# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 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 January 1, 2011**

**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**<br>**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 ☑ No ☐

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

| Large accelerated filer ☑ | Accelerated filer ☐ | Non-accelerated filer ☐<br>(Do not check if a smaller reporting company) | Smaller reporting company ☐ |
|---|---|---|---|

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

The aggregate market value of voting and non-voting common equity held by non-affiliates as of July 3, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was $3,369,883,051.

Number of shares of common stock, $1 par value, outstanding as of January 29, 2011: 106,874,924.

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 January 1, 2011 | **Parts I, II** |
| Portions of Definitive Proxy Statement for Annual Meeting of Stockholders to be held April 28, 2011 | **Parts III, IV** |

**AVERY DENNISON CORPORATION**

**FISCAL YEAR 2010 FORM 10-K ANNUAL REPORT**

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# PART I

## Item 1. BUSINESS.

### Company Background

Avery Dennison Corporation ("Avery Dennison," the "Company," "Registrant," or "Issuer," and which may be referred to as "we" or "us") was incorporated in 1977 in the state of Delaware as Avery International Corporation, the successor corporation to a California corporation of the same name that had been 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 the Company's name was changed to Avery Dennison Corporation. *You can learn more about us by visiting our Web site at www.averydennison.com. 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 report.*

### Business Overview and Reporting Segments

Our businesses include the production of pressure-sensitive materials, office and consumer products and a variety of tickets, tags, labels and other converted products. Some pressure-sensitive materials are sold to label printers and converters that "convert" the materials into labels and other products through embossing, printing, stamping and die-cutting. Some are sold by us in converted form as printable media, tapes and reflective sheeting. We also manufacture and sell a variety of office and consumer products, other converted products and items not involving pressure-sensitive components, such as binders, organizing systems, markers, fasteners, business forms, as well as tickets, tags, radio-frequency identification ("RFID") inlays and labels, and imprinting equipment and related services for retail and apparel manufacturers.

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

No single customer represented 10% or more of our net sales in, or trade receivables at year end of, 2010 or 2009. However, as of January 1, 2011, the ten largest customers by net sales and trade receivables represented 12% and 13%, respectively, and were primarily concentrated in our Office and Consumer Products segment. The financial position and operations of these customers are monitored on an ongoing basis (see "Critical Accounting Policies and Estimates" in Part II, 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. Backlog is not considered material in the industries in which we compete.

Our reporting segments are:

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

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 RFID inlays and labels, and other converted products.

In 2008, we completed the acquisition of DM Label Group ("DM Label"), a manufacturer of labels, tags and tickets for retail and apparel applications, including woven labels. These operations are included in our Retail Information Services segment. See "Retail Information Services Segment" below for further information.

In 2010, the Pressure-sensitive Materials segment contributed approximately 56% of our total sales, while the Retail Information Services and Office and Consumer Products segments contributed approximately 23% and 13%, respectively, of our total sales.

In 2010, international operations constituted a substantial majority of our business, representing approximately 68% of our sales. We expanded our operations, focusing particularly on Asia, Latin America and Eastern Europe. As of January 1, 2011, we operated approximately 200 manufacturing and distribution facilities worldwide, employed approximately 32,000 persons, and conducted business in over 60 countries.

**Pressure-sensitive Materials Segment**

Our Pressure-sensitive Materials segment manufactures and sells Fasson-, JAC-, and Avery Dennison-brand pressure-sensitive roll materials, Avery-brand graphics and graphic films, Avery Dennison-brand reflective products, and performance polymers (largely used to manufacture pressure-sensitive materials). The business of this segment tends not to be seasonal, except for certain outdoor graphics and reflective products and operations in Western Europe. Pressure-sensitive materials consist primarily of papers, plastic films, metal foils and fabrics, which are coated with Company-developed and purchased adhesives, and then laminated with specially coated backing papers and films. They are sold in roll or sheet form with either solid or patterned adhesive coatings, and are available in a wide range of face materials, sizes, thicknesses and adhesive properties. These materials are sold to label printers and converters for labeling, decorating, fastening, electronic data processing and special applications on a worldwide basis.

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.

Because self-adhesive materials are easy to apply without the need for adhesive activation, the use of self-adhesive materials often provides cost savings compared with other materials that require heat- or moisture-activated adhesives. When used in package decoration applications, the visual appeal of self-adhesive materials often helps foster increased sales of the product on which the materials are applied. Self-adhesive materials provide consistent and versatile adhesion and are available in a large selection of materials in nearly any size, shape and color.

Graphic products consist of a variety of films and other products sold to the architectural, commercial sign, digital printing, and other related market segments. We also sell durable cast and reflective films to the construction, automotive, and fleet transportation market segments, scrim-reinforced vinyl material for banner sign applications, and reflective films for traffic and safety applications. Our graphics and reflective businesses are organized on a worldwide basis to serve the expanding commercial graphic arts market segment, 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 roll materials competitors are Raflatac (“Raflatac”), a subsidiary of UPM-Kymmene (“UPM”), and Morgan Adhesives (“MACtac”), a division of Bemis Company, Inc. For graphics and reflective products, our largest competitor is 3M Company. We believe that entry of competitors into the field of pressure-sensitive adhesives and materials is limited by technical knowledge and capital requirements. We believe that our technical knowledge, relative size and scale of operations, ability to serve our customers with a broad line of quality products and service programs, distribution and brand strength, and development and commercialization of new products are among the more significant factors in maintaining and further developing our competitive position.

**Retail Information Services Segment**

Our Retail Information Services segment designs, manufactures and sells a wide variety of brand identification and information management products for retailers, apparel manufacturers, distributors and industrial customers on a worldwide basis. The business of this segment tends to be seasonal, with higher volume generally in advance of the fall (back-to-school), spring, 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. Services include supply chain and security management, and retail store efficiency. Our solution-enabling products include printers, fastening and application devices, and security management products.

In this segment, our competitors include SML Group and Checkpoint Systems, Inc. and Shore to Shore, Inc. We believe that our ability to serve our customers consistently wherever they manufacture with product innovation, comprehensive brand identification and information management product line, and global distribution network, service, and quality are the key advantages in maintaining and further developing 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 tends to be seasonal, with higher volume related to the back-to-school season.

This segment's products are concentrated in a few major customers, primarily office products superstores, mass market distributors and wholesalers. The loss of one or more of these customers could have a material adverse effect on the segment's financial results. 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 our product offerings varies by geographic market.

In this segment, our larger competitors are 3M Company, Acco Brands Corporation, Esselte Corporation and manufacturers of private-label brands. We believe that our brand strength, customer relationships, service excellence, large installed base of software that facilitates the use of many of our products, ability to serve our customers with a broad line of quality products, and development and commercialization of new products are among the more significant factors in maintaining and further developing 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 and labels, pressure-sensitive postage stamps and other converted products. These businesses are generally not seasonal, except for certain automotive products due to 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 automotive businesses primarily consist of custom pressure-sensitive and heat-seal labels, pressure-sensitive films and engineered fasteners for the automotive market segment. These products are sold primarily to original equipment manufacturers and their suppliers.

Our industrial businesses consist of custom pressure-sensitive labels and multi-layer film constructions for durable goods, electronics and consumer packaged goods. These products are sold primarily to original equipment manufacturers, tier suppliers and packaging converters.

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 segment, metallic pigments to the packaging industry, and proprietary wood grain and other patterns of film laminates for housing exteriors.

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

**Segment Financial Information**

Certain financial information on our reporting segments and other specialty converting businesses for the three years ended January 1, 2011 appears in Note 12, “Segment Information,” in the Notes to Consolidated Financial Statements contained in our 2010 Annual Report to Shareholders (our “2010 Annual Report”) and is incorporated herein by reference.

