges and other items for all years presented	<u>\$ 13.8</u>	<u>\$ 9.3</u>	<u>\$ 23.0</u>

Net Sales

Sales in our Pressure-sensitive Materials segment increased 8% in 2007 compared to 4% growth in 2006. Organic sales growth in both 2007 and 2006 was approximately 3%.

Organic sales growth for 2007 and 2006 reflected growth in our roll materials and graphics and reflective businesses in Asia, Latin America and Europe, partially offset by declines in our North American roll materials businesses. For both years, market expansion in our roll materials business contributed to double-digit organic sales growth in Asia and mid single-digit organic sales growth in Latin America.

In both 2007 and 2006, our roll materials business in Europe experienced low single-digit organic sales growth.

In our North American roll materials business, 2007 sales on an organic basis declined at a low single-digit rate, while 2006 sales were even with the prior year. Slow market conditions impacted both years. In 2007, a more competitive environment due in part to capacity additions in the industry led to price reductions to maintain market share. In 2006, the loss of market share following our implementation of selling price increases in 2005 and early 2006 contributed to a decline in this business.

Our graphics and reflective business experienced mid single-digit organic sales growth in both 2007 and 2006, as strong international growth was partially offset by declines in the U.S.

The changes in reported sales for this segment included a favorable impact of foreign currency translation of approximately \$174 million in 2007 and approximately \$15 million in 2006.

Operating Income

Increased operating income in 2007 and 2006 reflected higher sales and cost savings from restructuring and productivity improvement initiatives. In 2007, these initiatives were partially offset by a more competitive pricing environment and unfavorable product mix in the roll materials business, higher raw material costs and transition costs related to restructuring actions. In 2006, these initiatives were partially offset by stock option expense.

Operating income for all three years reflected restructuring and asset impairment charges. In 2007, operating income included a reversal of a portion of an accrual related to a lawsuit. In 2006, operating income included a gain on sale of assets, legal fees related to a lawsuit, and lease cancellation charges. In 2005, operating income included an accrual related to a lawsuit, net of a gain on sale of assets.

Retail Information Services Segment

(In millions)	2007	2006	2005
Net sales including intersegment sales	\$1,176.6	\$671.1	\$637.1
Less intersegment sales	(2.1)	(3.4)	(6.7)
Net sales	\$1,174.5	\$667.7	\$630.4
Operating income ⁽¹⁾⁽²⁾	<u>(4.0)</u>	<u>45.7</u>	<u>37.7</u>
<hr/>			
(1) Includes restructuring costs, asset impairment and lease cancellation charges for all years presented	<u>\$ 31.2</u>	<u>\$ 11.2</u>	<u>\$ 7.5</u>
(2) Includes transition costs associated with Paxar integration	<u>\$ 43.0</u>	<u>\$ —</u>	<u>\$ —</u>

Net Sales

Sales in our Retail Information Services segment increased 76% in 2007 compared to an increase of 6% in 2006. In 2007, the increase reflected an estimated \$510 million in sales from the Paxar acquisition and the favorable impact of foreign currency translation (approximately \$17 million). In 2006, the increase reflected growth of the business in Asia, Latin America and Europe, incremental sales from acquisitions (approximately \$3 million) and the favorable impact of foreign currency translation (approximately \$3 million).

Organic sales growth of approximately 1% in 2007 reflected increased sales for the European retail market, partially offset by a decline in orders related to apparel shipped to North American retailers and brand owners. Organic sales growth was 5% in 2006.

Operating Income

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

In 2006, operating income benefited from productivity improvement actions, including the migration of production from Hong Kong to lower cost facilities in mainland China. Benefits from productivity initiatives were offset by increased spending for information systems, stock option expense and other incremental employee-related costs in 2006.

Operating income included integration-related software impairment charges in 2007. Restructuring costs, asset impairment and lease cancellation charges were incurred in all three years.

Office and Consumer Products Segment

<i>(In millions)</i>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net sales including intersegment sales	\$1,017.8	\$1,073.8	\$1,138.1
Less intersegment sales	<u>(1.6)</u>	<u>(1.8)</u>	<u>(2.0)</u>
Net sales	\$1,016.2	\$1,072.0	\$1,136.1
Operating income ⁽¹⁾	<u>173.6</u>	<u>187.4</u>	<u>161.9</u>

(1) Includes restructuring costs for all years, asset impairment charges for 2005 and 2006, and other items for 2006 and 2007	<u>\$ 4.8</u>	<u>\$ (2.3)</u>	<u>\$ 21.8</u>
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Net Sales

Sales in our Office and Consumer Products segment decreased 5% in 2007 and 6% in 2006. The decline in reported sales in 2007 reflected lower sales on an organic basis, as well as the impact of product line divestitures (approximately \$9 million). The decline in reported sales in 2006 reflected the impact of a product line divestiture in Europe (approximately \$51 million). Foreign currency translation had a favorable impact on the change in reported sales of approximately \$25 million in 2007 and \$1 million in 2006.

On an organic basis, sales declined approximately 7% in 2007. The decline reflected customer inventory reductions resulting in part from a volume shift to the fourth quarter of 2006 in advance of January 2007 selling price increases for certain product lines, the loss of sales from exiting certain low margin business, and a weaker back-to-school season compared to the prior year.

In 2006, sales on an organic basis declined 1%, reflecting the loss of sales from exiting certain low-margin private label business at the end of 2005 (approximately \$22 million), partially offset by growth in Avery-brand products, a strong back-to-school season in North America, and accelerated purchases by customers in late 2006 in advance of our 2007 selling price increases for certain product lines.

Operating Income

Operating income in 2007 reflected lower sales, restructuring charges and related transition costs, and higher raw material costs, partially offset by savings from restructuring actions and productivity initiatives.

Operating income in 2006 reflected cost savings from productivity improvement and restructuring actions, partially offset by associated transition costs, higher raw material and energy-related costs, increased marketing costs and stock option expense.

Operating income in 2007 included lease cancellation costs and expense related to a divestiture. In 2006, operating income included a gain from sale of assets, a gain from curtailment and settlement of a pension obligation, and a net gain from a product line divestiture. Asset impairment charges were incurred in both 2005 and 2006, while restructuring costs were incurred in all three years.

Other specialty converting businesses

<i>(In millions)</i>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net sales including intersegment sales	\$639.3	\$614.3	\$607.7
Less intersegment sales	<u>(19.9)</u>	<u>(14.4)</u>	<u>(15.2)</u>
Net sales	\$619.4	\$599.9	\$592.5
Operating income ⁽¹⁾	<u>25.4</u>	<u>17.3</u>	<u>14.9</u>

(1) Includes restructuring and asset impairment charges for all years presented	<u>\$ 4.2</u>	<u>\$ 3.7</u>	<u>\$ 6.2</u>
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Net Sales

Sales in our other specialty converting businesses increased 3% in 2007 and 1% in 2006. In 2007, the increase reflected the favorable impact of foreign currency translation (approximately \$16 million), partially offset by the impact of a product line divestiture, net of a small acquisition (approximately \$2 million). In 2006, a product line divestiture reduced reported sales by approximately \$7 million, while foreign currency translation had a favorable impact on the change in sales of approximately \$1 million.

Organic sales growth of approximately 1% in 2007 included the negative effect of exiting certain low-margin products in our specialty tape business (approximately \$16 million). The loss of these sales was more than offset by solid growth in other parts of the specialty tape business, as well as growth of the RFID division. Organic sales growth of approximately 2% in 2006 reflected solid growth in our specialty tape business, partially offset by weakness in other businesses.

Operating Income

Operating income for these businesses increased in 2007, reflecting higher sales, savings from restructuring and productivity initiatives, and a reduction in operating loss from the RFID division.

Operating income for these businesses increased in 2006, reflecting cost savings from restructuring and productivity improvement initiatives, partially offset by stock option expense.

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

FINANCIAL CONDITION

Liquidity

Cash Flow Provided by Operating Activities:

<i>(In millions)</i>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net income	\$303.5	\$373.2	\$226.8
Depreciation and amortization	234.6	197.9	201.5
Income taxes (deferred and accrued)	(31.4)	5.3	(44.2)
Asset impairment and net loss (gain) on sale and disposal of assets	44.0	(7.8)	108.1
Trade accounts receivable	1.0	(2.3)	(43.9)
Other current assets	18.8	(45.6)	(4.3)
Inventories	(5.3)	(24.6)	(12.4)
Accounts payable and accrued liabilities	(87.1)	8.9	30.4
Long-term retirement benefits and other liabilities	15.1	(11.8)	(12.9)
Stock-based compensation	21.6	24.1	—
Other non-cash items, net	(15.4)	(6.5)	(7.5)
Net cash provided by operating activities	<u>\$499.4</u>	<u>\$510.8</u>	<u>\$441.6</u>

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

In 2007, cash flow provided by operating activities was impacted by lower net income, changes in working capital and other factors, as shown below:

Negative factors

- Accounts payable and accrued liabilities reflected the timing of payments, as well as shorter vendor payment terms

Positive factors

- Other current assets primarily reflected the timing of collection of value-added tax receivables in Europe
- Long-term retirement benefits and other liabilities primarily reflected lower contributions to our pension plans, partially offset by benefit payments

In 2006, cash flow provided by operating activities was impacted by higher net income, changes in working capital and other factors, as shown below:

Negative factors

- Other current assets primarily reflected the timing of collection of value-added tax receivables in Europe
- Inventories reflected increased purchases to support higher sales and customer service initiatives
- Long-term retirement benefits and other liabilities reflected benefit payments, partially offset by contributions of approximately \$39 million to our pension and postretirement health benefit plans

Positive factors

- Accounts payable and accrued liabilities reflected the timing of payments and increased inventory

Cash Flow Used in Investing Activities:

<i>(In millions)</i>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Purchase of property, plant and equipment	\$ (190.5)	\$(161.9)	\$(162.5)
Purchase of software and other deferred charges	(64.3)	(33.4)	(25.8)
Payments for acquisitions	(1,291.9)	(13.4)	(2.8)
Proceeds from sale of assets	4.9	15.4	21.8
Proceeds from sale of businesses and investments	—	35.4	—
Other	(1.4)	3.0	1.7
Net cash used in investing activities	<u>\$(1,543.2)</u>	<u>\$(154.9)</u>	<u>\$(167.6)</u>

Payments for acquisitions

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 \$1.3 billion, including transaction costs of approximately \$15 million. Cash paid for acquisitions is reported net of cash acquired of approximately \$47 million. Funds to complete the acquisition were initially derived from commercial paper borrowings, supported by a bridge revolving credit facility. Refer to Note 2, "Acquisitions," to the Consolidated Financial Statements for further information.

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

Capital Spending

Significant capital projects in 2007 included investments for expansion in China and India serving both our materials and retail information services businesses. Significant information technology projects in 2007 included customer service and standardization initiatives.

Proceeds from Sale of Businesses and Investments

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

Cash Flow Used in Financing Activities:

<i>(In millions)</i>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net change in borrowings and payments of debt	\$1,259.0	\$(140.1)	\$ (80.5)
Dividends paid	(171.8)	(171.8)	(168.7)
Purchase of treasury stock	(63.2)	(157.7)	(40.9)
Proceeds from exercise of stock options, net	38.1	54.1	11.1
Other	(6.7)	17.7	18.5
Net cash provided by (used in) financing activities	<u>\$1,055.4</u>	<u>\$(397.8)</u>	<u>\$(260.5)</u>

Borrowings and Repayment of Debt

At year end 2007, our borrowings outstanding under foreign short-term lines of credit were \$70.1 million (weighted-average interest rate of 10.6%), compared to \$101.5 million at year end 2006 (weighted-average interest rate of 9.6%).

Short-term variable rate commercial paper borrowings were \$990.2 million at December 29, 2007 (weighted-average interest rate of 5.2%) compared to \$154.4 million at December 30, 2006 (weighted-average interest rate of 5.0%). During 2007, we increased our short-term borrowings to initially fund the Paxar acquisition, as noted above in “*Payments for acquisitions*,” as well as to support share repurchases. The change in outstanding commercial paper also reflects positive cash flow from operations.

We had medium-term notes of \$100 million outstanding at year end 2007, compared to \$160 million at year end 2006. In 2007, medium-term notes of \$60 million were paid on maturity. Outstanding medium-term notes have maturities from 2008 through 2025 and accrue interest at fixed rates ranging from 5.9% to 7.6%.

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

In 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 overallocation 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 in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price 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.

Shareholders' Equity

Our shareholders' equity was approximately \$1.99 billion at year end 2007, compared to approximately \$1.70 billion at year end 2006. Our annual dividend per share increased to \$1.61 in 2007 from \$1.57 in 2006.

Share Repurchases

On October 26, 2006, the Board of Directors authorized the Company to purchase an additional 5 million shares of the Company's stock under our existing stock repurchase program, resulting in a total authorization of approximately 7.4 million shares of the Company's stock at that date. We repurchased approximately .8 million and 2.5 million shares in 2007 and 2006, respectively. Cash payments for these repurchased shares were approximately

\$63 million and approximately \$158 million in 2007 and 2006, respectively. Included in the 2007 cash payments were approximately \$11 million related to shares repurchased in 2006, but settled in 2007. As of December 29, 2007, approximately 4.1 million shares were available for repurchase under the Board of Directors' authorization.

In 2005, we repurchased approximately .7 million shares under an agreement related to the L&E Packaging ("L&E") acquisition and recorded such amount to treasury stock.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

Goodwill increased \$967 million during 2007, primarily due to our preliminary valuation of goodwill associated with the Paxar acquisition completed in June 2007 (\$931 million), buy-outs of minority interest shareholders (\$4 million) associated with certain subsidiaries of RVL Packaging, Inc. and Paxar, and foreign currency translation (\$32 million), partially offset by a tax adjustment related to a previous acquisition (less than \$1 million).

Other intangibles resulting from business acquisitions increased approximately \$219 million during 2007 due to our preliminary valuation of the intangible assets of the Paxar acquisition (\$234 million), and the impact of foreign currency translation (\$5 million), partially offset by amortization expense (\$20 million).

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

Other assets increased approximately \$63 million during 2007 due primarily to purchases of software and other deferred charges (\$64 million), an increase in the cash surrender value of corporate-owned life insurance (\$17 million), debt issuance costs associated with current year issuances (\$15 million), increase in long-term pension assets (\$7 million), increase in other assets (\$3 million), and the impact of foreign currency translation (\$6 million), partially offset by normal amortization of software and other deferred charges (\$31 million), and software asset impairments (\$18 million).

Other Shareholders' Equity Accounts

The value of our employee stock benefit trust decreased \$174 million in 2007, due to a decrease in the market value of shares held in the trust of approximately \$120 million, and the issuance of shares under our stock option and incentive plans of approximately \$54 million.

Accumulated other comprehensive income (loss) changed by approximately \$135 million due to foreign currency translation (approximately \$106 million), as well as the current year amortization and recognition of net pension transition obligation, prior service cost and net actuarial loss (approximately \$29 million).

Impact of Foreign Currency Translation:

(In millions)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Change in net sales	\$232	\$ 21	\$ 77
Change in net income	<u>13</u>	<u>2</u>	<u>2</u>

In 2007, international operations generated approximately 63% of our net sales. 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 2007 primarily reflected a benefit from sales denominated in Euros, as well as sales in the currencies of Great Britain, Australia, Brazil and China, partially offset by a negative impact of sales in the currencies of South Africa and Hong Kong.

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

functional currency. In 2005, our operations in hyperinflationary economies consisted of the Dominican Republic and Turkey; however, the impact on net income from these operations was not significant.

Effect of Foreign Currency Transactions

The impact on net income from transactions denominated in foreign currencies is 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 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, excluding working capital of held-for-sale businesses) as a percent of net sales decreased in 2007 primarily due to an increase in short-term debt.

On February 8, 2008, one of our subsidiaries entered into a credit agreement for a term loan credit facility with fourteen domestic and foreign banks for a total commitment of \$400 million, maturing February 8, 2011. The proceeds from this term loan credit facility were used to reduce commercial paper borrowings (included in current liabilities) initially used to finance the Paxar acquisition.

Operational working capital from continuing operations, as a percent of net sales, is a non-GAAP measure and is shown below. We use this non-GAAP measure as a tool to assess our working capital requirements because it excludes the impact of fluctuations due to our financing and other activities (that affect cash and cash equivalents, deferred taxes, 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 from continuing operations:

<i>(In millions)</i>	<u>2007</u>	<u>2006</u>
(A) Working capital (current assets minus current liabilities; excludes working capital of held-for-sale businesses)	\$ (419.3)	\$ (12.1)
Reconciling items:		
Cash and cash equivalents	(71.5)	(58.5)
Deferred taxes and other current assets	(242.0)	(221.1)
Short-term and current portion of long-term debt	1,110.8	466.4
Other current liabilities	687.6	602.3
(B) Operational working capital from continuing operations	<u>\$1,065.6</u>	<u>\$ 777.0</u>
(C) Net sales	<u>\$6,307.8</u>	<u>\$5,575.9</u>
Working capital, as a percent of net sales(A),(C)	<u>(6.6)%</u>	<u>(.2)%</u>
Operational working capital from continuing operations, as a percent of net sales(B),(C)	<u>16.9%</u>	<u>13.9%</u>

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As a percent of sales, operational working capital from continuing operations in 2007 increased compared to 2006. The primary factors contributing to this change, which includes the impact of currency translation, are discussed below.

Accounts Receivable Ratio

The average number of days sales outstanding was 62 days in 2007 compared to 58 days in 2006, calculated using a four-quarter average accounts receivable balance divided by the average daily sales for the year. The change is primarily due to the acquisition of Paxar, as well as the timing of sales and collections.

Inventory Ratio

Average inventory turnover was 7.8 in 2007 compared to 8.1 in 2006, calculated using the annual cost of sales divided by a four-quarter average inventory balance. The change is primarily due to the acquisition of Paxar.

Accounts Payable Ratio

The average number of days payable outstanding was 58 days in 2007 compared to 61 days in 2006, calculated using a four-quarter average accounts payable balance divided by the average daily cost of products sold for the year. The change is primarily due to the timing of payments in Europe, partially offset by the acquisition of Paxar.

Debt Ratios

	<u>Requirement</u>	<u>Year End</u>	
		<u>2007</u>	<u>2006</u>
Total debt to total capital		53.1%	36.3%
<i>Debt covenant ratios:</i>			
	Not to exceed		
Total debt to earnings before interest, taxes, depreciation and amortization	3.5:1.0	3.2:1.0	1.4:1.0
	At least		
Earnings before interest and taxes to interest	<u>3.5:1.0</u>	<u>4.6:1.0</u>	<u>9.3:1.0</u>

The increase in the total debt to total capital ratio in 2007 was primarily due to a net increase in debt related to the Paxar acquisition and share repurchases, partially offset by an increase in shareholders' equity.

Our various loan agreements in effect at year end require that we maintain specified ratios of consolidated debt and consolidated interest expense in relation to certain measures of income. We were in compliance with these covenants as shown in the table above.

The fair value of our debt is estimated based on the discounted amount of the related cash flows using the current rates offered to us for debt of the same remaining maturities. At year end, the fair value of our total debt, including short-term borrowings, was \$2,250.7 million in 2007 and \$963 million in 2006.

Shareholders' Equity Ratios

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Return on average shareholders' equity	16.5%	22.7%	14.5%
Return on average total capital	<u>10.6</u>	<u>15.7</u>	<u>10.0</u>

Decreases in these ratios in 2007 compared to 2006 were primarily due to lower net income, as well as higher equity and total debt outstanding. These ratios are computed using actual net income and a five-quarter average denominator for equity and total debt accounts.

Capital Resources

Capital resources include cash flows from operations and debt financing. We maintain adequate financing arrangements at competitive rates. These financing arrangements consist of our commercial paper programs in the

U.S. and Europe, committed and uncommitted bank lines of credit in the countries where we operate, callable commercial notes, and long-term debt, including medium-term notes.

Capital from Debt

Our total debt increased approximately \$1.29 billion in 2007 to \$2.26 billion compared to year end 2006, reflecting increased short-term borrowings primarily related to the Paxar acquisition during the second quarter of 2007 and share repurchases.

We initially funded the Paxar acquisition by issuing commercial paper, supported by a bridge revolving credit facility (the "Credit Facility") we entered into in June 2007 with five domestic and foreign banks. The Credit Facility had an initial total commitment of \$1.35 billion, expiring June 11, 2008, for terms which are generally similar to existing credit facilities. Financing available under this agreement is permitted to be used for working capital, commercial paper back-up and other general corporate purposes, including acquisitions. As of December 29, 2007, the outstanding commitment was \$715 million.

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

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

The Credit Facility and the revolving credit agreement are subject to customary financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio, with which we are in compliance.

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 overallocation 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 in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price 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.

In addition, we have a 364-day revolving credit facility in which a foreign bank provides us up to Euro 40 million (\$57.5 million) in borrowings through July 31, 2008. With the approval of the bank, we may extend the revolving period and due date on an annual basis. Financing under this agreement is used to finance cash requirements of our European operations. There was no debt outstanding under this agreement as of December 29, 2007 and \$26.3 million outstanding as of December 30, 2006.

We had standby letters of credit outstanding of \$80.9 million (including \$7.3 million of standby letters of credit we assumed from Paxar) and \$77.1 million at the end of 2007 and 2006, respectively. The aggregate contract amount of outstanding standby letters of credit approximated fair value.

In connection with the Paxar acquisition, we have assumed additional debt of approximately \$5 million, which remains outstanding at December 29, 2007.

Our uncommitted lines of credit were approximately \$448.2 million at year end 2007. Our uncommitted lines of credit do not have a commitment expiration date and may be cancelled by the banks or us at any time.

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

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As discussed above, one of our subsidiaries entered into a credit agreement on February 8, 2008 for a term loan credit facility with fourteen domestic and foreign banks for a total commitment of \$400 million, maturing February 8, 2011. The proceeds from this term loan credit facility were used to reduce commercial paper borrowings initially used to finance the Paxar acquisition.

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.

Our credit ratings as of year end 2007:

	<u>Short-term</u>	<u>Long-term</u>	<u>Outlook(1)</u>
Standard & Poor's Rating Service ("S&P")	A-2	BBB+	Watch Negative
Moody's Investors Service ("Moody's")	P2	Baa1	Under Review

(1) Refer to Note 14, "Subsequent Events," to the Consolidated Financial Statements for more information.

As of December 29, 2007, our ratings were under review due to the recent acquisition of Paxar. S&P and Moody's lowered our long-term rating from A- to BBB+, and A3 to Baa1, respectively, due to the incremental debt incurred as a result of the Paxar acquisition. We remain committed to retaining a solid investment grade rating.

Contractual Obligations, Commitments and Off-balance Sheet Arrangements

Contractual Obligations at Year End 2007:

<i>(In millions)</i>	<u>Payments Due by Period</u>						
	<u>Total</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>
Short-term lines of credit	\$1,060.3	\$1,060.3	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt and capital leases	1,195.5	50.5	.5	.5	5.1	—	1,138.9
Interest on long-term debt(1)	950.6	78.5	75.8	75.8	75.8	75.8	568.9
Operating leases	241.7	59.3	50.6	34.6	26.1	21.9	49.2
Pension and postretirement benefit contributions	23.5	23.5	—	—	—	—	—
Uncertain tax positions	7.1	7.1	—	—	—	—	—
Total contractual obligations	\$3,478.7	\$1,279.2	\$126.9	\$110.9	\$107.0	\$97.7	\$1,757.0

(1) Interest on floating rate debt was estimated using the index rate in effect as of December 29, 2007.

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

On September 9, 2005, we completed the lease financing for a commercial facility (the "Facility") located in Mentor, Ohio, used primarily for the new headquarters and research center for our roll materials group. 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 did not include purchase obligations or open purchase orders at year end 2007 in the table of contractual obligations above, because it is impracticable for us to either obtain such information or provide a reasonable estimate due to the decentralized nature of our purchasing systems.

The table above does not reflect unrecognized tax benefits of \$125 million, the timing of which is uncertain, except for approximately \$7 million that may become payable during 2008. Refer to Note 11, "Taxes Based on Income" to the Consolidated Financial Statements for further information on unrecognized tax benefits.

Investigations and Legal Proceedings

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 and Consumer Commission of their respective criminal investigations into competitive practices in the label stock industry. We cooperated with all of these investigations, and all, except the Australian investigation which is continuing, 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.

We are unable to predict the effect of these matters at this time, although the effect could be adverse and material. These and other matters are reported in Note 8, "Contingencies," to the Consolidated Financial Statements.

Environmental

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 eighteen 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 December 29, 2007, our estimated liability associated with compliance and remediation costs was approximately \$38 million, including preliminary liabilities related to the acquisition of Paxar. See also Note 2, "Acquisitions," to the Consolidated Financial Statements.

During 2006, we recognized \$15 million for estimated environmental remediation costs for a former operating facility. Of the amount accrued, which represented the lower end of the current estimated range of \$15 million to \$17 million for costs expected to be incurred, approximately \$9 million remained accrued as of December 29, 2007. We considered additional information provided by outside consultants in revising our previous estimates of expected costs. This estimate could change depending on various factors, such as modification of currently planned remedial actions, changes in site conditions, a change in the estimated time to complete remediation, changes in laws and regulations affecting remediation requirements and other factors.

Other amounts currently accrued are not significant to our consolidated financial position, and based upon current information, we believe that it is unlikely that the final 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 on the results of an internal investigation of potential violations of the U.S. Foreign Corrupt Practices Act. The transactions at issue were carried out by a small number of employees of our reflective business in China, and involved, among other things, impermissible payments or attempted impermissible payments. The payments or attempted payments and the contracts associated with them appear to have been 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.

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

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

We participate in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by us. At December 29, 2007, we had guaranteed approximately \$17 million.

As of December 29, 2007, we guaranteed up to approximately \$22 million of certain of our foreign subsidiaries' obligations to their suppliers, as well as approximately \$476 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 overallocation 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 in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price 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, etc.), from certain of our GAAP measures, management believes that it is providing meaningful supplemental information to facilitate an understanding of the Company's "core" or "underlying" operating results. These non-GAAP measures are used internally to evaluate trends in our underlying business, as well as to facilitate comparison to the results of competitors for a single period.

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

RELATED PARTY TRANSACTIONS

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

One of our directors, Peter W. Mullin is the chairman, chief executive officer and a director of MC Insurance Services, Inc. ("MC"), Mullin Insurance Services, Inc. ("MINC"), and PWM Insurance Services, Inc. ("PWM"), executive compensation and benefit consultants and insurance agents. Mr. Mullin is also the majority stockholder of MC, MINC and PWM (collectively referred to as the "Mullin Companies"). We paid premiums to insurance carriers for life insurance placed by the Mullin Companies in connection with various of our employee benefit plans. The Mullin Companies have advised us that they earned commissions from such insurance carriers for the placement and renewal of this insurance. Approximately 50% of these commissions were allocated to and used by MullinTBG Insurance Agency Services, LLC (an affiliate of MC) to administer benefit plans and provide benefit statements to participants under various of our employee benefit plans. The Mullin Companies own a minority interest in M Financial Holdings, Inc. ("MFH"). Substantially all of the life insurance policies, which we placed through the Mullin Companies in 2007 and prior years, are issued by insurance carriers that participate in reinsurance agreements entered into between these insurance carriers and M Life Insurance Company ("M Life"), a wholly-owned subsidiary of MFH. Reinsurance returns earned by M Life are determined annually by the insurance carriers and can be negative or positive, depending upon the results of M Life's aggregate reinsurance pool, which consists of the insured lives reinsured by M Life. The Mullin Companies have advised us that they participated in net reinsurance gains of M Life. In addition, the Mullin Companies have advised us that they also participated in net reinsurance gains of M Life that are subject to risk of forfeiture. None of these transactions were significant to our financial position or results of operations.

Summary of Related Party Activity:

<i>(In millions)</i>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Mullin Companies commissions on our insurance premiums	\$.4	\$.5	\$.9
Mr. Mullin's direct & indirect interest in these commissions	.3	.4	.7
Mullin Companies reinsurance gains (without risk of forfeiture) ascribed by M Life to our life insurance policies	.2	.3	.2
Mr. Mullin's direct & indirect interest in reinsurance gains (without risk of forfeiture)	.1	.2	.1
Mullin Companies reinsurance gains (subject to risk of forfeiture) ascribed by M Life to our life insurance policies	.8	.6	1.5
Mr. Mullin's direct & indirect interest in reinsurance gains (subject to risk of forfeiture)	.5	.4	1.1

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Revenue Recognition

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

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

Sales Returns and Allowances

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

Accounts Receivable Allowances

We are required to make judgments as to the collectibility of accounts receivable based on established aging policy, historical experience and future expectations. The allowances for doubtful accounts represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. We record these allowances based on estimates related to the following factors: (i) customer specific allowances; (ii) amounts based upon an aging schedule; and (iii) an estimated amount, based on our historical experience, for issues not yet identified. No single customer represented 10% or more of our net sales or trade receivables at year end 2007 and 2006. However, our ten largest customers at year end 2007 represented approximately 17% of trade accounts receivable and consisted of six customers of our Office and Consumer Products segment, three customers of our Pressure-sensitive Materials segment and one customer of both these segments. The financial position and operations of these customers are monitored on an ongoing basis.

Inventory and Inventory Reserves

Inventories are stated at the lower of cost or market value and are categorized as raw materials, work-in-progress or finished goods. Beginning in the fourth quarter of 2007, we changed the method of accounting for inventories for our U.S. operations from a combination of the use of FIFO and LIFO methods to the FIFO method. The inventories for our international operations continue to be valued using the FIFO method. We believe this change is preferable as the FIFO method better reflects the current value of inventories on the Consolidated Balance Sheet; provides better matching of revenue and expense in the Consolidated Statement of Income; provides uniformity across our operations with respect to the method for inventory accounting; and enhances comparability with peers. Furthermore, this application of the FIFO method will be consistent with our 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." We applied this change in accounting principle by retrospectively restating prior years' financial statements. Refer to the Financial

Presentation and Inventories sections of Note 1, “Summary of Significant Accounting Policies,” to the Consolidated Financial Statements for further information.

Inventory reserves are recorded for damaged, obsolete, excess and slow-moving inventory. We use estimates to record these reserves. Slow-moving inventory is reviewed by category and may be partially or fully reserved for depending on the type of product and the length of time the product has been included in inventory.

Long-lived Asset Impairments

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

Pensions and Postretirement Benefits

In December 2006, we adopted the provisions of SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)”:

- a) Recognition of the funded status of the Company’s defined benefit and postretirement benefit plan (with a corresponding reversal of minimum pension liability under SFAS No. 87);
- b) Recognition of the gains or losses, prior service costs or credits and transition assets or obligations remaining from the initial application of SFAS Nos. 87 and 106 as a component of accumulated other comprehensive income, net of tax;
- c) Measurement of the defined benefit plan assets and obligations as of the Company’s fiscal year end; and
- d) Disclosure of additional information about the effects of the amortization of gains or losses, prior service costs or credits, and transition assets or obligations (remaining from the initial application of SFAS Nos. 87 and 106) on net periodic benefit cost for the next fiscal year.

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

Discount Rate

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

Long-term Return on Assets

We determine the long-term rate of return assumption for plan assets by reviewing the historical and expected returns of both the equity and fixed income markets, taking into consideration that assets with higher volatility

typically generate a greater return over the long run. Additionally, current market conditions, such as interest rates, are evaluated and peer data is reviewed to check for reasonability and appropriateness.

Healthcare Cost Trend Rate

Our practice is to fund the cost of postretirement benefits on a cash basis. For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008. This rate is expected to decrease to approximately 5% by 2011.

Income Taxes

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

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

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

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

Stock-Based Compensation

Effective January 1, 2006, we began recognizing expense for stock-based compensation to comply with the provisions of the reissued SFAS No. 123(R), using the modified prospective application transition method. As permitted by this transition method, results for the prior periods have not been restated. In addition, we continued to recognize compensation cost related to outstanding unvested awards as of December 31, 2005 under the original provisions of SFAS No. 123. Stock-based compensation expense for all awards granted after December 31, 2005 was based on the grant date fair value estimated in accordance with SFAS No. 123(R).

Valuation of Stock Options

Our stock-based compensation expense is the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period. The fair value of each of our stock option awards is estimated on the date

of grant using the Black-Scholes option-pricing model. This model requires input assumptions for our expected dividend yield, expected volatility, risk-free interest rate and the expected life of the options.

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

Expected volatility for options granted during 2007 represented an average of implied and historical volatility. Expected volatility for options granted prior to 2006 was based on historical volatility of our stock price.

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

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

Forfeiture rate assumption was determined based on historical data of our stock option forfeitures over the last twelve years prior to 2007.

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

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

Accounting for Income Taxes for Stock-based Compensation

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

Restructuring and Severance Costs

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

Litigation and Environmental

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

Environmental expenditures are generally expensed. However, environmental expenditures for newly acquired assets and those which extend or improve the economic useful life of existing assets are capitalized and amortized over the remaining asset life. We review each reporting period our estimates of costs of compliance with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated us a potentially responsible party. When it is probable that obligations have been incurred and where a range of the cost of compliance or remediation can be estimated, the best estimate within the range, or if

an amount cannot be determined and be the most likely, the low end of the range is accrued. Potential insurance reimbursements are not offset against potential liabilities, and such liabilities are not discounted.

Business Combinations

We account for business combinations using the accounting requirements of SFAS No. 141, "Business Combinations." In accordance with SFAS No. 141, we record the assets acquired and liabilities assumed from acquired businesses at fair value, and we make estimates and assumptions to determine such fair values. We engage third-party valuation specialists to assist us in determining these fair value estimates.

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

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

RECENT ACCOUNTING REQUIREMENTS

During 2007, we adopted certain accounting and financial disclosure requirements of the Financial Accounting Standards Board ("FASB"), Emerging Issues Task Force ("EITF") and Financial Interpretations by the staff of the FASB. In 2006, the requirements with the most significant impact were the reissued SFAS No. 123(R), "Share-Based Payment," and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information.

SAFE HARBOR STATEMENT

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

Certain of such risks and uncertainties are discussed in more detail in Part I, Item 1A, "Risk Factors," to the Company's Annual Report on Form 10-K for the year ended December 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 from the integration of the Paxar business in the time and 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; impact of competitive products and pricing; selling prices; business mix shift; credit risks; ability of the Company to obtain adequate financing arrangements; fluctuation of interest rates; fluctuation in pension, insurance and employee benefit costs; impact of legal proceedings, including the Australian Competition and Consumer Commission investigation into industry competitive practices, and any related proceedings or lawsuits pertaining to this investigation or to the subject matter thereof or of the concluded investigations by the DOJ, the EC, 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 based on issues in China; 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 competitor's 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

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

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

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

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

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

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

Foreign Exchange Value-At-Risk

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

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

The estimated maximum potential one-day loss in earnings for our foreign exchange positions and contracts was approximately \$.3 million at year end 2007.

Interest Rate Sensitivity

An assumed 50 basis point move in interest rates (10% of our weighted-average interest rate on floating rate debt) affecting our variable-rate borrowings would have had an estimated \$5 million effect on our 2007 earnings.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is contained in the Company’s 2007 Annual Report to Shareholders on pages 37 through 77 (including the Consolidated Financial Statements and the Notes thereto appearing on pages 37 through 75, Statement of Management Responsibility for Financial Statements and Management’s Report on Internal Control Over Financial Reporting on page 76, and the Report of Independent Registered Public Accounting Firm on page 77) and is incorporated herein by reference.

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

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act). Based upon that evaluation, 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 the Chief Executive Officer and the Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act). Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based upon the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Company's management concluded that its internal control over financial reporting was effective as of December 29, 2007. (See Management's Report on Internal Control Over Financial Reporting on page 76 in the Company's 2007 Annual Report to Shareholders.)

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 29, 2007, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their Report of Independent Registered Public Accounting Firm on page 77 in the Company's 2007 Annual Report to Shareholders, and is incorporated herein by reference. Management has excluded Paxar Corporation from its assessment of internal control over financial reporting as of December 29, 2007 because it was acquired by the Company in a purchase business combination during 2007. PricewaterhouseCoopers LLP has also excluded Paxar Corporation from their audit of internal control over financial reporting. Paxar Corporation is a wholly-owned subsidiary whose total assets and total revenues represent 9 percent and 8 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 29, 2007.

Changes in Internal Control over Financial Reporting. During the third quarter of 2006, the Company implemented an upgrade to its financial reporting and consolidation system and installed new finance and accounting software for its Retail Information Services business in Asia. The Company reviewed both systems as they were being implemented, as well as the internal controls affected by the implementation. Where appropriate, the Company made changes to affected internal controls.

During the fourth quarter of 2006, the Company outsourced certain of its shared service functions for accounts receivable, accounts payable, and general ledger accounting to a third-party service provider. As part of the transition process, the Company reviewed the related internal controls and determined that the design of the controls surrounding these processes satisfies the control objectives of the Company. Where appropriate, the Company made changes to affected internal controls. The Company also tested the operating effectiveness of the controls, and determined that they were operating effectively.

In connection with the acquisition of Paxar, the Company has performed certain due diligence procedures related to Paxar's financial reporting and disclosure controls. As part of the ongoing integration, the Company continues to assess the overall control environment of this business.

Except for these changes, there have been no changes in the Company's internal controls over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company believes that its internal controls, as modified, were operating effectively as of December 29, 2007.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE

The information concerning directors called for by this item is incorporated by reference from pages 2-4 and 6-8 of the 2008 Proxy Statement, filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report. Information concerning executive officers called for by this item appears in Part I of this report. The information concerning any late filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference from page 6 of the 2008 Proxy Statement.

