AVERY DENNISON CORPORATION
Form 10-K
February 27, 2008

Table of Contents

2007 10-K

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

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

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

Title of Each Class	Name of each exchange on which registered
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 þ No o

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 o No þ

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 þ No o

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. þ

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

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

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:

Document	**Incorporated by reference into:**
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

FISCAL YEAR 2007 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. BUSINESS

Avery Dennison Corporation (Avery Dennison, the Company, Registrant, Issuer, which may be referred to as we 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.

Table of Contents

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,

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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	Oberlaindern, 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.

Table of Contents

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. Hemmelgarn 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:

(Shares in thousands, except per share amounts) **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	17.4	$	43.38	4,154.7

(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

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:	**2007**	**2006**	**2005**
Organic sales growth	1%	3%	1%
Foreign currency translation	5		2
Acquisitions, net of divestitures	8	(1)	
Reported sales growth[1]	13%	2%	3%

[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:

	2007	**2006**	**2005**
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

Table of Contents

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

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

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.

Table of Contents

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

(Dollars in millions)		**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	$	101.9	1,055
Change-in-control costs (Purchase price adjustment)		27.1	
Total Paxar acquisition-related costs	$	129.0	

(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.

(In millions)	**2007**	**2006**	**2005**
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	$ 244.6	$ 315.5	$ 253.3

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:

(In millions)	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

As a Percent of Sales:	%	%	%
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	5.9	7.8	6.7

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.

Table of Contents

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.

Table of Contents

Other Expense, net

(In millions, pretax)	2007	2006	2005
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	$ 59.4	$ 36.2	$ 63.6

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:

(In millions, except per share amounts)	2007	2006	2005
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	$ 303.5	$ 373.2	$ 226.8
Net income per common share	$ 3.09	$ 3.74	$ 2.27
Net income per common share, assuming dilution	$ 3.07	$ 3.72	$ 2.26
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.

Table of Contents

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 $8.1 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

(In millions)	**2007**	**2006**	**2005**
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]	318.7	301.6	264.1
[1] Includes restructuring costs, asset impairment charges and other items for all years presented	$ 13.8	$ 9.3	$ 23.0

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.

Table of Contents

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]	(4.0)	45.7	37.7
[1] Includes restructuring costs, asset impairment and lease cancellation charges for all years presented	$ 31.2	$ 11.2	$ 7.5
[2] Includes transition costs associated with Paxar integration	$ 43.0	$	$

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

(In millions)	**2007**	**2006**	**2005**
Net sales including intersegment sales	$ 1,017.8	$ 1,073.8	$ 1,138.1
Less intersegment sales	(1.6)	(1.8)	(2.0)
Net sales	$ 1,016.2	$ 1,072.0	$ 1,136.1
Operating income(1)	173.6	187.4	161.9
(1) Includes restructuring costs for all years, asset impairment charges for 2005 and 2006, and other items for 2006 and 2007	$ 4.8	$ (2.3)	$ 21.8

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

(In millions)	**2007**	**2006**	**2005**
Net sales including intersegment sales	$ 639.3	$ 614.3	$ 607.7
Less intersegment sales	(19.9)	(14.4)	(15.2)
Net sales	$ 619.4	$ 599.9	$ 592.5
Operating income(1)	25.4	17.3	14.9
(1) Includes restructuring and asset impairment charges for all years presented	$ 4.2	$ 3.7	$ 6.2

Table of Contents

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:

(In millions)	**2007**	**2006**	**2005**
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	$ 499.4	$ 510.8	$ 441.6

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:

(In millions)	**2007**	**2006**	**2005**
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)

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:

(In millions)	**2007**	**2006**	**2005**
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	$ 1,055.4	$ (397.8)	$ (260.5)

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 overallotment allocation from the initial issuance. Each HiMEDS unit is comprised of two components a purchase contract obligating the holder to purchase from us a certain number of shares 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)	**2007**	**2006**	**2005**
Change in net sales	$ 232	$ 21	$ 77
Change in net income	13	2	2