**Foreign Operations**

Certain financial information about our geographic areas for the three years ended January 1, 2011 appears in Note 12, “Segment Information,” in the Notes to Consolidated Financial Statements contained in our 2010 Annual Report and is incorporated herein by reference.

**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 located in Pasadena, California (the “Research Center”) were $95.6 million in 2010, $90.7 million in 2009, and $94 million in 2008.

Our operating units’ research efforts are directed primarily toward developing new products and operating techniques and improving product performance, often in close association with customers. The Research Center supports our operating units’ patent and product development work, and focuses on improving adhesives, materials and coating processes, as well as related product applications and ventures. These efforts often focus on projects relating to printing and coating technologies, as well as adhesive, release and ink chemistries.

**Patents, Trademarks and Licenses**

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. We believe these trademarks are significant in the market segments in which our products compete.

**Manufacturing and Environmental Matters**

We use various raw materials, primarily paper, plastic films and resins, as well as specialty chemicals purchased from various commercial and industrial sources, which are subject to price fluctuations. Although shortages could occur from time to time, these raw materials 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 are 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; Painesville, Ohio; and Quakertown, Pennsylvania; as well as in other plants in the United States, Argentina, Australia, Belgium, Brazil, China, Colombia, France, Germany, India, Korea, Luxembourg, Malaysia, Mexico, the Netherlands, South Africa, Thailand and the United Kingdom.

Based on current information, we do not believe that the cost 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).

**Available Information**

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 on our Web site at www.averydennison.com (in the “Investors” section) as soon as reasonably practicable after electronic filing with or furnishing to the SEC. We make available on our Web site our (i) Corporate Governance Guidelines, (ii) Code of Conduct, which applies to our directors, officers 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 Governance and Social Responsibility Committees of our Board of Directors, and (v) Audit Committee Complaint Procedures for Accounting and Auditing Matters. 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.

## 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:

*As a manufacturer, our sales and profitability are dependent upon the cost and availability of raw materials and energy, which are subject to price fluctuations, and our ability to control or pass on costs of raw materials and labor. Raw material cost increases could adversely affect our business, results of operations and financial condition.*

The pricing environment for raw materials used in a number of our businesses continues to be challenging and volatile. Additionally, energy costs remain volatile and unpredictable. Inflationary and other increases in the costs of raw materials, labor and energy have occurred in the past, recurred in 2010 and thus far in 2011, and are expected

to recur. Our performance depends in part on our ability to pass on these cost increases to customers through our selling prices for products and to effect productivity improvements. Depending on market dynamics and the terms of customer contracts, our ability to recover these costs through increased pricing may be limited. Also, it is important for us to obtain timely delivery of materials, equipment, and other resources from suppliers, and to make timely delivery to customers. It is possible that any of our supplier relationships could be interrupted due to natural and other disasters or other events, or be terminated in the future. A disruption to our supply chain could adversely affect our sales and profitability, and any sustained interruption in our receipt of adequate supplies could have a material adverse effect on our business, results of operations and financial condition.

*We are affected by competitive conditions and customer preferences. 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 market segments and implement new technologies making them more competitive. Competitors also may 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 also are at risk with regard 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 our incentive programs, or changes in the customer's ability to achieve incentive goals. Changes in customers' preferences for our products can also affect the demand for our products. Our business could be negatively impacted by a decline in demand for our products.

*The demand for our products is impacted by the effects of, and changes in, worldwide conditions, which could have an adverse effect on our sales and profitability.*

We conduct business in over 60 countries and our domestic and international operations are strongly influenced by matters beyond our control, including changes in political, social, economic and labor conditions, tax laws (including U.S. taxes on foreign subsidiaries), and international trade regulations (including tariffs), as well as the impact of these changes on the underlying demand for our products.

*Changes in tax legislation throughout the world could materially impact our results.*

Our future effective tax rate and related tax balance sheet attributes could be impacted by changes in tax legislation throughout the world. In particular, proposed U.S. tax legislation could materially impact our results. Currently, the majority of our revenue is generated from customers located outside of the U.S., and a substantial portion of our assets and employees are located outside of the U.S. We have not accrued income taxes and foreign withholding taxes on undistributed earnings for most non-U.S. subsidiaries, because those earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. Certain proposals could substantially increase our tax expense, which would substantially reduce our income and have a material adverse effect on our results of operations and cash flows from operating activities.

*Changes in economic conditions in the regions in which we conduct business could negatively impact our customers, suppliers and business.*

A decline in economic activity in the United States and other regions of the world can result in adverse effects on our business, including, among other things, reduced consumer spending, inflation, declines in asset valuations, diminished liquidity and credit availability, significant volatility in securities prices, rating downgrades, and fluctuations in foreign currency exchange rates. The most recent declines in economic conditions were experienced in the United States, Europe, and Asia and adversely affected our customers, suppliers and businesses similar to ours and resulted in a variety of negative effects, such as reduction in revenues, increased costs, lower gross margin percentages, increased allowances for doubtful accounts and/or write-offs of accounts receivable, and required recognition of impairments of capitalized assets, including goodwill and other intangibles. A decline in economic conditions could also have other material adverse effects on our business, results of operations, financial condition

and cash flows. We are not able to predict the duration and severity of adverse economic conditions in the U.S. and other countries, and there can be no assurance that there will not be further declines in economic activity.

*Foreign currency exchange rates, and fluctuations in those rates, may affect our reported sales and profitability.*

In 2010, approximately 68% of our sales were from international operations. Fluctuations in currencies can cause transaction, translation and other losses to us, which could negatively impact our sales and profitability. Margins on sales of our products in foreign countries could be materially and adversely affected by foreign currency exchange rate fluctuations.

We monitor our foreign currency exposures and may, from time to time, use hedging instruments to mitigate exposure to changes in foreign currencies. Hedging activities may only offset a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place.

*Our future profitability may be adversely affected if we generate less productivity improvement than projected.*

We intend to continue efforts to reduce costs in many of our operations through facility closures, headcount reductions, organizational restructuring, process standardization, and manufacturing relocation, by using a variety of tools, such as Lean Sigma and Kaizen events, to increase productivity. However, the success of these efforts is not assured and lower levels of productivity could reduce profitability. In addition, cost reduction actions could expose us to additional production risk and loss of sales.

*We have acquired companies and may continue to acquire other companies. Acquisitions come with significant risks and uncertainties, including those related to integration, technology and personnel. In addition, divestures of any of our businesses or product lines could have a material adverse effect on our business, results of operations and financial condition.*

To grow our product lines and expand into new markets, we have made acquisitions, including our acquisitions of Paxar Corporation in June 2007 and DM Label Group in April 2008, and may do so in the future. Various risks, uncertainties, and costs are associated with the acquisitions. Effective integration of systems, controls, objectives, personnel, product lines, market segments, customers, suppliers, and production facilities and cost savings can be difficult to achieve, and the results of integration actions are uncertain, particularly given our geographically dispersed organization. In addition, 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 for the business segment into which an acquired company is integrated. Both before and after the closing of an acquisition, our business and those of the acquired company or companies may suffer due to uncertainty or diversion of management attention. There can be no assurance that any acquisitions will be successful and contribute to our profitability and we may not be able to identify new acquisition opportunities in the future.

We continually evaluate the performance of our businesses and may determine to sell a business or product line. Divestures may result in significant write-offs or impairments of assets, including goodwill and other intangible assets. Divestitures may involve additional risks, including separation of operations, products and personnel, diversion of management attention, disruption to our other businesses and loss of key employees. We may not successfully manage these or other risks we may confront in divesting a business or product line, which could have a material adverse effect on our business, results of operations and financial condition.