We have adopted a Code of Ethics (the “Code”). The Code applies to our Chief Executive Officer, Chief Financial Officer and Controller. Our Code is available on the Company’s Web site, www.averydennison.com, in the “Investors” section. We will satisfy disclosure requirements under Item 5.05 of Form 8-K regarding any amendment to, or waiver from, any provision of the Code that applies to these officers disclosing the nature of such amendment or waiver on our Web site or in a current report on Form 8-K. Our Code of Ethics and Business Conduct, which applies to our directors and employees, is also available on our Web site in the “Investors” section. *The Company’s Web site address provided above is not intended to function as a hyperlink, and the contents of the Web site are not a part of this Form 10-K, nor are they incorporated by reference herein.*

Item 11. EXECUTIVE COMPENSATION

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

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

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by Items 11, 12, 13 and 14 is incorporated by reference from page 5 until the end of the Audit Committee Report in the 2008 Proxy Statement, filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedule and Exhibits

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

(3) Exhibits filed as a part of this report are listed in the Exhibit Index, which follows the financial statements and schedules referred to above. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(c) is identified in the Exhibit Index.

(b) Those Exhibits and the Index thereto, required to be filed by Item 601 of Regulation S-K, are attached hereto.

(c) Those financial statement schedules required by Regulation S-X, which are excluded from the Company's 2007 Annual Report by Rule 14a-3(b)(1) and which are required to be filed as a financial statement schedule to this report, are indicated in the accompanying Index to Financial Statements and Financial Statement Schedule.

SIGNATURES

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

AVERY DENNISON CORPORATION

By /s/ Daniel R. O'Bryant

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

Dated: February 26, 2008

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Dean A. Scarborough</u> Dean A. Scarborough	President and Chief Executive Officer, Director	February 26, 2008
<u>/s/ Daniel R. O'Bryant</u> Daniel R. O'Bryant	Executive Vice President, Finance and Chief Financial Officer (Principal Financial Officer)	February 26, 2008
<u>/s/ Mitchell R. Butier</u> Mitchell R. Butier	Vice President and Controller (Principal Accounting Officer)	February 26, 2008
<u>/s/ Peter K. Barker</u> Peter K. Barker	Director	February 26, 2008
<u>/s/ Rolf Börjesson</u> Rolf Börjesson	Director	February 26, 2008
<u>/s/ John T. Cardis</u> John T. Cardis	Director	February 26, 2008
<u>/s/ Richard M. Ferry</u> Richard M. Ferry	Director	February 26, 2008
<u>/s/ Ken C. Hicks</u> Ken C. Hicks	Director	February 26, 2008
<u>/s/ Kent Kresa</u> Kent Kresa	Chairman, Director	February 26, 2008
<u>/s/ Peter W. Mullin</u> Peter W. Mullin	Director	February 26, 2008
<u>/s/ David E. I. Pyott</u> David E. I. Pyott	Director	February 26, 2008

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Patrick T. Siewert</u> Patrick T. Siewert	Director	February 26, 2008
<u>/s/ Julia A. Stewart</u> Julia A. Stewart	Director	February 26, 2008

AVERY DENNISON CORPORATION
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL
STATEMENT SCHEDULE

	Reference (page)	
	Form 10-K Annual Report	Annual Report to Shareholders
Data incorporated by reference from the attached portions of the 2007 Annual Report to Shareholders of Avery Dennison Corporation:		
<u>Consolidated Balance Sheet at December 29, 2007 and December 30, 2006</u>	—	37
<u>Consolidated Statement of Income for 2007, 2006 and 2005</u>	—	38
<u>Consolidated Statement of Shareholders' Equity for 2007, 2006 and 2005</u>	—	39
<u>Consolidated Statement of Cash Flows for 2007, 2006 and 2005</u>	—	40
<u>Notes to Consolidated Financial Statements</u>	—	41-75
<u>Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting</u>	—	76
<u>Report of Independent Registered Public Accounting Firm</u>	—	77

The consolidated financial statements include the accounts of majority-owned subsidiaries. Investments in certain affiliates (20 percent to 50 percent) are accounted for by the equity method of accounting. Investments representing less than 20 percent are accounted for using the cost method of accounting.

With the exception of the Consolidated Financial Statements, Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm thereon listed in the above index, and certain information referred to in Items 1, 5 and 6, which information is included in the Company's 2007 Annual Report to Shareholders and is incorporated herein by reference, the Company's 2007 Annual Report to Shareholders is not to be deemed "filed" as part of this report.

	Form 10-K Annual Report	Annual Report to Shareholders
Data submitted herewith:		
<u>Report of Independent Registered Public Accounting Firm on Financial Statement Schedule</u>	S-2	—
<u>Schedule II — Valuation and Qualifying Accounts and Reserves</u>	S-3	—
<u>Consent of Independent Registered Public Accounting Firm</u>	S-4	—

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors
of Avery Dennison Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 27, 2008 appearing in the 2007 Annual Report to Shareholders of Avery Dennison Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California

February 27, 2008

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

	Balance at Beginning of Year	Additions		Deductions From Reserves	Balance at End of Year
		Charged to Costs and Expenses	From Acquisitions		
2007					
Allowance for doubtful accounts	\$ 36.4	\$ 2.0	\$ 11.5	\$ (4.1)	\$ 45.8
Allowance for sales returns	22.5	17.3	—	(21.4)	18.4
Inventory reserve	44.4	19.5	36.0	(22.6)	77.3
Valuation allowance for deferred tax assets	67.5	59.9	34.9	(3.1)	159.2
2006					
Allowance for doubtful accounts	\$ 40.2	\$ 9.5	\$ —	\$ (13.3)	\$ 36.4
Allowance for sales returns	21.4	23.2	—	(22.1)	22.5
Inventory reserve	54.1	19.4	—	(29.1)	44.4
Valuation allowance for deferred tax assets	53.2	(5.2)	—	19.5	67.5
2005					
Allowance for doubtful accounts	\$ 35.2	\$ 19.0	\$ —	\$ (14.0)	\$ 40.2
Allowance for sales returns	26.3	10.3	—	(15.2)	21.4
Inventory reserve	50.0	30.6	—	(26.5)	54.1
Valuation allowance for deferred tax assets	88.5	(15.6)	—	(19.7)	53.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-38905, 333-64558, 333-103204, 333-120239 and 333-147369) and Form S-8 (File Nos. 33-1132, 33-3645, 33-41238, 33-45376, 33-54411, 33-58921, 33-63979, 333-38707, 333-38709, 333-107370, 33-107371, 333-107372, 333-109814 and 333-143897) of Avery Dennison Corporation of our report dated February 27, 2008 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 27, 2008 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California

February 27, 2008

AVERY DENNISON CORPORATION

EXHIBIT INDEX

For the Year Ended December 29, 2007

INCORPORATED BY REFERENCE:

<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document(s)</u>
(2.1)	Agreement and Plan of Merger (with Paxar Corporation), dated March 22, 2007	2.1	Current Report on Form 8-K, filed March 23, 2007
(3.1)	Restated Certificate of Incorporation, filed August 2, 2002 with the Office of Delaware Secretary of State	3(i)	Third Quarterly report for 2002 on Form 10-Q, filed November 12, 2002
(3.2)	By-laws, as amended	3.2.1	Current Report on Form 8-K, filed July 30, 2007
(4.2)	Indenture, dated as of March 15, 1991, between Registrant and Security Pacific National Bank, as Trustee (the "Indenture")		Registration Statement on Form S-3 (File No. 33-39491), filed March 19, 1991
(4.2.2)	First Supplemental Indenture, dated as of March 16, 1993, between Registrant and BankAmerica National Trust Company, as successor Trustee (the "Supplemental Indenture")	4.4	Registration Statement on Form S-3 (File No. 33-59642), filed March 17, 1993
(4.2.5)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series C" under the Indenture, as amended by the Supplemental Indenture	4.7	Current Report on Form 8-K, filed May 12, 1995
(4.2.6)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series D" under the Indenture, as amended by the Supplemental Indenture	4.8	Current Report on Form 8-K, filed December 16, 1996
(4.3)	Indenture, dated July 3, 2001, between Registrant and J.P.Morgan Trust Company, National Association (successor to Chase Manhattan Bank and Trust Company, National Association), as trustee ("2001 Indenture")	4.1	Registration Statement on Form S-3 (File No. 333-64558), filed July 3, 2001
(4.3.1)	Officers' Certificate establishing two series of Securities entitled "4.875% Notes due 2013" and "6.000% Notes due 2033", respectively, each under the 2001 Indenture	4.2	Current Report on Form 8-K, filed January 16, 2003
(4.3.2)	4.875% Notes Due 2013	4.3	Current Report on Form 8-K, filed January 16, 2003
(4.3.3)	6.000% Notes Due 2033	4.4	Current Report on Form 8-K, filed January 16, 2003

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document(t)</u>
(4.5)	Indenture, dated as of September 25, 2007, between Registrant and The Bank of New York Trust Company, N.A. (“Bank of NY”)	99.1	Current Report on Form 8-K, filed October 1, 2007
(4.5.1)	6.625% Subsidiary Notes due 2017	99.1	Current Report on Form 8-K, filed October 1, 2007
(4.6)	Indenture, dated as of November 20, 2007, between Registrant and Bank of NY	4.3	Current Report on Form 8-K, filed November 20, 2008
(4.7)	Purchase Contract and Pledge Agreement, dated as of November 20, 2007, between Avery Dennison and Bank of New York, as Purchase Contract Agent, and Bank of New York as Collateral Agent, Custodial Agent and Securities Intermediary	4.1	Current Report on Form 8-K, filed November 20, 2007
(4.8)	Indenture, dated as of November 20, 2007, between Avery Dennison and Bank of New York	4.2	Current Report on Form 8-K, filed November 20, 2007
(4.9)	First Supplemental Indenture between Avery Dennison and Bank of New York, as Trustee, dated as of November 20, 2007	4.3	Current Report on Form 8-K, filed November 20, 2007
(4.10)	Form of Remarketing Agreement	4.4	Current Report on Form 8-K, filed November 20, 2007
(4.11)	Form of Corporate HiMEDS Unit Certificate	4.5	Current Report on Form 8-K, filed November 20, 2007
(4.12)	Form of Treasury HiMEDS Unit Certificate	4.6	Current Report on Form 8-K, filed November 20, 2007
(4.13)	Form of 5.350% Senior Notes due 2020	4.7	Current Report on Form 8-K, filed November 20, 2007
(10.1)	Revolving Credit Agreement, dated June 13, 2007	10.2	Second Quarterly report for 2007 on Form 10-Q, filed August 9, 2007
(10.2)	Revolving Credit Agreement, dated August 10, 2007	10.2.2	Third Quarterly report for 2007 on Form 10-Q, filed November 7, 2007
(10.3)	*Deferred Compensation Plan for Directors	10.3	1981 Annual Report on Form 10-K, filed February 29, 1982
(10.4)	*Non-Employee Director Compensation Summary	10.4	2006 Annual Report on Form 10-K, filed February 28, 2007
(10.5)	*Executive Medical and Dental Plan (description)	10.5	1981 Annual Report on Form 10-K, filed February 29, 1982
(10.8)	*Employment Agreement with D.A. Scarborough	10.8.5	First Quarterly report for 2005 on Form 10-Q, filed May 12, 2005
(10.8.2)	*Employment Agreement with R.G. van Schoonenberg	10.8.3	1996 Annual Report on Form 10-K, filed March 28, 1997
(10.8.3)	*Form of Employment Agreement	10.8.4	First Quarterly report for 2004 on Form 10-Q, filed May 6, 2004

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document(1)</u>
(10.8.4)	*Retention Agreement with D.R. O’Bryant	10.8.6	First Quarterly report for 2005 on Form 10-Q, filed May 12, 2005
(10.9)	*Executive Group Life Insurance Plan	10.9	1982 Annual Report on Form 10-K, filed February 25, 1983
(10.10)	*Form of Indemnity Agreement between Registrant and certain directors and officers	10.10	1986 Annual Report on Form 10-K, filed on February 27, 1987
(10.10.1)	*Form of Indemnity Agreement between Registrant and certain directors and officers	10.10.1	1993 Annual Report on Form 10-K, filed March 18, 1994
(10.11)	*Supplemental Executive Retirement Plan, amended and restated (“SERP”)	10.11.1	First Quarterly report for 2004 on Form 10-Q, filed May 6, 2004
(10.11.2)	*Letter of Grant to D.A. Scarborough under SERP	10.11.6	Current Report on Form 8-K, filed May 4, 2005
(10.11.3)	*Letter of Grant to R.G. van Schoonenberg under SERP	99.1	Current Report on Form 8-K, filed February 2, 2005
(10.11.4)	*Letter of Grant to D.R. O’Bryant under SERP	99.2	Current Report on Form 8-K, filed February 2, 2005
(10.12)	*Complete Restatement and Amendment of Executive Deferred Compensation Plan	10.12	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.13)	*Retirement Plan for Directors, amended and restated	10.13.1	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.15)	*Director Equity Plan, amended and restated (“Director Plan”)	10.15.4	2002 Annual Report on Form 10-K, filed March 28, 2003
(10.15.1)	*Form of Non-Employee Director Stock Option Agreement under Director Plan	10.15.1	2003 Annual Report on Form 10-K, filed March 11, 2004
(10.16)	*Complete Restatement and Amendment of Executive Variable Deferred Compensation Plan (“EVDCP”)	10.16	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.16.1)	*Amendment No. 1 to EVDCP	10.16.1	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.17)	*Complete Restatement and Amendment of Directors Deferred Compensation Plan	10.17	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.18)	*Complete Restatement and Amendment of Directors Variable Deferred Compensation Plan (“DVDCP”)	10.18	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.18.1)	*Amendment No. 1 to DVDCP	10.18.1	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.18.2)	*2005 Directors Variable Deferred Compensation Plan (“2005 DVDCP”)	10.18.2	2004 Annual Report on Form 10-K, filed March 17, 2005

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document(1)</u>
(10.19)	*Stock Option and Incentive Plan, amended and restated (“Stock Option Plan”)	10.19.6	2004 Annual Report on Form 10-K, filed March 17, 2005
(10.19.1)	*Amendment No. 1 to Stock Option Plan	10.19.7	Second Quarterly report for 2005 on Form 10-Q, filed August 11, 2005
(10.19.2)	*Forms of NQSO Agreement under Stock Option Plan	10.19.1	Current Report on Form 8-K, filed December 7, 2005
(10.19.3)	*Form of Restricted Stock Agreement under Stock Option Plan	10.19.8	First Quarterly report for 2005 on Form 10-Q, filed May 12, 2005
(10.19.4)	*Forms of Restricted Stock Unit Agreement under Stock Option Plan	10.19.2	Current Report on Form 8-K, filed December 13, 2006
(10.27)	*Executive Long-Term Incentive Plan, amended and restated (“LTIP”)	10.27.1	2003 Annual Report on Form 10-K, filed March 11, 2004
(10.28)	*Complete Restatement and Amendment of Executive Deferred Retirement Plan (“EDRP”)	10.28	1994 Annual Report on Form 10-K, filed March 30, 1995
(10.28.1)	*Amendment No. 1 to EDRP	10.28.1	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.28.2)	*Amendment No. 2 to EDRP	10.28.2	2001 Annual Report on Form 10-K, filed March 4, 2002
(10.29)	*Executive Leadership Compensation Plan, (“ELCP”)	10.29.1	2004 Annual Report on Form 10-K, filed March 17, 2005
(10.30)	*Senior Executive Leadership Compensation Plan, amended and restated (“SELCP”)	10.30.2	2003 Annual Report on Form 10-K, filed March 11, 2004
(10.31)	*Executive Variable Deferred Retirement Plan, amended and restated (“EVDRP”)	10.31.5	2003 Annual Report on Form 10-K, filed March 11, 2004
(10.31.1)	*2004 EVDRP	4.1	Registration Statement on Form S-8 (File No. 333-109814), filed October 20, 2003
(10.31.2)	*2005 EVDRP	10.31.2	2004 Annual Report on Form 10-K, filed March 17, 2005
(10.32)	*Benefits Restoration Plan, amended and restated (“BRP”)	10.32.1	Current Report on Form 8-K, filed December 22, 2005
(10.33)	*Restated Trust Agreement for Employee Stock Benefit Trust	10.33.1	1997 Annual Report on Form 10-K, filed March 26, 1998
(10.33.1)	*Common Stock Purchase Agreement	10.2	Current Report on Form 8-K, filed October 25, 1996
(10.33.2)	*Restated Promissory Note	10.33.3	1997 Annual Report on Form 10-K, filed March 26, 1998
(10.34)	*Amended and Restated Capital Accumulation Plan (“CAP”)	10.34	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.34.1)	*Trust under CAP	4.2	Registration Statement on Form S-8 (File No. 333-38707), filed October 24, 1997

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<u>Exhibit No.</u>	<u>Item</u>	<u>Originally Filed as Exhibit No.</u>	<u>Document(1)</u>
(10.34.2)	*Amendment No. 1 to CAP	10.34.2	1999 Annual Report on Form 10-K, filed March 30, 2000
(10.34.3)	*Amendment No. 2 to CAP	10.34.3	2001 Annual Report on Form 10-K, filed March 4, 2002
(23.1)	Consent of Ernst & Young	23.1	Current Report on Form 8-K/A, filed August 29, 2007
(23.2)	Consent of Ernst & Young	23.3	Registration Statement on Form S-3 (File No. 333-147369), filed November 14, 2007
(99.2)	*Stock Ownership Policy	99.2	2007 Proxy Statement on Schedule 14A, filed March 15, 2007

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

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

SUBMITTED HEREWITH:

<u>Exhibit No.</u>	<u>Item</u>
10.1	Avery Dennison Office Products Company (subsidiary) Credit Agreement dated February 8, 2008
10.19.5	Forms of NQSO Agreement
12	Computation of Ratio of Earnings to Fixed Changes
13	Portions of Annual Report to Shareholders for fiscal year ended December 29, 2007
18	PricewaterhouseCoopers letter dated February 27, 2008 related to change in accounting principles
21	List of Subsidiaries
23	Consent of Independent Registered Public Accounting Firm (see page S-4)
24	Power of Attorney
31.1	D. A. Scarborough Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	D. R. O'Bryant Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	D. A. Scarborough Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	D. R. O'Bryant Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

STATEMENT AND AGREEMENT REGARDING LONG-TERM DEBT OF REGISTRANT

Except as indicated above, Registrant has no instrument with respect to long-term debt under which securities authorized thereunder equal or exceed 10% of the total assets of Registrant and its subsidiaries on a consolidated basis. Registrant agrees to furnish a copy of its long-term debt instruments to the Commission upon request.



CREDIT AGREEMENT

Dated as of February 8, 2008

among

AVERY DENNISON OFFICE PRODUCTS COMPANY,
as the Borrower,

AVERY DENNISON CORPORATION,
as Holdings,

BANK OF AMERICA, N.A.,
as Administrative Agent,

The Other Lenders Party Hereto,

and

BANC OF AMERICA SECURITIES LLC,

and

J.P. MORGAN SECURITIES INC.,
as Joint Lead Arrangers.

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EXHIBITS

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- A Committed Loan Notice
- B Note
- C Compliance Certificate
- D Assignment and Assumption
- E-1 Opinion Matters — Counsel to Loan Parties
- E-2 Opinion Matters — Local Counsel to Loan Parties

CREDIT AGREEMENT

This CREDIT AGREEMENT ("Agreement") is entered into as of February 8, 2008, among AVERY DENNISON OFFICE PRODUCTS COMPANY, a Nevada corporation (the "Borrower"), AVERY DENNISON CORPORATION, a Delaware corporation ("Holdings"), each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), and BANK OF AMERICA, N.A., as Administrative Agent (the "Administrative Agent").

PRELIMINARY STATEMENTS:

The Borrower has requested that the Lenders provide a term loan facility and the Lenders have indicated their willingness to lend on the terms and subject to the conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth below:

"Acquisition" means any transaction, or any series of related transactions, consummated after the Closing Date, by which Holdings and/or any of its Subsidiaries directly or indirectly (a) acquires any going business or all or substantially all of the assets of any firm, corporation, or division thereof, whether through purchase of assets, merger or otherwise or (b) acquires (in one transaction or as the most recent transaction in a series of transactions) control of at least a majority in ordinary voting power of the securities of a corporation which have ordinary voting power for the election of directors or (c) acquires control of at least a majority ownership interest in any partnership or joint venture.

"Administrative Agent" has the meaning specified in the introductory paragraph hereto and also means any successor administrative agent appointed pursuant to Section 9.06.

"Administrative Agent's Office" means the Administrative Agent's address and, as appropriate, account as set forth on Schedule 11.02, or such other address or account as the Administrative Agent may from time to time notify to the Borrower and the Lenders.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Aggregate Commitments" means the Commitments of all the Lenders.

“Agreement” means this Credit Agreement.

“Applicable Percentage” means with respect to any Lender at any time, the percentage (carried out to the ninth decimal place) of the Loans represented by (i) on or prior to the Closing Date, such Lender’s Commitment at such time and (ii) thereafter, the principal amount of such Lender’s Loans at such time. The initial Applicable Percentage of each Lender in respect of the Loans is set forth opposite the name of such Lender on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable.

“Applicable Rate” means, in respect of the Loans, from time to time, the following percentages per annum, based upon the Debt Rating as set forth below:

Applicable Rate

<u>Pricing Level</u>	<u>Debt Ratings S&P/Moody’s</u>	<u>Applicable Margin for LIBOR Loans</u>	<u>Applicable Margin for Base Rate Loans</u>
1	A+/A1 or better	0.300%	0.000%
2	A/A2	0.350%	0.000%
3	A-/A3	0.450%	0.000%
4	BBB+/Baa1	0.550%	0.000%
5	BBB/Baa2 or lower	0.850%	0.000%

“Debt Rating” means, as of any date of determination, the rating as determined by either S&P or Moody’s (collectively, the “Debt Ratings”) of Holdings’ non-credit-enhanced, senior unsecured long-term debt; provided that (a) if the respective Debt Ratings issued by the foregoing rating agencies differ by one level, then the Pricing Level for the higher of such Debt Ratings shall apply (with the Debt Rating for Pricing Level 1 being the highest and the Debt Rating for Pricing Level 5 being the lowest); (b) if there is a split in Debt Ratings of more than one level, then the Pricing Level that is one level lower than the Pricing Level of the higher Debt Rating shall apply; (c) if Holdings has only one Debt Rating, the Pricing Level that is one level lower than that of such Debt Rating shall apply; and (d) if Holdings does not have any Debt Rating, Pricing Level 5 shall apply.

Initially, the Applicable Rate shall be based upon the Debt Rating in effect as of the Closing Date. Thereafter, each change in the Applicable Rate resulting from a publicly announced change in the Debt Rating shall be effective during the period commencing on the date of the public announcement thereof and ending on the date immediately preceding the effective date of the next such change.

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 11.06(b)), and accepted by the Administrative Agent, in substantially the form of Exhibit D or any other form approved by the Administrative Agent.

“Audited Financial Statements” means the audited consolidated balance sheet of Holdings and its Subsidiaries for the fiscal year ended December 30, 2006, and the related consolidated statements of income or operations, shareholders’ equity and cash flows for such fiscal year of Holdings and its Subsidiaries, including the notes thereto.

“Bank of America” means Bank of America, N.A. and its successors.

“Base Rate” means for any day a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate.” The “prime rate” is a rate set by Bank of America based upon various factors including Bank of America’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

“Base Rate Loan” means a Loan that bears interest based on the Base Rate.

“Borrower” has the meaning specified in the introductory paragraph hereto.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Administrative Agent’s Office is located and, if such day relates to any Eurodollar Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

“Cash Equivalents” means, when used in connection with any Person, such Person’s Investments in:

(a) Government Securities due within one year after the date of the making of the Investment;

(b) certificates of deposit issued by, bank deposits in, bankers’ acceptances of, and repurchase agreements covering Government Securities executed by, any Lender or any bank doing business in and incorporated under the laws of the United States or any state thereof or Canada and having on the date of such Investment combined capital, surplus, and undivided profits of at least \$500,000,000 in each case due within one year after the date of the making of the Investment; and

(c) readily marketable commercial paper of corporations doing business in and incorporated under the laws of the United States or any state thereof or Canada or any province thereof given on the date of such Investment the highest credit rating by

NCO/Moody's Commercial Paper Division of Moody's or S&P, in each case due within six months after the date of the making of the Investment.

"Change in Law" means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority.

"Closing Date" means the first date all the conditions precedent in Section 4.01 are satisfied or waived in accordance with Section 11.01.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commitment" means, as to each Lender, its obligation to make Loans to the Borrower pursuant to Section 2.01 in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule 2.01 under the caption "Commitment" or opposite such caption in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement. The aggregate amount of the Commitments hereunder is \$400,000,000.

"Committed Loan Notice" means a notice requesting (a) the Loans to be made on the Closing Date, (b) a conversion of Loans from one Type to the other, or (c) a continuation of Eurodollar Rate Loans, pursuant to Section 2.02(a), which, if in writing, shall be substantially in the form of Exhibit A.

"Compliance Certificate" means a certificate substantially in the form of Exhibit C.

"Consolidated Debt" means, as of any date of determination, the Debt of Holdings and the Consolidated Subsidiaries, determined on a consolidated basis as of such date.

"Consolidated Earnings Before Interest and Taxes" means, as of any date of determination, the earnings of Holdings and the Consolidated Subsidiaries for the twelve month fiscal period most recently ended on or prior to such date before deducting interest expense and taxes on or measured by income charged against earnings for such period.

"Consolidated EBITDA" means, for any period, Consolidated Net Income for such period plus, to the extent deducted in the determination of such Consolidated Net Income, (a) Consolidated Interest for such period, (b) the provision for income taxes for such period, and (c) depreciation and amortization expense for such period.

"Consolidated Interest" means, as of any date of determination, the interest expense of Holdings and the Consolidated Subsidiaries for the twelve month fiscal period most recently ended on or prior to such date.

“Consolidated Net Income” means, for any period, the consolidated net income of Holdings and the Consolidated Subsidiaries for such period.

“Consolidated Net Worth” means, as of any date of determination, the consolidated net worth of Holdings and the Consolidated Subsidiaries, plus Subordinated Debt in an amount up to but not exceeding 20% of the consolidated net worth of Holdings and the Consolidated Subsidiaries (minus any Subordinated Debt carried in the treasury of Holdings and any of its Subsidiaries); provided that, for purposes of this definition only, any guaranty by Holdings or any of its Subsidiaries of any Subordinated Debt shall be excluded from the calculation of Subordinated Debt.

“Consolidated Subsidiary” means any Subsidiary of Holdings whose financial statements are consolidated with the financial statements of Holdings in conformity with GAAP.

“Consolidated Total Tangible Assets” means, as of any date of determination, all assets of Holdings and the Consolidated Subsidiaries that should be reflected in the asset side of a consolidated balance sheet of Holdings and the Consolidated Subsidiaries as of such date of determination, excluding any Intangible Assets.

“Contingent Obligation” means any guarantee of any obligation of another Person, or any agreement to become directly or indirectly responsible for an obligation of another Person, (including, without limitation, any agreement to maintain the net worth or liquidity of another Person or to purchase any obligation, goods or services of another Person, or otherwise to provide credit assurances to the holder of an obligation of another Person), or any agreement in the nature of a guarantee or having the effect of creating responsibility for the obligation of another Person, except the guarantee or agreement in the nature of a guarantee by Holdings or a Consolidated Subsidiary of the obligations of a Consolidated Subsidiary.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Debt” of any Person means at any date, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable and deferred employee compensation obligations arising in the ordinary course of business, (d) all obligations of such Person as lessee which are capitalized in accordance with GAAP, (e) all unpaid reimbursement obligations of such Person in respect of letters of credit or similar instruments but only to the extent that either (i) the issuer has honored a drawing thereunder or (ii) payment of such obligation is otherwise due under the terms thereof, (f) all Debt secured by a Lien on real property which is otherwise an obligation of such Person, and (g) all Debt of others in excess of \$1,000,000 guaranteed by such Person.

“Debt Rating” has the meaning specified in the definition of “Applicable Rate.”

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means an interest rate equal to (i) the Base Rate plus (ii) the Applicable Rate, if any, applicable to Base Rate Loans plus (iii) 2% per annum; provided, however, that with respect to a Eurodollar Rate Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Rate) otherwise applicable to such Loan plus 2% per annum.

“Defaulting Lender” means any Lender that (a) has failed to fund any portion of the Loans required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder, (b) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute, or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

“Designated Officer” means the chief executive officer, president, chief financial officer, treasurer, assistant treasurer or controller of a Loan Party and any other officer of the applicable Loan Party so designated by any of the foregoing officers in a notice to the Administrative Agent. Any document delivered hereunder that is signed by a Designated Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Designated Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

“Dollar” and “\$” mean lawful money of the United States.

“Domestic Subsidiary” means any Subsidiary of Holdings that is organized under the laws of any political subdivision of the United States.

“Eligible Assignee” means, (a) a Lender; (b) an Affiliate of a Lender; (c) an Approved Fund; and (d) any other Person (other than a natural person) approved by (i) the Administrative Agent (such approval not to be unreasonably withheld or delayed), and (ii) unless (A) such Person is taking delivery of an assignment in connection with physical settlement of a credit derivative transaction or (B) an Event of Default has occurred and is continuing, the Borrower (each such consent to be within the discretion of the consenting party); provided that notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of the Borrower’s Affiliates or Subsidiaries.

“Environmental Claims” means all claims, however asserted, by any Governmental Authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, or for release or injury to the environment.

“Environmental Laws” means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authorities, in each case relating to environmental, health, safety and land use matters.

“ERISA” means, at any date, the Employee Retirement Income Security Act of 1974 and the regulations thereunder.

“Eurodollar Rate” means, for any Interest Period with respect to a Eurodollar Rate Loan, the rate per annum equal to the British Bankers Association LIBOR Rate (“BBA LIBOR”), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Administrative Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the “Eurodollar Rate” for such Interest Period shall be the rate per annum determined by the Administrative Agent to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Loan being made, continued or converted by Bank of America and with a term equivalent to such Interest Period would be offered by Bank of America’s London Branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

“Eurodollar Rate Loan” means a Loan that bears interest at a rate based on the Eurodollar Rate.

“Event of Default” has the meaning specified in Section 8.01.

“Excluded Taxes” means, with respect to the Administrative Agent, any Lender, or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable Lending Office is located, (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 11.13), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party hereto (or designates a new Lending Office) or is attributable to such Foreign Lender’s failure or inability (other than as a result of a Change in Law) to comply with Section 3.01(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 3.01(a).

“Existing Credit Agreement” means that certain bridge credit agreement dated as of June 13, 2007 by and among Holdings, the lenders party thereto, and J.P. Morgan Securities Inc., as arranger.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by the Administrative Agent.

“Fee Letters” means, collectively, (i) the letter agreement, dated January 4, 2008, among the Borrower, the Administrative Agent and Banc of America Securities LLC, and (ii) the letter agreement, dated January 8, 2008, among the Borrower, JPMorgan Chase Bank, N.A. and J.P. Morgan Securities Inc., as either letter agreement may be amended, modified, replaced or restated from time to time.

“Foreign Lender” means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is resident for tax purposes. For purposes of this definition, the United States, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“FRB” means the Board of Governors of the Federal Reserve System of the United States.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its activities.

“GAAP” means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination.

“Governmental Authority” means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Government Securities” means readily marketable direct obligations of the United States or obligations fully guaranteed by the United States.

“Guarantied Parties” means, collectively, the Administrative Agent, the Lenders, and each co-agent or sub-agent appointed by the Administrative Agent from time to time pursuant to Section 9.05.

“Guaranty” means the Guaranty made by Holdings under Article X in favor of the Guarantied Parties.

“Holdings” has the meaning specified in the introductory paragraph hereto.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Indemnitees” has the meaning specified in Section 11.04(b).

“Information” has the meaning specified in Section 11.07.

“Intangible Assets” means assets having no physical existence and that, in conformity with GAAP, should be classified as intangible assets, including without limitation such intangible assets as patents, trademarks, copyrights, franchises, licenses and goodwill.

“Interest Payment Date” means, (a) as to any Eurodollar Rate Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date; provided, however, that if any Interest Period for a Eurodollar Rate Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan, the first Business Day of each April, July, October and January and the Maturity Date.

“Interest Period” means, as to each Eurodollar Rate Loan, the period commencing on the date such Eurodollar Rate Loan is disbursed or converted to or continued as a Eurodollar Rate Loan and ending on the date one, two, three or six months thereafter, as selected by the Borrower in its Committed Loan Notice; provided that:

(a) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) no Interest Period shall extend beyond the Maturity Date.

“IRS” means the United States Internal Revenue Service.

“Investment” means, when used in connection with any Person, any investment by such Person, whether by means of purchase or other acquisition of stock or other securities or by means of loan, advance, capital contribution, guarantee, or other debt or equity participation or interest in any other Person.

“Joint Lead Arrangers” means, collectively, Banc of America Securities LLC and J.P. Morgan Securities Inc. in their capacities as joint lead arrangers.

“Laws” means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable executive orders, administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

“Lender” has the meaning specified in the introductory paragraph hereto.

“Lending Office” means, as to any Lender, the office or offices of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Administrative Agent.

“Leverage Ratio” means, at any date, the ratio of Consolidated Debt at such date to Consolidated EBITDA for the period of four consecutive fiscal quarters most recently ended on or prior to such date.

“Lien” means any mortgage, deed of trust, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof, and any financing statement filed under the Uniform Commercial Code of any jurisdiction).

“Loan” means an extension of credit by a Lender to the Borrower under Article II.

“Loan Documents” means, collectively, (a) this Agreement, (b) the Notes, (c) the Guaranty, and (d) the Fee Letters.

“Loan Parties” means, collectively, the Borrower and Holdings.

“Loan Party Materials” has the meaning specified in Section 6.03.

“Majority Lenders” means, as of any date of determination, a Lender or Lenders holding more than 50% of the Outstanding Amount on such date; provided that the portion of the Outstanding Amount held or deemed held by any Defaulting Lender shall be excluded for purposes of making a determination of Majority Lenders.

“Margin Stock” means “margin stock” as such term is defined in Regulation U of the FRB.

“Material Adverse Effect” means a material adverse change in, or a material adverse effect upon, the operations, business, assets or condition (financial or otherwise) of Holdings or Holdings and its Subsidiaries taken as a whole.

“Maturity Date” means February 8, 2011; provided, however, that if such date is not a Business Day, the Maturity Date shall be the next preceding Business Day.

“Moody’s” means Moody’s Investors Service, Inc. and any successor thereto.

“Note” means a promissory note made by the Borrower in favor of a Lender evidencing Loans made or held by such Lender, substantially in the form of Exhibit B.

“Obligations” means all advances to, and debts, liabilities, obligations, covenants and duties of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against any Loan Party or any Affiliate of any Loan Party of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

“Organization Documents” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

“Other Taxes” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“Outstanding Amount” means, on any date, the aggregate outstanding principal amount of Loans after giving effect to any borrowings and prepayments or repayments of Loans occurring on such date.

“Participant” has the meaning specified in Section 11.06(d).

“Pension Plan” means any “employee pension benefit plan” (as such term is defined in ERISA) which is subject to ERISA and which is from time to time maintained by Holdings or any of its Subsidiaries.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Platform” has the meaning specified in Section 6.03.

“Public Lender” means any Lender that may have personnel who do not wish to receive material non-public information with respect to Holdings or its Affiliates, or the respective securities of any of the foregoing, and who may be engaged in investment and other market-related activities with respect to any such Person’s securities.

“Register” has the meaning specified in Section 11.06(c).

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person’s Affiliates.

“Restricted Margin Stock” means, as of any date of determination, all of the Margin Stock owned by Holdings and its Subsidiaries to the extent that the fair market value thereof is not more than 25% of the aggregate fair market value of the assets of Holdings and its Subsidiaries, determined on a consolidated basis.

“Rights of Others” means, as to any property in which a Person has an interest, any legal or equitable claim or other interest (other than a Lien) in or with respect to that property held by any other Person, and any option or right held by any other Person to acquire any such claim or other interest, including a Lien.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“Significant Subsidiary” means any Subsidiary of Holdings with assets in excess of 3% of Consolidated Total Tangible Assets.

“Subordinated Debt” means, as of any date of determination, the aggregate principal amount then outstanding of Debt of Holdings and its Subsidiaries that is subordinated to the Obligations, on terms that (a) prohibit any payment on that Debt (whether principal, premium, if any, interest, or otherwise) if: (i) any event not waived hereunder has occurred and is continuing that is a Default or an Event of Default, or (ii) the payment would cause the occurrence of a Default or an Event of Default; and (b) require that, upon acceleration of that Debt or upon dissolution, liquidation, or reorganization of Holdings or any such Subsidiary, the Obligations must be paid in full before any payment (whether of principal, premium, if any, interest, or otherwise) may be made on that Debt.

“Subsidiary” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body

(other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of Holdings.

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“to the best knowledge of” means, when modifying a representation, warranty, or other statement of any Person, that the fact or situation described therein is known by such Person (or, in the case of a Person other than a natural person, known by a responsible officer, director or partner of such Person) making the representation, warranty, or other statement, or with the exercise of reasonable due diligence under the circumstances (in accordance with the standard of what a reasonable person in similar circumstances would have done) should have been known by the Person (or, in the case of a Person other than a natural person, should have been known by a responsible officer, director or partner of such Person).

“Type” means, with respect to a Loan, its character as a Base Rate Loan or a Eurodollar Rate Loan.

“United States” and “U.S.” mean the United States of America.

“Unrestricted Margin Stock” means, as of any date of determination, all of the Margin Stock owned by Holdings and its Subsidiaries that is not Restricted Margin Stock.

1.02 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (iii) the words “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Preliminary Statements, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Preliminary Statements, Exhibits and Schedules to, the Loan Document in which such references

appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) except where the context provides otherwise, the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including,” the words “to” and “until” each mean “to but excluding,” and the word “through” means “to and including.”

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

1.03 Accounting Terms. (a) Generally. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein.

(b) Changes in GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Majority Lenders shall so request, the Administrative Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Majority Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Borrower shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

1.04 Rounding. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Pacific time (daylight or standard, as applicable).

ARTICLE II
THE COMMITMENTS AND LOANS

2.01 The Loans. Subject to the terms and conditions set forth herein, each Lender severally agrees to make a single loan to the Borrower on the Closing Date in an amount not to exceed such Lender's Commitment. The Loans shall be made simultaneously by the Lenders in accordance with their respective Applicable Percentages. Amounts borrowed under this Section 2.01 and repaid or prepaid may not be reborrowed. Loans may be Base Rate Loans or Eurodollar Rate Loans, as further provided herein.