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:

(In millions)	**2007**	**2006**
(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	$ 1,065.6	$ 777.0

(C) Net sales	$ 6,307.8	$ 5,575.9
Working capital, as a percent of net sales(A)¸(C)	(6.6)%	(.2)%
Operational working capital from continuing operations, as a percent of net sales(B)¸(C)	16.9%	13.9%

30

Table of Contents

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

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

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

	2007	2006	2005
Return on average shareholders equity	16.5%	22.7%	14.5%
Return on average total capital	10.6	15.7	10.0

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 overallotment allocation from the initial issuance. Each HiMEDS unit is comprised of two components a purchase contract obligating the holder to purchase from us a certain number of shares 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.

Table of Contents

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:

	Short-term	Long-term	Outlook[1]
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:

			Payments Due by Period				
(In millions)	**Total**	**2008**	**2009**	**2010**	**2011**	**2012**	**Thereafter**
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

Table of Contents

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 overallotment allocation from the initial issuance. Each HiMEDS unit is comprised of two components a purchase contract obligating the holder to purchase from us a certain number of shares 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:

(In millions)	**2007**	**2006**	**2005**
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, ma potential, project, seek, shall, should, target, will, would, or variations thereof and other expressions, w 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Signature	Title	Date
/s/ Dean A. Scarborough Dean A. Scarborough	President and Chief Executive Officer, Director	February 26, 2008
/s/ Daniel R. O Bryant Daniel R. O Bryant	Executive Vice President, Finance and Chief Financial Officer (Principal Financial Officer)	February 26, 2008
/s/ Mitchell R. Butier Mitchell R. Butier	Vice President and Controller (Principal Accounting Officer)	February 26, 2008
/s/ Peter K. Barker Peter K. Barker	Director	February 26, 2008
/s/ Rolf Börjesson Rolf Börjesson	Director	February 26, 2008
/s/ John T. Cardis John T. Cardis	Director	February 26, 2008
/s/ Richard M. Ferry	Director	February 26, 2008

Richard M. Ferry		
/s/ Ken C. Hicks	Director	February 26, 2008
Ken C. Hicks		
/s/ Kent Kresa	Chairman, Director	February 26, 2008
Kent Kresa		
/s/ Peter W. Mullin	Director	February 26, 2008
Peter W. Mullin		
/s/ David E. I. Pyott	Director	February 26, 2008
David E. I. Pyott		

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

AVERY DENNISON CORPORATION

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL

STATEMENT SCHEDULE

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.

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.

S-1

Table of Contents

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

Table of Contents

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In millions)

	Balance at Beginning of Year	Additions: Charged to Costs and Expenses	Additions: From Acquisitions	Deductions From Reserves	Balance at End of Year
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

S-3

Table of Contents

Exhibit 23

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

Table of Contents

AVERY DENNISON CORPORATION

EXHIBIT INDEX
For the Year Ended December 29, 2007

INCORPORATED BY REFERENCE:

Exhibit No.	Item	Originally Filed as Exhibit No.	Document[1]
(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	4.1	Registration Statement on Form S-3 (File No. 333-64558), filed July 3, 2001

	(successor to Chase Manhattan Bank and Trust Company, National Association), as trustee (2001 Indenture)		
(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

i

Exhibit No.	Item	Originally Filed as Exhibit No.	Document[1]
(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

Exhibit No.	Item	Originally Filed as Exhibit No.	Document[1]
(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	10.16	1994 Annual Report on Form 10-K, filed March 30, 1995

	(EVDCP)		
(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

Exhibit No.	Item	Originally Filed as Exhibit No.	Document[1]
(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

Exhibit No.	Item	Originally Filed as Exhibit No.	Document[1]
(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:

Exhibit No.	Item
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.