*Our customer base is diversified, but in certain portions of our business, industry concentration has increased the importance, and decreased the number, of significant customers.*

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.

*Possible increased difficulty in the collection of receivables as a result of economic conditions or other market factors could have a material effect on our results from operations and anticipated cash from operating activities.*

Although we have processes to administer credit granted to customers and believe our allowance for doubtful accounts is adequate, we have experienced, and in the future may experience, losses as a result of our inability to collect our accounts receivable. The financial difficulties of a customer could result in reduced business with that customer. We may also assume higher credit risk relating to receivables of a customer experiencing financial difficulty. If these developments occur, our inability to shift sales to other customers or to collect on our trade accounts receivable from major customers could substantially reduce our income and have a material adverse effect on our results of operations and cash flows from operating activities.

*Our inability to develop and successfully market new products and applications could compromise our competitive position.*

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.

*For us to remain competitive, it is important to recruit and retain highly-skilled employees. We also utilize various outsourcing arrangements for certain services, and related delays, resource availability, or errors may lead to increased costs or disruption in our business.*

There is significant competition to recruit and retain skilled employees. Due to expansion in certain markets and the ongoing productivity efforts and recent employee reductions, it may be difficult for us to recruit and retain sufficient numbers of highly-skilled employees.

We have outsourced certain services to 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, if third-party providers do not perform effectively and in a timely manner, or if we experience problems with a transition, we may not be able to achieve our expected cost savings, and may have to experience delays or incur additional costs to correct errors made by these service providers.

*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 a number of factors including, but not limited to, damage or interruptions resulting from a variety of causes such as obsolescence, natural disasters, power failures, human error, viruses and data security breaches. We upgrade and install new systems, which, if installed or programmed incorrectly or on a delayed timeframe, could cause delays or cancellations of customer orders, impede the manufacture or shipment of products, or disrupt the processing of transactions. We have implemented certain measures to reduce our risk related to system and network disruptions, but if a disruption occurs, we could incur significant losses and remediation costs.

Additionally, we rely on services provided by third-party vendors for a significant portion of our information technology support, development and implementation, which may make our operations vulnerable to these third parties' failure to perform adequately.

*Miscalculation of our infrastructure needs could adversely impact our financial results.*

Projected requirements of our infrastructure investments may differ from actual levels if our volume growth is not as we anticipate. Our infrastructure investments generally are long term in nature, and it is possible that these investments may not generate our expected return due to changes in the marketplace, failures to complete

implementation, or other factors. Significant changes from our expected need for and/or returns on infrastructure investments could adversely affect our financial results.

*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, thus causing delays in shipping, delays in the manufacturing process, and occasionally cancelled orders. When issues are discovered after shipment, it can result in additional shipping costs, discounts, refunds, and loss of future sales. Both pre-shipping and post-shipping quality issues can result in adverse financial consequences and a negative impact on our reputation.

*Some of our products are sold by third parties.*

Our products are not sold only 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 conditions or the 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, deficiencies in the performance of outsourced manufacturers could have an adverse effect on our business or financial results.

*Changes in our business strategies may increase our costs and could affect the profitability of our businesses.*

As changes in our business environment occur, we may need to adjust our business strategies to meet these changes or we may find it otherwise necessary to restructure our operations or particular businesses. When these changes occur, we may incur costs to change our business strategy and may need to write down the value of selected assets. We also may need to invest in new businesses that have short-term returns that are negative or low and whose ultimate business prospects are uncertain. In any of these events, our costs may increase, our assets may be impaired, or our returns on new investments may be lower than prior to the change in strategy.

*If our indebtedness increases significantly or our credit ratings are downgraded, we may have difficulty obtaining acceptable short- and long-term financing from the capital markets.*

The overall level of indebtedness and our credit ratings are significant factors in our ability to raise short-term and long-term financing. Higher debt levels could negatively impact our ability to meet other business needs or opportunities and could result in higher financing costs. The credit ratings assigned to us also impact the interest rates on our commercial paper and other borrowings. If our credit ratings are downgraded, our financial flexibility could decrease and the cost to borrow would increase. At January 1, 2011, our variable rate borrowings were approximately $380 million. Fluctuations in interest rates can increase borrowing costs and have an adverse impact on our business, results of operations and financial condition.

*The level of returns on pension and postretirement plan assets and the actuarial assumptions used for valuation purposes could affect our earnings and cash flows 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 and funding

requirements could increase or decrease. Because of 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.

*Our share price may be volatile.*

Changes in our stock price may affect our access to, or cost of financing from, capital markets and may affect our stock-based compensation arrangements, among other things. Our stock price, which has at times experienced substantial volatility, is influenced by changes in the overall stock market and demand for equity securities in general. Other factors, including our financial performance, on a standalone basis and relative to our peers and competitors, and market expectations for our future performance, the level of perceived growth of our industries, and other company-specific events, can also impact our share price. There can be no assurance that our stock price will be less volatile in the future.

*An impairment in the carrying value of goodwill could negatively impact our consolidated results of operations and net worth.*

Goodwill is initially recorded at fair value and is not amortized, but is reviewed for impairment at least annually (or more frequently, if impairment indicators are present). In assessing the carrying value of goodwill, we make estimates and assumptions about sales, operating margins, growth rates, and discount rates based on our business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors. Goodwill valuations have been calculated using an income approach based on the present value of future cash flows of each reporting unit. We could be required to evaluate the carrying value of goodwill prior to the annual assessment if we experience disruptions to the business, unexpected significant declines in operating results, divestiture of a significant component of our business or sustained market capitalization declines. These types of events and the resulting analyses resulted in a significant goodwill impairment charge in 2009 related to our Retail Information Services segment and could result in other goodwill impairment charges in the future. Impairment charges could substantially affect our financial results in the periods of such charges, as did the one in 2009.

*Potential adverse developments in legal proceedings, investigations 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 and adversely impacted by an unfavorable outcome to pending or future litigation and investigations, including but not limited to, proceedings or lawsuits related to class actions seeking treble damages for alleged unlawful competitive practices, and other legal, compliance and regulatory matters, including, but not limited to, product, customs and trade compliance matters. See "Legal Proceedings" (Part I, Item 3). There can be no assurance that any investigation or litigation outcome will be favorable.

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

Because our products involve complex technology and chemistry, we are involved, from time to time, 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, obtain licenses or cease making or selling certain products. There can be no assurance that licenses will be available on commercially reasonable terms or will be available at all. The defense of these claims, whether or not meritorious, and the development of new technology could cause us to incur significant costs and divert the attention of management.

We also have valuable intellectual property upon which third parties may infringe. 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 non-disclosure agreements. However, it may be possible for a third party to obtain our information without our authorization, independently develop similar technologies, or breach a 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 advantages we have, cause us to lose sales or otherwise harm our business. Further, the costs associated with protecting 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 may be able to develop competing products using technology that avoids our patents.

*We need to comply with numerous 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. See “Legal Proceedings” (Part I, Item 3). 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 liabilities accrued.

*Healthcare reform legislation could have an impact on our business.*

During 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the United States. Certain of the provisions that could most significantly increase our healthcare costs in the near term include the removal of annual plan limits, the changes in rules regarding eligibility for dependents and the mandate that health plans cover 100% of preventative care. In addition, our healthcare costs could increase if the new legislation and accompanying regulations require us to cover more employees than we do currently or pay penalty amounts in the event that employees do not elect our offered coverage. While much of the cost of the recent healthcare legislation enacted will occur in or after 2014 due to provisions of the legislation being phased in over time, changes to our healthcare cost structure could have an impact on our business and operating costs.