2.02 The Making, Conversions and Continuations of Loans. (a) The Loans, each conversion of Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon the Borrower's irrevocable notice to the Administrative Agent, which may be given by telephone. Each such notice must be received by the Administrative Agent not later than 9:00 a.m. (i) in the case of any Eurodollar Rate Loans to be made on the Closing Date, three Business Days prior to the Closing Date, and, in the case of any conversion to or continuation of Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to Base Rate Loans, three Business Days prior to the requested date of such continuation or conversion, and (ii) in the case of Base Rate Loans to be made on the Closing Date, on the Closing Date. Each telephonic notice by the Borrower pursuant to this Section 2.02(a) must be confirmed promptly by delivery to the Administrative Agent of a written Committed Loan Notice, appropriately completed and signed by a Designated Officer of the Borrower. Each Eurodollar Rate Loan made on the Closing Date, and each conversion to or continuation of Eurodollar Rate Loans, shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof. Each conversion to Base Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof. Each Committed Loan Notice (whether telephonic or written) shall specify (i) whether the Borrower is requesting the Loans be made, a conversion of Loans from one Type to the other, or a continuation of Eurodollar Rate Loans, (ii) the Closing Date or the requested date of the conversion or continuation, as the case may be (which shall be a Business Day in any event), (iii) the principal amount of Loans to be borrowed, converted or continued, (iv) the Type of Loans to be borrowed or to which existing Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrower fails to specify a Type of Loan in a Committed Loan Notice or if the Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Loans shall be made as, or converted to, Base Rate Loans. Any such automatic conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable Eurodollar Rate Loans. If the Borrower requests Eurodollar Rate Loans to be made on the Closing Date or requests conversion to, or continuation of Eurodollar Rate Loans in any such Committed Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(b) Following receipt of a Committed Loan Notice, the Administrative Agent shall promptly notify each Lender of the amount of its Applicable Percentage, and if no timely notice of a conversion or continuation is provided by the Borrower, the Administrative Agent shall notify each Lender of the details of any automatic conversion to Base Rate Loans described in Section 2.02(a). Each Lender shall make the amount of its Loan available to the Administrative Agent in immediately available funds at the Administrative Agent's Office not

later than 11:00 a.m. on the Closing Date. Upon satisfaction of the applicable conditions set forth in Section 4.01, the Administrative Agent shall make all funds so received available to the Borrower in like funds as received by the Administrative Agent either by (i) crediting the account of the Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Administrative Agent by the Borrower.

(c) Except as otherwise provided herein, a Eurodollar Rate Loan may be continued or converted only on the last day of an Interest Period for such Eurodollar Rate Loan. During the existence of a Default, no Loans may be requested as, converted to or continued as Eurodollar Rate Loans without the consent of the Majority Lenders.

(d) The Administrative Agent shall promptly notify the Borrower and the Lenders of the interest rate applicable to any Interest Period for Eurodollar Rate Loans upon determination of such interest rate. At any time that Base Rate Loans are outstanding, the Administrative Agent shall notify the Borrower and the Lenders of any change in Bank of America's prime rate used in determining the Base Rate promptly following the public announcement of such change.

(e) After making the Loans on the Closing Date, all conversions of Loans from one Type to the other, and all continuations of Loans as the same Type, there shall not be more than eight Interest Periods in effect in respect of the Loans.

2.03 Optional Prepayments. The Borrower may, upon notice to the Administrative Agent, at any time or from time to time voluntarily prepay Loans in whole or in part without premium or penalty; provided that (A) such notice must be received by the Administrative Agent not later than 9:00 a.m. (1) three Business Days prior to any date of prepayment of Eurodollar Rate Loans and (2) on the date of prepayment of Base Rate Loans; (B) any prepayment of Eurodollar Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof; and (C) any prepayment of Base Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid and, if Eurodollar Rate Loans are to be prepaid, the Interest Period(s) of such Loans. The Administrative Agent will promptly notify each Lender of its receipt of each such notice, and of the amount of such Lender's ratable portion of such prepayment (based on such Lender's Applicable Percentage). If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05. Each prepayment of the outstanding Loans pursuant to this Section 2.03 shall be paid to the Lenders in accordance with their respective Applicable Percentages.

2.04 Reduction of Commitments. The aggregate Commitments shall be automatically and permanently reduced to zero upon the funding of the Loans on the Closing Date.

2.05 Repayment of Loans. The Borrower shall repay to the Lenders the aggregate principal amount of all outstanding Loans on the Maturity Date.

2.06 Interest. (a) Subject to the provisions of Section 2.06(b), (i) each Eurodollar Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the Eurodollar Rate for such Interest Period plus the Applicable Rate; and (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the Closing Date or the date on which such Loan was converted to a Base Rate Loan, as the case may be, at a rate per annum equal to the Base Rate plus the Applicable Rate.

(b) (i) If any amount of principal of any Loan is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(ii) If any amount (other than principal of any Loan) payable by the Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, then upon the request of the Majority Lenders such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(iii) While any other Event of Default exists, whether at stated maturity, by acceleration or otherwise), then, upon the request of the Majority Lenders, the Borrower shall pay interest on the principal amount of all outstanding Obligations hereunder at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(iv) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.07 Fees. (a) The Borrower shall pay to the Joint Lead Arrangers and the Administrative Agent for their own respective accounts fees in the amounts and at the times specified in the Fee Letters. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

(a) The Borrower shall pay to the Lenders such fees as shall have been separately agreed upon in writing in the amounts and at the times so specified. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

2.08 Computation of Interest and Fees. All computations of interest for Base Rate Loans when the Base Rate is determined by Bank of America's "prime rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365-day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.10(a), bear interest for one day. Each determination by the Administrative Agent of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

2.09 Evidence of Debt. The Loans made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be conclusive absent manifest error of the amount of the Loans made by the Lenders to the Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error. Upon the request of any Lender made through the Administrative Agent, the Borrower shall execute and deliver to such Lender (through the Administrative Agent) a Note, which shall evidence such Lender's Loans in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto.

2.10 Payments Generally; Administrative Agent's Clawback. (a) General. All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Administrative Agent, for the account of the respective Lenders to which such payment is owed, at the Administrative Agent's Office in Dollars and in immediately available funds not later than 11:00 a.m. on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Applicable Percentage (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by the Administrative Agent after 11:00 a.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. If any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected on computing interest or fees, as the case may be.

(b) (i) Funding by Lenders; Presumption by Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to the Closing Date in the case of Eurodollar Rate Loans (or, in the case of any Base Rate Loans, prior to 12:00 noon on the Closing Date) that such Lender will not make available to the Administrative Agent such Lender's share of such Loans, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.02 (or, in the case of any Base Rate Loans, that such Lender has made such share available in accordance with and at the time required by Section 2.02) and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the Loans available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (A) in the case of a payment to be made by such Lender, the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by the Administrative Agent in connection with the foregoing, and (B) in the case of a payment to be made by the Borrower, the interest rate applicable to the Loans made available to the Borrower by the Administrative Agent on such Lender's behalf. If the Borrower and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender pays its share of the Loans to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

(ii) Payments by the Borrower; Presumptions by Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the time at which any payment is due to the Administrative Agent for the account of the Lenders hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender, in immediately available funds with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

A notice of the Administrative Agent to any Lender or the Borrower with respect to any amount owing under this subsection (b) shall be conclusive, absent manifest error.

(c) Failure to Satisfy Conditions Precedent. If any Lender makes available to the Administrative Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Article II, and such funds are not made available to the Borrower by the Administrative Agent because the conditions to the Loans set forth in Article IV are not

satisfied or waived in accordance with the terms hereof, the Administrative Agent shall return such funds (in like funds as received from such Lender) to such Lender, without interest.

(d) Obligations of Lenders Several. The obligations of the Lenders hereunder to make Loans and to make payments pursuant to Section 11.04(c) are several and not joint. The failure of any Lender to make any Loan or to make any payment under Section 11.04(c) on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Loan or to make its payment under Section 11.04(c).

(e) Funding Source. Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

(f) Insufficient Funds. If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, interest and fees then due hereunder, such funds shall be applied (i) first, toward payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, toward payment of principal then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal then due to such parties.

2.11 Sharing of Payments by Lenders. If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of (a) Obligations due and payable to such Lender hereunder and under the other Loan Documents at such time in excess of its ratable share (according to the proportion of (i) the amount of such Obligations due and payable to such Lender at such time to (ii) the aggregate amount of the Obligations due and payable to all Lenders hereunder and under the other Loan Documents at such time) of payments on account of the Obligations due and payable to all Lenders hereunder and under the other Loan Documents at such time obtained by all the Lenders at such time or (b) Obligations owing (but not due and payable) to such Lender hereunder and under the other Loan Documents at such time in excess of its ratable share (according to the proportion of (i) the amount of such Obligations owing (but not due and payable) to such Lender at such time to (ii) the aggregate amount of the Obligations owing (but not due and payable) to all Lenders hereunder and under the other Loan Parties at such time) of payment on account of the Obligations owing (but not due and payable) to all Lenders hereunder and under the other Loan Documents at such time obtained by all of the Lenders at such time then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase (for cash at face value) participations in the Loans of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of Obligations then due and payable to the Lenders or owing (but not due and payable) to the Lenders, as the case may be, provided that:

(i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(ii) the provisions of this Section shall not be construed to apply to (A) any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or (B) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant, other than to the Borrower or any Subsidiary of the Borrower (as to which the provisions of this Section shall apply).

Each Loan Party consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against such Loan Party rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Loan Party in the amount of such participation.

2.12 Payments by Holdings. Any payment made hereunder by Holdings on the Borrower's behalf shall be deemed to be a payment by the Borrower for purposes of this Agreement.

ARTICLE III TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 Taxes. (a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower or Holdings hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes, provided that if the Borrower shall be required by applicable law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent or any Lender, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower or Holdings, as the case may be, shall make such deductions and (iii) the Borrower or Holdings, as the case may be, shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrower and Holdings. Without limiting the provisions of subsection (a) above, the Borrower and Holdings shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower and Holdings. The Borrower and Holdings shall, jointly and severally, indemnify the Administrative Agent and each Lender, within 10 days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by the Administrative Agent or such Lender, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender (with a copy to the

Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(d) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower or Holdings, as the case may be, to a Governmental Authority, the Borrower or Holdings, as the case may be, shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Status of Lenders. Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower or Holdings, as the case may be, is resident for tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower and Holdings (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower, Holdings or the Administrative Agent, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if requested by the Borrower, Holdings or the Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Borrower, Holdings or the Administrative Agent as will enable the Borrower, Holdings or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

Without limiting the generality of the foregoing, if the Borrower or Holdings, as the case may be, is resident for tax purposes in the United States, any Foreign Lender shall deliver to the Borrower, Holdings and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower, Holdings or the Administrative Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(i) duly completed copies of Internal Revenue Service Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States is a party,

(ii) duly completed copies of Internal Revenue Service Form W-8ECI,

(iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, (A) a certificate to the effect that such Foreign Lender is not (1) a "bank" within the meaning of section 881(c)(3)(A) of the Code, (2) a "10 percent shareholder" of the Borrower or Holdings within the meaning of section 881(c)(3)(B) of the Code, or (3) a "controlled foreign corporation" described in section 881(c)(3)(C) of the Code and (B) duly completed copies of Internal Revenue Service Form W-8BEN, or

(iv) any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in United States Federal withholding tax duly completed together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower to determine the withholding or deduction required to be made.

(f) Treatment of Certain Refunds. If the Administrative Agent or any Lender determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or Holdings, as the case may be, or with respect to which the Borrower or Holdings, as the case may be, has paid additional amounts pursuant to this Section, it shall pay to the Borrower or Holdings, as the case may be, an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower or Holdings under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses of the Administrative Agent or such Lender, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower or Holdings, as the case may be, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender if the Administrative Agent or such Lender is required to repay such refund to such Governmental Authority. This subsection shall not be construed to require the Administrative Agent or any Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower, Holdings or any other Person.

3.02 Illegality. If any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund Eurodollar Rate Loans, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Borrower through the Administrative Agent, any obligation of such Lender to make or continue Eurodollar Rate Loans or to convert Base Rate Loans to Eurodollar Rate Loans shall be suspended until such Lender notifies the Administrative Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from such Lender (with a copy to the Administrative Agent), prepay or, if applicable, convert all Eurodollar Rate Loans of such Lender to Base Rate Loans, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Loans. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

3.03 Inability to Determine Rates. If the Majority Lenders determine that for any reason in connection with any request for a Eurodollar Rate Loan or a conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such Eurodollar Rate Loan, (b) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan, or (c) the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate

Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Administrative Agent will promptly so notify the Borrower and each Lender. Thereafter, the obligation of the Lenders to make or maintain Eurodollar Rate Loans shall be suspended until the Administrative Agent (upon the instruction of the Majority Lenders) revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for the making of, conversion to or continuation of Eurodollar Rate Loans or, failing that, will be deemed to have, in the case of any such request for the making of or continuation of Eurodollar Rate Loans, converted such request into a request for the making of or conversion to Base Rate Loans in the amount specified therein, and, in the case of any such request for the conversion to Eurodollar Rate Loans, revoked such request.

3.04 Increased Costs. (a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement contemplated by Section 3.04(e));

(ii) subject any Lender to any tax of any kind whatsoever with respect to this Agreement or any Eurodollar Rate Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for Indemnified Taxes or Other Taxes covered by Section 3.01 and the imposition of, or any change in the rate of, any Excluded Tax payable by such Lender); or

(iii) impose on any Lender or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Loans made by such Lender or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Rate Loan (or of maintaining its obligation to make any such Loan) or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or any other amount) then, upon request of such Lender, the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender determines that any Change in Law affecting such Lender or any Lending Office of such Lender or such Lender's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Loans made by such Lender to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than nine months prior to the date that such Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

(e) Reserves on Eurodollar Rate Loans. The Borrower shall pay to each Lender, as long as such Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional interest on the unpaid principal amount of each Eurodollar Rate Loan equal to the actual costs of such reserves allocated to such Loan by such Lender (as determined by such Lender in good faith, which determination shall be conclusive), which shall be due and payable on each date on which interest is payable on such Loan, provided the Borrower shall have received at least 10 days' prior notice (with a copy to the Administrative Agent) of such additional interest from such Lender. If a Lender fails to give notice 10 days prior to the relevant Interest Payment Date, such additional interest shall be due and payable 10 days from receipt of such notice.

3.05 Compensation for Losses. Upon demand of any Lender (with a copy to the Administrative Agent) from time to time, the Borrower shall promptly compensate such Lender for and hold such Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise);

(b) any failure by the Borrower (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or convert any Loan other than a Base Rate Loan on the date or in the amount notified by the Borrower; or

(c) any assignment of a Eurodollar Rate Loan on a day other than the last day of the Interest Period therefor as a result of a request by the Borrower pursuant to Section 11.13;

including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary and reasonable administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrower to the Lenders under this Section 3.05, each Lender shall be deemed to have funded each Eurodollar Rate Loan made by it at the Eurodollar Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Eurodollar Rate Loan was in fact so funded.

3.06 Mitigation Obligations; Replacement of Lenders. (a) Designation of a Different Lending Office. If any Lender requests compensation under Section 3.04, or the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender gives a notice pursuant to Section 3.02, then such Lender shall use reasonable efforts to designate a different Lending Office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.01 or 3.04, as the case may be, in the future, or eliminate the need for the notice pursuant to Section 3.02, as applicable, and (ii) in each case, would not subject such Lender to any unreimbursed cost or expense. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If any Lender requests compensation under Section 3.04, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, the Borrower may replace such Lender in accordance with Section 11.13.

3.07 Survival. All of the Borrower's obligations under this Article III shall survive termination of the Aggregate Commitments and repayment of all other Obligations hereunder.

ARTICLE IV CONDITIONS PRECEDENT TO THE LOANS

4.01 Conditions to the Loans. The obligation of each Lender to make its Loans hereunder on the Closing Date is subject to satisfaction of the following conditions precedent:

(a) The Administrative Agent's receipt of the following, each of which shall be originals or telecopies (followed promptly by originals) unless otherwise specified, each properly executed by a Designated Officer of the signing Loan Party, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to the Administrative Agent and each of the Lenders:

(i) executed counterparts of this Agreement sufficient in number for distribution to the Administrative Agent, each Lender and the Borrower;

(ii) a Note executed by the Borrower in favor of each Lender requesting a Note;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Designated Officers of each Loan Party as the Administrative Agent may require evidencing the identity, authority and capacity of each Designated Officer thereof authorized to act as a Designated Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party or is to be a party;

(iv) such documents and certifications as the Administrative Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and that the Borrower is validly existing, in good standing and qualified to engage in business in the State of Nevada and Holdings is validly existing, in good standing and qualified to engage in business in the State of Delaware and the State of California;

(v) a favorable opinion of Richard P. Randall, counsel to the Loan Parties, addressed to the Administrative Agent and each Lender, as to the matters set forth in Exhibit E-1 and such other matters concerning the Loan Parties and the Loan Documents as the Majority Lenders may reasonably request;

(vi) a favorable opinion of Brownstein Hyatt Farber Schreck, LLP, local counsel to the Borrower in Nevada, addressed to the Administrative Agent and each Lender, as to the matters set forth in Exhibit E-2 and such other matters concerning the Borrower and the Loan Documents to which it is party as the Majority Lenders may reasonably request;

(vii) a certificate signed by a Designated Officer of Holdings certifying that the Existing Credit Agreement has been terminated as of the Closing Date or will be terminated no later than three Business Days after the Closing Date; and

(viii) such other assurances, certificates, documents, consents or opinions as the Administrative Agent or any Lender reasonably may require.

(b) (i) All fees required to be paid to the Administrative Agent and the Joint Lead Arrangers on or before the Closing Date shall have been paid and (ii) all fees required to be paid to the Lenders on or before the Closing Date shall have been paid.

(c) Unless waived by the Administrative Agent, the Borrower shall have paid all reasonable fees, charges and disbursements of counsel to the Administrative Agent (directly to such counsel if requested by the Administrative Agent) to the extent invoiced prior to or on the Closing Date, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrower and the Administrative Agent).

(d) The Closing Date shall have occurred on or before February 8, 2008.

(e) The representations and warranties of the Borrower and each other Loan Party contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct on and as of the Closing Date.

(f) No Default shall exist, or would result from the making of the Loans or from the application of the proceeds thereof.

(g) The Administrative Agent shall have received a Committed Loan Notice in accordance with the requirements hereof, and such Committed Loan Notice shall be deemed to be a representation and warranty that the conditions specified in Sections 4.01(e) and (f) have been satisfied on and as of the Closing Date.

Without limiting the generality of the provisions of the last paragraph of Section 9.03, for purposes of determining compliance with the conditions specified in this Section 4.01, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

ARTICLE V REPRESENTATIONS AND WARRANTIES

Each of Holdings and the Borrower, as applicable, represents and warrants to the Administrative Agent and the Lenders that:

5.01 Existence and Qualification; Power; Compliance with Law. (a) The Borrower is a corporation duly formed, validly existing and in good standing under the laws of the State of Nevada, and Holdings is a corporation duly formed, validly existing and in good standing under the laws of the State of Delaware. The chief executive offices of Holdings are in Pasadena, California. Holdings is duly qualified or registered to transact business in the State of California and each other jurisdiction in which the conduct of its business or the ownership of its properties make such qualification or registration necessary, except where the failure so to qualify or register would not have a Material Adverse Effect. Each Loan Party has all requisite corporate power and authority to conduct its business, to own and lease its properties and to execute, deliver and perform all of its obligations under the Loan Documents.

(b) All outstanding shares of capital stock of each Loan Party are duly authorized, validly issued, fully paid, nonassessable, and issued in compliance with all applicable state and federal securities and other laws.

(c) Each Loan Party is in compliance with all Laws and other legal requirements applicable to its business, has obtained all authorizations, consents, approvals, orders, licenses and permits from, and has accomplished all filings, registrations and qualifications with, or obtained exemptions from any of the foregoing from, any Governmental

Authority that are necessary for the transaction of its business, except where the failure so to comply, file, register, qualify or obtain exemptions would not have a Material Adverse Effect.

5.02 Authority; Compliance with Other Instruments and Government Regulations. The execution, delivery, and performance by each Loan Party of the Loan Documents to which it is party have been duly authorized by all necessary action and do not and will not (a) require any consent or approval not heretofore obtained of any stockholder, security holder or creditor; (b) violate or conflict with any provision of such Loan Party's charter, certificate, articles of incorporation or bylaws, or amendments thereof; (c) result in or require the creation or imposition of any Lien or Rights of Others upon or with respect to any property now owned or leased or hereafter acquired by such Loan Party; (d) violate any provision of any Laws (including without limitation Regulation U of the FRB), order, writ, judgment, injunction, decree, determination, or award presently in effect having applicability to such Loan Party; or (e) result in a breach of or constitute a default under, or cause or permit the acceleration of any obligation owed under, any indenture or loan or credit agreement or any other material agreement, lease, or instrument to which such Loan Party is a party or by which such Loan Party or any of its property, is bound or affected; and such Loan Party is not in default under any Laws, order, writ, judgment, injunction, decree, determination, award, indenture, agreement, lease, or instrument described in Section 5.02(e) in any respect that would have a Material Adverse Effect.

5.03 No Governmental Approvals Required. No authorization, consent, approval, order, license or permit from, or filing, registration, or qualification with, or exemption from any of the foregoing from, any Governmental Authority is or will be required to authorize or permit under applicable Laws the execution, delivery, and performance by any Loan Party of the Loan Documents to which it is a party.

5.04 Subsidiaries. (a) Schedule 5.04 hereto correctly sets forth as of December 30, 2006 the names, forms of legal entity and jurisdictions of formation of all Subsidiaries and states whether each is or is not a Consolidated Subsidiary. Except for shares of capital stock or partnership interests in a Subsidiary required by applicable Laws to be held by a director or comparable official of that Subsidiary and unless otherwise indicated in Schedule 5.04 or where the failure to own all of the shares of capital stock or partnership interests in such Subsidiary would not have a Material Adverse Effect, all of the outstanding shares of capital stock or partnership interests of each Subsidiary are owned beneficially by Holdings, and, to the best knowledge of Holdings, all securities and interests so owned are duly authorized, validly issued, fully paid, non-assessable, and issued in compliance with all applicable state and federal securities and other laws, and are free and clear of all Liens and Rights of Others.

(b) Each Subsidiary is a corporation or other legal entity duly formed, validly existing, and in good standing under the laws of its jurisdiction of formation, is duly qualified to do business and is in good standing in each jurisdiction in which the conduct of its business or the ownership or leasing of its properties makes such qualification necessary, except where the failure to be so duly qualified and in good standing does not have a Material Adverse Effect, and has all requisite legal power and authority to conduct its business and to own and lease its properties.

(c) Each Subsidiary is in compliance with all Laws and other requirements applicable to its business and has obtained all authorizations, consents, approvals, orders, licenses, and permits from, and has accomplished all filings, registrations, and qualifications with, or obtained exemptions from any of the foregoing from, any Governmental Authority that are necessary for the transaction of its business, except where the failure to be in such compliance, obtain such authorizations, consents, approvals, orders, licenses, and permits, accomplish such filings, registrations, and qualifications, or obtain such exemptions, does not have a Material Adverse Effect.

5.05 Financial Statements. The Borrower has furnished to each Lender the following financial statements: (i) the consolidated balance sheet of Holdings and the Consolidated Subsidiaries as at December 30, 2006, and the related consolidated statements of income, shareholders' equity and changes in financial position for the year then ended, together with the report of PricewaterhouseCoopers on such financial statements and (ii) the consolidated balance sheet of Holdings and the Consolidated Subsidiaries as at September 29, 2007, and the related consolidated statements of income, shareholder's equity and changes in financial position for the three months then ended. The foregoing financial statements are in accordance with the books and records of Holdings and the Consolidated Subsidiaries, were prepared in accordance with GAAP and fairly present the consolidated financial condition and results of operations of Holdings and the Consolidated Subsidiaries as at the dates and for the periods covered thereby.

5.06 No Material Adverse Change or Other Liabilities. Except as set forth in Section 5.09, since December 30, 2006, there has been no event or circumstance that has had a Material Adverse Effect. Holdings and the Consolidated Subsidiaries do not have any material liability or material contingent liability required to be reflected or disclosed in the financial statements or notes thereto described in Section 5.05 which is not so reflected or disclosed.

5.07 Title to Assets. Holdings and its Subsidiaries have good and valid title to all of the assets reflected in the financial statements described in Section 5.05 (except for assets that are sold in transactions that are not prohibited by the terms of this Agreement) free and clear of all Liens and Rights of Others other than (a) those reflected or disclosed in such financial statements or notes thereto, (b) immaterial Liens or Rights of Others not required under GAAP to be so reflected or disclosed, and (c) Liens or Rights of Others permitted pursuant to Section 7.02.

5.08 Regulated Industries. Neither Holdings nor any of its Subsidiaries is or is required to be registered under the Investment Company Act of 1940.

5.09 Litigation. There are no actions, suits, proceedings or investigations pending or, to the best of Holdings' knowledge, threatened against or affecting Holdings or any of its Subsidiaries or any property of any of them in any court of law or before any Governmental Authority which, if determined adversely to any of them, would have a Material Adverse Effect, except as set forth in Schedule 5.09 annexed hereto or as referred to in Holdings' news releases and filings with the SEC made or filed on or prior to the Closing Date (including the Australian Competition and Consumer Commission investigation into industry competitive practices, and any related or threatened inquiries, claims, proceedings or lawsuits pertaining to this investigation or to the subject matter thereof or of the concluded investigations by the U.S. Department of Justice, the European Commission and the Canadian Department of Justice

(including purported class actions seeking treble damages for alleged unlawful competitive practices, and purported class actions related to alleged disclosure and fiduciary duty violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the U.S. Department of Justice investigation), as well as the impact of potential violations of the U.S. Foreign Corrupt Practices Act based on issues in China).

5.10 Binding Obligations. This Agreement constitutes the legal, valid, and binding obligation of each Loan Party, enforceable against such Loan Party in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws relating to or affecting creditors' rights generally or by equitable principles relating to the granting of specific performance and other equitable remedies as a matter of judicial discretion.

5.11 No Default. No Default or Event of Default exists or has resulted from the incurring of any Obligations by any Loan Party. As of the Closing Date, neither Holdings nor any of its Subsidiaries is in default under or with respect to any material contractual obligation in any respect which, individually or together with all such defaults, has had a Material Adverse Effect.

5.12 ERISA. (a) The actuarial present value of all vested accrued benefits under all Pension Plans does not exceed the current fair market value of the assets determined on an ongoing basis of the Pension Plans by an amount which would materially affect the financial condition of any Loan Party or any Loan Party's ability to pay or perform its obligations under the Loan Documents; (b) no Pension Plan or trust created thereunder has incurred any "accumulated funding deficiency" (as such term is defined in Section 302 of ERISA) whether or not waived, since the effective date of ERISA; and (c) based on information received from the respective administrators of "multiemployer plans" (as defined in ERISA) to which Holdings or any of its Subsidiaries contributes, the aggregate present value of the unfunded vested benefits allocable to Holdings and its Subsidiaries under all such multiemployer plans is not an amount which would materially affect the financial condition of any Loan Party or any Loan Party's ability to pay or perform its obligations under the Loan Documents.

5.13 Regulation U. Neither Holdings nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for purpose of "buying" or "carrying" any Margin Stock within the meanings of Regulation U of the FRB. No part of any Loan will be used to buy or carry any Margin Stock, or to extend credit to others for that purpose, or for any purpose, if to do so would violate the provisions of Regulation U of the FRB.

5.14 Tax Liability. Holdings and its Subsidiaries have filed all income tax returns which are required to be filed, and have paid, or made provision for the payment of, all taxes which have become due pursuant to said returns or pursuant to any assessment received by Holdings or any of its Subsidiaries, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided, and except such taxes the failure of which to pay will not have a Material Adverse Effect.

5.15 Copyrights, Patents, Trademarks and Licenses, etc. Holdings and its Subsidiaries own or are licensed or otherwise have the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other rights that are reasonably necessary for the operation of their respective businesses, where the failure to have such rights would have a Material Adverse Effect. To the best knowledge of Holdings, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by Holdings or any of its Subsidiaries infringes upon any rights held by any other Person, where such infringement would create a Material Adverse Effect.

5.16 Environmental Matters. Holdings conducts in the ordinary course of business a review of the effect of existing Environmental Laws applicable to, and existing Environmental Claims of, its business, operations and properties, and as a result thereof Holdings has reasonably concluded that such Environmental Laws and Environmental Claims would not, individually or in the aggregate, have a Material Adverse Effect.

5.17 Insurance. The properties of Holdings and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of Holdings, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where Holdings and each of its Subsidiaries operates.

5.18 Disclosure. No written statement made by any Loan Party to the Lenders in connection with the Loan Documents or any Loan contains or will contain any untrue statement of a material fact or omits or will omit a material fact necessary to make the statements contained or made therein not misleading. There is no fact which any Loan Party has not disclosed to the Lenders in writing which materially and adversely affects nor, so far as any Loan Party can now foresee, is reasonably likely to prove to affect materially and adversely the business, operations, properties, prospects, profits or condition (financial or otherwise) of Holdings and its Subsidiaries, taken as a whole, or the ability of any Loan Party to pay or perform the Obligations.

ARTICLE VI AFFIRMATIVE COVENANTS

As long as any Loan remains unpaid, or any other Obligation remains unpaid or unperformed, or any commitment to make Loans remains in effect, Holdings shall, and shall cause each of its Subsidiaries to, unless the Majority Lenders otherwise consent in writing:

6.01 Financial and Business Information. As long as any Loan remains unpaid or any other Obligation remains unpaid or unperformed, or any Commitment remains in effect, Holdings shall, unless the Majority Lenders otherwise consent in writing, deliver to the Lenders at its own expense:

(a) As soon as reasonably possible, and in any event within 60 days after the close of each of the first three fiscal quarters of Holdings, (i) the consolidated balance sheet of Holdings and the Consolidated Subsidiaries as of the end of such quarter, setting forth in

comparative form the corresponding figures for the corresponding quarter of the preceding fiscal year, if available, and (ii) the consolidated statements of profit and loss and changes in financial position of Holdings and the Consolidated Subsidiaries for such quarter and for the portion of the fiscal year ended with such quarter, setting forth in comparative form the corresponding periods of the preceding fiscal year, all in reasonable detail, prepared in accordance with GAAP and certified by the principal financial officer of Holdings, subject to normal year-end audit adjustments;

(b) As soon as reasonably possible, and in any event within 120 days after the close of each fiscal year of Holdings, (i) the consolidated balance sheets of Holdings and the Consolidated Subsidiaries as at the end of such fiscal year, setting forth in comparative form the corresponding figures at the end of the preceding fiscal year and (ii) the consolidated statements of profit and loss and changes in financial position of Holdings and the Consolidated Subsidiaries for such fiscal year, setting forth in comparative form the corresponding figures for the previous fiscal year. Such consolidated balance sheet and statements shall be prepared in reasonable detail, in accordance with GAAP, and shall be accompanied by a report and opinion of PricewaterhouseCoopers or other independent public accountants selected by Holdings and reasonably satisfactory to the Majority Lenders, which report and opinion shall be prepared in accordance with GAAP and shall be subject only to such qualifications and exceptions as are acceptable to the Majority Lenders.

6.02 Certificates; Other Information. As long as any Loan remains unpaid or any other Obligation remains unpaid or unperformed, or any Commitment remains in effect, Holdings shall deliver or make available to the Lenders via Holdings' website, averydennison.com or at its own expense:

(a) concurrently with the delivery of the financial statements referred to in Sections 6.01(a) and (b), a Compliance Certificate executed by a Designated Officer;

(b) promptly after request by any Lender, copies of any material report filed by Holdings or any of its Subsidiaries with any Governmental Authority unless to do so would violate applicable Laws or would waive attorney-client privilege held by Holdings or any of its Subsidiaries; and

(c) promptly after the same are available, at any Lender's request, copies of each annual report, proxy or financial statement or other material report or communication sent to all stockholders of Holdings, and copies of all annual, regular, periodic and special reports and registration statements which Holdings files with the SEC or any similar or corresponding Governmental Authority or with any securities exchange.

6.03 Notices. Holdings and the Borrower, as applicable, shall promptly notify the Administrative Agent and each Lender:

(a) promptly upon becoming aware of the occurrence of any (i) "reportable event" (as such term is defined in Section 4043 of ERISA) or (ii) "prohibited transaction" (as such term is defined in Section 406 or Section 2003(a) of ERISA) with respect to which Holdings may be liable for excise tax under Section 4975 of the Code in connection with any

Pension Plan or any trust created thereunder, in either case which may result in a Material Adverse Effect, a written notice specifying the nature thereof, what action Holdings and/or any of its Subsidiaries is taking or proposes to take with respect thereto, and, when known, any action taken by the IRS with respect thereto; it being understood that for purposes of this provision, “aware” means that such event or transaction must be actually known to the chief financial officer or the treasurer of Holdings;

(b) promptly upon, and in any event within five Business Days after, becoming aware of the existence of any condition or event which constitutes a Default or an Event of Default a written notice specifying the nature and period of existence thereof and what action such Loan Party is taking or proposes to take with respect thereto; it being understood that for purposes of this provision, “aware” means that such condition or event must be actually known to the chief financial officer or the treasurer of such Loan Party;

(c) promptly upon becoming aware that the holder of any evidence of Debt or other security of Holdings or any of its Subsidiaries that is material to Holdings and the Consolidated Subsidiaries, considered as a whole, has given notice or taken any other action with respect to a claimed default or event of default, a written notice specifying the notice given or action taken by such holder and the nature of the claimed default or event of default and what action such Loan Party is taking or proposes to take with respect thereto; it being understood that for purposes of this provision, “aware” means that such notice or action must be actually known to the chief financial officer or the treasurer of such Loan Party;

(d) of any change in accounting policies or financial reporting practices by Holdings or any of the Consolidated Subsidiaries that is material to Holdings and the Consolidated Subsidiaries considered as a whole; and

(e) such other data and information as from time to time may be reasonably requested by any Lender.

Each of Holdings and the Borrower hereby acknowledges that (a) the Administrative Agent and/or the Joint Lead Arrangers will make available to the Lenders materials and/or information provided by or on behalf of Holdings and the Borrower hereunder (collectively, “Loan Party Materials”) by posting the Loan Party Materials on IntraLinks or another similar electronic system (the “Platform”) and (b) no Lender shall be a Public Lender.

6.04 Payment of Taxes and Other Potential Liens. Pay and discharge promptly, all taxes (including any withholding taxes required by law to be paid by any Loan Party), assessments, and governmental charges or levies imposed upon it, upon its property or any part thereof, upon its income or profits or any part thereof, in each case that, individually or in the aggregate, are material to Holdings and its Subsidiaries, considered as a whole, or upon any right or interest of the Lenders under any Loan Document; except that Holdings and its Subsidiaries shall not be required to pay or cause to be paid (a) any income or gross receipts tax generally applicable to banks or (b) any tax, assessment, charge, or levy that is not yet past due, or is being contested in good faith by appropriate proceedings, as long as the relevant entity has established and maintains adequate reserves for the payment of the same and by reason of such nonpayment no material property of any Loan Party is in danger of being lost or forfeited.

6.05 Preservation of Existence. Preserve and maintain their respective existence, licenses, rights, franchises, and privileges in the jurisdiction of their formation and all authorizations, consents, approvals, orders, licenses, permits, or exemptions from, or registrations with, any Governmental Authority that are necessary for the transaction of their respective businesses, and qualify and remain qualified to transact business in each jurisdiction in which such qualification is necessary in view of their respective business or the ownership or leasing of their respective properties, except that the failure to preserve and maintain any particular license, right, franchise, privilege, authorization, consent, approval, order, permit, exemption, or registration, or to qualify or remain qualified in any jurisdiction, that would not have a Material Adverse Effect will not constitute a violation of this covenant, and except that nothing in this Section 6.05 shall prevent the termination of the business or existence (corporate or otherwise) of any Subsidiary which in the reasonable judgment of the Board of Directors of Holdings is no longer necessary or desirable.

6.06 Maintenance of Properties. Maintain, preserve, and protect all of their respective properties and equipment in good order and condition, subject to wear and tear in the ordinary course of business and, in the case of unimproved properties, damage caused by the natural elements, and not permit any waste of their respective properties, except where a failure to maintain, preserve, and protect a particular item of property or equipment would not result in a Material Adverse Effect.

6.07 Maintenance of Insurance. Maintain insurance with responsible insurance companies in such amounts and against such risks as is usually carried by responsible companies engaged in similar businesses and owning similar assets in the general areas in which Holdings and its Subsidiaries operate except to the extent that Holdings or any of its Subsidiaries is, in the reasonable opinion of a Designated Officer, adequately self-insured in a manner comparable to responsible companies engaged in similar businesses and owning similar assets in the general areas in which Holdings or any such Subsidiary operates.

6.08 Compliance with Laws. Comply with the requirements of all applicable Laws and orders of any Governmental Authority, noncompliance with which would result in a Material Adverse Effect, except that Holdings and its Subsidiaries need not comply with a requirement then being contested by any of them in good faith by appropriate proceedings so long as no interest of the Lenders would be materially impaired thereby.

6.09 Inspection Rights. At any time during regular business hours and as often as reasonably requested, permit any Lender or any employee, agent, or representative thereof to examine, audit and make copies and abstracts from the records and books of account of, and to visit and inspect the properties of Holdings and its Subsidiaries and to discuss the affairs, finances, and accounts of Holdings and its Subsidiaries with any of their officials, customers or vendors, and, upon request, to furnish promptly to each Lender true copies of all material financial information formally made available to the senior management of Holdings and reasonably identifiable by Holdings. Nothing herein shall obligate Holdings to disclose any information to the Lenders respecting trade secrets or similar proprietary information constituting products or processes relating to the business of Holdings or its Subsidiaries or in violation of applicable Laws.

6.10 Keeping of Records and Books of Account. Keep in conformity with GAAP adequate records and books of account reflecting financial transactions and all applicable requirements of any Governmental Authority having jurisdiction over Holdings or any of its Subsidiaries, except where the failure to comply with GAAP or such applicable requirements would not make the records and books of accounts of Holdings and its Subsidiaries, taken as a whole, materially misleading.

6.11 ERISA Compliance. Comply with the minimum funding requirements of ERISA with respect to all Pension Plans.

6.12 Environmental Laws. Conduct its operations and keep and maintain its property in compliance with all Environmental Laws where failure to do so will have a Material Adverse Effect.

6.13 Use of Proceeds. Use the proceeds of the Loans for working capital, commercial paper backup and other general corporate purposes not in contravention of any Law or of any Loan Document, including acquiring other Persons so long as the acquisition is approved by the board of directors, requisite general partners, requisite managers or other governing board or body of the Person being acquired.

6.14 Termination of the Existing Credit Agreement. No later than three Business Days after the Closing Date, terminate the Existing Credit Agreement and, concurrently therewith, deliver evidence of such termination to the Administrative Agent (which evidence shall be reasonably satisfactory to the Administrative Agent).

6.15 Assumption of the Obligations by Holdings. (a) If at any time (i) more than 50% of the assets, property or shares of the Borrower are sold, transferred or otherwise disposed of to a Person that is not an Affiliate of Holdings or (ii) the Borrower is dissolved or the existence (corporate or otherwise) of the Borrower is terminated (other than as a result of a merger, acquisition or consolidation with or into an Affiliate of Holdings), Holdings shall assume the Loans and all other Obligations hereunder; provided that (A) the Administrative Agent shall have received an agreement duly executed by Holdings evidencing such assumption, and a favorable legal opinion of counsel to Holdings with regard to corporate power and authority to enter into such assumption agreement and the due execution, due delivery, due authorization and enforceability thereof, such assumption agreement and legal opinion to be in form and substance satisfactory to the Administrative Agent, (B) the execution, delivery and performance by Holdings of such assumption agreement shall have been duly authorized by all necessary action and (C) such assumption would not materially impair the Administrative Agent's or any Lender's rights and remedies under the Loan Documents.

(b) If at any time (i) more than 50% of the assets, property or shares of the Borrower are sold, transferred or otherwise disposed of to a Person that is an Affiliate of Holdings or (ii) the existence (corporate or otherwise) of the Borrower is terminated as a result of a merger, acquisition or consolidation with or into an Affiliate of Holdings, either of Holdings or such Affiliate shall assume the Loans and all other Obligations hereunder; provided that (A) the Administrative Agent shall have received an assumption agreement duly executed by Holdings or such Affiliate, as the case may be, evidencing such assumption, and a favorable legal opinion

of counsel to Holdings or such Affiliate, as the case may be, with regard to corporate power and authority to enter into such assumption agreement and the due execution, due delivery, due authorization and enforceability thereof, such assumption agreement and legal opinion to be in form and substance satisfactory to the Administrative Agent, (B) the execution, delivery and performance by Holdings or such Affiliate, as the case may be, of such assumption agreement shall have been duly authorized by all necessary action, (C) in the case of an assumption by such Affiliate, such assumption agreement shall have been consented to by Holdings in writing and Holdings shall have agreed in writing that the Guaranty hereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of such assumption and (D) such assumption would not materially impair the Administrative Agent's or any Lender's rights and remedies under the Loan Documents.

ARTICLE VII
NEGATIVE COVENANTS

As long as any Loan remains unpaid or any other Obligation remains unpaid or unperformed, or any commitment to make Loans remains in effect, Holdings shall not, and shall cause each of its Subsidiaries to not, unless the Majority Lenders otherwise consent in writing:

7.01 Type of Business. Make any substantial change in the present character of the business of Holdings and its Subsidiaries, taken as a whole.

7.02 Liens. Create, incur, assume or permit to exist any Lien upon any of its property or assets (other than Unrestricted Margin Stock) now owned or hereafter acquired if the aggregate obligations secured by all such Liens exceeds, or would exceed (giving effect to any proposed new Lien) an amount equal to 10% of Consolidated Net Worth, except:

(a) Liens for taxes not delinquent or being contested in good faith by appropriate proceedings in accordance with Section 6.04;

(b) Liens arising in connection with workers' compensation, unemployment insurance or social security obligations;

(c) mechanics', workmen's, materialmen's, landlords', carriers', or other like Liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings;

(d) minor Liens which do not in the aggregate materially detract from the value of its property or assets or materially impair their use in the operation of the business of Holdings or any of its Subsidiaries;

(e) Liens in existence on property at the time of its acquisition by Holdings or any of its Subsidiaries;

(f) Liens under the Loan Documents; and

(g) purchase money Liens in connection with nonrecourse tax sale and leaseback transactions.

7.03 Investments. Make or permit to exist any Investment in any Person, except:

- (a) credit extended in connection with the sale of goods or rendering of services in the ordinary course of business;
- (b) Investments in a Consolidated Subsidiary;
- (c) Acquisitions;
- (d) Investments consisting of Cash Equivalents;
- (e) Investments that individually or in the aggregate would not result in a Material Adverse Effect; and

(f) Investments in corporations, joint ventures, partnerships and other Persons not majority-owned by Holdings and its Subsidiaries in an aggregate amount not exceeding 5% of Consolidated Net Worth in the aggregate.

7.04 Contingent Obligations. Incur or permit to exist any Contingent Obligation if the aggregate of all Contingent Obligations exceeds, or would exceed (giving effect to any proposed new Contingent Obligation) an amount equal to 5% of Consolidated Net Worth, except the endorsement of negotiable instruments in the ordinary course of collection.

7.05 Subordinated Debt. Make any principal prepayment on any Subordinated Debt or, if and so long as a Default or an Event of Default exists, any payment of principal or interest on any Subordinated Debt.

7.06 Sale of Assets or Merger. Sell or otherwise dispose of all or substantially all of its assets (other than Unrestricted Margin Stock), or merge with any other corporation unless Holdings or one of its Subsidiaries is the surviving corporation except that the sale of all or substantially all of the assets of any Subsidiary, or the merger of any Subsidiary when it is not the surviving corporation shall not violate this Section 7.06 if the assets of such Subsidiary are not material in relation to the assets of Holdings and its Subsidiaries, taken as a whole.

7.07 Financial Covenants.

- (a) Not permit the Leverage Ratio to exceed 3.50 to 1.00 at any time; and
- (b) Not permit the ratio of Consolidated Earnings Before Interest and Taxes to Consolidated Interest to be less than 3.50 to 1.00 at any time.

7.08 Use of Proceeds. Use any portion of the Loan proceeds, in any manner that might cause the Loan or the application of such proceeds to violate Regulation U, Regulation T or Regulation X of the FRB or any other regulation of the FRB or to violate the Securities Exchange Act of 1934, as amended, in each case as in effect on the date or dates of such Loan and such use of proceeds.

ARTICLE VIII
EVENTS OF DEFAULT AND REMEDIES

8.01 Events of Default. There will be a default hereunder if any one or more of the following events ("Events of Default") occurs and is continuing, whatever the reason therefor:

(a) failure of the Borrower to pay any installment of principal when due or to pay interest hereunder or any fee or other amounts due to any Lender hereunder within three Business Days after the date when due; or

(b) any Loan Party fails to perform or observe any other term, covenant, or agreement contained in any Loan Document to which it is a party within 30 days after the date performance is due; or

(c) any representation or warranty in any Loan Document or in any certificate, agreement, instrument, or other document made or delivered pursuant to or in connection with any Loan Document proves to have been incorrect when made in any material respect; or

(d) (i) Holdings or any of its Subsidiaries (1) fails to pay the principal, or any principal installment, or any present or future Debt for borrowed money, or any guaranty of present or future Debt for borrowed money, within 10 days of the date when due (or within any longer stated grace period), whether at the stated maturity, upon acceleration, by reason of required prepayment or otherwise in excess of \$50,000,000, or (2) fails to perform or observe any other term, covenant, or agreement on its part to be performed or observed in connection with any present or future Debt for borrowed money, or any guaranty of present or future Debt for borrowed money, in excess of \$50,000,000, if as a result of such failure any holder or holders thereof (or an agent or trustee on its or their behalf) has the right to declare it due before the date on which it otherwise would become due, or (ii) any default or event of default pursuant to that certain First Amended and Restated Revolving Credit Agreement, dated as of August 10, 2007, by and among Holdings, the lenders party thereto, Citicorp USA, Inc., as administrative agent, Bank of America, as syndication agent, and Citigroup Global Markets Inc. and Banc of America Securities LLC, as joint lead arrangers; or

(e) any Loan Document, at any time after its execution and delivery and for any reason other than the agreement of the Lenders or satisfaction in full of all the Obligations, ceases to be in full force and effect or is declared by a court of competent jurisdiction to be null and void, invalid, or unenforceable in any respect which is, in the reasonable opinion of the Majority Lenders, materially adverse to the interest of the Lenders; or any Loan Party denies that it has any or further liability or obligation under any Loan Document; or

(f) a final judgment against Holdings or any of its Subsidiaries is entered for the payment of money in excess of \$50,000,000, and remains unsatisfied without procurement of a stay of execution for 45 days after the date of entry of judgment or in any event later than five days prior to the date of any proposed sale under such judgment; or

(g) Holdings, any Domestic Subsidiary or any Significant Subsidiary is the subject of an order for relief by a bankruptcy court, or is unable or admits in writing its inability

to pay its debts as they mature, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator, or similar officer for it or for all or any part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator, or similar officer is appointed without the application or consent of that entity and the appointment continues undischarged or unstayed for 60 days; or institutes or consents to any bankruptcy, proposal in bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, custodianship, conservatorship, liquidation, rehabilitation, or similar proceeding relating to it or to all or any part of its property under the laws of any jurisdiction; or any similar proceeding is instituted without the consent of that entity and continues undismissed or unstayed for 60 days; or any judgment, writ, warrant of attachment or execution, or similar process is issued or levied against all or any part of the property of any such entity in an amount in excess of 10% of the total assets of such entity, and is not released, vacated, or fully bonded within sixty (60) days after its issue or levy, or Holdings, any Domestic Subsidiary or any Significant Subsidiary shall take any corporate action to authorize any of the actions set forth above in this subsection (g).

8.02 Remedies upon Event of Default. (a) Upon the occurrence of any Event of Default (other than an Event of Default described in Section 8.01(g)):

(i) all commitments to make Loans may be terminated by the Majority Lenders without notice to or demand upon the Borrower, which are expressly waived by the Borrower and (ii) the Majority Lenders may declare the unpaid principal of or unperformed balance of all Obligations due to the Lenders hereunder, all interest accrued and unpaid thereon, and all other amounts payable under the Loan Documents to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable, without protest, presentment, notice of dishonor, demand, or further notice of any kind, all of which are expressly waived by the Borrower.

(b) Upon the occurrence of any Event of Default described in Section 8.01(g): (i) all commitments to make Loans shall terminate without notice to or demand upon the Borrower, which are expressly waived by the Borrower; and (ii) the unpaid principal of or unperformed balance of all Obligations due to the Lenders hereunder, and all interest accrued and unpaid on such Obligations shall be forthwith due and payable, without protest, presentment, notice of dishonor, demand, or further notice of any kind, all of which are expressly waived by the Borrower.

(c) Upon the occurrence of an Event of Default and acceleration of the unpaid principal of or unperformed balance of all Obligations due to the Lenders hereunder, as provided in Sections 8.02(a) or (b), the Administrative Agent and the Lenders, or any of them, without notice to or demand upon the Borrower, which are expressly waived by the Borrower, may proceed to protect, exercise, and enforce their rights and remedies under the Loan Documents against the Borrower and such other rights and remedies as are provided by law or equity. The order and manner in which the rights and remedies of the Administrative Agent and the Lenders under the Loan Documents and otherwise may be protected, exercised, or enforced shall be determined by the Majority Lenders.

(d) All payments received by the Administrative Agent and the Lenders, or any of them, shall be applied: first to the costs and expenses (including attorneys fees and disbursements) of the Administrative Agent, acting as Administrative Agent, and of the Lenders;

and thereafter to the Lenders pro rata according to the unpaid principal amount of the Loans held by each Lender. Regardless of how any Lender may treat the payments for the purpose of its own accounting, for the purpose of computing the Borrower's Obligations hereunder, the payments shall be applied: first, to the payment of accrued and unpaid fees provided for hereunder and interest on all Obligations to and including the date of such application; second, to the ratable payment of the unpaid principal of all Loans; and third, to the payment of all other amounts then owing to the Lenders under the Loan Documents. No application of the payments will cure any Event of Default or prevent acceleration, or continued acceleration, of amounts payable under the Loan Documents or prevent the exercise, or continued exercise, of rights or remedies of the Administrative Agent or Lenders hereunder or under applicable Laws.

ARTICLE IX
ADMINISTRATIVE AGENT

9.01 Appointment and Authority. (a) Each of the Lenders hereby irrevocably appoints Bank of America to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Article are solely for the benefit of the Administrative Agent and the Lenders, and neither the Borrower nor any other Loan Party shall have rights as a third party beneficiary of any of such provisions.

9.02 Rights as a Lender. The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with any Loan Party or any of its Subsidiaries or other Affiliates as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

9.03 Exculpatory Provisions. The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Administrative Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Majority Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents), provided that the Administrative Agent shall not be required to take any

action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Majority Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 11.01 and 8.02) or (ii) in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Administrative Agent by the Borrower or a Lender.

The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

9.04 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan that by its terms must be fulfilled to the satisfaction of a Lender, the Administrative Agent may presume that such condition is satisfactory to such Lender unless the Administrative Agent shall have received notice to the contrary from such Lender prior to the making of such Loan. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

9.05 Delegation of Duties. The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The

Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facility provided for herein as well as activities as Administrative Agent.

9.06 Resignation of Administrative Agent. The Administrative Agent may at any time give notice of its resignation to the Lenders and the Borrower. Upon receipt of any such notice of resignation, the Majority Lenders shall have the right, in consultation with the Borrower, to appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States. If no such successor shall have been so appointed by the Majority Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may on behalf of the Lenders, appoint a successor Administrative Agent meeting the qualifications set forth above; provided that if the Administrative Agent shall notify the Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (a) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents and (b) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender directly, until such time as the Majority Lenders appoint a successor Administrative Agent as provided for above in this Section. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Administrative Agent, and the retiring Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the retiring Administrative Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 11.04 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

9.07 Non-Reliance on Administrative Agent and Other Lenders. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

9.08 No Other Duties, Etc. Anything herein to the contrary notwithstanding, none of the Joint Lead Arrangers listed on the cover page hereof shall have any powers, duties or

responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent or a Lender hereunder.

9.09 Administrative Agent May File Proofs of Claim. In case of the pendency of any proceeding under any Debtor Relief Law or any other judicial proceeding relative to any Loan Party, the Administrative Agent (irrespective of whether the principal of any Loan shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under Sections 2.07 and 11.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, if the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 2.07 and 11.04.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender to authorize the Administrative Agent to vote in respect of the claim of any Lender or in any such proceeding.

ARTICLE X CONTINUING GUARANTY

10.01 Guaranty. Holdings hereby absolutely and unconditionally guarantees, as a guaranty of payment and performance and not merely as a guaranty of collection, prompt payment when due, whether at stated maturity, by required prepayment, upon acceleration, demand or otherwise, and at all times thereafter, of any and all of the Obligations, whether for principal, interest, premiums, fees, indemnities, damages, costs, expenses or otherwise, of the Borrower to the Guarantied Parties, arising hereunder and under the other Loan Documents (including all renewals, extensions, amendments, refinancings and other modifications thereof and all costs, attorneys' fees and expenses incurred by the Guarantied Parties in connection with

the collection or enforcement thereof). The Administrative Agent's books and records showing the amount of the Obligations shall be admissible in evidence in any action or proceeding, and shall be binding upon Holdings, and conclusive for the purpose of establishing the amount of the Obligations. This Guaranty shall not be affected by the validity, regularity or enforceability of the Obligations or any instrument or agreement evidencing any Obligations, or by any fact or circumstance relating to the Obligations which might otherwise constitute a defense to the obligations of Holdings under this Guaranty, and Holdings hereby irrevocably waives any defenses it may now have or hereafter acquire in any way relating to any or all of the foregoing.

10.02 Rights of Lenders. Holdings consents and agrees that the Guarantied Parties may, at any time and from time to time, without notice or demand, and without affecting the enforceability or continuing effectiveness hereof: (a) amend, extend, renew, compromise, discharge, accelerate or otherwise change the time for payment or the terms of the Obligations or any part thereof; (b) take, hold, exchange, enforce, waive, release, fail to perfect, sell, or otherwise dispose of any security for the payment of this Guaranty or any Obligations; and (c) release or substitute one or more of any endorsers or other guarantors of any of the Obligations. Without limiting the generality of the foregoing, Holdings consents to the taking of, or failure to take, any action which might in any manner or to any extent vary the risks of Holdings under this Guaranty or which, but for this provision, might operate as a discharge of Holdings.

10.03 Certain Waivers. Holdings waives (a) any defense arising by reason of any disability or other defense of the Borrower or any other guarantor, or the cessation from any cause whatsoever (including any act or omission of any Guarantied Party) of the liability of the Borrower; (b) any defense based on any claim that Holdings' obligations exceed or are more burdensome than those of the Borrower; (c) the benefit of any statute of limitations affecting Holdings' liability hereunder; (d) any right to proceed against the Borrower, proceed against or exhaust any security for the Obligations, or pursue any other remedy in the power of any Guarantied Party whatsoever; (e) any benefit of and any right to participate in any security now or hereafter held by any Guarantied Party; and (f) to the fullest extent permitted by law, any and all other defenses or benefits that may be derived from or afforded by applicable law limiting the liability of or exonerating guarantors or sureties. Holdings expressly waives all setoffs and counterclaims and all presentments, demands for payment or performance, notices of nonpayment or nonperformance, protests, notices of protest, notices of dishonor and all other notices or demands of any kind or nature whatsoever with respect to the Obligations, and all notices of acceptance of this Guaranty or of the existence, creation or incurrence of new or additional Obligations. Holdings waives any rights and defenses that are or may become available to Holdings by reason of §§ 2787 to 2855, inclusive, and §§ 2899 and 3433 of the California Civil Code.

10.04 Obligations Independent. The obligations of Holdings hereunder are those of primary obligor, and not merely as surety, and are independent of the Obligations and the obligations of any other guarantor, and a separate action may be brought against Holdings to enforce this Guaranty whether or not the Borrower or any other person or entity is joined as a party.

10.05 Subrogation. Holdings shall not exercise any right of subrogation, contribution, indemnity, reimbursement or similar rights with respect to any payments it makes

under this Guaranty until all of the Obligations and any amounts payable under this Guaranty have been indefeasibly paid and performed in full and the Commitments and the Loans are terminated. If any amounts are paid to Holdings in violation of the foregoing limitation, then such amounts shall be held in trust for the benefit of the Guarantied Parties and shall forthwith be paid to the Guarantied Parties to reduce the amount of the Obligations, whether matured or unmatured.

10.06 Termination; Reinstatement. This Guaranty is a continuing and irrevocable guaranty of all Obligations now or hereafter existing and shall remain in full force and effect until all Obligations and any other amounts payable under this Guaranty are indefeasibly paid in full in cash and the Commitments and the Loans are terminated. Notwithstanding the foregoing, this Guaranty shall continue in full force and effect or be revived, as the case may be, if any payment by or on behalf of the Borrower or Holdings is made, or any of the Guarantied Parties exercises its right of setoff, in respect of the Obligations and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by any of the Guarantied Parties in their discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Laws or otherwise, all as if such payment had not been made or such setoff had not occurred and whether or not the Guarantied Parties are in possession of or have released this Guaranty and regardless of any prior revocation, rescission, termination or reduction. The obligations of Holdings under this paragraph shall survive termination of this Guaranty.

10.07 Subordination. Until the Commitments have been terminated and the Obligations indefeasibly repaid, satisfied or discharged in full, Holdings hereby subordinates the payment of all obligations and Debt of the Borrower owing to Holdings, whether now existing or hereafter arising, including but not limited to any obligation of the Borrower to Holdings as subrogee of the Guarantied Parties or resulting from Holdings' performance under this Guaranty, to the indefeasible payment in full in cash of all Obligations. If the Guarantied Parties so request, any such obligation or Debt of the Borrower to Holdings shall be enforced and performance received by Holdings as trustee for the Guarantied Parties and the proceeds thereof shall be paid over to the Guarantied Parties on account of the Obligations, but without reducing or affecting in any manner the liability of Holdings under this Guaranty.

10.08 Stay of Acceleration. If acceleration of the time for payment of any of the Obligations is stayed, in connection with any case commenced by or against Holdings or the Borrower under any Debtor Relief Laws, or otherwise, all such amounts shall nonetheless be payable by Holdings immediately upon demand by the Guarantied Parties.

10.09 Condition of the Borrower. Holdings acknowledges and agrees that it has the sole responsibility for, and has adequate means of, obtaining from the Borrower and any other guarantor such information concerning the financial condition, business and operations of the Borrower and any such other guarantor as Holdings requires, and that none of the Guarantied Parties has any duty, and Holdings is not relying on the Guarantied Parties at any time, to disclose to Holdings any information relating to the business, operations or financial condition of the Borrower or any other guarantor (Holdings waiving any duty on the part of the Guarantied Parties to disclose such information and any defense relating to the failure to provide the same).

ARTICLE XI
MISCELLANENOUS

11.01 Amendments, Etc. No amendment, modification, supplement, termination, or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrower or any other Loan Party therefrom, may in any event be effective unless in writing signed by the Administrative Agent with the written approval of the Majority Lenders, and then only in the specific instance and for the specific purpose given; and without the approval in writing of all the Lenders, no amendment, modification, supplement, termination, waiver, or consent may be effective:

(a) to reduce the principal of, or the amount of principal, principal prepayments, or the rate of interest payable on, any Obligation or increase the amount of any Commitment or decrease the amount of any fee payable to any Lender;

(b) to postpone any date fixed for any payment of principal of, prepayment of principal of, or any installment of interest on, any Obligation or any installment of any fee or to extend the term of any Commitment;

(c) to amend or modify the provisions of (i) the definitions of "Commitment" or "Majority Lenders" in Section 1.01, or (ii) this Section 11.01, Sections 2.11, 11.08 or 11.17 or Article VIII;

(d) to amend or modify any provision of this Agreement that expressly requires the consent or approval of all the Lenders; or

(e) to release the Guaranty;

and provided, further, that no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Majority Lenders or all the Lenders, as the case may be, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document. Any amendment, modification, supplement, termination, waiver or consent pursuant to this Section 11.01 shall apply equally to and be binding upon, all of the Lenders. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Commitment of such Lender may not be increased or extended without the consent of such Lender.

11.02 Notices; Effectiveness; Electronic Communications. (a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by e-mail or telecopier as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to Holdings, the Borrower or the Administrative Agent, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 11.02; and

(ii) if to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications to the extent provided in subsection (b) below shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Lender pursuant to Article II if such Lender has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Platform. THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Administrative Agent or any of its Related Parties (collectively, the "Agent Parties") have any liability to Holdings, the Borrower, any Lender or any other Person for losses, claims, damages, liabilities

or expenses of any kind (whether in tort, contract or otherwise) arising out of the Borrower's or the Administrative Agent's transmission of Loan Party Materials through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent Party; provided, however, that in no event shall any Agent Party have any liability to Holdings, the Borrower, any Lender or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(d) Change of Address, Etc. Each of Holdings, the Borrower, and the Administrative Agent may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Borrower and the Administrative Agent. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender.

(e) Reliance by Administrative Agent and Lenders. The Administrative Agent and the Lenders shall be entitled to rely and act upon any notices (including telephonic Committed Loan Notices) purportedly given by or on behalf of the Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Borrower shall indemnify the Administrative Agent, each Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Borrower. All telephonic notices to and other telephonic communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

11.03 No Waiver; Cumulative Remedies. No failure by any Lender or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder or under any other Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided, and provided under each other Loan Document, are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

11.04 Expenses; Indemnity; Damage Waiver. (a) Costs and Expenses. The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent), in connection with the syndication of the credit facility provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be

consummated), and (ii) all out-of-pocket expenses incurred by the Administrative Agent or any Lender (including the fees, charges and disbursements of any counsel for the Administrative Agent or any Lender), and shall pay all fees and time charges for attorneys who may be employees of the Administrative Agent or any Lender, in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with Loans made hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans.

(b) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent (and any sub-agent thereof) each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") from and against: (i) any and all claims, demands, actions or causes of action that are asserted against any Indemnitee by any Person (other than the Administrative Agent or any Lender) relating directly or indirectly to a claim, demand, action or cause of action that such Person asserts or may assert against the Borrower, any Affiliate of the Borrower or any of their respective officers or directors which arises out of or in connection with the Loan Documents, the use of Loan proceeds or the transactions contemplated thereby; (ii) any and all claims, demands, actions or causes of action that may at any time (including at any time following repayment of the Obligations and the resignation or removal of the Administrative Agent or the replacement of any Lender) be asserted or imposed against any Indemnitee, arising out of or relating to, the Loan Documents, any predecessor loan documents, the Commitments, the use or contemplated use of the proceeds of any Loan, or the relationship of the Borrower, the Administrative Agent, and the Lenders under this Agreement or any other Loan Document; (iii) any administrative or investigative proceeding by any Governmental Authority arising out of or related to a claim, demand, action or cause of action described in subsection (i) or (ii) above; and (iv) any and all liabilities (including liabilities under indemnities), losses, damages, penalties, costs or expenses (including, without limitation, attorney's fees and disbursements and the allocated cost of in-house counsel) that any Indemnitee suffers or incurs as a result of the assertion of any foregoing claim, demand, action, cause of action or proceeding, or as a result of the preparation of any defense in connection with any foregoing claim, demand, action, cause of action or proceeding, and whether or not an Indemnitee is a party to such claim, demand, action, cause of action or proceeding; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, penalties, liabilities or related costs or expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by the Borrower or any other Loan Party against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document, if the Borrower or such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

(c) Reimbursement by Lenders. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by it to the Administrative Agent (or any sub-agent thereof), or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), or such Related Party, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is

sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent) in connection with such capacity. The obligations of the Lenders under this subsection (c) are subject to the provisions of Section 2.10(d).

(d) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or the use of the proceeds thereof. No Indemnitee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby other than for direct or actual damages resulting from the gross negligence or willful misconduct of such Indemnitee as determined by a final and nonappealable judgment of a court of competent jurisdiction.

(e) Payments. All amounts due under this Section shall be payable not later than ten Business Days after demand therefor.

(f) Survival. The agreements in this Section shall survive the resignation of the Administrative Agent, the replacement of any Lender, the termination of the Aggregate Commitments and the repayment, satisfaction or discharge of all the other Obligations.

11.05 Payments Set Aside. To the extent that any payment by or on behalf of the Borrower is made to the Administrative Agent, or any Lender, or the Administrative Agent, or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent, or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender severally agrees to pay to the Administrative Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

11.06 Successors and Assigns. (a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that neither the Borrower

nor any other Loan Party may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of Section 11.06(b), (ii) by way of participation in accordance with the provisions of Section 11.06(d), or (iii) by way of pledge or assignment of a security interest subject to the restrictions of Section 11.06(f) (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign, with, so long as no Event of Default has occurred and is continuing, the consent of the Borrower (which consent may be given or withheld in the Borrower's sole discretion) to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that (i) except in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender or an Approved Fund with respect to a Lender, the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000, or that is in an integral multiple of \$1,000,000 in excess thereof, unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent to be within the discretion of the consenting party), (ii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Commitment assigned, (iii) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500 (which fee shall not be payable by the Borrower) and (iv) no consent of the Borrower shall be required if the proposed assignment is to another Lender, an Affiliate of a Lender or an Approved Fund with respect to a Lender unless as a result of such assignment, the Borrower would incur an additional cost pursuant to Section 3.04, but the assigning Lender shall give the Administrative Agent and the Borrower written notice thereof. Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05 and 11.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrower (at its expense) shall execute and deliver a Note

to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with Section 11.06(d).

(c) Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person or the Borrower or any of its Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification that would (x) postpone any date upon which any payment of money is to be paid to such Participant or (y) reduce the principal, interest, fees or other amounts payable to such Participant. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to Section 11.06(b). To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 11.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.11 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 3.01 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 3.01(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Electronic Execution of Assignments. The words “execution,” “signed,” “signature,” and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

11.07 Treatment of Certain Information; Confidentiality. Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates, legal counsel, accountants, and other professional advisors provided that such advisors and Affiliates are obliged to hold such Information in confidence, (b) to regulatory officials having jurisdiction over it or its Affiliates, (c) as required by law or legal process or in connection with any legal proceeding to which it is a party provided that the Borrower is notified prior to or concurrently with any such disclosure to the extent legally permissible, (d) to the Administrative Agent or another Lender, and (e) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent, any Lender or any of their respective Affiliates on a nonconfidential basis from a source other than the Borrower. This Agreement, and other confidential information as approved by the Borrower at the time, may be disclosed, subject to an agreement containing provisions substantially the same as those of this Section 11.07, to any Participants, Eligible Assignees, potential Participants or potential Eligible Assignees.

For purposes of this Section, “Information” means all confidential information received from any Loan Party or any of its Subsidiaries relating to any Loan Party or any of its Subsidiaries or their respective businesses, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by any Loan Party or any of its Subsidiaries. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Administrative Agent and the Lenders acknowledges that (a) the Information may include material non-public information concerning any Loan Party or any of its Subsidiaries, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable Law, including United States Federal and state securities Laws.

11.08 Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by such Lender or any such Affiliate to or for the credit or the account of the Borrower or Holdings against any and all of the obligations of the Borrower or Holdings now or hereafter existing under this Agreement or any other Loan Document to such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrower or Holdings may be contingent or unmatured or are owed to a branch or office of such Lender different from the branch or office holding such deposit or obligated on such indebtedness. The rights of each Lender and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender or their respective Affiliates may have. Each Lender agrees to notify the Borrower and the Administrative Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

11.09 Interest Rate Limitation. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the "Maximum Rate"). If the Administrative Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

11.10 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

11.11 Survival of Representations and Warranties. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the

Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any extension of credit, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied.

11.12 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11.13 Replacement of Lenders. If any Lender requests compensation under Section 3.04, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender is a Defaulting Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 11.06), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

(a) the Borrower shall have paid to the Administrative Agent the assignment fee specified in Section 11.06(b);

(b) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 3.05) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(c) in the case of any such assignment resulting from a claim for compensation under Section 3.04 or payments required to be made pursuant to Section 3.01, such assignment will result in a reduction in such compensation or payments thereafter; and

(d) such assignment does not conflict with applicable Laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

11.14 Governing Law; Jurisdiction; Etc. (a) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF CALIFORNIA.

(b) SUBMISSION TO JURISDICTION. THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF CALIFORNIA SITTING IN LOS ANGELES COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF CALIFORNIA, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH CALIFORNIA STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT OR ANY LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 11.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW

11.15 Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS

AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

11.16 California Judicial Reference. If any action or proceeding is filed in a court of the State of California by or against any party hereto in connection with any of the transactions contemplated by this Agreement or any other Loan Document, (a) the court shall, and is hereby directed to, make a general reference pursuant to California Code of Civil Procedure Section 638 to a referee (who shall be a single active or retired judge) to hear and determine all of the issues in such action or proceeding (whether of fact or of law) and to report a statement of decision, provided that at the option of any party to such proceeding, any such issues pertaining to a "provisional remedy" as defined in California Code of Civil Procedure Section 1281.8 shall be heard and determined by the court, and (b) without limiting the generality of Section 11.04, the Borrower shall be solely responsible to pay all fees and expenses of any referee appointed in such action or proceeding.

11.17 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), each of the Borrower and Holdings acknowledges and agrees, and acknowledges its Affiliates' understanding, that: (i) (A) the arranging and other services regarding this Agreement provided by the Administrative Agent and the Joint Lead Arrangers, are arm's-length commercial transactions between the Borrower, Holdings and their respective Affiliates, on the one hand, and the Administrative Agent and the Joint Lead Arrangers, on the other hand, (B) each of the Borrower and Holdings has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (C) each of the Borrower and Holdings is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (ii) (A) the Administrative Agent and the Joint Lead Arrangers each is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Borrower, Holdings or any of their respective Affiliates, or any other Person and (B) neither the Administrative Agent nor the Joint Lead Arrangers has any obligation to the Borrower, Holdings or any of their respective Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (iii) the Administrative Agent and the Joint Lead Arrangers and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower, Holdings and their respective Affiliates, and neither the Administrative Agent nor the Joint Lead Arrangers has any obligation to disclose any of such interests to the Borrower, Holdings or any of their respective Affiliates. To the fullest extent permitted by law, each of the Borrower and Holdings hereby waives and releases any claims that it may have against the

Administrative Agent and the Joint Lead Arrangers with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

11.18 USA PATRIOT Act Notice. Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies each Loan Party, which information includes the name and address of each Loan Party and other information that will allow such Lender or the Administrative Agent, as applicable, to identify each Loan Party in accordance with the Act.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

AVERY DENNISON OFFICE PRODUCTS COMPANY, as
the Borrower

By: _____
Name: _____
Title: _____

AVERY DENNISON CORPORATION, as Holdings, as
guarantor

By: _____
Name: _____
Title: _____

BANK OF AMERICA, N.A., as
Administrative Agent

By: _____
Name: _____
Title: _____

BANK OF AMERICA, N.A., as a Lender

By: _____
Name: _____
Title: _____

AVERY DENNISON CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated *, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the “Company,” and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as “Employee”.

WHEREAS, Company wishes to afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Employee Stock Option and Incentive Plan (“Plan”); and

WHEREAS, the Compensation and Executive Personnel Committee of the Company’s Board of Directors (hereinafter referred to as the “Committee”), appointed to administer said Plan, or the Chief Executive Officer (“CEO”), as authorized by the Committee, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option provided for herein to Employee as an inducement to remain in the service of Company or its Subsidiaries and as an incentive for increased efforts during such service;

WHEREAS, the Committee or the CEO has advised the Company of its or his determination and instructed the undersigned officers to issue said Option, which the Committee has determined should be a Non-Qualified Stock Option, as authorized under the Plan;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, Company and Employee do hereby agree as follows:

ARTICLE I

DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan. Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary.

1.1 Beneficiary

“Beneficiary” shall mean a person properly designated by the Employee, including his/her spouse or heirs at law, to exercise such Employee’s rights under the Plan. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company and shall be effective upon delivery to the Committee or the Company.

1.2 Change of Control

“Change of Control” shall have the same meaning given in Article 9.2 of the Plan.

1.3 Option

“Option” shall mean the option to purchase common stock of the Company granted under the Stock Option Agreement.

1.4 Plan

The "Plan" shall mean the Employee Stock Option and Incentive Plan.

1.5 Pronouns

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

1.6 Secretary

"Secretary" shall mean the Secretary of the Company.

1.7 Subsidiary

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

"Termination of Employment" shall mean the time when the employee-employer relationship between the Employee and the Company or a Subsidiary is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company, in its absolute discretion, shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II

GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee's agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be _____ and 00000/10000 dollars (\$) per share without commission or other charge, which was the equivalent of £ _____. (For informational purposes only, on February 28, 2008 the exchange rate of US\$ to £ as calculated by Bloomberg L.P. was £1.00 equals US\$ _____.)

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one (1) year from the date this Option is granted. Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, or combination of shares, the Committee or the Company shall make an appropriate and equitable adjustment in the number and kind of shares as to which the Option, or portions thereof then unexercised, shall be exercisable. Such adjustment shall be made with the intent that after the change or exchange of shares, the Employee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III

PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

- (a) The Option shall become exercisable in four cumulative installments as follows:
- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
 - (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
 - (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.

(iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment which becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

- (b) No portion of the Option, which is an unexercisable installment under Subsection (a) above at Termination of Employment, shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company or a Subsidiary, subject to the following exceptions:

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, and the Committee or the Company may in its discretion extend the Expiration Date of the Option to accommodate such exercise.
- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his Retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within thirty-six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV

EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than twenty-five (25) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised by delivery (hard copy, fax or e-mail, as appropriate) to the Secretary or to the Company's Securities Administrator of all of the following:

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised. The notice shall be signed by the Employee or the other person then entitled to exercise the Option, and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the aggregate exercise price of such Option; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the tax liability with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the tax liability; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the tax liability (and provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and

- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and non-assessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;
- (b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee or the Company shall, in its absolute discretion, deem necessary or advisable;
- (c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee or the Company shall, in its absolute discretion, determine to be necessary or advisable;
- (d) The lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V

MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

5.2 Administration

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such procedures.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner other than by will or by the applicable laws of descent and distribution. The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice that is required to be given to Employee shall, if Employee is then deceased, be given to Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

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

5.6 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

AVERY DENNISON CORPORATION

By: _____ *
Chairman & Chief Executive Officer

By: _____
Secretary

By: _____ *
Optionee

_____ *

_____ *
Address

* Refer to attached Notice.

AVERY DENNISON CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated * , is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the “Company,” and * , an employee of Company or a Subsidiary of Company, hereinafter referred to as “Employee.”

WHEREAS, Company wishes to afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Employee Stock Option and Incentive Plan (“Plan”); and

WHEREAS, the Compensation and Executive Personnel Committee of the Company’s Board of Directors (hereinafter referred to as the “Committee”), appointed to administer said Plan, or the Chief Executive Officer (“CEO”), as authorized by the Committee, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option provided for herein to Employee as an inducement to remain in the service of Company or its Subsidiaries and as an incentive for increased efforts during such service;

WHEREAS, the Committee or the CEO has advised the Company of its or his determination and instructed the undersigned officers to issue said Option, which the Committee has determined should be a Non-Qualified Stock Option, as authorized under the Plan;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, Company and Employee do hereby agree as follows:

ARTICLE I — DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan. Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary.