*We are subject to risks associated with the availability and coverage of 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. We retain some portion of our insurable risks, and therefore, unforeseen or catastrophic losses in excess of insured limits could have a material adverse effect on our financial results.

*Changes in our tax rates could affect our future results.*

Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, expirations of tax holidays, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws and regulations or their interpretation. We are subject to the regular examination of our income tax returns by various tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these

examinations to determine the adequacy of our provision for taxes. There can be no assurance that the outcomes from these examinations will not have a material adverse effect on our financial condition and operating results.

*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 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 would have an adverse effect on our future operating results. In addition, changes in statutory tax rates may 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 risks described above are not exclusive. 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 January 1, 2011, we operated approximately 40 principal manufacturing facilities in excess of 100,000 square feet. The locations of such principal facilities and the operating segments for which they presently are used are as follows:

### Pressure-sensitive Materials Segment

| | |
|---|---|
| Domestic | Peachtree City, Georgia; Fort Wayne, Greenfield and Lowell, Indiana; Fairport Harbor, Mentor and Painesville, Ohio; and Quakertown, Pennsylvania |
| Foreign | Vinhedo, Brazil; Kunshan, China; Champ-sur-Drac, France; Gotha and Schwelm, Germany; Rodange, Luxembourg; Alphen and Hazerswoude, the Netherlands; Pune, India; and Cramlington, United Kingdom |

### Retail Information Services Segment

| | |
|---|---|
| Domestic | Greensboro and Lenoir, North Carolina; Miamisburg, Ohio |
| Foreign | Kunshan, Nansha, Panyu, Shenzen, and Suzhou, China; Loehne and Sprockhovel, Germany; Ancarano, Italy; and Taichung, Taiwan |

### 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; and Kunshan, China |

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 our divisional offices located in Brea, California; Framingham, Massachusetts; Mentor, Ohio; Hong Kong and Kunshan**,** China; Leiden, the Netherlands; and Zug, Switzerland.

We own all of our principal properties identified above, except for certain facilities in Brea, California; Hong Kong and Panyu, China; Loehne, Oberlaindern, and Sprockhovel, Germany; Juarez, Mexico; Greensboro, North Carolina; Mentor, Ohio; and Zug, Switzerland, which are leased.

All buildings owned or leased are considered suitable and generally adequate for our present needs. We generally 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.

As of January 1, 2011, we have been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at fourteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of our liability has been agreed. We are participating with other PRPs at such sites, and anticipate that our 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.

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

As of January 1, 2011, our estimated accrued liability associated with environmental remediation was approximately $46 million. See also Note 8, "Contingencies," in the Notes to Consolidated Financial Statements of our 2010 Annual Report, which is incorporated herein by reference.

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 us, UPM and Raflatac, seeking treble damages and other relief for alleged unlawful competitive practices, with allegations including that the defendants attempted to limit competition among themselves through anticompetitive understandings. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for the City and County of San Francisco on March 30, 2004. On September 30, 2004, the Harman Press amended its complaint to add MACtac as a defendant. On January 21, 2005, American International Distribution Corporation filed a purported class action on behalf of indirect purchasers in the Superior Court for Chittenden County, Vermont. Similar actions were filed by Richard Wrobel, on February 16, 2005, in the District Court of Johnson County, Kansas; and by Chad and Terry Muzzey, on February 16, 2005, in the District Court of Scotts Bluff County, Nebraska. On February 17, 2005, Judy Benson filed a purported multi-state class action on behalf of indirect purchasers in the Circuit Court for Cocke County, Tennessee. Without admitting liability, we agreed to pay plaintiffs $2 million to resolve all claims related to the purported state class actions in the states of Kansas, Nebraska, Tennessee and Vermont. Those settlements were approved by the Tennessee court on March 12, 2010 and the complaints in those state actions were dismissed with prejudice. We recorded $2 million in the third quarter of 2009 in respect of the settlement of those claims, and made that payment on December 28, 2009. Also without admitting liability, we paid $2.5 million on July 15, 2010 to resolve all claims in the California action.

On December 8, 2010, the California court granted final approval of the settlement and dismissed all claims against us with prejudice. In respect of settlement of this claim, we recorded $.7 in the fourth quarter of 2009 and $.3 million and $1.5 million in the first and second quarters of 2010, respectively.

We are involved in various other lawsuits, claims, inquiries, and other regulatory and compliance matters, which are either routine to the nature of our business, or based upon current information, if determined to be adverse to us, are not expected to have a material effect on our financial condition, results of operations, or cash flows.

**Item 4. (REMOVED AND RESERVED).**

## PART II

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

**Market for Registrant's Common Equity and Related Stockholder Matters**

The information called for by subsections (a) of this Item appears under "Corporate Information — Stock and Dividend Data" in our 2010 Annual Report and is incorporated herein by reference.

**Issuer Purchases of Equity Securities**

On January 27, 2011, the Company's Board of Directors authorized the repurchase of up to 5 million additional shares of the Company's outstanding common stock, increasing the balance of shares available for repurchase to approximately 6 million. Repurchased shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes.

Repurchases by the Company or "affiliated purchasers" (as defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934) of registered equity securities during the fourth quarter of 2010 are listed in the following table.

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that may yet be Purchased Under the Plans |
|---|---|---|---|---|
| | (Shares in thousands, except per share amounts) | | | |
| October 3, 2010 — October 30, 2010 | — | $ — | — | |
| October 31, 2010 — November 27, 2010 | 433.9 | $ 37.77 | 433.9 | |
| November 28, 2010 — January 1, 2011 | 2,249.3 | $ 41.03 | 2,249.3 | |
| Total | 2,683.2 | $ 40.50 | 2,683.2 | 1,269.7(1) |

(1) Shares do not include the impact of .3 million repurchased shares that settled in January 2011 and 5 million additional shares that were authorized for repurchase in January 2011.

**Item 6. SELECTED FINANCIAL DATA.**

Selected financial data for each of the Company's last five fiscal years appears under "Five-year Summary" in our 2010 Annual Report and is incorporated herein by reference.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION.**

The information called for by this Item is contained under "Management's Discussion and Analysis of Results of Operations and Financial Condition" in our 2010 Annual Report and is incorporated herein by reference.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

The information called for by this Item is contained under "Market-Sensitive Instruments and Risk Management" in "Management's Discussion and Analysis of Results of Operations and Financial Condition" in our 2010 Annual Report and is incorporated herein by reference.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The information called for by this Item is contained in our 2010 Annual Report (including the Consolidated Financial Statements and the Notes thereto, 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) 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 January 1, 2011. (See Management's Report on Internal Control Over Financial Reporting in our 2010 Annual Report.)

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 1, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their Report of Independent Registered Public Accounting Firm in our 2010 Annual Report, and is incorporated herein by reference.

*Changes in Internal Control over Financial Reporting.* There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Item 9B. OTHER INFORMATION.

None.

## PART III

### Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information concerning directors and corporate governance called for by this Item is incorporated herein by reference from the definitive proxy statement for our Annual Meeting of Stockholders to be held on April 28, 2011 (our "2011 Proxy Statement"), which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report. The information concerning executive officers called for by this Item appears on the next page 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 our 2011 Proxy Statement.