1.1 Beneficiary

“Beneficiary” shall mean a person properly designated by the Employee, including his/her spouse or heirs at law, to exercise such Employee’s rights under the Plan. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company, and shall be effective upon delivery to the Company.

1.2 Change of Control

“Change of Control” shall have the same meaning given in Article 9.2 of the Plan.

1.3 Option

“Option” shall mean the option to purchase common stock of the Company granted under this Agreement.

1.4 Plan

The “Plan” shall mean the Employee Stock Option and Incentive Plan, as amended and restated.

1.5 Pronouns

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

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Subsidiary

“Subsidiary” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Subsidiary is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II — GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be * dollars per share without commission or other charge.

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one (1) year from the date this Option is granted. Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, or combination of shares, the Committee or the Company shall make an appropriate and equitable adjustment in the number and kind of shares as to which the Option, or portions thereof then unexercised, shall be exercisable. Such adjustment shall be made with the intent that after the change or exchange of shares, the Employee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III — PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

- (a) The Option shall become exercisable in four cumulative installments as follows:
- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
 - (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
 - (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.
 - (iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment that becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

- (b) No portion of the Option, which is an unexercisable installment under Subsection (a) above at Termination of Employment, shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company or a Subsidiary, subject to the following exceptions:

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, but not later than the Option's Expiration Date.
- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his Retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within thirty-six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV — EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than one

hundred (100) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised by delivery (hard copy, fax or e-mail, as appropriate) to the Secretary or to the Company's Securities Administrator of all of the following:

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the tax liability with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the tax liability; (and provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and
- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock

purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;
- (b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee or the Company shall, in its absolute discretion, deem necessary or advisable;
- (c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee or the Company shall, in its absolute discretion, determine to be necessary or advisable;
- (d) The lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment of the exercise price and all taxes related to the exercise of the Option.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V — MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

5.2 Administration

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such procedures.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner other than by will or by the applicable laws of descent and distribution or as a result of marital dissolution involving a qualified domestic relations order (or a similar determination or settlement). The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice that is required to be given to Employee shall, if Employee is then deceased, be given to Employee's Beneficiary or personal representative if such individual has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

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

5.6 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

AVERY DENNISON CORPORATION

By: _____ *
President & Chief Executive Officer

By: _____
Secretary

Optionee *

*

Address *

* Refer to attached Notice.

AVERY DENNISON CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated * , is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the “Company,” and * , an employee of Company or a Subsidiary of Company, hereinafter referred to as “Employee.”

WHEREAS, Company wishes to afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Employee Stock Option and Incentive Plan (“Plan”); and

WHEREAS, the Compensation and Executive Personnel Committee of the Company’s Board of Directors (hereinafter referred to as the “Committee”), appointed to administer said Plan, or the Chief Executive Officer (“CEO”), as authorized by the Committee, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option provided for herein to Employee as an inducement to remain in the service of Company or its Subsidiaries and as an incentive for increased efforts during such service;

WHEREAS, the Committee or the CEO has advised the Company of its or his determination and instructed the undersigned officers to issue said Option, which the Committee has determined should be a Non-Qualified Stock Option, as authorized under the Plan;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, Company and Employee do hereby agree as follows:

ARTICLE I — DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan. Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary.

1.1 Beneficiary

“Beneficiary” shall mean a person properly designated by the Employee, including his/her spouse or heirs at law, to exercise such Employee’s rights under the Plan. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company, and shall be effective upon delivery to the Company.

1.2 Change of Control

“Change of Control” shall have the same meaning given in Article 9.2 of the Plan.

1.3 Option

“Option” shall mean the option to purchase common stock of the Company granted under this Agreement.

1.4 Plan

The “Plan” shall mean the Employee Stock Option and Incentive Plan, as amended and restated.

1.5 Pronouns

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

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Subsidiary

“Subsidiary” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Subsidiary is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II — GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be * dollars per share without commission or other charge.

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one (1) year from the date this Option is granted (unless the Employee retires before the end of such period and the Employee satisfies the requirements of the last paragraph of Subsection 3.1(a)). Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, or combination of shares, the Committee or the Company shall make an appropriate and equitable adjustment in the number and kind of shares as to which the Option, or portions thereof then unexercised, shall be exercisable. Such adjustment shall be made with the intent that after the change or exchange of shares, the Employee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III — PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

- (a) The Option shall become exercisable in four cumulative installments as follows:
- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
 - (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
 - (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.
 - (iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment that becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

Alternatively, Options, granted under this Agreement to employees participating in the Senior Executive or the Executive Leadership Compensation Plans (annual bonus plans), who (i) die, (ii) become disabled (as described in Subsection 3.3(b) below) or (iii) retire under the Company's retirement plan, have worked for the Company for ten (10) or more years, and have a combination of age and service with the Company of seventy five (75) or more, will vest as of the date of death, disability or Termination of Employment, as applicable.

- (b) No portion of the Option which is not exercisable under Subsection (a) above at Termination of Employment shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company or a Subsidiary, subject to the following exceptions:

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, but not later than the Option's Expiration Date.
- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his Retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within sixty (60) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated other than for Cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV — EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than one hundred (100) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised by delivery (hard copy, fax or e-mail, as appropriate) to the Secretary or to the Company's Securities Administrator of all of the following:

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the tax liability with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the tax liability (and provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and
- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;
- (b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee or the Company shall, in its absolute discretion, deem necessary or advisable;
- (c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee or the Company shall, in its absolute discretion, determine to be necessary or advisable;
- (d) The lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V — MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

5.2 Administration

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such procedures.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner other than by will or by the applicable laws of descent and

distribution or as a result of marital dissolution involving a qualified domestic relations order (or a similar determination or settlement). The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice that is required to be given to Employee shall, if Employee is then deceased, be given to Employee's Beneficiary or personal representative if such individual has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

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

5.6 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

EVERY DENNISON CORPORATION

By: _____ *
President & Chief Executive Officer

By: _____
Secretary

*
Optionee

*

*
Address

* Refer to attached Notice.

AVERY DENNISON CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated * , is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the “Company,” and * , an employee of Company or a Subsidiary of Company, hereinafter referred to as “Employee.”

WHEREAS, Company wishes to afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Employee Stock Option and Incentive Plan (“Plan”); and

WHEREAS, the Compensation and Executive Personnel Committee of the Company’s Board of Directors (hereinafter referred to as the “Committee”), appointed to administer said Plan, or the Chief Executive Officer (“CEO”), as authorized by the Committee, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option provided for herein to Employee as an inducement to remain in the service of Company or its Subsidiaries and as an incentive for increased efforts during such service;

WHEREAS, the Committee or the CEO has advised the Company of its or his determination and instructed the undersigned officers to issue said Option, which the Committee has determined should be a Non-Qualified Stock Option, as authorized under the Plan;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, Company and Employee do hereby agree as follows:

ARTICLE I — DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan. Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary.

1.1 Beneficiary

“Beneficiary” shall mean a person properly designated by the Employee, including his/her spouse or heirs at law, to exercise such Employee’s rights under the Plan. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company, and shall be effective upon delivery to the Company.

1.2 Change of Control

“Change of Control” shall have the same meaning given in Article 9.2 of the Plan.

1.3 Option

“Option” shall mean the option to purchase common stock of the Company granted under this Agreement.

1.4 Plan

The “Plan” shall mean the Employee Stock Option and Incentive Plan, as amended and restated.

1.5 Pronouns

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

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Subsidiary

“Subsidiary” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Subsidiary is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II — GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be * dollars per share without commission or other charge.

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one (1) year from the date this Option is granted (unless the Employee retires before the end of such period and the Employee satisfies the requirements of the last paragraph of Subsection 3.1(a)). Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, or combination of shares, the Committee or the Company shall make an appropriate and equitable adjustment in the number and kind of shares as to which the Option, or portions thereof then unexercised, shall be exercisable. Such adjustment shall be made with the intent that after the change or exchange of shares, the Employee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III — PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

- (a) The Option shall become exercisable in four cumulative installments as follows:
- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
 - (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
 - (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.
 - (iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment that becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

Alternatively, Options, granted under this Agreement to employees participating in the Senior Executive Leadership Compensation Plan (annual bonus plan), who (i) die, (ii) become disabled (as described in Subsection 3.3(b) below) or (iii) retire under the Company's retirement plan, have worked for the Company for ten (10) or more years, and have a combination of age and service with the Company of seventy five (75) or more, will vest as of the date of death, disability or Termination of Employment, as applicable.

- (b) No portion of the Option which is not exercisable under Subsection (a) above at Termination of Employment shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company or a Subsidiary, subject to the following exceptions:

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, but not later than the Option's Expiration Date.
- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his Retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), to the full term of the option, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated other than for Cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV — EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than one hundred (100) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised by delivery (hard copy, fax or e-mail, as appropriate) to the Secretary or to the Company's Securities Administrator of all of the following:

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the tax liability with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the tax liability (and provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and
- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;
- (b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee or the Company shall, in its absolute discretion, deem necessary or advisable;
- (c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee or the Company shall, in its absolute discretion, determine to be necessary or advisable;
- (d) The lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V — MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

5.2 Administration

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such procedures.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner other than by will or by the applicable laws of descent and distribution or as a result of marital dissolution involving a qualified domestic relations order (or a similar determination or settlement). The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice that is required to be given to Employee shall, if Employee is then deceased, be given to Employee's Beneficiary or personal representative if such individual has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

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

5.6 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

AVERY DENNISON CORPORATION

By: _____ *

President & Chief Executive Officer

By: _____
Secretary

Optionee *

*

Address *

* Refer to attached Notice.

AVERY DENNISON CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated *, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the “Company,” and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as “Employee”.

WHEREAS, Company wishes to afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Employee Stock Option and Incentive Plan (“Plan”); and

WHEREAS, the Compensation and Executive Personnel Committee of the Company’s Board of Directors (hereinafter referred to as the “Committee”), appointed to administer said Plan, or the Chief Executive Officer (“CEO”), as authorized by the Committee, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option provided for herein to Employee as an inducement to remain in the service of Company or its Subsidiaries and as an incentive for increased efforts during such service;

WHEREAS, the Committee or the CEO has advised the Company of its or his determination and instructed the undersigned officers to issue said Option, which the Committee has determined should be a Non-Qualified Stock Option, as authorized under the Plan;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, Company and Employee do hereby agree as follows:

ARTICLE I

DEFINITIONS

Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary.

1.1 Beneficiary

“Beneficiary” shall mean a person properly designated by the Employee, including his/her spouse or heirs at law, to exercise such Employee’s rights under the Plan. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company and shall be effective upon delivery to the Committee or the Company.

1.2 Change of Control

“Change of Control” shall have the same meaning given in Article 9.2 of the Plan.

1.3 Option

“Option” shall mean the option to purchase common stock of the Company granted under the Stock Option Agreement.

1.4 Plan

The "Plan" shall mean the Employee Stock Option and Incentive Plan.

1.5 Pronouns

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

1.6 Secretary

"Secretary" shall mean the Secretary of the Company.

1.7 Subsidiary

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

"Termination of Employment" shall mean the time when the employee-employer relationship between the Employee and the Company or a Subsidiary is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company, in its absolute discretion, shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II

GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee's agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be _____ and 00000/10000 dollars (\$) _____ per share without commission or other charge, which was the equivalent of £ _____. (For informational purposes only, on February 28, 2008 the exchange rate of US\$ to £ as calculated by Bloomberg L.P. was £1.00 equals US\$ _____.)

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one (1) year from the date this Option is granted. Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, or combination of shares, the Committee or the Company shall make an appropriate and equitable adjustment in the number and kind of shares as to which the Option, or portions thereof then unexercised, shall be exercisable. Such adjustment shall be made with the intent that after the change or exchange of shares, the Employee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III

PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

- (a) The Option shall become exercisable in four cumulative installments as follows:
- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
 - (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
 - (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.

(iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment which becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

- (b) No portion of the Option, which is an unexercisable installment under Subsection (a) above at Termination of Employment, shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company or a Subsidiary, subject to the following exceptions:

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, and the Committee or the Company may in its discretion extend the Expiration Date of the Option to accommodate such exercise.
- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within sixty (60) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV

EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than twenty-five (25) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised by delivery (hard copy, fax or e-mail, as appropriate) to the Secretary or to the Company's Securities Administrator of all of the following:

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised. The notice shall be signed by the Employee or the other person then entitled to exercise the Option; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the aggregate exercise price of such Option; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the tax liability with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the tax liability; or (v) by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of the exercise equal to the tax liability (and provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and

- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and non-assessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof prior to fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;
- (b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee or the Company shall, in its absolute discretion, deem necessary or advisable;
- (c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee or the Company shall, in its absolute discretion, determine to be necessary or advisable;
- (d) The lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option

unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V

MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

5.2 Administration

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such procedures.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner other than by will or by the applicable laws of descent and distribution. The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice that is required to be given to Employee shall, if Employee is then deceased, be given to Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

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

5.6 Construction

This Agreement and the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

EVERY DENNISON CORPORATION

By: _____ *
President & Chief Executive Officer

By: _____
Secretary

By: _____ *
Optionee

_____ *

_____ *
Address

* Refer to attached Notice.


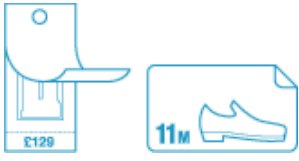
AVERY DENNISON CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in millions)

	<u>2007(2)</u>	<u>2006</u>	<u>2005</u>
Earnings:			
Income from continuing operations before taxes	\$ 375.3	\$ 435.2	\$ 367.5
Add: Fixed charges from continuing operations (1)	142.6	87.1	88.8
Amortization of capitalized interest	3.0	2.8	2.6
Less: Capitalized interest	(5.9)	(5.0)	(4.9)
	<u>\$ 515.0</u>	<u>\$ 520.1</u>	<u>\$ 454.0</u>
Fixed charges from continuing operations: (1)			
Interest expense	\$ 105.2	\$ 55.5	\$ 57.9
Capitalized interest	5.9	5.0	4.9
Interest portion of leases	31.5	26.6	26.0
	<u>\$ 142.6</u>	<u>\$ 87.1</u>	<u>\$ 88.8</u>
Ratio of Earnings to Fixed Charges	<u>3.6</u>	<u>6.0</u>	<u>5.1</u>

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.
- (2) 2007 included results for Paxar Corporation from June 15, 2007 (acquisition date) to December 29, 2007, as well the incremental interest expense related to the Company's increased borrowings to fund the acquisition.

OUR BUSINESSES AT A GLANCE

SEGMENT	Pressure-sensitive Materials	Retail Information Services
		
BUSINESS(ES)	<ul style="list-style-type: none"> + Roll Materials + Graphics and Reflective Products + Performance Polymers 	<ul style="list-style-type: none"> + Information and Brand Management + Printer Systems + Fastener
SALES	\$3.5 billion	\$1.2 billion
PERCENT OF TOTAL SALES	55%	19%
GLOBAL BRAND(S)	Fasson, Avery Graphics, Avery Dennison	Avery Dennison, Monarch
PRODUCTS	Pressure-sensitive roll materials, graphics and reflective materials, water and solvent-based performance polymer adhesives and engineered films	A wide variety of price marking and brand identification products that include woven and printed labels, heat transfers, graphic tags, patches, integrated tags, price tickets, packaging, RFID carton and item tags, electronic article surveillance (EAS) tags, barcode printers, software solutions, molded plastic fastening and application devices, as well as service bureau printing applications and accessories for retail and commercial supply chain industries
CUSTOMERS	Global label converters, consumer products package designers and manufacturers, industrial manufacturers, printers, designers, sign manufacturers, graphic vendors	Global retailers and brand owners, apparel and consumer goods manufacturers, restaurant and food service chains, grocery and drug store chains, and a variety of other industries serviced via resellers
MANUFACTURING AND SALES LOCATIONS	North America, Europe, South America, Asia Pacific, Africa, South Asia	North America, Europe, South America, Asia Pacific, Africa, South Asia

Office and Consumer Products



+ Office Products

\$1 billion

16%

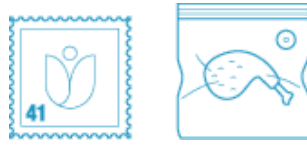
Avery

Self-adhesive labels, content and template software, binders, sheet protectors, dividers and index makers, writing instruments, T-shirt transfers and do-it-yourself card products

Office products super-stores, major retailers, office professionals, school administrators, small business owners and consumers

North America, Europe, South America, Asia Pacific

Other Specialty Converting Businesses



- + Specialty Tape
- + Radio Frequency Identification (RFID)
- + Industrial and Automotive Products
- + Security Printing
- + Performance Films

\$620 million

10%

Avery Dennison

Specialty tapes, industrial adhesives, architectural and engineered films, automotive decorative interior films, automotive exterior films and labels, metallized pigments, self-adhesive postage stamps, RFID inlays and durable tags

Industrial and original equipment manufacturers, medical products and device manufacturers, converters, packagers and consumer products companies

North America, Europe, South America, Asia Pacific

FIVE-YEAR SUMMARY

(Dollars in millions, except per share amounts)	5-Year Compound Growth Rate	2007 (1)		2006 (2)		2005(3)		2004 (4)		2003 (5)	
		Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
For the Year											
Net sales	8.9%	\$6,307.8	100.0	\$5,575.9	100.0	\$5,473.5	100.0	\$5,317.0	100.0	\$4,736.8	100.0
Gross profit	7.3	1,722.4	27.3	1,538.0	27.6	1,476.9	27.0	1,425.5	26.8	1,318.4	27.8
Marketing, general and administrative expense	8.8	1,182.5	18.7	1,011.1	18.1	987.9	18.0	957.4	18.0	891.6	18.8
Interest expense	18.7	105.2	1.7	55.5	1.0	57.9	1.1	58.7	1.1	58.6	1.2
Income from continuing operations before taxes	0.8	375.3	5.9	435.2	7.8	367.5	6.7	374.2	7.0	337.7	7.1
Taxes on income	(7.6)	71.8	1.1	76.7	1.4	75.3	1.4	93.9	1.8	93.1	2.0
Income from continuing operations	3.7	303.5	4.8	358.5	6.4	292.2	5.3	280.3	5.3	244.6	5.2
Income (loss) from discontinued operations, net of tax	N/A	—	N/A	14.7	N/A	(65.4)	N/A	(1.3)	N/A	22.8	N/A
Net income	3.4	303.5	4.8	373.2	6.7	226.8	4.1	279.0	5.2	267.4	5.6
		2007		2006		2005		2004		2003	
Per Share Information											
Income per common share from continuing operations	3.8%	\$ 3.09		\$ 3.59		\$ 2.92		\$ 2.81		\$ 2.46	
Income per common share from continuing operations, assuming dilution	3.8	3.07		3.57		2.91		2.79		2.45	
Net income per common share	3.4	3.09		3.74		2.27		2.79		2.69	
Net income per common share, assuming dilution	3.5	3.07		3.72		2.26		2.78		2.67	
Dividends per common share	3.6	1.61		1.57		1.53		1.49		1.45	
Average common shares outstanding	(0.1)	98.1		99.8		100.1		99.9		99.4	
Average common shares outstanding, assuming dilution	(0.1)	98.9		100.4		100.5		100.5		100.0	
Book value at fiscal year end	13.5	\$ 20.22		\$ 17.26		\$ 15.26		\$ 15.56		\$ 13.34	
Market price at fiscal year end	(2.0)	53.41		67.93		55.27		59.97		54.71	
Market price range		49.69 to 69.67		55.09 to 69.11		50.30 to 62.53		54.90 to 65.78		47.75 to 63.51	
At Year End											
Working capital		\$ (419.3)		\$ (12.1)		\$ 56.0		\$ 173.4		\$ (35.1)	
Property, plant and equipment, net		1,591.4		1,309.4		1,295.7		1,374.4		1,287.1	
Total assets		6,244.8		4,324.9		4,228.9		4,420.9		4,139.8	
Long-term debt		1,145.0		501.6		723.0		1,007.2		887.7	
Total debt		2,255.8		968.0		1,087.7		1,211.7		1,180.3	
Shareholders' equity		1,989.4		1,696.2		1,521.6		1,558.0		1,328.7	
Number of employees		37,300		22,700		22,600		21,400		20,300	
Other Information											
Depreciation expense (6)		\$ 184.1		\$ 153.8		\$ 154.2		\$ 145.8		\$ 141.9	
Research and development expense (6)		95.5		87.9		85.4		81.8		74.3	
Effective tax rate (6)		19.1%		17.6%		20.5%		25.1%		27.6%	
Total debt as a percent of total capital		53.1		36.3		41.7		43.7		47.0	
Return on average shareholders' equity (percent)		16.5		22.7		14.5		19.5		22.1	
Return on average total capital (percent)		10.6		15.7		10.0		12.1		12.8	

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.

- Results for 2007 include net pretax charges of \$59.4 for asset impairment charges, restructuring costs, lease cancellation charges and other items.
- Results for 2006 include net pretax charges of \$36.2 for restructuring costs, asset impairment and lease cancellation charges, environmental remediation and other items, partially offset by gain on sale of investment and assets. Additionally, results for 2006 include a tax benefit of \$14.9 due to capital losses arising from the sale of discontinued operations and a pretax gain on the sale of discontinued operations of \$1.3.
- Results for 2005 include a net pretax charge of \$63.6 for restructuring costs, asset impairment and lease cancellation charges and legal accrual related to a lawsuit, partially offset by gain on sale of assets. Additionally, results for 2005 include impairment charges for goodwill and intangible assets of \$74.4 associated with the expected divestiture of a business.
- Results for 2004 include a pretax charge of \$35.2 for restructuring costs, asset impairment and lease cancellation charges. Results for 2004 reflect a 53-week period.
- Results for 2003 include a net pretax charge of \$30.5 for restructuring costs, asset impairment and lease cancellation charges and net losses associated with several product line divestitures, partially offset by a reversal of accrual related to a lawsuit. Additionally, results for 2003 include a pretax gain on sale of discontinued operations of \$25.5.
- Amounts related to continuing operations.



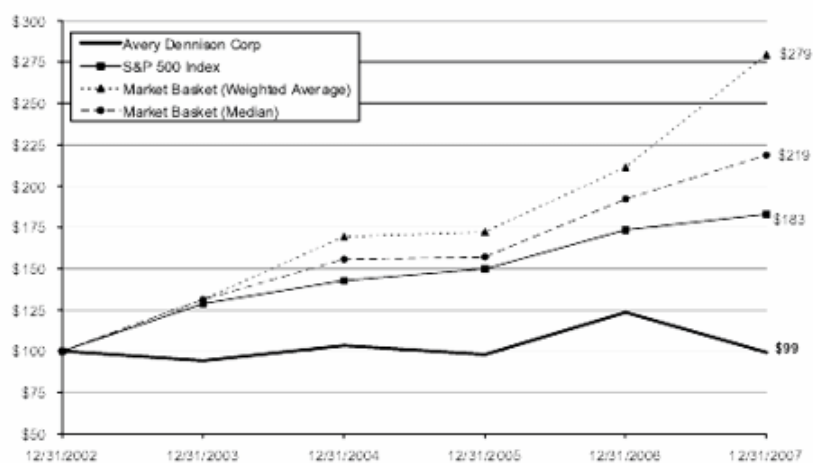
STOCKHOLDER RETURN PERFORMANCE

The following graph compares the Company's cumulative stockholder return on its common stock, including the reinvestment of dividends, with the return on the Standard & Poor's 500 Stock Index (the "S&P 500 Index") and the average return, weighted by market capitalization, of the Peer Group for five-year period ending December 29, 2007. The Company has also included the median return of the Peer Group in the graph as an additional comparison.

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

During 2007, Bowater Inc. was acquired by Abitibi-Consolidated. It is no longer a public company and therefore it was deleted from the Peer Group. In 2007, Trinity Industries was added to the Peer Group, which has been included for all periods.

Comparison of Five-Year Cumulative Total Return as of December 31, 2007



Total Return Analysis ⁽¹⁾

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007
Avery Dennison Corp	\$ 100.00	\$ 94.17	\$ 103.32	\$ 97.90	\$ 123.43	\$ 99.15
S&P 500 Index	\$ 100.00	\$ 128.67	\$ 142.66	\$ 149.66	\$ 173.28	\$ 182.79
Market Basket (Weighted Average) ⁽²⁾	\$ 100.00	\$ 131.20	\$ 169.31	\$ 172.15	\$ 211.21	\$ 279.41
Market Basket (Median)	\$ 100.00	\$ 131.14	\$ 155.55	\$ 156.90	\$ 192.01	\$ 218.57

(1) Assumes \$100 invested on December 31, 2002, and the reinvestment of dividends; chart reflects performance on a calendar year basis.

(2) Weighted average is weighted by market capitalization.

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

The above Stockholder Return Performance graph is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 ("Exchange Act"), other than as provided in Item 201 to Regulation S-K under the Exchange Act, or subject to the liabilities of Section 18 of the Exchange Act, and will not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing.

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 71.5	\$ 58.5
Trade accounts receivable, less allowances of \$64.2 and \$58.9 at year end 2007 and 2006, respectively	1,113.8	910.2
Inventories, net	631.0	496.9
Current deferred and refundable income taxes	128.1	101.4
Other current assets	113.9	119.7
Total current assets	2,058.3	1,686.7
Property, plant and equipment, net	1,591.4	1,309.4
Goodwill	1,683.3	715.9
Other intangibles resulting from business acquisitions, net	314.2	95.5
Non-current deferred and refundable income taxes	59.9	42.7
Other assets	537.7	474.7
	\$ 6,244.8	\$ 4,324.9
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 1,110.8	\$ 466.4
Accounts payable	679.2	630.1
Accrued payroll and employee benefits	204.7	179.4
Accrued trade rebates	150.3	142.8
Current deferred and payable income taxes	31.4	48.4
Other accrued liabilities	301.2	231.7
Total current liabilities	2,477.6	1,698.8
Long-term debt	1,145.0	501.6
Long-term retirement benefits and other liabilities	391.5	334.2
Non-current deferred and payable income taxes	241.3	94.1
Commitments and contingencies (see Notes 7 and 8)		
Shareholders' equity:		
Common stock, \$1 par value, authorized — 400,000,000 shares at year end 2007 and 2006; issued — 124,126,624 shares at year end 2007 and 2006; outstanding — 98,386,897 shares and 98,313,102 shares at year end 2007 and 2006, respectively	124.1	124.1
Capital in excess of par value	781.1	881.5
Retained earnings	2,290.2	2,155.6
Cost of unallocated ESOP shares	(3.8)	(5.7)
Employee stock benefit trust, 8,063,898 shares and 8,896,474 shares at year end 2007 and 2006, respectively	(428.8)	(602.5)
Treasury stock at cost, 17,645,829 shares and 16,887,048 shares at year end 2007 and 2006, respectively	(858.2)	(806.7)
Accumulated other comprehensive income (loss)	84.8	(50.1)
Total shareholders' equity	1,989.4	1,696.2
	\$ 6,244.8	\$ 4,324.9

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.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(In millions, except per share amounts)

	2007	2006	2005
Net sales	\$ 6,307.8	\$ 5,575.9	\$ 5,473.5
Cost of products sold	4,585.4	4,037.9	3,996.6
Gross profit	1,722.4	1,538.0	1,476.9
Marketing, general and administrative expense	1,182.5	1,011.1	987.9
Interest expense	105.2	55.5	57.9
Other expense, net	59.4	36.2	63.6
Income from continuing operations before taxes	375.3	435.2	367.5
Taxes on income	71.8	76.7	75.3
Income from continuing operations	303.5	358.5	292.2
Income (loss) from discontinued operations, net of tax (including gain on disposal of \$1.3 and tax benefit of \$14.9 in 2006)	—	14.7	(65.4)
Net income	\$ 303.5	\$ 373.2	\$ 226.8

Per share amounts:

Net income (loss) per common share:

Continuing operations	\$ 3.09	\$ 3.59	\$ 2.92
Discontinued operations	—	.15	(.65)
Net income per common share	\$ 3.09	\$ 3.74	\$ 2.27
Net income (loss) per common share, assuming dilution:			
Continuing operations	\$ 3.07	\$ 3.57	\$ 2.91
Discontinued operations	—	.15	(.65)
Net income per common share, assuming dilution	\$ 3.07	\$ 3.72	\$ 2.26
Dividends	\$ 1.61	\$ 1.57	\$ 1.53

Average shares outstanding:

Common shares	98.1	99.8	100.1
Common shares, assuming dilution	98.9	100.4	100.5
Common shares outstanding at year end	98.4	98.3	99.7

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from LIFO to FIFO for certain businesses operating in the U.S.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollars in millions, except per share amounts)	Common stock, \$1 par value	Capital in excess of par value	Retained earnings	Cost of unallocated ESOP shares	Employee stock benefit trusts	Treasury stock	Accumulated other comprehensive income (loss)	Total
Fiscal year ended 2004, as previously stated	\$ 124.1	\$ 766.1	\$ 1,887.6	\$ (9.7)	\$ (619.1)	\$ (597.6)	\$ (2.7)	\$ 1,548.7
Impact of adopting change in accounting for inventory			9.3					9.3
Fiscal year ended 2004, as restated	124.1	766.1	1,896.9	(9.7)	(619.1)	(597.6)	(2.7)	1,558.0
Comprehensive income:								
Net income			226.8					226.8
Other comprehensive income:								
Foreign currency translation adjustment							(90.6)	(90.6)
Minimum pension liability adjustment, net of tax of \$2.2							(.9)	(.9)
Effective portion of gains or losses on cash flow hedges, net of tax of \$(3.1)							5.1	5.1
Other comprehensive income							(86.4)	(86.4)
Total comprehensive income								140.4
Repurchase of 693,005 shares for treasury, net of shares issued						(40.6)		(40.6)
Stock issued under option plans, including \$18.8 of tax and dividends paid on stock held in stock trusts		11.3			19.2			30.5
Dividends: \$1.53 per share			(168.7)					(168.7)
ESOP transactions, net				2.0				2.0
Employee stock benefit trusts market value adjustment		(47.9)			47.9			—
Fiscal year ended 2005	124.1	729.5	1,955.0	(7.7)	(552.0)	(638.2)	(89.1)	1,521.6
Comprehensive income:								
Net income			373.2					373.2
Other comprehensive income:								
Foreign currency translation adjustment							101.0	101.0
Effective portion of gains or losses on cash flow hedges, net of tax of \$1.8							(3.1)	(3.1)
Minimum pension liability adjustment, net of tax of \$.6							(2.2)	(2.2)
Other comprehensive income							95.7	95.7
Total comprehensive income								468.9
Adjustment to initially adopt SFAS No. 158:								
Adjustment to minimum pension liability to initially apply SFAS No. 158, net of tax of \$(59.2)							114.0	114.0
Net actuarial loss, prior service cost and net transition obligation, net of tax of \$62.2							(170.8)	(170.8)
Effects of changing pension plan measurement date pursuant to SFAS No. 158:								
Service cost, interest cost, and expected return on plan assets for December 1 — December 30, 2006, net of tax			(.8)					(.8)
Amortization of prior service cost for December 1 — December 30, 2006, net of tax							.1	.1
Repurchase of 2,524,194 shares for treasury, net of shares issued						(168.5)		(168.5)
Stock issued under option plans, including \$22.7 of tax and dividends paid on stock held in stock trusts		30.4			71.1			101.5
Dividends: \$1.57 per share			(171.8)					(171.8)
ESOP transactions, net				2.0				2.0
Employee stock benefit trusts market value adjustment		121.6			(121.6)			—
Fiscal year ended 2006	124.1	881.5	2,155.6	(5.7)	(602.5)	(806.7)	(50.1)	1,696.2
Comprehensive income:								
Net income			303.5					303.5
Other comprehensive income:								
Foreign currency translation adjustment							105.5	105.5
Effective portion of gains or losses on cash flow hedges, net of tax of \$(.1)							.2	.2
Amortization of net actuarial loss, prior service cost and net transition asset, net of tax of \$(10)							29.2	29.2
Other comprehensive income							134.9	134.9
Total comprehensive income								438.4
Effects of adopting FIN 48			2.9					2.9
Repurchase of 758,781 shares for treasury, net of shares issued						(51.5)		(51.5)
Stock issued under option plans, including \$19.3 of tax and dividends paid on stock held in stock trusts		19.3			54.0			73.3
Dividends: \$1.61 per share			(171.8)					(171.8)
ESOP transactions, net				1.9				1.9
Employee stock benefit trusts market value adjustment		(119.7)			119.7			—
Fiscal year ended 2007	\$ 124.1	\$ 781.1	\$ 2,290.2	\$ (3.8)	\$ (428.8)	\$ (858.2)	\$ 84.8	\$ 1,989.4

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from LIFO to FIFO for certain businesses operating in the U.S.

See Notes to Consolidated Financial Statement

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)	2007	2006	2005
Operating Activities			
Net income	\$ 303.5	\$ 373.2	\$ 226.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	184.1	154.3	155.7
Amortization	50.5	43.6	45.8
Deferred taxes	(37.5)	(7.3)	(12.3)
Asset impairment and net loss (gain) on sale and disposal of assets of \$10.9, \$(13.9), and \$7 in 2007, 2006, and 2005, respectively	44.0	(7.8)	108.1
Stock-based compensation	21.6	24.1	—
Other non-cash items, net	(15.4)	(6.5)	(7.5)
Changes in assets and liabilities, net of the effect of business acquisitions and divestitures:			
Trade accounts receivable	1.0	(2.3)	(43.9)
Inventories	(5.3)	(24.6)	(12.4)
Other current assets	18.8	(45.6)	(4.3)
Accounts payable and accrued liabilities	(87.1)	8.9	30.4
Taxes on income	6.1	12.6	(31.9)
Long-term retirement benefits and other liabilities	15.1	(11.8)	(12.9)
Net cash provided by operating activities	499.4	510.8	441.6
Investing Activities			
Purchase of property, plant and equipment	(190.5)	(161.9)	(162.5)
Purchase of software and other deferred charges	(64.3)	(33.4)	(25.8)
Payments for acquisitions	(1,291.9)	(13.4)	(2.8)
Proceeds from sale of assets	4.9	15.4	21.8
Proceeds from sale of businesses and investments	—	35.4	—
Other	(1.4)	3.0	1.7
Net cash used in investing activities	(1,543.2)	(154.9)	(167.6)
Financing Activities			
Net increase (decrease) in borrowings (maturities of 90 days or less)	792.2	(137.8)	58.2
Additional borrowings (maturities longer than 90 days)	688.8	—	76.2
Payments of debt (maturities longer than 90 days)	(222.0)	(2.3)	(214.9)
Dividends paid	(171.8)	(171.8)	(168.7)
Purchase of treasury stock	(63.2)	(157.7)	(40.9)
Proceeds from exercise of stock options, net	38.1	54.1	11.1
Other	(6.7)	17.7	18.5
Net cash provided by (used in) financing activities	1,055.4	(397.8)	(260.5)
Effect of foreign currency translation on cash balances	1.4	1.9	.2
Increase (decrease) in cash and cash equivalents	13.0	(40.0)	13.7
Cash and cash equivalents, beginning of year	58.5	98.5	84.8
Cash and cash equivalents, end of year	\$ 71.5	\$ 58.5	\$ 98.5

Certain prior year amounts have been restated to reflect the change in method of accounting for inventory from LIFO to FIFO for certain businesses operating in the U.S.

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Nature of Operations**

Avery Dennison Corporation (the "Company") is a worldwide manufacturer of pressure-sensitive materials, office products and a variety of tickets, tags and other converted products. The Company's end markets include consumer products and other retail items (including apparel), logistics and shipping, industrial and durable goods, office products, transportation, and medical/health care.

Principles of Consolidation

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

Financial Presentation

Certain prior year amounts have been restated or reclassified to conform with the current year presentation as a result of the following:

Change in Accounting Method

Beginning in the fourth quarter of 2007, the Company changed its method of accounting for inventories for the Company's U.S. operations from a combination of the use of the first-in, first-out ("FIFO") and the last-in, first-out ("LIFO") methods to the FIFO method. The inventories for the Company's international operations continue to be valued using the FIFO method. The Company believes the change is preferable as the FIFO method better reflects the current value of inventories on the Consolidated Balance Sheet; provides better matching of revenue and expense in the Consolidated Statement of Income; provides uniformity across the Company's operations with respect to the method for inventory accounting; and enhances comparability with peers. Furthermore, this application of the FIFO method will be 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. The benefit to operating income from continuing operations for the years ended December 30, 2006 and December 31, 2005 was \$9.6 million and \$.7 million, respectively. There was no impact to discontinued operations.

If the Company had not changed its policy for accounting for inventory, pre-tax income would have been lower by \$1.1 million for the year ended December 29, 2007.

The effect of the change on previously reported consolidated operating results for the year ended December 30, 2006 was as follows:

(In millions)	As previously reported	Effect of change	As restated
Assets			
Inventories, net	\$ 471.8	\$25.1	\$ 496.9
Current deferred and refundable income taxes	95.2	6.2	101.4
Liabilities and shareholders' equity			
Non-current deferred and payable income taxes	\$ 78.5	\$15.6	\$ 94.1
Retained earnings	2,139.9	15.7	2,155.6

Discontinued Operations

In 2006, the Company completed the sale of its raised reflective pavement markers business, which was announced in December 2005. The results for this business were accounted for as discontinued operations in the consolidated financial statements for the years presented herein. The divestiture resulted in a tax benefit of \$14.9 million due to capital losses arising from the sale of the business and a gain on sale of \$1.3 million. Based on the estimated value for this business, management concluded that associated goodwill and intangible assets from the acquisition of this business were impaired, resulting in a pretax charge of \$74.4 million in December 2005. This business was previously included in the Pressure-sensitive Materials segment.

Summarized, combined statement of income for discontinued operations:

(In millions)	2006	2005
Net sales	\$ 7.2	\$ 22.8
Loss before taxes	\$ (1.3)	\$ (76.9)
Taxes on income	.2	(11.5)
Loss from operations, net of tax	(1.5)	(65.4)
Gain on sale of discontinued operations	1.3	—
Tax benefit from sale	(14.9)	—
Income (loss) from discontinued operations, net of tax	\$ 14.7	\$ (65.4)

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

Amortization expense on other intangible assets related to discontinued operations was \$2 million in 2005.

Summarized, combined balance sheet for discontinued operations (classified as held-for-sale):

(In millions)	2005
Current assets	\$3.9
Property, plant and equipment, net	5.1
Other assets	2.9
Total non-current assets (1)	8.0
Current liabilities	2.2
Non-current liabilities	.5

(1) Included in "Other assets" in the Consolidated Balance Sheet

Reclassification of Shipping and Handling Costs

In 2006, shipping and handling costs, which were previously classified in "Marketing, general and administrative expense" for the Retail Information Services segment, Office and Consumer Products segment, and most businesses included in the other specialty converting businesses, were reclassified to "Cost of products sold" to align the Company's businesses around a standard accounting policy. Shipping and handling costs, which consist primarily of transportation charges incurred to move finished goods to customers, were approximately \$145 million for 2005.

Segment Reporting

The Company's segments are:

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

In addition to the reportable segments, the Company has other specialty converting businesses comprised of several businesses that produce specialty tapes and highly engineered labels, including radio-frequency identification ("RFID") inlays and other converted products.

In the second quarter of 2006, the Company transferred its business media division from the Retail Information Services segment into other specialty converting businesses to align with a change in its internal reporting structure. Prior year amounts included herein have been reclassified to conform to the current year presentation.

In 2007, the Pressure-sensitive Materials segment contributed approximately 55% of the Company's total sales, while the Retail Information Services segment and the Office and Consumer Products segment contributed approximately 19% and 16%, respectively, of the Company's total sales. The other specialty converting businesses contributed the remaining 10% of the Company's total sales. International and domestic operations generated approximately 63% and 37%, respectively, of the Company's total sales in 2007. Refer to Note 12, "Segment Information," for further detail.

Fiscal Year

The Company's 2007, 2006 and 2005 fiscal years reflected 52-week periods ending December 29, 2007, December 30, 2006, and December 31, 2005, respectively. Normally, each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks.

Use of Estimates

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

Cash and Cash Equivalents

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

(In millions)	2007	2006	2005
Interest, net of capitalized amounts	\$ 93.6	\$ 52.0	\$ 55.9
Income taxes, net of refunds	106.2	60.4	113.1

In 2007, 2006 and 2005, non-cash activities included accruals for capital expenditures of approximately \$14 million, \$18 million and \$27 million, respectively, due to the timing of payments. In 2005, fixed assets acquired through capital leases totaled approximately \$9 million. These assets were sold and leased-back in 2006, under an operating lease. Additionally in 2006, non-cash activities included approximately \$11 million in purchases of treasury stock, which were completed in late 2006 but not settled until January 2007.

Accounts Receivable

The Company records trade accounts receivable at the invoiced amount. The allowance for doubtful accounts represents allowances for trade accounts receivable that are estimated to be partially or entirely uncollectible. The customer complaint reserve represents estimated sales returns and allowances. These allowances are used to reduce gross trade receivables to their net realizable values. In 2007 and 2006, the Company recorded expenses of approximately \$19 million and approximately \$32 million, respectively, related to the allowances for trade accounts receivable. The Company records these allowances based on estimates related to the following factors:

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

No single customer represented 10% or more of the Company's net sales or trade receivables at year end 2007 and 2006. However, the ten largest customers at year end 2007 represented approximately 17% of trade accounts receivable and consisted of six customers of the Company's Office and Consumer Products segment, three customers of the Pressure-sensitive Materials segment and one customer of both these segments. The Company does not generally require its customers to provide collateral, but the financial position and operations of these customers are monitored on an ongoing basis.

Inventories

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

Inventories at year end were as follows:

(In millions)	2007	2006
Raw materials	\$ 252.6	\$ 170.5
Work-in-progress	151.5	127.5
Finished goods	304.2	243.2
Inventories at lower of FIFO cost or market (approximates replacement cost)	708.3	541.2
Inventory reserves	(77.3)	(44.3)
Inventories, net	\$ 631.0	\$ 496.9

Property, Plant and Equipment

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

(In millions)	2007	2006
Land	\$ 69.7	\$ 54.8
Buildings and improvements	733.6	626.8
Machinery and equipment	2,278.2	1,959.7
Construction-in-progress	114.4	134.3
Property, plant and equipment	3,195.9	2,775.6
Accumulated depreciation	(1,604.5)	(1,466.2)
Property, plant and equipment, net	\$ 1,591.4	\$ 1,309.4

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

Software

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

Capitalized software is amortized on a straight-line basis over the estimated useful life of the software, ranging from two to ten years. Capitalized software costs were as follows:

(In millions)	2007	2006
Cost	\$ 293.1	\$ 259.0
Accumulated amortization	(167.1)	(145.8)
	\$ 126.0	\$ 113.2

Impairment of Long-lived Assets

Impairment charges are recorded when the carrying amounts of long-lived assets are determined not to be recoverable. Impairment is measured by assessing the usefulness of an asset or by comparing the carrying value of an asset to its fair value. Fair value is typically determined using quoted market prices, if available, or an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. Historically, changes in market conditions and management strategy have caused the Company to reassess the carrying amount of its long-lived assets. Refer to the Discontinued Operations section of this note, as well as Note 10, "Cost Reduction Actions," for details of impairment charges recorded in 2007, 2006 and 2005.

Goodwill and Other Intangibles Resulting from Business Acquisitions

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

The Company's reporting units for the purposes of performing the impairment tests for goodwill and other intangible assets consist of office and consumer products; retail information services; roll materials; graphics and reflective; business media; industrial products; RFID; performance polymers; specialty tapes, performance films; and security printing. For the purposes of performing the required impairment tests, a present value (discounted cash flow) method was used to determine the fair value of the reporting units with goodwill. The Company performed its annual impairment test in the fourth quarter of 2007, with an assessment that no impairment had occurred. Other intangible assets deemed to have an indefinite life are tested for impairment by comparing the fair value of the asset to its carrying amount. In connection with the acquisition of Paxar Corporation ("Paxar"), the Company acquired approximately \$30 million of intangible assets, consisting of certain trade names and trademarks, which are not subject to amortization because they have an indefinite useful life. See Note 2, "Acquisitions."

The Company's reporting units are composed of either a discrete business or an aggregation of businesses with similar economic characteristics. Certain factors, including the decision to divest an individual business within a reporting unit, may result in the need to perform an impairment test prior to the annual impairment test. In the event that an individual business within a reporting group is divested, goodwill is allocated to that business based on its fair value relative to its reporting unit, which could result in a gain or loss. If a divested business within a reporting unit has not been integrated with other businesses within that reporting unit, the net book value of the goodwill associated with the business to be divested would be included in the carrying amount of the business when determining the gain or loss on disposal.

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

Foreign Currency

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

Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency) increased net income by \$1.4 million and \$1.3 million in 2007 and 2006, respectively, and decreased net income by \$2.2 million in 2005. These results exclude the effects of translation of foreign currencies on the Company's financial statements.

In 2007, the Company had no operations in hyperinflationary economies. In 2006, the only hyperinflationary economy in which the Company operated was the Dominican Republic, in which the Company uses the U.S. dollar as the functional currency. In 2005, the Company's operations in hyperinflationary economies consisted of the Dominican Republic and Turkey; however, the impact on net income from these operations was not significant.

Financial Instruments

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

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 futures contracts to hedge price fluctuations for a portion of its anticipated domestic purchases. The maximum length of time in which the Company hedges its exposure to the variability in future cash flows for forecasted transactions is generally 12 to 24 months.

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

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

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

Revenue Recognition

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

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

Advertising Costs

Advertising costs included in "Marketing, general and administrative expense" were \$20.3 million in 2007, \$16.2 million in 2006, and \$14.1 million in 2005. The Company's policy is to expense advertising costs as incurred.

Research and Development

Research and development costs are related to research, design and testing of new products and applications and are expensed as incurred. Research and development expense was \$95.5 million in 2007, \$87.9 million in 2006, and \$85.4 million in 2005.

Pensions and Postretirement Benefits

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

Product Warranty

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

Product warranty liabilities were as follows:

(In millions)	2007	2006	2005
Balance at beginning of year	\$ 1.9	\$ 2.5	\$ 1.9
Accruals for warranties issued	.8	.7	1.9
Assumed accrued warranty liability (1)	.5	—	—
Payments	(.7)	(1.3)	(1.3)
Balance at end of year	\$ 2.5	\$ 1.9	\$ 2.5

(1) Related to the Paxar acquisition

Stock-Based Compensation

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

Prior to January 1, 2006, the Company accounted for stock options in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended. Except for costs related to restricted stock units ("RSUs") and restricted stock, no stock-based compensation cost was recognized in net income prior to January 1, 2006.

Effective January 1, 2006, the Company began recognizing expense for stock options to comply with the provisions of the reissued SFAS No. 123(R), "Share-Based Payment," using the modified prospective application transition method. As permitted by this transition method, results for the prior periods have not been restated.

As of January 1, 2006, the Company elected to use the short-cut method to calculate the historical pool of windfall tax benefits related to employee stock-based compensation awards, in accordance with the provisions of SFAS No. 123(R). In addition, the Company elected to follow the tax ordering laws to determine the sequence in which deductions and net operating loss carryforwards are utilized, as well as the direct-only approach to calculating the amount of windfall or shortfall tax benefits.

Effect of Stock Options on Net Income

Net income for 2007 and 2006 include pretax stock option expense of \$15.8 million (including approximately \$1 million associated with Paxar converted stock options) and \$20.9 million, respectively. These expenses were included in "Marketing, general and administrative expense" and were recorded in corporate expense and the Company's operating segments, as appropriate. No stock-based compensation cost was capitalized for the years ended December 29, 2007 and December 30, 2006.

The provisions of SFAS No. 123(R) require that stock-based compensation awards granted to retirement-eligible employees be treated as though they were immediately vested; as a result, pretax compensation expense related to stock options granted to retirement-eligible employees (approximately \$5 million) was recognized during 2006 and is included in the compensation expense noted above. During 2007, the recognized pretax compensation expense related to stock options granted to retirement-eligible employees was not significant.

The following illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock options granted under the Company's stock option plans during the 2005 fiscal year.

(In millions, except per share amounts)	2005
Net income, as reported	\$ 226.8
Compensation expense, net of tax	(15.7)
Net income, pro forma	\$ 211.1
Net income per share, as reported	\$ 2.27
Net income per share, assuming dilution, as reported	2.26
Pro forma net income per share	\$ 2.11
Pro forma net income per share, assuming dilution	2.10

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

Environmental Expenditures

Environmental expenditures are generally expensed. However, environmental expenditures for newly acquired assets and those which extend or improve the economic useful life of existing assets are capitalized and amortized over the remaining asset life. The Company reviews each reporting period its estimates of costs of compliance with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated the Company as a potentially responsible party. When it is probable that obligations have been incurred and where a range of the cost of compliance or remediation can be estimated, the best estimate within the range, or if an amount cannot be determined and be the most likely, the low end of the range is accrued. Potential insurance reimbursements are not offset against potential liabilities, and such liabilities are not discounted. As of December 29, 2007, the Company's estimated liability associated with compliance and remediation costs was approximately \$38 million, including preliminary liabilities related to the acquisition of Paxar. See also Note 2, "Acquisitions."

In December 2005, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143." As a result, the Company recognized a liability for the fair value of conditional asset retirement obligations based on estimates determined through present value techniques. An asset retirement is 'conditional' when the timing and (or) method of settlement of the retirement obligation is conditional upon a future event that may or may not be within the control of the Company. Certain potential obligations have not been included in the Company's estimate, because the range of time over which the Company may settle the obligation or the method of settlement is unknown or cannot be reasonably estimated. The Company's estimated liability associated with asset retirement obligations was not significant as of December 29, 2007.

Restructuring and Severance Costs

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

Investment Tax Credits

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

Taxes on Income

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

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

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

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

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

Net Income Per Share

Net income per common share amounts were computed as follows:

(In millions, except per share amounts)	2007	2006	2005
(A) Income from continuing operations	\$303.5	\$358.5	\$292.2
(B) Income (loss) from discontinued operations	–	14.7	(65.4)
(C) Net income available to common shareholders	\$303.5	\$373.2	\$226.8
(D) Weighted-average number of common shares outstanding	98.1	99.8	100.1
Dilutive shares (additional common shares issuable under employee stock options, RSUs and restricted stock, contingently issuable shares under an acquisition agreement in 2004 (1), and nonvested shares under employee agreements in 2005 and 2004)	.8	.6	.4
(E) Weighted-average number of common shares outstanding, assuming dilution	98.9	100.4	100.5
Income from continuing operations per common share (A) , (D)	\$ 3.09	\$ 3.59	\$ 2.92
Income (loss) from discontinued operations per common share (B) , (D)	–	.15	(.65)
Net income per common share (C) , (D)	\$ 3.09	\$ 3.74	\$ 2.27
Income from continuing operations per common share, assuming dilution (A) , (E)	\$ 3.07	\$ 3.57	\$ 2.91
Income (loss) from discontinued operations per common share, assuming dilution (B) , (E)	–	.15	(.65)
Net income per common share, assuming dilution (C) , (E)	\$ 3.07	\$ 3.72	\$ 2.26

(1) Represents L&E Packaging's exercise of its true-up right provided under the related acquisition agreement

Certain employee stock options, RSUs, performance share awards, and shares of restricted stock were not included in the computation of net income per common share, assuming dilution, because they would not have had a dilutive effect. Employee stock options, RSUs, performance share awards, and shares of restricted stock excluded from the computation totaled 4.4 million in 2007, 4.6 million in 2006, and 4.6 million in 2005. The amount excluded for fiscal year 2007 and 2006 reflected the impact of additional dilutive shares following the calculation of assumed proceeds under the treasury stock method, as prescribed by SFAS No. 123(R).

Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments, net actuarial loss, prior service cost and net transition assets, adjustments related to the implementation of SFAS No. 158, net of tax, and the gains or losses on the effective portion of cash flow and firm commitment hedges, net of tax, that are currently presented as a component of shareholders' equity. The Company's total comprehensive income was \$438.4 million, \$468.9 million and \$140.4 million for 2007, 2006 and 2005, respectively.

The components of accumulated other comprehensive income (loss) (net of tax, with the exception of the foreign currency translation adjustment), at December 29, 2007 were as follows:

(In millions)	2007	2006
Foreign currency translation adjustments	\$ 243.1	\$ 137.6
Net actuarial loss, prior service cost and net transition assets, less amortization	(141.5)	(170.8)
Effect of the change in measurement date	–	.1
Net loss on derivative instruments designated as cash flow and firm commitment hedges	(16.8)	(17.0)
Accumulated other comprehensive income (loss)	\$ 84.8	\$ (50.1)

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

(In millions)	2007	2006
Beginning accumulated derivative loss	\$(17.0)	\$(13.9)
Net loss reclassified to earnings	10.5	5.5
Net change in the revaluation of hedging transactions	(10.3)	(8.6)
Ending accumulated derivative loss	\$(16.8)	\$(17.0)

Business Combinations

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

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

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

Recent Accounting Requirements

SFAS No. 123(R) and Related Guidance In October 2006, FASB issued Staff Position ("FSP") No. FAS 123(R)-6, "Amendment of FASB Staff Position FAS 123(R)-1." This guidance addresses certain technical corrections of SFAS No. 123(R). These corrections include (a) exempting nonpublic companies from disclosing the aggregate intrinsic value of outstanding fully vested share options (or share units) and those expected to vest; (b) revising the computation of the minimum compensation cost that must be recognized to comply with paragraph 142 of SFAS No. 123(R); (c) indicating that at the date that awards are no longer probable of vesting, any previously recognized compensation cost should be reversed; and (d) amending the definition of short-term inducement to exclude an offer to settle an award. This FSP is applicable in the first reporting period beginning after October 20, 2006. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

In April 2005, the Securities and Exchange Commission ("SEC") delayed the effective date of the reissued SFAS No. 123(R), "Share-Based Payment," to the beginning of the first annual reporting period beginning after June 15, 2005. This Statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services and requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The Company adopted the recognition provisions of this Statement in January 2006 and followed the guidance under modified prospective application. See Note 9, "Shareholders' Equity," for further discussion.

Other Requirements

In December 2007, the FASB issued FAS 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 business 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. This Statement applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact of this Statement on the Company's financial results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FAS 115 (February 2007)." This Statement details the disclosures required for items measured at fair value. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt this Statement when applicable. The Company is currently evaluating the impact of this Statement on the Company's financial results of operations and financial position.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This Statement requires (a) the recognition of funded status of a defined benefit postretirement plan in the statement of financial position and changes in the funded status through comprehensive income; (b) as a component of other comprehensive income, the recognition of actuarial gains and losses and the prior service costs and credits (net of tax) that arise during the period, but are not recognized in the income statement; (c) measurement of defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position; and (d) disclosure of additional information about certain effects on net periodic benefit cost for the next fiscal year, that arise from delayed recognition of the gains and losses, prior service costs or credits, and transition assets or obligations. The provisions of this Statement are effective as of the end of fiscal years ending after December 15, 2006, except for the requirement to measure plan assets and obligations as of the date of the employer's fiscal year end statement of financial position, which is effective for fiscal years ending after December 15, 2008. The Company has adopted all provisions of SFAS No. 158, including changing the measurement date of the majority of the U.S. plans to coincide with the fiscal year end. The adoption of SFAS No. 158 has reduced total shareholders' equity by approximately \$57 million, net of tax, in 2006. The adoption of SFAS No. 158 did not affect the Company's financial results of operations as of December 30, 2006.

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. The Company will adopt this Statement when applicable. The Company is currently evaluating the impact of this Statement on the financial results of operations and financial position.

In September 2006, the FASB issued FSP AUG AIR-1, "Accounting for Planned Major Maintenance Activities." This FSP prohibits the use of the accrue-in-advance method of accounting and directs that entities shall apply the same method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The guidance in this FSP is effective for fiscal years beginning after December 15, 2006. The adoption of this guidance did not have a significant impact on the Company's financial results of operations and financial position.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." This SAB provides guidance on approaches to considering the effects of identified unadjusted errors on financial statements, and what steps shall be taken to correct previously filed reports. The guidance in this SAB is effective for fiscal years beginning after November 15, 2006, and registrants electing not to restate financial statements for fiscal years ending on or before November 15, 2006 should reflect the effects of initially applying this guidance in their annual financial statements covering the first fiscal year ending after November 15, 2006. There was no cumulative effect at the time the Company adopted this guidance.

In July 2006, the FASB issued FIN 48, which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim period guidance, among other provisions. FIN 48 is effective for fiscal years beginning after December 15, 2006 and the Company adopted this Interpretation in 2007. Upon adoption of FIN 48, the Company recognized a decrease of \$2.9 million in the liability for unrecognized tax benefits, which was accounted for as an increase to the beginning balance of retained earnings. See Note 11, "Taxes Based on Income," for further discussion.

In March 2006, the consensus of Emerging Issues Task Force Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)," was published. The scope of this Issue includes any tax assessed by a government authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, and may include, but is not limited to, sales, use, value-added, and some excise taxes. The consensuses of this Issue should be applied for interim and annual reporting periods beginning after December 15, 2006. The adoption of this Issue has not had a significant impact on the Company's financial results of operations, because the Company does not generally recognize taxes collected from customers and remitted to governmental authorities in the Company's financial results of operations.

In October 2005, the FASB issued FSP No. FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period." This FSP clarifies that rental costs of operating leases that are incurred during a construction period should be recognized as rental expense. The guidance in this FSP was applied beginning in 2006. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

In September 2005, the consensus of the Emerging Issues Task Force ("EITF") Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty," was published. An entity may sell inventory to another entity in the same line of business from which it also purchases inventory. This Issue states that inventory purchases and sales transactions with the same counterparty that are entered into in contemplation of one another should be combined for purposes of applying APB Opinion No. 29. In addition, a nonmonetary exchange, whereby an entity transfers finished goods inventory in exchange for the receipt of raw materials or work-in-process inventory within the same line of business, is not an exchange transaction to facilitate sales to customers as described in APB Opinion No. 29, and, therefore, should be recognized by the entity at fair value. Other nonmonetary exchanges of inventory within the same line of business should be recognized at the carrying amount of the inventory transferred. This Issue was effective for new arrangements entered into, or modifications or renewals of existing arrangements, beginning in the first interim or annual reporting period beginning after March 15, 2006. The adoption of this guidance has not had a significant impact on the Company's financial results of operations and financial position.

In June 2005, the consensus of EITF Issue No. 05-6, “Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination,” was published and was effective for the reporting period after ratification. This Issue addresses the amortization period for leasehold improvements acquired in a business combination or placed in service after lease inception. The adoption of this Issue has not had a significant impact on the Company’s financial results of operations and financial position.

In June 2005, the consensus of EITF Issue No. 05-5, “Accounting for Early Retirement or Postemployment Programs with Specific Features (Such as Terms Specified in Altersteilzeit Early Retirement Arrangements),” was published. This Issue addresses how an employer should account for the bonus feature and additional contributions into the German government pension scheme (collectively, the additional compensation) under a Type II Altersteilzeit (“ATZ”) arrangement, and the government subsidy under Type I and Type II ATZ arrangements. The consensus in this Issue was applicable beginning in fiscal year 2006. The adoption of this Issue has not had a significant impact on the Company’s financial results of operations and financial position.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3.” This Statement requires retrospective application to prior periods’ financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement is effective for fiscal year 2006. 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 FIFO and LIFO methods to the FIFO method. The Company applied this change in accounting principle by retrospectively restating prior years’ financial statements. In 2006, the Company changed its accounting treatment for shipping and handling costs as described in the Shipping and Handling Costs section of this note, and retrospectively applied this change by reclassifying shipping and handling costs for previously reported financial statements for comparability to the current period as required by SFAS No. 154. The provisions of SFAS No. 154 were not applicable to the adoption of SFAS No. 123(R) and SFAS No. 158, since there are specific transition provisions within those Statements.

Related Party Transactions

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

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

Summary of Related Party Activity:

(In millions)	2007	2006	2005
Mullin Companies commissions on the Company’s insurance premiums	\$.4	\$.5	\$.9
Mr. Mullin’s direct & indirect interest in these commissions	.3	.4	.7
Mullin Companies reinsurance gains (without risk of forfeiture) ascribed by M Life to the Company’s life insurance policies	.2	.3	.2
Mr. Mullin’s direct & indirect interest in reinsurance gains (without risk of forfeiture)	.1	.2	.1
Mullin Companies reinsurance gains (subject to risk of forfeiture) ascribed by M Life to the Company’s life insurance policies	.8	.6	1.5
Mr. Mullin’s direct & indirect interest in reinsurance gains (subject to risk of forfeiture)	.5	.4	1.1

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. The occurrence of certain circumstances resulted in the accelerated vesting of certain of these equity awards.

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 expanding and fragmented 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 is also expected to result in significant cost synergies.

Preliminary Purchase Price Allocation

The total purchase price was approximately \$1.3 billion for the outstanding shares of Paxar, including transaction costs of approximately \$15 million. The acquisition was initially funded by commercial paper borrowings, supported by a bridge revolving credit facility (see Note 4, “Debt,” and Note 14, “Subsequent Events”).

In accordance with SFAS No. 141, “Business Combinations,” the preliminary balance sheet allocation of the purchase price as of December 29, 2007 has been made and recorded in the Consolidated Financial Statements. The preliminary allocation of the purchase price was primarily based on preliminary third-party valuations of the acquired assets; however, ongoing assessments of the fair value of certain assets and obligations are expected to impact the allocation of the purchase price, including obligations resulting from additional restructuring and integration actions, potential environmental liabilities and tax assets and/or liabilities.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition, as reflected in the Consolidated Balance Sheet at December 29, 2007.

(In millions)	June 15, 2007
Current assets (including cash and cash equivalents of approximately \$47 million)	\$ 350.8
Property, plant, and equipment, net	253.1
Other assets	1.5
Intangible assets	233.8
Goodwill	931.3
Total assets acquired	\$1,770.5
Current liabilities	205.8
Other long-term liabilities	207.4
Other equity	24.2
Total liabilities and other equity	\$ 437.4
Net assets acquired	\$1,333.1

The Company assumed liabilities of approximately \$413 million, including accounts payable and other current and long-term liabilities. Included in this amount is approximately \$5 million of long-term debt, which remains outstanding at December 29, 2007. In addition, the Company has 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 currently estimated to be approximately \$1.2 billion, including goodwill of approximately \$931 million and identified intangible assets of approximately \$234 million, which includes amortizable and non-amortizable intangible assets.

Identifiable intangible assets consist of customer relationships, patents and other acquired technology and other intangibles. These acquired amortizable intangible assets have a preliminary estimated weighted-average useful life of nine years. These intangible assets include approximately \$176 million for customer relationships with a weighted-average useful life of ten years; approximately \$24 million for patent 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. Furthermore, approximately \$30 million of the acquired intangible assets related to trade names and trademarks are not subject to amortization because they have an indefinite useful life.

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

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

Integration Actions

As a result of the Paxar acquisition, the Company identified certain liabilities and other costs of approximately \$28 million for restructuring actions which were recorded as part of the Company's preliminary purchase price allocation. Included in this amount are \$18 million of severance costs for involuntary terminations of approximately 855 employees of Paxar, lease cancellation costs of \$2.5 million, and other related costs of \$.5 million. In addition, the Company recognized additional purchase price adjustments by reducing the fair value for certain acquired property, plant and equipment by \$6.7 million. Severance costs are included in "Other accrued liabilities" in the Consolidated Balance Sheet. Severance and related costs represent cash paid or to be paid to employees terminated under these actions.

(In millions)	Purchase Price Adjustments
Severance and other employee costs	
Accrual at June 30, 2007	\$ 2.0
Accrual at September 29, 2007	4.7
Accrual at December 29, 2007	11.3
Total Accruals	18.0
2007 Settlements	(5.8)
Balance at December 29, 2007	\$12.2

Asset Impairment

Machinery and Equipment	\$ 6.7
Other	
Lease cancellation	2.5
Other	.5
	\$ 9.7

The Company continues to integrate Paxar and additional liabilities for exit activities and integration costs may be recorded in the future as a result of the finalization of these integration efforts.

Included in the assumed current liabilities were accrued restructuring costs related to Paxar's pre-acquisition restructuring program. At December 29, 2007, approximately \$4 million remained accrued in connection with this program.

Other

In connection with this acquisition, certain change-in-control provisions provided that approximately \$27 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, approximately \$1 million remained accrued in "Other accrued liabilities" in the Consolidated Balance Sheet at December 29, 2007. New employment agreements for certain key executives retained by the Company provided for approximately \$8 million to be accrued over their requisite service periods. Approximately \$5 million of these costs were recorded in the Consolidated Statement of Income during the year ended December 29, 2007.

Included in the assumed long-term liabilities was a postretirement benefit plan obligation totaling approximately \$11 million for certain retired executives of Paxar. Since the date of the acquisition, the Company contributed \$.5 million to this plan.

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

Refer to Note 11, "Taxes Based on Income," for information on the tax-related impact of the acquisition.

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 2006. 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 preliminary allocation of the purchase price and are expected to be adjusted as a result of the finalization of the purchase price allocation. 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 2006, nor is it necessarily indicative of future results.

(In millions, except per share amounts)	2007(1)	2006(2)
Net sales	\$6,722.3	\$6,442.1
Net income from continuing operations	278.9	333.1
Net income per common share from continuing operations	2.84	3.34
Net income per common share from continuing operations, assuming dilution	2.82	3.31

- (1) The pro forma results of operations for fiscal year 2007 include the Company's restructuring costs and other charges discussed in Note 12, "Segment Information."
- (2) The pro forma results of operations for fiscal year 2006 include the impact of Paxar's gain on a lawsuit settlement of \$39.4, partially offset by restructuring costs and other charges of \$10, as well as the Company's restructuring costs and other charges discussed in Note 12, "Segment Information."

Prior to the acquisition, the Company sold certain roll materials products to Paxar. The Company's net sales to Paxar prior to the acquisition were approximately \$8 million and approximately \$15 million during 2007 and 2006, respectively.

Other Acquisitions

In September 2006, the Company completed the acquisition of a small company for approximately \$13 million. Goodwill and intangibles resulting from this business acquisition were approximately \$10 million and \$2 million, respectively. The goodwill from this acquisition is not expected to be deductible for U.S. tax purposes. These amounts of goodwill and intangibles do not include acquisition adjustments in the subsequent years following acquisition. Acquisitions during 2006 were not significant to the consolidated financial position of the Company. Pro forma results for acquisitions in 2006 are not presented, as the acquired business did not have a significant impact on the Company's results of operations for the year ended December 30, 2006.

NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Changes in the net carrying amount of goodwill from continuing operations for 2007 and 2006, 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 31, 2005	\$313.6	\$ 201.3	\$157.9	\$.3	\$ 673.1
Transfer of business (1)	—	(3.1)	—	3.1	—
Goodwill acquired during the period	—	—	—	10.4	10.4
Acquisition adjustments(2)	—	.3	—	—	.3
Translation adjustments	18.8	2.0	11.2	.1	32.1
Balance as of December 30, 2006	332.4	200.5	169.1	13.9	715.9
Goodwill acquired during the period(3)	—	935.7	—	—	935.7
Acquisition adjustments(4)	—	(.5)	—	—	(.5)
Translation adjustments	21.6	2.0	8.5	0.1	32.2
Balance as of December 29, 2007	\$354.0	\$1,137.7	\$177.6	\$14.0	\$1,683.3

- (1) Refers to the transfer of the business media division from Retail Information Services to other specialty converting businesses to align with a change in the Company's internal reporting structure.
- (2) Acquisition adjustments in 2006 consisted of a purchase price allocation of a small acquisition in 2005.
- (3) Goodwill acquired during the period related to the Paxar acquisition in June 2007, as well as buy-outs of minority interest shareholders associated with certain subsidiaries of RVL Packaging, Inc. and Paxar.
- (4) Acquisition adjustments in 2007 consisted of a tax adjustment associated with RVL Packaging, Inc.

Goodwill and other intangible assets and related useful lives include the preliminary allocation of the purchase price of Paxar, based on preliminary third-party valuations of the acquired assets; as such, the balances may change as a result of the finalization of the purchase price allocation. 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 were not included in the table below.

The following table sets forth the Company's other intangible assets resulting from business acquisitions at December 29, 2007 and December 30, 2006, which continue to be amortized:

(In millions)	2007			2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets:						
Customer relationships	\$ 276.1	\$ 41.8	\$ 234.3	\$ 93.0	\$ 25.1	\$ 67.9
Patents and other acquired technology	52.4	14.1	38.3	28.3	11.0	17.3
Trade names and trademarks	46.2	38.6	7.6	43.2	33.6	9.6
Other intangibles	8.6	4.6	4.0	4.8	4.1	.7
Total	\$ 383.3	\$ 99.1	\$ 284.2	\$ 169.3	\$ 73.8	\$ 95.5

Amortization expense on other intangible assets resulting from business acquisitions was \$19.9 million for 2007, \$11.1 million for 2006, and \$12 million for 2005. Based on current information, including the preliminary assessment for Paxar, estimated amortization expense for other intangible assets resulting from business acquisitions for each of the next five fiscal years is expected to be approximately \$29 million per year.

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 December 29, 2007, the weighted-average remaining useful life of acquired amortizable intangible assets are eleven years for customer relationships, five years for trade names and trademarks, nine years for patents and other acquired technology, five years for other intangibles and ten years in total.

NOTE 4. DEBT

Long-term debt and its respective weighted-average interest rates at December 29, 2007 consisted of the following:

(In millions)	2007	2006
Medium-term notes		
Series 1995 at 7.5% — due 2015 through 2025	\$ 50.0	\$ 50.0
Series 1997 at 6.6% — due 2007	—	60.0
Series 1998 at 5.9% — due 2008	50.0	50.0
Senior notes due 2013 at 4.9%	250.0	250.0
Senior notes due 2033 at 6.0%	150.0	150.0
Senior notes due 2007 at a floating rate of 5.6%	—	150.0
Senior notes due 2017 at 6.6%	248.9	—
Senior notes due 2020 at 7.9%	440.0	—
Other long-term borrowings	6.6	2.1
Less amount classified as current	(50.5)	(210.5)
	\$ 1,145.0	\$ 501.6

The Company's medium-term notes have maturities from 2008 through 2025 and accrue interest at fixed rates.

Maturities of long-term debt during the years 2008 through 2011 are \$50.5 million (classified as current), \$.5 million, \$.5 million and \$5.1 million, respectively, with \$1,138.9 million maturing in 2013 and thereafter.

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 in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price 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.

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

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

In June 2007, the Company entered into a bridge revolving credit facility (the "Credit Facility") with five domestic and foreign banks for a total commitment of \$1.35 billion, expiring June 11, 2008, for terms which are generally similar to existing credit facilities. Financing available under this agreement is permitted to be used for working capital, commercial paper back-up and other general corporate purposes, including acquisitions. As of December 29, 2007, the outstanding commitment was \$715 million. The Company used the Credit Facility to support commercial paper borrowings totaling approximately \$1.3 billion to initially fund the Paxar acquisition, discussed in detail in Note 2, "Acquisitions." Such commercial paper borrowings are included in "Short-term and current portion of long-term debt" in the Consolidated Balance Sheet.

The Credit Facility and the revolving credit agreement are subject to customary financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio, with which the Company is in compliance.

In connection with the Paxar acquisition, the Company has assumed additional debt of approximately \$5 million, which remains outstanding at December 29, 2007.

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

Short-term variable rate commercial paper borrowings were \$990.2 million at December 29, 2007 (weighted-average interest rate of 5.2%) and \$154.4 million at December 30, 2006 (weighted-average interest rate of 5.0%). The change in outstanding commercial paper was primarily due to the Paxar acquisition and share repurchases, partially offset by positive cash flow from operations.

At December 29, 2007, the Company had \$70.1 million of borrowings outstanding under foreign short-term lines of credit with a weighted-average interest rate of 10.6%.

The Company has a 364-day revolving credit facility in which a foreign bank provides the Company up to Euro 40 million (\$57.5 million) in borrowings through July 31, 2008. The Company may annually extend the revolving period and due date with the approval of the bank. Financing under this agreement is used to finance cash requirements of the Company's European operations. There was no debt outstanding under this agreement as of December 29, 2007 and \$26.3 million outstanding as of December 30, 2006.

Uncommitted lines of credit were \$448.2 million at year end 2007. The Company's uncommitted lines of credit have no commitment expiration date, and may be cancelled at any time by the Company or the banks.

At December 29, 2007, the Company had available short-term financing arrangements totaling \$435.6 million.

Commitment fees relating to the financing arrangements are not significant.

The Company's total interest costs in 2007, 2006 and 2005 were \$111.1 million, \$60.5 million, and \$62.8 million, respectively, of which \$5.9 million, \$5 million, and \$4.9 million, respectively, were capitalized as part of the cost of assets.

The terms of various loan agreements in effect at year end require that the Company maintain specified ratios on debt and interest expense in relation to certain measures of income. Under the loan agreements, the ratio of debt to earnings before interest, taxes, depreciation and amortization may not exceed 3.5 to 1.0. The Company's ratio at year end 2007 was 3.2 to 1.0. Earnings before interest and taxes, as a ratio to interest, may not be less than 3.5 to 1.0. The Company's ratio at year end 2007 was 4.6 to 1.0.

The fair value of the Company's debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debt of the same remaining maturities. At year end 2007 and 2006, the fair value of the Company's total debt, including short-term borrowings, was \$2,250.7 million and \$963 million, respectively.

The Company had standby letters of credit outstanding of \$80.9 million (including standby letters of credit assumed from Paxar of \$7.3 million) and \$77.1 million at the end of 2007 and 2006, respectively. The aggregate contract amount of outstanding standby letters of credit approximated fair value.

Refer to Note 14, "Subsequent Events," for further information.

NOTE 5. FINANCIAL INSTRUMENTS

The aggregate reclassification from other comprehensive income to earnings for settlement or ineffectiveness of hedge activity was a net loss of \$10.5 million and \$5.5 million during 2007 and 2006, respectively. Included in the 2007 reclassification from other comprehensive income to earnings was a net loss of \$4.8 million related to certain cash flow hedges that were ineffective, which was included in "Other expense, net" in the Consolidated Statement of Income. The effect of the settlement of currency hedges included in this reclassification is offset by the currency impact of the underlying hedged activity. A net loss of approximately \$3.9 million is expected to be reclassified from other comprehensive income to earnings within the next 12 months.

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

The carrying value of the foreign exchange forward and natural gas futures contracts approximated the fair value, which, based on quoted market prices of comparable instruments, was a net liability of \$1.4 million and \$4.9 million at December 2007 and December 2006, respectively.

The carrying value of the foreign exchange option contracts, based on quoted market prices of comparable instruments, was a net asset of \$.2 million and \$.1 million at December 2007 and December 2006, respectively. The carrying value of the foreign exchange option contracts approximated the fair market value.

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

NOTE 6. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Defined Benefit Plans

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

Plan Assets

Assets of the Company's U.S. plans are invested in a diversified portfolio that consists primarily of equity and fixed income securities. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, including growth, value, and both small and large capitalization stocks. The Company's target plan asset investment allocation in the U.S. is 75% in equity securities and 25% in fixed income securities, subject to periodic fluctuations in the respective asset classes above. The Plan assets include investments in the Company's stock, which totaled approximately 630,000 shares as of December 29, 2007 and December 30, 2006. This amount, however, does not include any shares that may be held in index or other equity funds.