We have adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers (the "Code"), which applies to our Chief Executive Officer, Chief Financial Officer, and Controller. Our Code is available on our 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 Conduct, which applies to our directors, officers and employees, is also available on our Web site in the "Investors" section. *Our Web site address 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 herein by reference.*

The information concerning our Audit Committee called for by this Item is incorporated by reference from our 2011 Proxy Statement, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

## EXECUTIVE OFFICERS OF AVERYDENNISON[1]

| Name | Age | Served as Executive Officer since | | Former Positions and Offices with Avery Dennison |
|---|---|---|---|---|
| Dean A. Scarborough[2]<br>Chairman, President and Chief Executive Officer | 55 | August 1997 | 2005-2010<br>2000-2005 | President and Chief Executive Officer<br>President and Chief Operating Officer |
| Mitchell R. Butier<br>Senior Vice President and Chief Financial Officer | 39 | March 2007 | 2007-2010<br>2004-2006 | Vice President, Controller and Chief Accounting Officer<br>Vice President, Finance, Retail Information Services |
| Lori J. Bondar<br>Vice President, Controller and Chief Accounting Officer | 50 | June 2010 | 2008-2010<br>2005-2008<br>2004-2005 | Vice President, Controller<br>Consultant, Palomar Consulting Group[3]<br>Chief Financial Officer, Acetex Corporation[3] |
| Diane B. Dixon<br>Senior Vice President, Communications and Corporate Affairs | 59 | December 1985 | 1997-2000 | Vice President, Worldwide Communications and Advertising |
| Anne Hill<br>Senior Vice President and Chief Human Resources Officer | 51 | May 2007 | 2004-2006 | Vice President, Global Human Resources, Chiron Corporation[3] |
| Robert M. Malchione<br>Senior Vice President, Corporate Strategy and Technology | 53 | August 2000 | 2000-2001 | Senior Vice President, Corporate Strategy |
| Susan C. Miller<br>Senior Vice President, General Counsel and Secretary | 51 | March 2008 | 2008-2009<br>2007-2008<br>1998-2006 | Senior Vice President and General Counsel<br>Vice President and General Counsel<br>Assistant General Counsel |
| Karyn E. Rodriguez<br>Vice President and Treasurer | 51 | June 2001 | 1999-2001 | Assistant Treasurer, Corporate Finance and Investments |
| Timothy G. Bond<br>Group Vice President, Office Products | 53 | March 2008 | 2007-2008<br>2003-2006 | Vice President and General Manager, Office Products Group<br>Vice President and General Manager, Office Products North America |
| Timothy S. Clyde<br>Group Vice President, Specialty Materials and Converting | 48 | February 2001 | 2001-2007 | Group Vice President, Office Products |
| R. Shawn Neville<br>Group Vice President, Retail Information Services | 48 | June 2009 | 2008-2009<br>2004-2008 | Chief Executive Officer, Boathouse Sports[3]<br>President, Keds Division, Collective Brands, Inc.[3] |
| Donald A. Nolan<br>Group Vice President, Roll Materials | 50 | March 2008 | 2005-2007 | Senior Vice President, Global Packaging and Automotive Coatings, Valspar Corporation[3] |
| John M. Sallay<br>Senior Vice President, New Growth Platforms<br>Roll Materials | 54 | March 2009 | 2008-2009<br>2004-2007 | Senior Vice President, Strategy, Staples, Inc.[3]<br>Chief Executive Officer, Manifold Products[3] |

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

(2) Mr. Scarborough was initially elected Chairman, President and Chief Executive Officer effective April 22, 2010.

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

## Item 11. EXECUTIVE COMPENSATION.

The information called for by this Item is incorporated by reference from our 2011 Proxy Statement, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

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

The information called for by this Item is incorporated by reference from our 2011 Proxy Statement, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

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

The information called for by this Item is incorporated by reference from our 2011 Proxy Statement, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

## Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information called for by this Item is incorporated by reference from our 2011 Proxy Statement, which will be filed with the SEC 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 as such on the Exhibit Index.

(b) The Exhibits required to be filed by Item 601 of Regulation S-K, are set forth on the accompanying Exhibit Index attached hereto and are incorporated herein by reference.

(c) The financial statement schedules required by Regulation S-X, which are excluded from our 2010 Annual Report by Rule 14a-3(b)(1) and which are required to be filed as a financial statement schedule to this report, are set forth on the accompanying Index to Financial Statements and Financial Statement Schedule and are incorporated herein by reference.

## 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/ Mitchell R. Butier
Mitchell R. Butier
Senior Vice President and
Chief Financial Officer

Dated: February 25, 2011

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<br>Dean A. Scarborough | Chairman, President and Chief Executive Officer | February 25, 2011 |
| /s/ Mitchell R. Butier<br>Mitchell R. Butier | Senior Vice President and Chief Financial Officer (Principal Financial Officer) | February 25, 2011 |
| /s/ Lori J. Bondar<br>Lori J. Bondar | Vice President and Controller, and Chief Accounting Officer (Principal Accounting Officer) | February 25, 2011 |
| /s/ Bradley A. Alford<br>Bradley A. Alford | Director | February 25, 2011 |
| /s/ Peter K. Barker<br>Peter K. Barker | Director | February 25, 2011 |
| /s/ Rolf Börjesson<br>Rolf Börjesson | Director | February 25, 2011 |
| /s/ John T. Cardis<br>John T. Cardis | Director | February 25, 2011 |
| /s/ Ken C. Hicks<br>Ken C. Hicks | Director | February 25, 2011 |
| /s/ Peter W. Mullin<br>Peter W. Mullin | Director | February 25, 2011 |
| /s/ David E. I. Pyott<br>David E. I. Pyott | Director | February 25, 2011 |

| Signature | Title | Date |
| --- | --- | --- |
| /s/ Debra L. Reed<br>Debra L. Reed | Director | February 25, 2011 |
| /s/ Patrick T. Siewert<br>Patrick T. Siewert | Director | February 25, 2011 |
| /s/ Julia A. Stewart<br>Julia A. Stewart | Director | February 25, 2011 |

**AVERY DENNISON CORPORATION**

**INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE**

Data incorporated by reference from the attached portions of the 2010 Annual Report to Shareholders of Avery Dennison Corporation:


Consolidated Financial Statements:

Consolidated Balance Sheets at January 1, 2011 and January 2, 2010

Consolidated Statements of Operations for 2010, 2009 and 2008

Consolidated Statements of Shareholders' Equity for 2010, 2009 and 2008

Consolidated Statements of Cash Flows for 2010, 2009 and 2008

Notes to Consolidated Financial Statements

Statement of Management Responsibility for Financial Statements and Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm


The consolidated financial statements include the accounts of majority-owned subsidiaries. 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 above, and certain information referred to in Items 1, 5, 6, 7, and 7A of this report, the information for which is included in the Company's 2010 Annual Report to Shareholders and is incorporated herein by reference, the Company's 2010 Annual Report to Shareholders is not to be deemed "filed" as part of this report.

Data submitted herewith:


| | |
|---|---|
| Report of Independent Registered Public Accounting Firm on Financial Statement Schedule | S-2 |
| Schedule II — Valuation and Qualifying Accounts and Reserves | S-3 |
| Consent of Independent Registered Public Accounting Firm | S-4 |


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

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

To the Board of Directors
of Avery Dennison Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 25, 2011 appearing in the 2010 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 25, 2011

## 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(a) | Balance at End of Year |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Allowance for doubtful accounts | $ 41.3 | $ 6.7 | $ — | $ (9.1) | $ 38.9 |
| Allowance for sales returns | 14.9 | 9.6 | — | (12.0) | 12.5 |
| Inventory reserve | 65.4 | 17.5 | — | (23.7) | 59.2 |
| Valuation allowance for deferred tax assets | 115.4 | 2.5 | — | (2.3) | 115.6 |
| **2009** | | | | | |
| Allowance for doubtful accounts | $ 41.8 | $ 11.5 | $ .4 | $ (12.4) | $ 41.3 |
| Allowance for sales returns | 15.5 | 7.8 | .3 | (8.7) | 14.9 |
| Inventory reserve | 64.6 | 23.1 | 2.3 | (24.6) | 65.4 |
| Valuation allowance for deferred tax assets | 109.2 | 4.0 | — | 2.2 | 115.4 |
| **2008** | | | | | |
| Allowance for doubtful accounts | $ 45.8 | $ 10.1 | $ .4 | $ (14.5) | $ 41.8 |
| Allowance for sales returns | 18.4 | 7.6 | 1.3 | (11.8) | 15.5 |
| Inventory reserve | 77.3 | 21.2 | 4.0 | (37.9) | 64.6 |
| Valuation allowance for deferred tax assets | 147.6 | (45.3) | 9.6 | (2.7) | 109.2 |

(a) Deductions from reserves include currency translation adjustments.