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

The weighted-average asset allocations for the Company's pension plans at year end 2007 and 2006, by asset category are as follows:

	2007		2006	
	U.S.	Int'l	U.S.	Int'l
Equity securities	74%	55%	80%	57%
Fixed income securities	26	35	20	33
Real estate and insurance contracts	—	10	—	10
Total	100%	100%	100%	100%

Postretirement Health Benefits

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

Adoption of SFAS No. 158

In the fourth quarter of 2006, the Company adopted the following provisions of SFAS No. 158:

- a) Recognition of the funded status of the Company's defined benefit and postretirement benefit plans (with a corresponding reversal of additional minimum pension liability ("AML") under SFAS No. 87);
- b) Recognition as a component of accumulated other comprehensive income, net of tax, the gains or losses, prior service costs or credits and transition assets or obligations remaining from the initial application of SFAS Nos. 87 and 106;
- c) Measurement of the defined benefit plan assets and obligations as of the Company's fiscal year end; and
- d) Disclosure of additional information about the effects of the amortization of gains or losses, prior service costs or credits, and transition assets or obligations (remaining from the initial application of SFAS Nos. 87 and 106) on net periodic benefit cost for the next fiscal year.

The above recognition and disclosure provisions are discussed in detail below.

Measurement Date

In accordance with the measurement date provisions of SFAS No. 158, the Company changed its measurement date beginning in 2006 for the majority of its U.S. plans from a November 30 measurement date to the Company's fiscal year end, which was December 30 for 2006. The plan assets and benefit obligations were remeasured by recognizing the revised net periodic benefit cost prorated from November 30, 2006 to December 30, 2006. The impact of such remeasurement (\$.7 million) affected the Company's retained earnings and accumulated other comprehensive loss in 2006.

For the Company's international plans, the Company uses a fiscal year end measurement date.

Plan Assumptions*Discount Rate*

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

Long-term Return on Assets

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

Healthcare Cost Trend Rate

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008. This rate is expected to decrease to approximately 5% by 2011.

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

(In millions)	One-percentage-point increase	One-percentage-point decrease
Effect on total of service and interest cost components	\$.01	\$ (.01)
Effect on postretirement benefit obligation	.89	(1.05)

Plan Balance Sheet Reconciliations

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

Plan Benefit Obligations

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits	
	2007		2006		2007	2006		
	U.S.	Int'l	U.S.	Int'l				
Change in projected benefit obligation:								
Projected benefit obligation at beginning of year	\$557.2	\$507.2	\$513.7	\$415.7	\$32.9	\$34.1		
Service cost	18.5	14.3	19.2	13.3	1.0	.9		
Interest cost	34.1	24.1	29.7	19.6	1.6	1.7		
Participant contribution	—	3.4	—	3.1	—	—		
Amendments	—	(.5)	—	—	—	—		
Actuarial (gain) loss	(9.9)	(44.0)	24.2	13.9	(.1)	(.4)		
Plan transfer (1)	3.9	—	3.5	—	—	—		
Benefits paid	(34.1)	(19.7)	(33.1)	(15.1)	(6.0)	(3.3)		
Special termination benefits	—	—	—	.1	—	—		
Net transfer in (2)	12.0	—	—	8.5	.3	—		
Pension curtailment	—	—	—	(1.8)	—	—		
Foreign currency translation	—	30.9	—	49.9	—	—		
Projected benefit obligation at end of year	\$581.7	\$515.7	\$557.2	\$507.2	\$29.7	\$33.0		
Accumulated benefit obligation at end of year	\$551.5	\$476.0	\$523.6	\$475.8				

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

(2) Net transfer in represents certain retirement plans assumed from Paxar in 2007 and valuation of additional pension plans in 2006.

Plan Assets

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits	
	2007		2006		2007	2006		
	U.S.	Int'l	U.S.	Int'l				
Change in plan assets:								
Fair value of plan assets at beginning of year	\$601.9	\$416.0	\$520.7	\$330.8	\$ —	\$ —		
Actual return on plan assets	26.0	17.7	83.3	48.6	—	—		
Plan transfer (1)	3.9	—	3.5	—	—	—		
Employer contribution	3.4	15.4	27.5	7.9	6.0	3.3		
Participant contribution	—	3.4	—	3.1	—	—		
Benefits paid	(34.1)	(19.7)	(33.1)	(15.1)	(6.0)	(3.3)		
Net transfer in(2)	—	1.2	—	.4	—	—		
Foreign currency translation	—	27.6	—	40.3	—	—		
Fair value of plan assets at end of year	\$601.1	\$461.6	\$601.9	\$416.0	\$ —	\$ —		

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

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

Funded Status

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits	
	2007		2006		2007	2006		
	U.S.	Int'l	U.S.	Int'l				
Funded status of the plans:								
Noncurrent assets	\$ 81.5	\$ 32.7	\$ 88.6	\$ 21.3	\$ —	\$ —		
Current liabilities	(3.6)	(2.8)	(2.5)	(2.6)	(3.1)	(3.2)		
Noncurrent liabilities	(58.5)	(84.0)	(41.4)	(109.9)	(26.6)	(29.8)		
Plan assets in excess of (less than) benefit obligation	\$ 19.4	\$(54.1)	\$ 44.7	\$(91.2)	\$(29.7)	\$(33.0)		

	Pension Benefits						U.S. Postretirement Health Benefits		
	2007		2006		2005		2007	2006	2005
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Weighted-average assumptions used for determining year end obligations:									
Discount rate	6.55%	5.53%	5.90%	4.67%	5.75%	4.49%	6.30%	5.75%	5.50%
Rate of increase in future	3.59	2.66	3.59	2.90	3.59	2.79	—	—	—

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets for both the U.S. and international plans were \$634.3 million and \$485.8 million, respectively, at year end 2007 and \$627.6 million and \$471.1 million, respectively, at year end 2006.

The accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for the U.S. and international plans were \$597.6 million and \$467.7 million, respectively, at year end 2007 and \$298.2 million and \$160.9 million, respectively, at year end 2006.

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

Accumulated Other Comprehensive Income ("AOCI")

The pretax amounts recognized in "Accumulated other comprehensive income (loss)" in the Company's balance sheet after the adoption of SFAS No. 158 consist of:

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits	
	2007		2006		2007	2006
	U.S.	Int'l	U.S.	Int'l		
Net actuarial loss	\$106.7	\$78.8	\$103.4	\$120.3	\$ 21.0	\$ 21.8
Prior service cost (credit)	6.6	5.4	8.5	6.1	(22.5)	(24.0)
Net transition obligation (asset)	—	(2.4)	—	(3.3)	—	—
Net amount recognized in AOCI	\$113.3	\$81.8	\$111.9	\$123.1	\$ (1.5)	\$ (2.2)

The after-tax amounts and reconciliation of AOCI components as of December 29, 2007 are as follows:

(In millions)	Pension Benefits				U.S. Postretirement Health Benefits		
	Before-Tax Amounts U.S.	Before-Tax Amounts Int'l	Tax Effect	Net-of-Tax Amount	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
	AOCI at December 30, 2006	\$111.9	\$123.1	\$(63.0)	\$172.0	\$(2.2)	\$.9
Less: amortization	(11.5)	(7.6)	6.7	(12.4)	.7	(.3)	.4
Net AOCI	100.4	115.5	(56.3)	159.6	(1.5)	.6	(.9)
Net transfer in (1)	2.5	—	(.9)	1.6	(.2)	.1	(.1)
Net actuarial loss (gain) (2)	10.4	(33.2)	4.4	(18.4)	.2	(.1)	.1
Prior service cost (credit)	—	(.5)	.1	(.4)	—	—	—
AOCI at December 29, 2007	\$113.3	\$ 81.8	\$(52.7)	\$142.4	\$(1.5)	\$.6	\$(.9)

(1) Net transfer in represents certain retirement plans assumed from Paxar in 2007.

(2) Net of foreign currency translation of \$4.2.

Plan Income Statement Reconciliations

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

(In millions)	Pension Benefits						U.S. Postretirement Health Benefits		
	2007		2006		2005		2007	2006	2005
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Components of net periodic benefit cost (income):									
Service cost	\$ 18.5	\$ 14.4	\$ 19.2	\$ 13.3	\$ 19.3	\$ 11.5	\$ 1.0	\$.9	\$1.7
Interest cost	34.1	24.1	29.7	19.6	27.6	18.7	1.6	1.7	2.5
Expected return on plan assets	(48.9)	(24.4)	(46.8)	(19.9)	(44.0)	(20.9)	—	—	—
Recognized net actuarial loss	9.6	8.0	8.0	6.6	5.2	3.7	1.3	1.4	1.6
Amortization of prior service cost	1.9	.7	1.9	.6	1.9	.6	(2.0)	(1.9)	(.9)
Amortization of transition obligation (asset)	—	(1.1)	—	(1.3)	(.3)	(1.3)	—	—	—
Special termination benefit recognized	—	—	—	.1	—	—	—	—	—
Recognized gain on curtailment and settlement of obligation (1)	—	—	—	(1.9)	—	(.1)	—	—	—
Net periodic benefit cost	\$ 15.2	\$ 21.7	\$ 12.0	\$ 17.1	\$ 9.7	\$ 12.2	\$ 1.9	\$ 2.1	\$4.9

(1) Recognized gain in 2006 relates to the divestiture of the Company's filing business in Europe.



	Pension Benefits						U.S. Postretirement Health Benefits		
	2007		2006		2005		2007	2006	2005
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l			
Weighted-average assumptions used for determining net periodic cost:									
Discount rate	5.90%	4.67%	5.75%	4.49%	6.00%	4.91%	5.75%	5.50%	5.75%
Expected long-term rate of return on plan assets	8.75	6.30	8.75	5.77	8.75	6.32	—	—	—
Rate of increase in future compensation levels	3.59	2.90	3.59	2.79	3.61	2.68	—	—	—

Plan Contributions

In 2008, the Company expects to contribute a minimum of \$3.7 million and \$16.6 million to its U.S. pension plans and international pension plans, respectively, and approximately \$3.2 million to its postretirement benefit plan.

Future Benefit Payments

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

(In millions)	Pension Benefits		U.S. Postretirement Health Benefits
	U.S.	Int'l	
2008	\$ 35.1	\$ 18.4	\$ 3.2
2009	36.0	19.6	2.9
2010	36.7	23.1	2.9
2011	37.4	22.6	2.7
2012	38.0	24.3	2.6
2013-2017	198.7	146.9	12.6

Estimated Amortization Amounts in Accumulated Other Comprehensive Income

The Company's estimates of fiscal year 2008 amortization of amounts included in accumulated other comprehensive income are as follows:

(In millions)	Pension Benefits		U.S. Postretirement Health Benefits
	2007		2007
	U.S.	Int'l	
Net actuarial loss	\$5.5	\$3.7	\$ 1.4
Prior service cost (credit)	1.1	.6	(2.0)
Net transition obligation (asset)	—	(.6)	—
Net amount to be recognized	\$6.6	\$3.7	\$ (.6)

Defined Contribution Plans

The Company sponsors various defined contribution plans worldwide, with the largest plan being the Avery Dennison Corporation Employee Savings Plan ("Savings Plan" — a 401(k) savings plan covering its U.S. employees). The Company matches participant contributions to the Savings Plan based on a formula within the plan. The Savings Plan has a leveraged employee stock ownership plan ("ESOP") feature, which allows the plan to borrow funds to purchase shares of the Company's common stock at market prices. Savings Plan expense consists primarily of stock contributions from the ESOP to participant accounts.

ESOP expense is accounted for under the cost of shares allocated method. Net ESOP expense for 2007, 2006 and 2005 was \$.2 million, \$.4 million, and \$1.2 million, respectively. Company contributions to pay interest or principal on ESOP borrowings were \$2.4 million, \$2.5 million, and \$1.7 million in 2007, 2006 and 2005, respectively.

Interest costs incurred by the ESOP for 2007, 2006 and 2005 were \$.6 million, \$.7 million, and \$.6 million, respectively. Dividends on unallocated ESOP shares used for debt service were \$.7 million, \$.9 million, and \$1.1 million for 2007, 2006 and 2005, respectively.

The cost of shares allocated to the ESOP for 2007, 2006 and 2005 was \$2.1 million, \$2.2 million, and \$2.3 million, respectively. Of the total shares held by the ESOP, 1.3 million shares were allocated and .3 million shares were unallocated at year end 2007, and 1.8 million shares were allocated and .5 million shares were unallocated at year end 2006.

Other Retirement Plans

The Company has deferred compensation plans which permit eligible employees and directors to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns specified and variable rates of return. As of year end 2007 and 2006, the Company had accrued \$155.6 million and \$151 million, respectively, for its obligations under these plans. These obligations are funded by corporate-owned life insurance contracts and standby letters of credit. As of year end 2007 and 2006, these obligations were secured by standby letters of credit of \$57 million and \$61 million, respectively. To assist in the funding of these plans, the Company has purchased corporate-owned life insurance contracts. Proceeds from the insurance policies are payable to the Company upon the death of covered participants. The cash surrender value of these policies, net of outstanding loans, included in "Other assets" in the Consolidated Balance Sheet, was \$191.1 million and \$173.9 million at year end 2007 and 2006, respectively.

The Company's expense, which includes Company contributions and interest expense, was \$3.1 million, \$12 million, and \$6.9 million for 2007, 2006 and 2005, respectively. A portion of the interest on certain Company contributions may be forfeited by participants if employment is terminated before age 55 other than by reason of death, disability or retirement.

Refer to Note 2, "Acquisitions," for information related to the assumed postretirement benefit plan obligation associated with the Paxar acquisition.

NOTE 7. COMMITMENTS

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

Year	(In millions)
2008	\$ 59.3
2009	50.6
2010	34.6
2011	26.1
2012	21.9
Thereafter	49.2
Total minimum lease payments	\$241.7

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

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

Rent expense for operating leases was approximately \$95 million in 2007, approximately \$76 million in 2006, and approximately \$75 million in 2005.

NOTE 8. CONTINGENCIES

Investigations and Legal Proceedings

In April 2003, the U.S. Department of Justice ("DOJ") filed a complaint challenging the then proposed merger 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 and Consumer Commission. The Company cooperated with all of these investigations, and all, except the Australian investigation which is continuing, 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. On November 19, 2007, the court certified a class consisting of all direct purchasers of paper-based label stock from the defendants during the period from January 1, 1996 to July 25, 2003. The Company filed a petition to appeal this decision on December 4, 2007. The Company's petition is still pending. 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 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. These cases remain stayed pending the outcome of class certification proceedings in the federal actions. The Company intends to defend these matters vigorously.

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

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

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

Environmental

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 eighteen 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 December 29, 2007, the Company's estimated liability associated with compliance and remediation costs was approximately \$38 million, including preliminary liabilities related to the acquisition of Paxar. See also Note 2, "Acquisitions."

During 2006, the Company recognized \$15 million for estimated environmental remediation costs for a former operating facility. Of the amount accrued, which represented the lower end of the current estimated range of \$15 million to \$17 million for costs expected to be incurred, approximately \$9 million remained accrued as of December 29, 2007. Management considered additional information provided by outside consultants in revising its previous estimates of expected costs. This estimate could change depending on various factors, such as modification of currently planned remedial actions, changes in the site conditions, a change in the estimated time to complete remediation, changes in laws and regulations affecting remediation requirements and other factors.

Other 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 final resolution of these matters will significantly impact the Company's consolidated financial position, results of operations or cash flows.

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.

The Company participates in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At December 29, 2007, the Company had guaranteed approximately \$17 million.

The Company guaranteed up to approximately \$22 million of certain foreign subsidiaries' obligations to their suppliers as of December 29, 2007, as well as approximately \$476 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 overallocation 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 in 2010 ranging from approximately 6.8 million to approximately 8.6 million shares (depending on the stock price 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 9. SHAREHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Common Stock and Common Stock Repurchase Program

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

In December 1997, the Company issued preferred stock purchase rights, which expired on October 31, 2007.

The Board of Directors previously authorized the issuance of up to 18 million shares to be used for the issuance of stock options and the funding of other Company obligations arising from various employee benefit plans. As of December 29, 2007, the remaining shares available of approximately 8 million are held in the Company's Employee Stock Benefit Trust ("ESBT"). The ESBT common stock is carried at market value with changes in share price from prior reporting periods reflected as an adjustment to capital in excess of par value.

On October 26, 2006, the Board of Directors authorized the repurchase of an additional 5 million shares of the Company's outstanding common stock, resulting in a total authorization of approximately 7.4 million shares at that date. The repurchased shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. At December 29, 2007, approximately 4.1 million shares were available for repurchase under the Board of Directors' authorization.

Stock Option and Incentive Plans

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

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

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

Expected volatility for options granted during 2007 represented an average of implied and historical volatility. Expected volatility for options granted prior to 2006 was based on historical volatility of the Company's stock price.

Risk-free rate was based on the 52-week average of the Treasury-Bond rate that has a term corresponding to the expected option term of 5.8 years.

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

Forfeiture rate assumption of 5% was determined based on historical data of the Company's stock option forfeitures during the last twelve years prior to 2007.

The weighted-average fair value per share of options granted during 2007 was \$15.07, compared to \$15.50 for the year ended 2006 and \$12.64 for the year ended 2005.

The underlying assumptions used were as follows:

	2007	2006	2005
Risk-free interest rate	4.68%	4.74%	4.11%
Expected stock price volatility	24.75	22.51	20.55
Expected dividend yield	2.53	2.58	2.67
Expected option term	5.8 years	5.8 years	7 years

As permitted by SFAS No. 123(R), underlying assumptions used for stock options granted prior to January 1, 2006 were retained.

The following table sets forth stock option information related to the Company's stock option plans during 2007:

	Number of options (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at December 30, 2006	10,188.4	\$ 58.47	6.67	\$ 100.2
Granted	52.5	61.62	—	—
Converted from Paxar	955.4	31.82	—	—
Exercised	(1,011.5)	48.91	—	—
Forfeited or expired	(565.6)	53.87	—	—
Outstanding at December 29, 2007	9,619.2	\$ 57.29	5.86	\$ 18.2
Options vested and expected to vest at December 29, 2007	8,970.8	57.04	5.64	18.1
Options exercisable at December 29, 2007	6,663.7	\$ 55.46	5.00	\$ 17.4

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

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

	2007 ⁽¹⁾		2006		2005	
	Number of options (in thousands)	Weighted-average exercise price	Number of options (in thousands)	Weighted-average exercise price	Number of options (in thousands)	Weighted-average exercise price
Outstanding at beginning of year	10,188.4	\$ 58.47	10,853.2	\$ 56.32	9,503.7	\$ 55.18
Granted	52.5	61.62	1,494.1	67.68	1,856.8	59.23
Converted from Paxar	955.4	31.82	—	—	—	—
Exercised	(1,011.5)	48.91	(1,217.5)	50.11	(304.0)	36.95
Forfeited or expired	(565.6)	53.87	(941.4)	59.12	(203.3)	58.79
Outstanding at year end	9,619.2	\$ 57.29	10,188.4	\$ 58.47	10,853.2	\$ 56.32

(1) The 2007 stock option plan summary includes Paxar's activity.

In 2007, the Company did not grant annual stock options to employees and directors.

The following table summarizes the Company's unvested stock options during 2007:

	Number of options (in thousands)	Weighted-average exercise price
Unvested options outstanding at December 30, 2006	5,158.0	\$ 61.22
Granted	52.5	61.62
Unvested options converted from Paxar	303.5	35.26
Vested	(1,952.2)	59.90
Forfeited	(606.3)	51.56
Unvested options outstanding at December 29, 2007	2,955.5	\$ 61.42

As of December 29, 2007, the Company had approximately \$25 million of unrecognized compensation cost related to unvested stock option awards granted under the Company's plans. This cost is expected to be recognized over the weighted-average remaining requisite service period for these awards of approximately 3 years.

The following table summarizes information on stock options outstanding and exercisable at December 29, 2007:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding (in thousands)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Number exercisable (in thousands)	Weighted-average exercise price
\$ 19.53 to 24.68	166.1	2.56	\$ 21.06	166.1	\$ 21.06
30.05 to 45.19	802.2	3.51	38.60	748.3	38.84
45.53 to 59.47	6,133.4	5.77	57.38	4,209.3	56.58
59.65 to 67.80	2,517.5	7.03	65.43	1,540.0	64.17
\$ 19.53 to 67.80	9,619.2	5.86	\$ 57.29	6,663.7	\$ 55.46

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

Stock Option Awards Excluding Paxar Converted Stock Options

The following table sets forth stock option information relative to the Company's stock option plans, excluding Paxar's converted stock options activity, during 2007:

	Number of options (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at December 30, 2006	10,188.4	\$ 58.47	6.67	\$ 100.2
Granted	52.5	61.62	—	—
Exercised	(940.4)	50.33	—	—
Forfeited or expired	(326.2)	61.80	—	—
Outstanding at December 29, 2007	8,974.3	\$ 59.20	5.95	\$ 3.6
Options vested and expected to vest at December 29, 2007	8,332.5	59.06	5.72	3.6
Options exercisable at December 29, 2007	6,072.6	\$ 57.90	5.07	\$ 3.7

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

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

	2007		2006		2005	
	Number of options (in thousands)	Weighted-average exercise price	Number of options (in thousands)	Weighted-average exercise price	Number of options (in thousands)	Weighted-average exercise price
Outstanding at beginning of year	10,188.4	\$ 58.47	10,853.2	\$ 56.32	9,503.7	\$ 55.18
Granted	52.5	61.62	1,494.1	67.68	1,856.8	59.23
Exercised	(940.4)	50.33	(1,217.5)	50.11	(304.0)	36.95
Forfeited or expired	(326.2)	61.80	(941.4)	59.12	(203.3)	58.79
Outstanding at year end	8,974.3	\$ 59.20	10,188.4	\$ 58.47	10,853.2	\$ 56.32

The following table summarizes the Company's unvested stock options, excluding Paxar's converted stock options, during 2007:

	Number of options (in thousands)	Weighted-average exercise price
Unvested options outstanding at December 30, 2006	5,158.0	\$61.22
Granted	52.5	61.62
Vested	(1,937.3)	60.07
Forfeited	(371.5)	61.92
Unvested options outstanding at December 29, 2007	2,901.7	\$61.91

As of December 29, 2007, the Company had approximately \$24 million of unrecognized compensation cost related to unvested stock option awards granted under the Company's plans. This cost is expected to be recognized over the weighted-average remaining requisite service period for these awards of approximately 3 years.

The following table summarizes information on stock options outstanding and exercisable, excluding Paxar's converted stock options, at December 29, 2007:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding (in thousands)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Number exercisable (in thousands)	Weighted-average exercise price
\$ 45.19 to 50.72	557.4	1.74	\$47.35	557.4	\$47.35
51.13 to 59.47	5,899.4	5.88	57.65	3,975.2	56.95
59.65 to 67.80	2,517.5	7.03	65.43	1,540.0	64.17
\$ 45.19 to 67.80	8,974.3	5.95	\$59.20	6,072.6	\$57.90

Restricted Stock Units and Restricted Stock Grants

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

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

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

The following table summarizes information about awarded RSUs:

	Number of RSUs (in thousands)	Weighted-average grant-date fair value
Outstanding at December 30, 2006	170.3	\$63.74
Granted	113.8	59.67
Released	(2.4)	58.45
Forfeited	(11.6)	63.66
Outstanding at December 29, 2007	270.1	\$62.07

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

The pretax compensation expense related to RSUs was \$4.3 million and \$2.9 million for the years ended 2007 and 2006, respectively. The tax benefit realized by the Company from the release of RSUs during 2007 was approximately \$.1 million.

During 2005, the Company also awarded 30,000 shares of restricted stock, which vest in two equal increments: the first in 2009; the second in 2012. Pretax compensation expense for this award was \$.3 million in 2007, \$.3 million in 2006 and \$.2 million in 2005.

The provisions of SFAS No. 123(R) require that stock-based compensation awards granted to retirement-eligible employees be treated as though they were immediately vested; as a result, the pretax compensation expense related to RSUs granted to retirement-eligible employees (approximately \$1 million in 2007 and approximately \$.7 million in 2006) was recognized and included in the compensation expense noted above.

As of December 29, 2007, the Company has approximately \$10 million of unrecognized compensation cost related to unvested RSUs and restricted stock. This cost is expected to be recognized over the remaining requisite service period for these awards (weighted average remaining service period of approximately 2 years for RSUs and 3 years for restricted stock).

Paxar Converted Stock Option Awards

In connection with the Paxar acquisition, the Company converted Paxar's stock options based on the acquisition price of \$30.50 per share divided by the Company's twenty-day average stock price prior to the acquisition date, which was \$64.82. The total number of stock options resulting from this conversion was approximately 955,000 shares, of which approximately 234,000 shares were associated with change-in-control provisions.

In accordance with SFAS No. 123(R), "Share-Based Payment," the total equity compensation recorded in "Capital in excess of par value" in the Shareholders' equity section of the Consolidated Balance Sheet was approximately \$24 million for Paxar's converted stock options. This amount was reduced by approximately \$2 million related to unvested stock options.

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

The following table sets forth stock option information relative to Paxar converted stock option plans during 2007:

	Number of options (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at June 15, 2007	955.4	\$31.82	5.68	\$32.9
Granted	—	—	—	—
Exercised	(71.1)	30.16	—	—
Forfeited or expired	(239.4)	35.12	—	—
Outstanding at December 29, 2007	644.9	\$30.77	4.55	\$14.6
Options vested and expected to vest at December 29, 2007	638.3	30.72	4.59	14.5
Options exercisable at December 29, 2007	591.1	\$30.38	4.34	\$13.6

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

The following table summarizes Paxar converted unvested stock options during 2007:

	Number of options (in thousands)	Weighted-average exercise price
Unvested options outstanding at June 15, 2007	303.5	\$35.26
Granted	—	—
Vested	(14.9)	37.07
Forfeited	(234.8)	35.17
Unvested options outstanding at December 29, 2007	53.8	\$35.15

As of December 29, 2007, the Company had approximately \$.9 million of unrecognized compensation cost related to unvested Paxar converted stock option awards. This cost is expected to be recognized over the weighted-average remaining requisite service period for these awards of approximately 1 year.

The following table summarizes information on the Paxar converted stock options outstanding and exercisable at December 29, 2007:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding (in thousands)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Number exercisable (in thousands)	Weighted-average exercise price
\$ 19.53 to 21.79	108.1	2.25	\$20.21	108.1	\$20.21
22.15 to 32.68	267.5	4.24	29.04	247.9	28.96
34.27 to 43.25	269.3	5.79	36.73	235.1	36.54
\$ 19.53 to 43.25	644.9	4.55	\$30.77	591.1	\$30.38

Paxar Converted Performance Share Awards

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

The pretax compensation expense related to Paxar's converted performance share awards was approximately \$1 million for the fiscal year ended 2007. As of December 29, 2007, the Company had approximately \$2 million of unrecognized compensation cost related to unvested converted Paxar's performance share awards. This cost is expected to be recognized over the weighted-average remaining requisite service period of approximately 2 years.

NOTE 10. COST REDUCTION ACTIONS

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

2007

In 2007, the Company continued its cost reduction efforts that were initiated in late 2006 and implemented additional actions resulting in a headcount reduction of approximately 615 positions, impairment of certain assets and software, as well as lease cancellations. At December 29, 2007, approximately 295 employees impacted by these actions remain with the Company, and are expected to leave in 2008. Pretax charges related to these actions totaled \$57.5 million, including severance and related 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
Severance and other employee costs						
Accrual at March 31, 2007	\$ 1.5	\$ —	\$.6	\$ —	\$ —	\$ 2.1
Accrual at June 30, 2007	.5	.4	—	—	—	.9
Accrual at September 29, 2007	3.1	3.1	.1	1.2	—	7.5
Accrual at December 29, 2007	1.0	6.2	3.4	1.1	(.6)	11.1
Total accruals for 2007 actions	6.1	9.7	4.1	2.3	(.6)	21.6
2007 Settlements	(1.9)	(3.0)	(.8)	(1.0)	.6	(6.1)
Balance at December 29, 2007	\$ 4.2	\$ 6.7	\$3.3	\$ 1.3	\$ —	\$15.5
Asset Impairments						
Machinery and equipment	\$10.9	\$ 3.1	\$ —	\$ 1.9	\$.8	\$16.7
Buildings	—	.7	—	—	—	.7
Other						
Software impairment	—	17.1	—	—	—	17.1
Lease cancellations	—	.6	.4	—	.4	1.4
	\$10.9	\$21.5	\$.4	\$ 1.9	\$1.2	\$35.9

2006

During the first three quarters of 2006, the Company continued its cost reduction efforts that were initiated in late 2005, resulting in a further headcount reduction of 410 employees, as well as the impairment of certain assets. In the fourth quarter of 2006, the Company initiated new cost reduction actions, resulting in the elimination of approximately 180 positions and the impairment of certain assets. At December 29, 2007, approximately 20 employees (all related to actions initiated in the fourth quarter of 2006) remain with the Company, and are expected to leave in 2008. Pretax charges related to these actions totaled \$29.3 million, including severance and related costs of \$21.1 million, impairment of fixed assets and buildings of \$6.9 million and lease cancellation charges of \$1.3 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
Severance and other employee costs						
Accrual at April 1, 2006	\$ 2.6	\$ 2.0	\$.8	\$ —	\$ —	\$ 5.4
Accrual at July 1, 2006	2.0	2.0	—	.7	—	4.7
Accrual at September 30, 2006	.8	3.6	—	.1	—	4.5
Accrual at December 30, 2006	1.9	1.8	1.5	1.3	—	6.5
Total accruals for 2006 actions	7.3	9.4	2.3	2.1	—	21.1
2006 Settlements	(4.5)	(5.3)	(.8)	(1.4)	—	(12.0)
Balance at December 30, 2006	\$ 2.8	\$ 4.1	\$ 1.5	\$.7	\$ —	\$ 9.1
2007 Settlements	(2.8)	(4.1)	(.9)	(.5)	—	(8.3)
Balance at December 29, 2007	\$ —	\$ —	\$.6	\$.2	\$ —	\$.8
Asset Impairments						
Buildings	\$.6	\$ —	\$ —	\$ —	\$ 1.3	\$ 1.9
Machinery and equipment	1.7	.5	.7	1.6	.5	5.0
Other						
Lease cancellations	—	1.3	—	—	—	1.3
	\$ 2.3	\$ 1.8	\$.7	\$ 1.6	\$ 1.8	\$ 8.2

Fourth Quarter 2005

In the fourth quarter of 2005, the Company recorded a pretax charge of \$55.5 million associated with restructuring actions (\$41.1 million), as well as expected product line divestitures (\$14.4 million). These actions were part of the Company's cost reduction efforts, which are expected to improve the Company's global operating efficiencies. The charge included severance and related costs of \$32.9 million related to the elimination of approximately 850 positions worldwide. At December 29, 2007, all employees impacted by these actions had left the Company and final payments will be made in 2008. Also included in the charge was \$22.6 million related to asset impairment, lease cancellation costs and other associated costs. The table below details the payments related to this program:

(In millions)	Pressure-sensitive Materials Segment	Retail Information Services Segment	Office and Consumer Products Segment	Other specialty converting businesses	Corporate	Total
Severance and other employee costs						
Beginning balance	\$ 15.1	\$ 5.6	\$ 6.8	\$ 2.5	\$ 2.9	\$ 32.9
2005 Settlements	(2.5)	(.4)	(1.4)	(1.0)	—	(5.3)
Balance at December 31, 2005	12.6	5.2	5.4	1.5	2.9	27.6
2006 Settlements	(9.1)	(3.0)	(5.4)	(1.5)	(1.4)	(20.4)
Balance at December 30, 2006	\$ 3.5	\$ 2.2	\$ —	\$ —	\$ 1.5	\$ 7.2
2007 Settlements	(3.0)	(1.9)	—	—	(1.5)	(6.4)
Balance at December 29, 2007	\$.5	\$.3	\$ —	\$ —	\$ —	\$.8
Asset Impairments						
Buildings	\$ 2.4	\$ —	\$ —	\$ —	\$.8	\$ 3.2
Machinery and equipment	.1	.7	10.7	2.9	1.3	15.7
Capitalized software	—	—	—	—	2.5	2.5
Other						
Lease cancellations	—	.8	—	—	—	.8
Other costs	—	.4	—	—	—	.4
	\$ 2.5	\$ 1.9	\$ 10.7	\$ 2.9	\$ 4.6	\$ 22.6

Second Quarter 2005

In the second quarter of 2005, the Company recorded a pretax charge of \$2.1 million relating to asset impairments (\$1.4 million) and restructuring costs (\$.7 million). The asset impairment charges represented impairment of a building for \$.7 million in other specialty converting businesses and write-off of machinery and equipment for \$.7 million in the Pressure-sensitive Materials segment.

First Quarter 2005

In the first quarter of 2005, the Company recorded a pretax charge of \$6.7 million relating to restructuring costs and asset impairment charges, partially offset by a gain on sale of assets of \$3.4 million. The charge included severance and related costs of \$4 million related to the elimination of approximately 170 positions in the Office and Consumer Products segment as a result of the Company's closure of the Gainesville, Georgia label converting plant. In 2006, the employees impacted by these actions had left the Company and final payments were made. Also included in the charge was \$2.7 million related to impairment of buildings and land in the Pressure-sensitive Materials segment.

NOTE 11. TAXES BASED ON INCOME

Taxes based on income were as follows:

(In millions)	2007	2006	2005
Current:			
U.S. federal tax	\$ 23.9	\$ (4.5)	\$ 33.5
State taxes	1.3	4.7	3.0
International taxes	80.8	73.8	29.7
	106.0	74.0	66.2
Deferred:			
U.S. federal tax	(15.4)	12.1	(11.5)
State taxes	(1.7)	1.1	(5.2)
International taxes	(17.1)	(25.2)	14.3
	(34.2)	(12.0)	(2.4)
Taxes on income	\$ 71.8	\$ 62.0	\$ 63.8

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

(In millions)	2007	2006	2005
Computed tax at 35% of income from continuing operations before taxes	\$ 131.4	\$ 152.3	\$ 128.6
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	(1.2)	3.7	(3.0)
Foreign earnings taxed at different rates	(117.1)	(54.7)	(31.4)
Valuation allowance	59.9	(5.2)	(15.6)
Jobs Act repatriation of earnings	—	.1	13.5
Tax credits	(4.4)	(4.9)	(6.4)
Tax contingencies and audit settlements	.8	(8.1)	(9.0)
Other items, net	2.4	(6.5)	(1.4)
Taxes on income from continuing operations	71.8	76.7	75.3
Taxes on income from and gain on sale of discontinued operations	—	(14.7)	(11.5)
Taxes on income	\$ 71.8	\$ 62.0	\$ 63.8

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

(In millions)	2007	2006	2005
U.S.	\$ 19.8	\$ 117.0	\$ 100.2
International	355.5	318.2	267.3
Income from continuing operations before taxes	375.3	435.2	367.5
Income (loss) from discontinued operations before taxes	—	—	(76.9)
Income before taxes	\$ 375.3	\$ 435.2	\$ 290.6

U.S. income taxes have not been provided on certain undistributed earnings of international subsidiaries of approximately \$1.37 billion and \$1.16 billion at years ended 2007 and 2006, respectively, because such earnings are considered to be reinvested indefinitely outside of the U.S., and it is not practicable to estimate the amount of tax that may be payable upon distribution. Deferred taxes have been accrued for amounts that are not considered indefinitely reinvested.

The American Jobs Creation Act of 2004 (the "Jobs Act"), enacted on October 22, 2004, provided for a temporary 85% dividends-received deduction on certain foreign earnings repatriated before December 31, 2005. The deduction resulted in an approximate 5.25% federal tax rate on the repatriated earnings. During the third quarter of 2005, the Company's Chief Executive Officer and Board of Directors approved a domestic reinvestment plan as required by the Jobs Act to repatriate \$344 million of foreign earnings in fiscal 2005. The repatriation of earnings took place in the fourth quarter of 2005, and resulted in a one-time incremental expense of \$13.5 million.

Included in the effective tax rate on continuing operations is the net impact from changes in certain valuation allowances, in the amount of \$59.9 million of expense and \$5.2 million of benefit for 2007 and 2006, respectively. Also, included in the effective tax rate on continuing operations is the net impact from several global tax audit settlements and closure of certain tax years, in the amount of \$.8 million of expense and \$8.1 million of benefit for 2007 and 2006, respectively.

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

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

(In millions)	2007	2006
Accrued expenses not currently deductible	\$ 57.9	\$ 32.6
Net operating losses and foreign tax credit carryforwards	210.7	69.4
Capital loss carryforward	15.1	3.6
Postretirement and postemployment benefits	50.7	49.6
Pension costs	11.9	18.3
Inventory reserves	10.2	8.2
Other	6.5	5.4
Valuation allowance	(159.2)	(67.5)
Total deferred tax assets	203.8	119.6
Depreciation and amortization	(228.1)	(127.7)
Repatriation accrual	(15.1)	(1.0)
Other liabilities	(9.1)	—
Total deferred tax liabilities	(252.3)	(128.7)
Total net deferred tax assets (liabilities) from continuing operations	\$ (48.5)	\$ (9.1)
Net deferred tax assets from discontinued operations	—	—
Total net deferred tax assets (liabilities)	\$ (48.5)	\$ (9.1)

Net operating loss carryforwards of foreign subsidiaries for 2007 and 2006 were \$563.7 million and \$175 million, respectively. The increase in 2007 is primarily attributable to \$247 million of net operating losses resulting from the local statutory write down of certain investments in Europe and \$98 million of Paxar net operating losses. Tax credit carryforwards of both domestic and foreign subsidiaries for 2007 and 2006 totaled \$28.7 million and \$7.7 million, respectively. Foreign net operating losses, if unused, of \$29.8 million will expire by 2011, and \$40.9 million will expire after 2011. Net operating losses of \$493 million can be carried forward indefinitely. Tax credit carryforwards, if unused, of \$3.8 million will expire by 2010, \$5.5 million will expire by 2016, and \$12.2 million will expire in 2017. Tax credit carryforwards of \$7.2 million can be carried forward indefinitely. The Company has established a valuation allowance for the net operating loss and credit carryforwards not expected to be utilized. The valuation allowance for 2007 and 2006 is \$159.2 million and \$67.5 million, respectively. The increase in 2007 is primarily attributable to the deferred tax assets and related valuation allowances resulting from a local statutory write down of \$56.5 million of certain investments in Europe and \$34.9 million from the Paxar acquisition. The portion of valuation allowance related to Accumulated Other Comprehensive Income (which, if subsequently reversed, would not impact the effective tax rate), is \$12.4 million for 2007 and \$17.8 for 2006. The repatriation accrual for 2007 and 2006 is \$15.1 million and \$1 million, respectively. The increase in the repatriation accrual is primarily attributable to the Paxar acquisition. Generally, the subsequent reversal of amounts related to the Paxar acquisition, including valuation allowances and repatriation accruals, would not impact the effective tax rate.

The Company has been granted tax holidays in several jurisdictions including China, Thailand and Bangladesh. The tax holidays expire between 2008 and 2015. These tax holidays reduced the Company's consolidated effective tax rate on continuing operations by less than 1% in both 2007 and 2006.

At the beginning of the first quarter of 2007 (December 31, 2006), the Company adopted the provisions of FIN 48. Upon adoption of FIN 48, the Company recognized a decrease of \$2.9 million in the liability for unrecognized tax benefits, which was accounted for as an increase to the beginning balance of retained earnings. As of the date of adoption, and after the impact of recognizing the decrease in liability noted above, the Company's unrecognized tax benefits totaled \$38.2 million, including \$26.2 million of unrecognized tax benefits which, if recognized, would reduce the annual effective income tax rate. As a result of the Paxar acquisition, there was a preliminary increase to unrecognized tax benefits of \$68.9 million which, if recognized, would impact the purchase price allocation for Paxar. On December 29, 2007, the Company's unrecognized tax benefits totaled \$125 million, including \$28.6 million of unrecognized tax benefits which, if recognized, would reduce the annual effective income tax rate and \$49.1 million of unrecognized tax benefits which, if recognized, would be recorded as an adjustment to goodwill under SFAS No. 141.

Where applicable, the Company recognizes potential accrued interest and penalties related to unrecognized tax benefits from its global operations in income tax expense. In 2007, the Company accrued \$.7 million in potential interest and penalties associated with uncertain tax positions. In conjunction with the adoption of FIN 48, the Company recognized \$2.1 million of interest and penalties, which is included as a component of the \$38.2 million unrecognized tax benefit noted above. To the extent interest and penalties are accrued in the Company's income tax expense, such amounts, if reversed, will reduce the effective income tax rate. As a result of the Paxar acquisition, there was an increase of \$6.5 million of interest and penalties, included in the preliminary unrecognized tax benefits of \$68.9 million noted above.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding potential interest and penalties associated with uncertain tax positions, is as follows:

(In millions)	2007
Balance as of December 30, 2006	\$ 36.1
Paxar balance as of June 15, 2007 (preliminary)	61.0
Additions based on tax positions related to the current year	26.2
Additions for tax position of prior years	13.6
Reductions for tax positions of prior years	
Changes in judgment	(7.5)
Settlements	(9.6)
Lapses of applicable statute	(9.7)
Changes due to translation of foreign currencies	4.4
Balance as of December 29, 2007 ⁽¹⁾	\$ 114.5

(1) Excludes \$10.5 of potential interest and penalties associated with uncertain tax positions

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 within the next 12 months, the Company may realize a decrease in its gross uncertain tax positions of approximately \$4 million, primarily as a result of the expiration of relevant statutes of limitations. Furthermore, the Company anticipates that it is reasonably possible that additional payments in the range of \$6 million to \$8 million will be made within the next 12 months.

NOTE 12. SEGMENT INFORMATION

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

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

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

(In millions)	2007	2006	2005
Net sales to unaffiliated customers:			
Pressure-sensitive Materials	\$ 3,497.7	\$ 3,236.3	\$ 3,114.5
Retail Information Services	1,174.5	667.7	630.4
Office and Consumer Products	1,016.2	1,072.0	1,136.1
Other specialty converting businesses	619.4	599.9	592.5
Net sales to unaffiliated customers	\$ 6,307.8	\$ 5,575.9	\$ 5,473.5
Intersegment sales:			
Pressure-sensitive Materials	\$ 164.9	\$ 161.5	\$ 163.2
Retail Information Services	2.1	3.4	6.7
Office and Consumer Products	1.6	1.8	2.0
Other specialty converting businesses	19.9	14.4	15.2
Eliminations	(188.5)	(181.1)	(187.1)
Intersegment sales	\$ —	\$ —	\$ —
Income from continuing operations before taxes:			
Pressure-sensitive Materials	\$ 318.7	\$ 301.6	\$ 264.1
Retail Information Services	(4.0)	45.7	37.7
Office and Consumer Products	173.6	187.4	161.9
Other specialty converting businesses	25.4	17.3	14.9
Corporate expense	(33.2)	(61.3)	(53.2)
Interest expense ⁽⁴⁾	(105.2)	(55.5)	(57.9)
Income from continuing operations before taxes	\$ 375.3(1)	\$ 435.2(2)	\$ 367.5(3)
Capital expenditures:			
Pressure-sensitive Materials	\$ 78.3	\$ 75.8	\$ 74.1
Retail Information Services	43.2	25.6	31.7
Office and Consumer Products	17.1	13.6	24.8
Other specialty converting businesses	46.2	36.1	38.5
Corporate	1.5	2.1	2.3
Discontinued operations	—	—	.2
Capital expenditures ⁽⁵⁾	\$ 186.3	\$ 153.2	\$ 171.6
Depreciation expense:			
Pressure-sensitive Materials	\$ 91.2	\$ 88.2	\$ 86.2
Retail Information Services	42.5	17.8	16.3
Office and Consumer Products	21.8	20.7	24.6
Other specialty converting businesses	24.6	23.1	21.1
Corporate	4.0	4.0	6.0
Discontinued operations	—	.5	1.5
Depreciation expense	\$ 184.1	\$ 154.3	\$ 155.7

Prior year amounts have been restated to reflect the change in method of accounting for inventory from LIFO to FIFO for certain of the Company's U.S. operations.

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

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

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

- (3) Results for 2005 include "Other expense, net" totaling \$63.6, which consists of restructuring costs, asset impairment and lease cancellation charges of \$65.6, legal accrual related to a lawsuit of \$3.8, partially offset by gain on sale of assets of \$(5.8). Of the \$63.6 total, the Pressure-sensitive Materials segment recorded \$23, the Retail Information Services segment recorded \$7.5, the Office and Consumer Products segment recorded \$21.8, the other specialty converting businesses recorded \$6.2 and Corporate recorded \$5.1. See Note 10, "Cost Reduction Actions," for further information.
- (4) Interest expense during 2007 includes \$40.8 of interest associated with borrowings to fund the Paxar acquisition.
- (5) Capital expenditures accrued but not paid were approximately \$14 in 2007, approximately \$18 in 2006 and approximately \$27 in 2005. Capital expenditures refer to purchases of property, plant and equipment.

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

(In millions)	2007	2006	2005
Net sales to unaffiliated customers:			
U.S.	\$ 2,333.2	\$ 2,333.8	\$ 2,346.8
Europe	2,149.9	1,798.8	1,805.5
Asia	1,070.9	748.7	650.6
Latin America	396.7	332.4	288.9
Other international	357.1	362.2	381.7
Net sales	\$ 6,307.8	\$ 5,575.9	\$ 5,473.5
Property, plant and equipment, net:			
U.S.	\$ 637.9	\$ 562.5	\$ 580.6
International	953.5	746.9	715.1
Property, plant and equipment, net	\$ 1,591.4	\$ 1,309.4	\$ 1,295.7

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

NOTE 13. QUARTERLY FINANCIAL INFORMATION (Unaudited)

(In millions, except per share data)	First Quarter ⁽¹⁾	Second Quarter ⁽²⁾	Third Quarter ⁽³⁾	Fourth Quarter ⁽⁴⁾
2007				
Net sales from continuing operations	\$1,389.9	\$1,523.5	\$1,680.4	\$1,714.0
Gross profit from continuing operations	364.3	410.4	466.2	481.5
Net income	79.1	86.2	58.8	79.4
Net income per common share	.81	.88	.60	.81
Net income per common share, assuming dilution	.80	.87	.59	.81
2006				
Net sales from continuing operations	\$1,337.2	\$1,409.7	\$1,417.6	\$1,411.4
Gross profit from continuing operations	356.4	395.0	392.0	394.6
Net income	69.5	113.2	85.8	104.7
Net income per common share	.70	1.13	.86	1.05
Net income per common share, assuming dilution	.69	1.13	.85	1.04

- (1) Results in the first quarter 2007 include pretax other expense totaling \$2.1 for restructuring costs. Results in the first quarter 2006 include pretax other expense totaling \$7.6 consisting of \$7.2 of restructuring costs and asset impairment charges and \$.4 for legal accrual related to a lawsuit.
- (2) Results in the second quarter 2007 include pretax net other expense totaling \$7.5 consisting of integration related asset impairment charges of \$9.5, restructuring costs of \$.9 and expenses related to divestiture of \$.3, partially offset by a reversal of \$(3.2) related to a lawsuit. Results in the second quarter 2006 include pretax net other expense totaling \$4 consisting of restructuring costs and asset impairment charges of \$6.1, charitable contribution of \$10 to the Avery Dennison Foundation, partially offset by gain on sale of investment of \$(10.5), and gain on curtailment and settlement of a pension obligation of \$(1.6).
- (3) Results in the third quarter 2007 include pretax other expense of \$33.6 consisting of asset impairment charges, restructuring costs and lease cancellation charges of \$28.8 and a cash flow hedge loss of \$4.8. Results in the third quarter 2006 include pretax other expense of \$19.5, which consists of environmental remediation costs of \$13, restructuring costs and asset impairment charges of \$6.1, and costs of \$.4 related to a divestiture.
- (4) Results in the fourth quarter 2007 include pretax other expense totaling \$16.2 for restructuring costs and asset impairment charges. Results in the fourth quarter 2006 include pretax net other expense totaling \$5.1 consisting of restructuring costs, asset impairment and lease cancellation charges of \$10.4, partially offset by gain on sale of assets of \$(5.3).

NOTE 14. SUBSEQUENT EVENTS

On February 8, 2008, a wholly-owned subsidiary of the Company, entered into a credit agreement for a term loan credit facility with fourteen domestic and foreign banks (the "Lenders") 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 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 Services ("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 Corporation, as described in Note 2, "Acquisitions." The term loan credit facility is subject to customary financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio.

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

Effective as of February 13, 2008, S&P changed its outlook on the Company's credit ratings from "Watch Negative" to "Stable" and Moody's changed its outlook on the Company's credit ratings from "Under Review" to "Negative."

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Oversight of management's financial reporting and internal accounting control responsibilities is exercised by the Board of Directors, through an Audit Committee, which consists solely of outside directors (see page 76). The Committee meets periodically with financial management, internal auditors and the independent registered public accounting firm to obtain reasonable assurance that each is meeting its responsibilities and to discuss matters concerning auditing, internal accounting control and financial reporting. The independent registered public accounting firm and the Company's internal audit department have free access to meet with the Audit Committee without management's presence.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company's evaluation under the framework in *Internal Control — Integrated Framework*, management has concluded that internal control over financial reporting was effective as of December 29, 2007. Management's assessment of the effectiveness of internal control over financial reporting as of December 29, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Management has excluded Paxar Corporation from its assessment of internal control over financial reporting as of December 29, 2007 because it was acquired by the Company in a purchase business combination during 2007. PricewaterhouseCoopers LLP has also excluded Paxar Corporation from their audit of internal control over financial reporting. Paxar Corporation is a wholly-owned subsidiary whose total assets and total revenues represent 9 percent and 8 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 29, 2007.

/s/ Dean A. Scarborough

Dean A. Scarborough
President and
Chief Executive Officer

/s/ Daniel R. O'Bryant

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

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at December 29, 2007 and December 30, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the Company changed the manner in which it accounts for income taxes and the method in which it accounts for the cost of inventory for the Company's U.S. operations in 2007. As discussed in Note 1, the Company changed the manner in which it accounts for stock-based compensation and pensions and postretirement benefits in 2006.

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

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

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Paxar Corporation from its assessment of internal control over financial reporting as of December 29, 2007 because it was acquired by the Company in a purchase business combination during 2007. We have also excluded Paxar Corporation from our audit of internal control over financial reporting. Paxar Corporation is a wholly-owned subsidiary whose total assets and total revenues represent 9 percent and 8 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 29, 2007.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Los Angeles, California
February 27, 2008

Corporate Information

Counsel

Latham & Watkins LLP
Los Angeles, California

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Los Angeles, California

Transfer Agent — Registrar

Computershare Trust Co., N.A.
P. O. Box 43023
Providence, RI 02940-3023
(877) 498-8861
(800) 952-9245 (hearing impaired number)
www.computershare.com/investor

Annual Meeting

The Annual Meeting of Shareholders will be held at 1:30 p.m. on April 24, 2008 in the Conference Center of the Avery Dennison Miller Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California.

The DirectSERVICE™ Investment Program

Shareholders of record may reinvest their cash dividends in additional shares of Avery Dennison common stock at market price. Investors may also invest optional cash payments of up to \$12,500 per month in Avery Dennison common stock at market price. Avery Dennison investors not yet participating in the program, as well as brokers and custodians who hold Avery Dennison common stock for clients, may obtain a copy of the program by writing to The DirectSERVICE™ Investment Program, c/o Computershare (include a reference to Avery Dennison in the correspondence), P.O. Box 43081, Providence, RI 02940-3081, or calling (877) 498-8861, or logging onto their Web site at <http://www.computershare.com/investor>.

Direct Deposit of Dividends

Avery Dennison shareholders may deposit quarterly dividend checks directly into their checking or savings accounts. For more information, call Avery Dennison's transfer agent and registrar, Computershare Trust Co., Inc., at (800) 870-2340.

Other Information

The Company is including, as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for fiscal year 2007 filing with the Securities and Exchange Commission ("SEC"), certificates of the Chief Executive Officer and Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and the Company submitted to the New York Stock Exchange ("NYSE"), the Company's annual written affirmation on April 30, 2007, along with the Chief Executive Officer's certificate that he is not aware of any violation by the Company of NYSE's Corporate Governance listing standards.

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

Corporate Headquarters

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

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

Stock and Dividend Data

Common shares of Avery Dennison are listed on the NYSE.
 Ticker symbol: AVY

	2007		2006	
	High	Low	High	Low
Market Price (1)				
First Quarter	\$ 69.67	\$ 63.46	\$ 61.54	\$ 56.33
Second Quarter	66.70	62.20	63.46	55.09
Third Quarter	68.49	55.31	61.97	56.95
Fourth Quarter	59.30	49.69	69.11	60.10

(1) Prices shown represent closing prices on the NYSE

	2007	2006
Dividends Per Common Share		
First Quarter	\$.40	\$.39
Second Quarter	.40	.39
Third Quarter	.40	.39
Fourth Quarter	.41	.40
Total	\$ 1.61	\$ 1.57
Number of shareholders of record as of year end	8,998	9,556



PricewaterhouseCoopers LLP
350 S. Grand Ave.
Los Angeles CA 90071
Telephone (213) 356 6000
Facsimile (813) 637 4444
www.pwc.com

February 27, 2008

Board of Directors
Avery Dennison Corporation
150 North Orange Grove Boulevard
Pasadena, California 91103

Dear Directors:

We are providing this letter to you for inclusion as an exhibit to your Form 10-K filing pursuant to Item 601 of Regulation S-K.

We have audited the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 29, 2007 and issued our report thereon dated February 27, 2008. Note 1 to the financial statements describes a change in accounting principle from the Last In Last Out (LIFO) basis of valuation of certain inventory balances to the First In First Out valuation method. It should be understood that the preferability of one acceptable method of accounting over another for the valuation of inventory has not been addressed in any authoritative accounting literature, and in expressing our concurrence below we have relied on management's determination that this change in accounting principle is preferable. Based on our reading of management's stated reasons and justification for this change in accounting principle in the Form 10-K, and our discussions with management as to their judgment about the relevant business planning factors relating to the change, we concur with management that such change represents, in the Company's circumstances, the adoption of a preferable accounting principle in conformity with Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*.

Very truly yours,

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

2007 SUBSIDIARY

JURISDICTION
IN WHICH ORGANIZED

2007 SUBSIDIARY	JURISDICTION IN WHICH ORGANIZED
ADC PHILIPPINES, INC.	PHILIPPINES
ADESPAN S.R.L.	ITALY
ADESPAN U.K. LIMITED	UNITED KINGDOM
ADHICOM S. A.	FRANCE
ADHIPRESS S. A.	FRANCE
ADHIPRESS BANGLADESH LTD.	BANGLADESH
ADHIPRESS (HONG KONG) LTD.	HONG KONG
ALKAHN HONG KONG LABELS LTD.	HONG KONG
ALTERNATE LABELS & PRINTING (PTY) LTD	SOUTH AFRICA
ARTISTIC INTERNATIONAL (HK) LTD.	HONG KONG
ASTRIA S.R.L.	ITALY
ATP (AMERICAN TRIP PRODUCTS (ASIA) LIMITED	HONG KONG
AVERY CORP.	U.S.A.
AVERY DE MEXICO S.A. DE C.V.	MEXICO
AVERY DENNISON-MAXELL K. K.	JAPAN
AVERY DENNISON HOLDINGS (MALTA) LIMITED	MALTA
AVERY DENNISON AUSTRALIA GROUP HOLDINGS PTY LIMITED	AUSTRALIA
AVERY DENNISON AUSTRALIA INTERNATIONAL HOLDINGS PTY LTD.	AUSTRALIA
AVERY DENNISON AUSTRALIA PTY LTD.	AUSTRALIA
AVERY DENNISON BELGIE BVBA	BELGIUM
AVERY DENNISON BV	NETHERLANDS
AVERY DENNISON CANADA INC.	CANADA
AVERY DENNISON CHILE S.A.	CHILE
AVERY DENNISON COLOMBIA S. A.	COLOMBIA
AVERY DENNISON CONVERTED PRODUCTS DE MEXICO, S.A. DE C.V.	MEXICO
AVERY DENNISON CONVERTED PRODUCTS EL SALVADOR S. A. DE C. V.	EL SALVADOR
AVERY DENNISON COORDINATION CENTER BVBA	BELGIUM
AVERY DENNISON CORPORATION	U.S.A.
AVERY DENNISON C.A.	VENEZUELA
AVERY DENNISON DE ARGENTINA S.A.	ARGENTINA
AVERY DENNISON DEUTSCHLAND GMBH	GERMANY
AVERY DENNISON DO BRASIL LTDA.	BRAZIL
AVERY DENNISON ETIKET TICARET LIMITED SIRKETI	TURKEY
AVERY DENNISON EUROPE GMBH	SWITZERLAND
AVERY DENNISON EUROPE HOLDING (DEUTSCHLAND) GMBH & CO KG	GERMANY
AVERY DENNISON FINANCE BELGIUM BVBA	BELGIUM
AVERY DENNISON FINANCE GERMANY GMBH	GERMANY
AVERY DENNISON FINANCE LUXEMBOURG II SARL	LUXEMBOURG
AVERY DENNISON FINANCE LUXEMBOURG S. A. R. L.	LUXEMBOURG
AVERY DENNISON FINANCE LUXEMBURG III SARL	LUXEMBOURG
AVERY DENNISON FOUNDATION	U.S.A.

2007 SUBSIDIARY**JURISDICTION
IN WHICH ORGANIZED**

EVERY DENNISON FRANCE S.A.S.	FRANCE
EVERY DENNISON G HOLDINGS I LLC	U.S.A.
EVERY DENNISON G HOLDINGS III LLC	U.S.A.
EVERY DENNISON G INVESTMENTS III LIMITED	GIBRALTAR
EVERY DENNISON G INVESTMENTS V LIMITED	GIBRALTAR
EVERY DENNISON GROUP DANMARK APS	DENMARK
EVERY DENNISON GROUP SINGAPORE (PTE) LIMITED	SINGAPORE
EVERY DENNISON HOLDING AG	SWITZERLAND
EVERY DENNISON HOLDING GMBH	GERMANY
EVERY DENNISON HOLDING LUXEMBOURG S. A. R. L.	LUXEMBOURG
EVERY DENNISON HOLDING & FINANCE THE NETHERLANDS BV	NETHERLANDS
EVERY DENNISON HOLDINGS LIMITED	AUSTRALIA
EVERY DENNISON HOLDINGS NEW ZEALAND LIMITED	NEW ZEALAND
EVERY DENNISON HONG KONG BV	NETHERLANDS
EVERY DENNISON HUNGARY LIMITED	HUNGARY
EVERY DENNISON IBERICA, S.A.	SPAIN
EVERY DENNISON INVESTMENT LUXEMBOURG II SARL	LUXEMBOURG
EVERY DENNISON INVESTMENTS LUXEMBOURG S.A.R.L.	LUXEMBOURG
EVERY DENNISON INVESTMENTS THE NETHERLANDS BV	NETHERLANDS
EVERY DENNISON ITALIA S.R.L.	ITALY
EVERY DENNISON KOREA LIMITED	KOREA
EVERY DENNISON LUXEMBOURG S.A.R.L.	LUXEMBOURG
EVERY DENNISON MANAGEMENT GMBH	GERMANY
EVERY DENNISON MANAGEMENT KGAA	LUXEMBOURG
EVERY DENNISON MANAGEMENT S.A.R.L.	LUXEMBOURG
EVERY DENNISON MATERIALS FRANCE S.A.R.L.	FRANCE
EVERY DENNISON MATERIALS GMBH	GERMANY
EVERY DENNISON MATERIALS IRELAND LIMITED	IRELAND
EVERY DENNISON MATERIALS NEDERLAND BV	NETHERLANDS
EVERY DENNISON MATERIALS NEW ZEALAND LIMITED	NEW ZEALAND
EVERY DENNISON MATERIALS PTY LIMITED	AUSTRALIA
EVERY DENNISON MATERIALS RUSSIA LLC	RUSSIA
EVERY DENNISON MATERIALS SALES FRANCE S. A. S.	FRANCE
EVERY DENNISON MATERIALS SALES GERMANY GMBH	GERMANY
EVERY DENNISON MATERIALS SDN BHD	MALAYSIA
EVERY DENNISON MATERIALS U.K. LIMITED	UNITED KINGDOM
EVERY DENNISON MOROCCO SARL	MOROCCO
EVERY DENNISON NETHERLANDS INVESTMENT II B. V.	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT III BV	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT VI BV	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT VII B.V.	NETHERLANDS
EVERY DENNISON NETHERLANDS INVESTMENT VIII COOPERATIES U.A.	NETHERLANDS
EVERY DENNISON NORDIC APS	DENMARK
EVERY DENNISON NORGE A/S	NORWAY

2007 SUBSIDIARY**JURISDICTION
IN WHICH ORGANIZED**

EVERY DENNISON OFFICE ACCESSORIES U.K. LIMITED	UNITED KINGDOM
EVERY DENNISON OFFICE PRODUCTS COMPANY	U.S.A.
EVERY DENNISON OFFICE PRODUCTS DE MEXICO, S DE R.L. DE C.V.	MEXICO
EVERY DENNISON OFFICE PRODUCTS FRANCE S. A. S.	FRANCE
EVERY DENNISON OFFICE PRODUCTS HOLDINGS COMPANY	U.S.A.
EVERY DENNISON OFFICE PRODUCTS ITALIA S.R.L.	ITALY
EVERY DENNISON OFFICE PRODUCTS MANUFACTURING U.K. LTD.	UNITED KINGDOM
EVERY DENNISON OFFICE PRODUCTS PTY LIMITED	AUSTRALIA
EVERY DENNISON OFFICE PRODUCTS U.K. LTD.	UNITED KINGDOM
EVERY DENNISON OFFICE PRODUCTS (NZ) LIMITED	NEW ZEALAND
EVERY DENNISON OFFICE PRODUCTS (PTY.) LTD.	SOUTH AFRICA
EVERY DENNISON OVERSEAS CORPORATION	U.S.A.
EVERY DENNISON OVERSEAS CORPORATION (JAPAN BRANCH)	JAPAN
EVERY DENNISON PENSION TRUSTEE LIMITED	UNITED KINGDOM
EVERY DENNISON PERU S. R. L.	PERU
EVERY DENNISON POLSKA SP. Z O.O.	POLAND
EVERY DENNISON PRAHA SPOL. R. O.	CZECH REPUBLIC
EVERY DENNISON REFLECTIVES DO BRAZIL LTDA.	BRAZIL
EVERY DENNISON RETAIL INFORMATION SERVICES DE MEXICO, S. A. DE C.V.	MEXICO
EVERY DENNISON RETAIL INFORMATION SERVICES DOMINICAN REPUBLIC, S. A.	DOMINICAN REPUBLIC
EVERY DENNISON RETAIL INFORMATION SERVICES EL SALVADOR S. A. DE C. V.	EL SALVADOR
EVERY DENNISON RETAIL INFORMATION SERVICES GUATEMALA, S. A.	GUATEMALA
EVERY DENNISON RFID COMPANY	U.S.A.
EVERY DENNISON RINKE GMBH	GERMANY
EVERY DENNISON RIS KOREA LTD.	KOREA
EVERY DENNISON RIS LANKA (PRIVATE) LIMITED	SRI LANKA
EVERY DENNISON SCANDINAVIA APS	DENMARK
EVERY DENNISON SCHWEIZ AG	SWITZERLAND
EVERY DENNISON SECURITY PRINTING EUROPE APS	DENMARK
EVERY DENNISON SHARED SERVICES, INC.	U.S.A.
EVERY DENNISON SINGAPORE (PTE) LTD	SINGAPORE
EVERY DENNISON SOUTH AFRICA (PROPRIETARY) LIMITED	SOUTH AFRICA
EVERY DENNISON SUOMI OY	FINLAND
EVERY DENNISON SVERIGE AB	SWEDEN
EVERY DENNISON SYSTEMES D'ETIQUETAGE FRANCE S.A.S.	FRANCE
EVERY DENNISON TAIWAN LIMITED	TAIWAN
EVERY DENNISON U.K. LIMITED	UNITED KINGDOM
EVERY DENNISON VERMOGENSVERWALTUNGS GMBH & CO K.G.	GERMANY
EVERY DENNISON ZWECKFORM AUSTRIA GMBH	AUSTRIA
EVERY DENNISON ZWECKFORM OFFICE PRODUCTS EUROPE GMBH	GERMANY
EVERY DENNISON ZWECKFORM OFFICE PRODUCTS MANUFACTURING GMBH	GERMANY
EVERY DENNISON ZWECKFORM UNTERSTUTZUNGSKASSE GMBH	GERMANY
EVERY DENNISON (ASIA) HOLDINGS LIMITED	MAURITIUS
EVERY DENNISON (BANGLADESH) LTD.	BANGLADESH

2007 SUBSIDIARY**JURISDICTION
IN WHICH ORGANIZED**

AVERY DENNISON (FUZHOU) CONVERTED PRODUCTS LIMITED	CHINA
AVERY DENNISON (GUANGZHOU) CONVERTED PRODUCTS LIMITED	CHINA
AVERY DENNISON (GUANGZHOU) CO. LTD.	CHINA
AVERY DENNISON (HONG KONG) LIMITED	HONG KONG
AVERY DENNISON (INDIA) PRIVATE LIMITED	INDIA
AVERY DENNISON (IRELAND) LIMITED	IRELAND
AVERY DENNISON (KUNSHAN) CO., LIMITED	CHINA
AVERY DENNISON (MALAYSIA) SDN. BHD.	MALAYSIA
AVERY DENNISON (QINGDAO) CONVERTED PRODUCTS LIMITED	CHINA
AVERY DENNISON (SUZHOU) CO. LIMITED	CHINA
AVERY DENNISON (THAILAND) LTD.	THAILAND
AVERY DENNISON (VIETNAM) LIMITED	VIETNAM
AVERY DENNISON, S.A. DE C.V.	MEXICO
AVERY GRAPHIC SYSTEMS, INC.	U.S.A.
AVERY GUIDEX LIMITED	UNITED KINGDOM
AVERY HOLDING LIMITED	UNITED KINGDOM
AVERY HOLDING S.A.S.	FRANCE
AVERY OFFICE PRODUCTS PUERTO RICO L.L.C.	PUERTO RICO
AVERY PACIFIC LLC	U.S.A.
AVERY PROPERTIES PTY. LIMITED	AUSTRALIA
AVERY (CHINA) COMPANY LIMITED	CHINA
AVERY, INC.	U.S.A.
A.V. CHEMIE GMBH	SWITZERLAND
BONNIE NICE INDUSTRIES LTD.	HONG KONG
COLLITEX S.R.L.	ITALY
DENNISON COMERCIO, IMPORTACAS E EXPORTACAO LTDA.	BRAZIL
DENNISON DEVELOPMENT ASSOCIATES	U.S.A.
DENNISON INTERNATIONAL COMPANY	U.S.A.
DENNISON MANUFACTURING COMPANY	U.S.A.
EDMOND PACKAGING (GUANGZHOU) LTD.	CHINA
GUANGZHOU PAXAR TRADING CO. LTD.	CHINA
INDUSTRIAL DE MARCAS LTDA	COLOMBIA
JAC ASIA PACIFIC SDN BHD	MALAYSIA
JAC CARIBE C.S.Z.	DOMINICAN REPUBLIC
JAC DO BRASIL LTDA.	BRAZIL
JAC NEW ZEALAND LIMITED	NEW ZEALAND
JAC (U.K.) LIMITED	UNITED KINGDOM
JACKSTADT FRANCE S.N.C.	FRANCE
JACKSTADT GMBH	GERMANY
JACKSTADT SOUTH AFRICA (PTY) LTD.	SOUTH AFRICA
JACKSTADT VERMOGENSVERWALTUNGS GMBH	GERMANY
L&E AMERICAS SERVICIOS, S. A. DE C.V.	MEXICO
L&E PACKAGING FAR EAST LIMITED	HONG KONG
MARKSTAR INTERNATIONAL LTD.	HONG KONG
MODERN MARK INTERNATIONAL LIMITED	HONG KONG

2007 SUBSIDIARY**JURISDICTION
IN WHICH ORGANIZED**

MONARCH INDUSTRIES, INC.	U.S.A.
MONARCH MARKING SYSTEMS HOLDINGS LTD	UNITED KINGDOM
MONARCH MARKING (S.E.A.) PTE. LTD	SINGAPORE
MONARCH SERVICE BUREAU LTD.	HONG KONG
PAXAR S. A.	FRANCE
PAXAR AMERICAS, INC.	U.S.A.
PAXAR BANGLADESH LTD.	BANGLADESH
PAXAR BENELUX BVBA	BELGIUM
PAXAR BULGARIA EOOD	BULGARIA
PAXAR B. V.	NETHERLANDS
PAXAR CANADA, INC.	CANADA
PAXAR CAPITAL CORPORATION	U.S.A.
PAXAR CENTRAL EUROPE GMBH	GERMANY
PAXAR CORPORATION	U.S.A.
PAXAR CORPORATION PTY LTD.	AUSTRALIA
PAXAR CORPORATION (MALAYSIA) SDN. BHD.	MALAYSIA
PAXAR CORPORATIVO MEXICO S. A. DE C. V.	MEXICO
PAXAR DE COLOMBIA FTZ LTDA	COLOMBIA
PAXAR DE COLOMBIA S.A.	COLOMBIA
PAXAR DE EL SALVADOR S. A. DE C. V.	EL SALVADOR
PAXAR DE GUATEMALA, S. A.	GUATEMALA
PAXAR DE MEXICO S. A. DE C. V.	MEXICO
PAXAR DE NICARAGUA. S.A.	NICARAGUA
PAXAR DO BRASIL LTDA	BRAZIL
PAXAR DOMINICANA S. A.	DOMINICAN REPUBLIC
PAXAR EUROPE (1998) LTD.	UNITED KINGDOM
PAXAR FAR EAST LTD.	HONG KONG
	UNITED ARAB
PAXAR GULF FZCO	EMIRATES
PAXAR HONDURAS S. A.	HONDURAS
PAXAR IBERIA S. L.	SPAIN
PAXAR INDIA PRIVATE LTD.	INDIA
PAXAR ITALIA S.R.L.	ITALY
PAXAR KOREA LTD.	KOREA
PAXAR LANKA (PVT) LTD.	SRI LANKA
PAXAR MAURITIUS LTD.	MAURITIUS
PAXAR MOROC SARL	MOROCCO
PAXAR NTP A. S.	NORWAY
PAXAR PACKAGING (GUANGZHOU) LTD.	CHINA
PAXAR PAKISTAN (PVT) LTD.	PAKISTAN
PAXAR PERU S. A. C.	PERU
PAXAR POLSKA PS.ZO.O	POLAND
PAXAR PRINGING & PACKAGING (SHANGHAI) LTD.	CHINA
PAXAR ROMANIA S.R.L.	ROMANIA
PAXAR SCANDINAVIA AB	SWEDEN
PAXAR SISTEMAS LTDA	BRAZIL

2007 SUBSIDIARY**JURISDICTION
IN WHICH ORGANIZED**

PAXAR SYSTEMS (GUANGZHOU) LTD.	CHINA
PAXAR TESLO A.S.	TURKEY
PAXAR UK LTD.	UNITED KINGDOM
PAXAR VIETNAM CO. LTD.	VIETNAM
PAXAR (CHINA) LTD.	HONG KONG
PAXAR (SINGAPORE) PTE LTD.	SINGAPORE
PAXAR (THAILAND) LIMITED	THAILAND
PT AVERY DENNISON INDONESIA	INDONESIA
PT AVERY DENNISON PACKAGING INDONESIA	INDONESIA
P. T. PAXAR INDONESIA	INDONESIA
RAXAP ARRENDADORA, S. A. DE C. V.	MEXICO
RAXAP SERVICIOS, S. A. DE C. V.	MEXICO
RF IDENTICS, INC.	U.S.A.
RINKE DIS TISCARET LTD (SIRKETI)	TURKEY
RINKE ETIKET SERVIS SANAYI VE TICARET LTD SIRKETI	TURKEY
RINKE FAR EAST LTD	HONG KONG
RIPRO FAR EAST LTD	HONG KONG
RL FRANCE S. A.	FRANCE
RVL AMERICAS, S DE R.L. DE C.V.	MEXICO
RVL CENTRAL AMERICA, S. A.	GUATEMALA
RVL PACKAGING FAR EAST LIMITED	HONG KONG
RVL PACKAGING INDIA PRIVATE LIMITED	INDIA
RVL PACKAGING MIDDLE EAST F.Z.C.	UNITED ARAB EMIRATES
RVL PACKAGING SINGAPORE PTE LTD.	SINGAPORE
RVL PACKAGING TAIWAN LTD.	TAIWAN
RVL PACKAGING, INC.	U.S.A.
RVL PHILIPPINES, INC.	PHILIPPINES
RVL PRINTED LABEL FAR EAST LIMITED	HONG KONG
RVL PRINTED LABELS, LLC	U.S.A.
RVL SERVICE, S. DE R. L. DE C. V.	MEXICO
SECURITY PRINTING DIVISION, INC.	U.S.A.
STIMSONITE AUSTRALIA PTY LIMITED	AUSTRALIA
TESSITURA ITALIAN ETICHETTE S.R.L.	ITALY
TIADeco PARTICIPACOES, LTDA.	BRAZIL
UNIVERSAL PACKAGING & DESIGN, LTD.	HONG KONG
WORLDWIDE RISK INSURANCE, INC.	U.S.A.

Power of Attorney

WHEREAS, Avery Dennison Corporation, a Delaware corporation (the "Company"), proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an Annual Report on Form 10-K for the fiscal year ended December 29, 2007; and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, each of the undersigned hereby constitutes and appoints Daniel R. O'Bryant and Susan C. Miller, and each of them, as attorneys-in-fact for and in the name, place and stead of the undersigned, and in the capacity of the undersigned as a director of the Company, to execute the above referenced Form 10-K and any amendments or supplements thereto, hereby giving and granting to said attorneys-in-fact, full power and authority to do and perform each and every act and thing required and necessary to be done in and about the premises, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that each attorney-in-fact may or shall lawfully do or cause to be done by virtue of this Power of Attorney.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney effective February 26, 2008.

Signature	Title	Date
<hr/> /s/ Dean A. Scarborough <hr/> Dean A. Scarborough	<hr/> President and Chief Executive Officer, Director	<hr/> February 26, 2008

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Peter K. Barker</u> Peter K. Barker	Director	February 26, 2008
<u>/s/ Rolf Börjesson</u> Rolf Börjesson	Director	February 26, 2008
<u>/s/ John T. Cardis</u> John T. Cardis	Director	February 26, 2008
<u>/s/ Richard M. Ferry</u> Richard M. Ferry	Director	February 26, 2008
<u>/s/ Ken C. Hicks</u> Ken C. Hicks	Director	February 26, 2008
<u>/s/ Kent Kresa</u> Kent Kresa	Chairman, Director	February 26, 2008
<u>/s/ Peter W. Mullin</u> Peter W. Mullin	Director	February 26, 2008
<u>/s/ David E. I. Pyott</u> David E. I. Pyott	Director	February 26, 2008
<u>/s/ Patrick T. Siewert</u> Patrick T. Siewert	Director	February 26, 2008
<u>/s/ Julia A. Stewart</u> Julia A. Stewart	Director	February 26, 2008

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

CERTIFICATION

I, Dean A. Scarborough, certify that:

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

/s/ Dean A. Scarborough

Dean A. Scarborough
President and Chief Executive Officer

February 27, 2008

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

/s/ Daniel R. O'Bryant

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

February 27, 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 Annual Report on Form 10-K of the Company for the fiscal year ended December 29, 2007 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2008

/s/ Dean A. Scarborough

Dean A. Scarborough
President and Chief Executive Officer

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER*

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

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

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 29, 2007 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2008

/s/ Daniel R. O'Bryant

Daniel R. O'Bryant

Executive Vice President, Finance, and

Chief Financial Officer

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