**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, 333-147369, and 333-169954) and Form S-8 (File Nos. 33-54411, 33-58921, 33-63979, 333-38707, 333-38709, 333-107370, 33-107371, 333-107372, 333-109814, 333-124495, 333-143897, 333-152508, 333-166832, 333-166836, and 333-166837) of Avery Dennison Corporation of our report dated February 25, 2011 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Company's 2010 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 25, 2011 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Los Angeles, California
February 25, 2011

**AVERY DENNISON CORPORATION**

**EXHIBIT INDEX**
**For the Year Ended January 1, 2011**

**INCORPORATED BY REFERENCE:**

| Exhibit No. | Item | Originally Filed as Exhibit No. | Document(1) |
|---|---|---|---|
| (3.1) | Restated Certificate of Incorporation, as 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 |
| (3.1.1) | Certificate of Amendment to Restated Certificate of Incorporation, as filed April 23, 2010 with the Office of Delaware Secretary of State | 3.1.1 | Current Report on Form 8-K, filed April 27, 2010. |
| (3.2) | By-laws, as amended and restated on April 22, 2010 | 3.2.1 | Current Report on Form 8-K, filed April 27, 2010. |
| (4.2) | Indenture, dated as of March 15, 1991, between Registrant and Security Pacific National Bank, as Trustee (the “Indenture”) | | Registration Statement on Form S-3 (File No. 33-39491), filed March 19, 1991 |
| (4.2.2) | First Supplemental Indenture, dated as of March 16, 1993, between Registrant and BankAmerica National Trust Company, as successor Trustee (the “Supplemental Indenture”) | 4.4 | Registration Statement on Form S-3 (File No. 33-59642), filed March 17, 1993 |
| (4.2.5) | Officers’ Certificate establishing a series of Securities entitled “Medium-Term Notes, Series C” under the Indenture, as amended by the Supplemental Indenture | 4.7 | Current Report on Form 8-K, filed May 12, 1995 |
| (4.2.6) | Officers’ Certificate establishing a series of Securities entitled “Medium-Term Notes, Series D” under the Indenture, as amended by the Supplemental Indenture | 4.8 | Current Report on Form 8-K, filed December 16, 1996 |
| (4.3) | Indenture, dated July 3, 2001, between Registrant and J.P. Morgan Trust Company, National Association (successor to Chase Manhattan Bank and Trust Company, National Association), as trustee (“2001 Indenture”) | 4.1 | Registration Statement on Form S-3 (File No. 333-64558), filed July 3, 2001 |
| (4.3.1) | Officers’ Certificate establishing two series of Securities entitled “4.875% Notes due 2013” and “6.000% Notes due 2033,” respectively, each under the 2001 Indenture | 4.2 | Current Report on Form 8-K, filed January 16, 2003 |
| (4.3.2) | 4.875% Notes Due 2013 | 4.3 | Current Report on Form 8-K, filed January 16, 2003 |
| (4.3.3) | 6.000% Notes Due 2033 | 4.4 | Current Report on Form 8-K, filed January 16, 2003 |

| 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 NY, as Purchase Contract Agent, and Bank of NY 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 NY | 4.2 | Current Report on Form 8-K, filed November 20, 2007 |
| (4.9) | First Supplemental Indenture between Avery Dennison and Bank of NY, 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 |
| (4.14) | Second Supplemental Indenture between Avery Dennison and The Bank of NYTrust Company, as Trustee, dated as of April 13, 2010 | 4.2 | Current Report on Form 8-K, filed April 13, 2010 |
| (4.15) | Form of 5.375% Senior Notes due 2020 | 4.3 | Current Report on Form 8-K, filed April 13, 2010 |
| (4.16) | Remarketing Agreement between Avery Dennison and the Remarketing Agent named therein, dated as of September 27, 2010 | 1.1 | Current Report on Form 8-K, filed November 15, 2010 |
| (10.1) | Avery Dennison Office Products Company ("ADOPC") Credit Agreement, amended and restated, dated August 7, 2008 | 10.2 | Second Quarterly Report for 2008 on Form 10-Q, filed August 7, 2008 |
| (10.1.1) | ADOPC Second Amendment to Credit Agreement | 99.3 | Current Report on Form 8-K, filed January 27, 2009 |
| (10.2) | Revolving Credit Agreement ("RCA"), amended and restated, August 10, 2007 | 10.2.2 | Third Quarterly Report for 2007 on Form 10-Q, filed November 7, 2007 |

| Exhibit No. | Item | Originally Filed as Exhibit No. | Document(1) |
|---|---|---|---|
| (10.2.1) | Second Amendment to First Amended and Restated RCA | 99.4 | Current Report on Form 8-K, filed January 27, 2009 |
| (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 |
| (10.8.3) | *Form of Employment Agreement | 10.8.4 | First Quarterly Report for 2004 on Form 10-Q, filed May 6, 2004 |
| (10.8.3.1) | *Forms of Employment Agreement | 10.8.3.1 | Current Report on Form 8-K, filed December 11, 2008 |
| (10.8.3.2) | *Forms of Amendment to Employment Agreement | 10.8.3.2 | Current Report on Form 8-K, filed December 11, 2008 |
| (10.8.3.2a) | *Form of Amendment to Employment Agreement | 10.8.3.2 | Second Quarterly Report for 2009 on Form 10-Q, filed August 12, 2009 |
| (10.8.3.3) | *Form of Second Amendment to Employment Agreement | 10.8.3.3 | Second Quarterly Report for 2009 on Form 10-Q, filed August 12, 2009 |
| (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 |
| (10.8.4.1) | *Amendment to Retention Agreement | 10.8.4.1 | Second Quarterly Report for 2009 on Form 10-Q, filed August 12, 2009 |
| (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 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 | Second Quarterly Report for 2009 on Form 10-Q, filed August 12, 2009 |
| (10.11.2) | *Letter of Grant to D.A. Scarborough under SERP | 10.11.2.1 | Second Quarterly Report for 2009 on Form 10-Q, filed August 12, 2009 |
| (10.11.2.1) | *Letter Agreement with D.A. Scarborough regarding SERP benefits | 10.11.2.1 | Current Report on Form 8-K, filed December 15, 2010 |
| (10.11.4) | *Letter of Grant to D.R. O'Bryant under SERP | 10.11.4.1 | Second Quarterly Report for 2009 on Form 10-Q, filed August 12, 2009 |
| (10.11.4.1) | *Letter Agreement with D.R. O'Bryant regarding SERP benefits | 10.11.4.1 | Current Report on Form 8-K, filed December 15, 2010 |
| (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 |

| Exhibit No. | Item | Originally Filed as Exhibit No. | Document(1) |
|---|---|---|---|
| (10.15) | *Director Equity Plan, amended and restated ("Director Plan") | 10.15.1 | Current Report on Form 8-K, filed December 11, 2008 |
| (10.15.1) | *Form of Non-Employee Director Stock Option Agreement under Director Plan | 10.15.1 | 2003 Annual Report on Form 10-K, filed March 11, 2004 |
| (10.16) | *Complete Restatement and Amendment of Executive Variable Deferred Compensation Plan ("EVDCP") | 10.16 | 1994 Annual Report on Form 10-K, filed March 30, 1995 |
| (10.16.1) | *Amendment No. 1 to EVDCP | 10.16.1 | 1999 Annual Report on Form 10-K, filed March 30, 2000 |
| (10.17) | *Complete Restatement and Amendment of Directors Deferred Compensation Plan | 10.17 | 1994 Annual Report on Form 10-K, filed March 30, 1995 |
| (10.18) | *Complete Restatement and Amendment of Directors Variable Deferred Compensation Plan ("DVDCP") | 10.18 | 1994 Annual Report on Form 10-K, filed March 30, 1995 |
| (10.18.1) | *Amendment No. 1 to DVDCP | 10.18.1 | 1999 Annual Report on Form 10-K, filed March 30, 2000 |
| (10.18.2) | *2005 Directors Variable Deferred Compensation Plan, amended and restated ("2005 DVDCP") | 10.18.2 | First Quarterly Report for 2010 on Form 10-Q, filed May 12, 2010 |
| (10.19) | *Stock Option and Incentive Plan, amended and restated ("Stock Plan") | 10.19.8 | Current Report on Form 8-K, filed December 11, 2008 |
| (10.19.1) | *Forms of NQSO Agreement under Stock Plan | 10.19.5 | 2007 Annual Report on Form 10-K, filed February 27, 2008 |
| (10.19.2) | *Forms of Restricted Stock Agreement under Stock Plan | 10.19.8 | First Quarterly Report for 2005 on Form 10-Q, filed May 12, 2005 |
| (10.19.3) | *Forms of Restricted Stock Unit Agreement under Stock Plan | 10.19.2 | Current Report on Form 8-K, filed December 13, 2006 |
| (10.19.4) | *Forms of Equity Awards under Stock Plan | 10.19.6 | Current Report on Form 8-K, filed April 30, 2008 |
| (10.19.5) | *Forms of Equity Awards under Stock Plan | 10.19.6 | Second Quarterly Report for 2008 on Form 10-Q, filed May 8, 2008 |
| (10.19.6) | *Forms of Equity Agreements under Stock Plan | 10.19.9 | Current Report on Form 8-K, filed December 11, 2008 |
| (10.19.7) | *Additional Forms of Equity Agreements under Stock Plan | 10.19.10 | Current Report on Form 8-K/A, filed December 11, 2008 |
| (10.19.8) | *Form of Performance Unit Agreement | 10.19.8 | 2008 Annual Report on Form 10-K, filed February 25, 2009 |
| (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 |

| Exhibit No. | Item | Originally Filed as Exhibit No. | Document(1) |
|---|---|---|---|
| (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, amended and restated | 10.31.2 | First Quarterly Report for 2010 on Form 10-Q, filed May 12, 2010 |
| (10.32) | *Benefits Restoration Plan, amended and restated (“BRP”) | 10.32.1 | Current Report on Form 8-K/A, filed December 11, 2008 |
| (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 |
| (10.34.2) | *Amendment No. 1 to CAP | 10.34.2 | 1999 Annual Report on Form 10-K, filed March 30, 2000 |
| (10.35) | *Key Executive Change of Control Severance Plan | 10.35 | Current Report on Form 8-K, filed December 9, 2009 |
| (10.36) | *Executive Severance Plan | 10.36 | Current Report on Form 8-K, filed December 9, 2009 |
| (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 for Officers and Directors | C | 2010 Proxy Statement on Schedule 14A, filed March 19, 2010 |

(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.

**SUBMITTED HEREWITH:**

| Exhibit No. | Item |
|---|---|
| 3.1 | Restated Certification of Incorporation, as filed August 2, 2002 with the Office of Delaware Secretary of State, is incorporated by reference to the Third Quarterly Report for 2002 on Form 10-Q, filed November 12, 2002 |
| 3.1.1 | Certificate of Amendment to Restated Certificate of Incorporation, as filed April 23, 2010 with the Office of Delaware Secretary of State, is incorporated by reference to the Current Report on Form 8-K, filed April 27, 2010 |
| 3.2 | By-laws, as amended and restated, is incorporated by reference to the Current Report on Form 8-K, filed April 27, 2010 |
| 10.1 | Avery Dennison Office Products Company ("ADOPC") Credit Agreement, amended and restated, is incorporated by reference to the Second Quarterly Report for 2008 on Form 10-Q, filed August 7, 2008 |
| 10.1.1 | ADOPC Second Amendment to Credit Agreement is incorporated by reference to the current report on Form 8-K, filed January 27, 2009 |
| 10.2 | Revolving Credit Agreement ("RCA"), amended and restated, is incorporated by reference to the Third Quarterly Report for 2007 on Form 10-Q, filed November 7, 2007 |
| 10.2.1 | Second Amendment to First Amended and Restated RCA is incorporated by reference to the current report on Form 8-K, filed January 27, 2009 |
| 10.32.1 | *First Amendment to Benefit Restoration Plan |
| 12 | Computation of Ratio of Earnings to Fixed Changes |
| 13 | Portions of Annual Report to Shareholders for fiscal year ended January 1, 2011 |
| 21 | List of Subsidiaries |
| 23 | Consent of Independent Registered Public Accounting Firm (see page S-4) |
| 24 | Power of Attorney |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101INS | **XBRL Instance Document |
| 101SCH | **XBRL Extension Schema Document |
| 101CAL | **XBRL Extension Calculation Linkbase Document |
| 101LAB | **XBRL Extension Label Linkbase Document |
| 101PRE | **XBRL Extension Presentation Linkbase Document |

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

** Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as may be expressly set forth by specific reference in such filings.

## STATEMENT AND AGREEMENT REGARDING LONG-TERM DEBT OF REGISTRANT

Unless indicated above, Registrant has no instrument with respect to long-term debt under which securities authorized thereunder equals 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.

Exhibit 10.32.1

**FIRST AMENDMENT TO
THE BENEFIT RESTORATION PLAN
OF AVERY DENNISON CORPORATION
(Amended and Restated Effective
As of December 4, 2008)**

Avery Dennison Corporation, a Delaware corporation, (the "Company") adopted the Benefit Restoration Plan of Avery Dennison Corporation (the "Plan"), effective as of December 1, 1994 (the "Effective Date"), for the benefit of its eligible employees. The Plan has been amended from time to time, and most recently amended by the December 4, 2008 Amendment and Restatement of the Plan (the " 2008 Restatement"). The Plan constitutes an unfunded "excess benefit plan" within the meaning of Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended (" ERISA"). The Plan is maintained primarily for the purpose of providing deferred Compensation for a select group of management or highly compensated employees, within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1).

In order to freeze the Plan so that no Plan Participant shall accrue any additional Benefit under the Plan after December 31, 2010, this First Amendment to the 2008 Restatement has been adopted by the Company, effective as of the dates set forth below. This Amendment, together with the 2008 Restatement, constitutes the entire Plan as amended to date.

1. Effective as of November 30, 2008, all references to the "Dennison Retirement Plan" in the Plan shall change to the "Avery Dennison Pension Plan."

2. Effective as of the opening of business on January 1, 2011, the definition of "Benefit" set forth in Article I of the Plan is hereby amended by adding the following at the end thereof:

No additional Benefit shall accrue under Article IV of the Plan after December 31, 2010.

3. Effective as of the opening of business on January 1, 2011, the definition of "Benefit Service" set forth in Article I of the Plan is hereby amended by adding the following at the end thereof:

Notwithstanding the foregoing, no Participant shall be credited with any Benefit Service after December 31, 2010.

4. Effective as of the opening of business on January 1, 2011, the definition of "Compensation — Unrestricted" set forth in Article I of the Plan is hereby amended by adding the following at the end thereof:

Notwithstanding the foregoing, "Compensation — Unrestricted" shall not include (i) amounts earned for periods after the last payroll period ending in 2010 and (ii) bonuses earned for service in 2010 but paid after 2010. However, if a Participant has a severance from employment before January 1, 2011, his Compensation —

Unrestricted shall include amounts paid to him within 30 days after the date of his severance from employment.

5. Effective as of the opening of business on January 1, 2011, the definition of "Qualified Benefit" set forth in Article I of the Plan is hereby amended by adding the following at the end thereof:

No Qualified Benefit shall accrue after December 31, 2010.

6. Effective as of the opening of business on January 1, 2011, the definition of "Qualified Benefit — Unrestricted" set forth in Article I of the Plan is hereby amended by adding the following at the end thereof:

No Qualified Benefit — Unrestricted shall accrue after December 31, 2010.

7. Effective as of November 30, 2008, the definition of "Qualified Plan" set forth in Article I of the Plan is hereby amended to read in its entirety as follows:

**"Qualified Plan"** shall mean the Associate Plan, a component plan under the Avery Dennison Pension Plan set forth in Appendix B thereof, as it may be amended from time to time, or any successor plan. The Avery Dennison Pension Plan is a qualified employer plan as defined under Treasury Regulations Section 1.409A-1(a)(2).

8. Effective as of November 30, 2008, the definition of the "Retirement Plan" set forth in Article I is hereby deleted in its entirety.

9. Effective as of the opening of business on January 1, 2011, the definition of "Vested Benefit" set forth in Article I is hereby amended by adding the following sentence at the end thereof:

Participants shall continue to accrue "years of vesting service" under the Qualified Plan after December 31, 2010.

10. Effective as of the opening of business on January 1, 2011, Section 2.1 of the Plan is hereby amended by adding the following at the end thereof:

All current Participants on December 31, 2010 shall be on inactive status and shall cease to accrue additional Benefits after such date. No Employee shall become a Participant after December 31, 2010.

11. Effective as of November 30, 2008, Section 4.1(a)(i)a.1. is hereby amended to read in its entirety as follows:

1. his Qualified Benefit (using the "Formula Amount" under Supplement B of the Associate Plan) and

12. Effective as of the opening of business on January 1, 2011, Section 4.1(c) is hereby added to the Plan to read in its entirety as follows:

(c) Notwithstanding the foregoing, no Benefit shall accrue under the Plan for any Participant after December 31, 2010.

13. Effective as of the opening of business on January 1, 2011, the following new paragraph is hereby added to the end of Appendix A to the Plan to read in its entirety as follows:

No Employee shall participate in the Plan or accrue a Benefit under the Plan after December 31, 2010.

*************************

Executed at Pasadena, California, this 16th day of December, 2010.

**AVERY DENNISON CORPORATION**

By /s/ Dean A. Scarborough

Dean A. Scarborough
Chairman, President and Chief Executive Officer

**Exhibit 12**

**AVERY DENNISON CORPORATION AND SUBSIDIARIES**
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**
(Dollars in millions)

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Earnings: | | | |
| Income (loss) before taxes | $ 351.3 | $ (790.9) | $ 270.6 |
| Add: Fixed charges [1] | 115.2 | 124.5 | 158.9 |
| Amortization of capitalized interest | 3.4 | 3.3 | 3.2 |
| Less: Capitalized interest | (3.9) | (4.2) | (6.2) |
| | $ 466.0 | $ (667.3) | $ 426.5 |
| Fixed charges: [1] | | | |
| Interest expense | $ 76.6 | $ 85.3 | $ 115.9 |
| Capitalized interest | 3.9 | 4.2 | 6.2 |
| Interest portion of leases | 34.7 | 35.0 | 36.8 |
| | $ 115.2 | $ 124.5 | $ 158.9 |
| Ratio of Earnings to Fixed Charges [2] | 4.0 | — | 2.7 |

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

(2) For the year ended January 2, 2010, the Company's earnings were not sufficient to cover fixed charges by $791.8. The loss primarily reflected the non-cash goodwill and other indefinite-lived intangible asset impairment charges of $832 and loss on extinguishment of debt of approximately $21 recorded in the first quarter of 2009, and legal settlements of $41 recorded in 2009.

## 2010 Annual Report — Businesses at a Glance

| | Segment | Segment | Segment | |
|---|---|---|---|---|
| | **Pressure-sensitive Materials** | **Retail Information Services** | **Office and Consumer Products** | **Other specialty converting businesses** |
| **BUSINESSES** | Roll Materials<br>Graphics and Reflective Products | Information and Brand Management<br>Printer Systems<br>Fastener | Office Products | Specialty Tape<br>Radio Frequency Identification (RFID)<br>Industrial and Automotive Products<br>Performance Films<br>Business Media<br>Security Printing<br>Medical Products |
| **SALES (in millions)** | $3,640 | $1,522 | $815 | $536 |
| **PERCENT OF TOTAL SALES** | 56% | 23% | 13% | 8% |
| **GLOBAL BRANDS** | Fasson®, Avery Graphics™, Avery Dennison® | Avery Dennison®, Monarch® | Avery® | Avery Dennison® |
| **PRODUCTS** | Pressure-sensitive roll materials, flexible packaging, roll-fed sleeve, water- and solvent-based performance polymer adhesives and engineered films, graphic imaging media, reflective materials | Graphic tags and labels, variable data tags and labels, woven and printed fabric labels, patches and specialty trim, packaging, radio frequency identification (RFID) tags, designer trim collections, printer systems, solution-enabling products such as fastening and application devices | Self-adhesive labels, binders, sheet protectors, dividers, online templates and printing, writing instruments, T-shirt transfers, do-it-yourself card products | Specialty tapes, skin-contact medical adhesives, surgical, wound care and ostomy products, industrial adhesives, automotive paint protection and exterior films, heat seal, security and information labels, functional packaging labels, architectural and engineered films, point-of-purchase and display tags, metallized pigments, self-adhesive postage stamps, RFID inlays and durable tags |
| **MARKET SEGMENTS** | Food, beverage, spirits, household products, pharmaceuticals, health and beauty, durables, fleet, vehicle/automotive, architectural/retail, promotional/advertising, traffic, safety, transportation original equipment manufacturing | Retail apparel, manufacturing apparel, mass market retailers, retail hard goods and supply chains, food service and supply chains, logistics, pharmaceuticals, automotive | Professional, personal and on-the-go organization and identification, education | Automotive, consumer, medical and healthcare, retail apparel, electronics, durable goods, architectural, graphic arts, general industrial, building and construction, logistics, retail point-of-purchase, security printing |
| **CUSTOMERS** | Global label converters, consumer product brands, package designers, packaging engineers and manufacturers, industrial manufacturers, printers, distributors, designers, advertising agencies, government agencies, sign manufacturers, graphic vendors | Apparel brands and retailers, apparel manufacturers, consumer goods manufacturers, restaurant and food service chains, grocery and drug store chains, automotive manufacturers | Office products superstores, major retailers, distributors, wholesalers, office professionals, school administrators, small business owners, consumers | Industrial and original equipment manufacturers, medical products and device manufacturers, clinicians and nurses, converters, packagers, consumer products companies |

**SAFE HARBOR STATEMENT**

The matters discussed in this Annual Report contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, may contain estimates, assumptions, projections and/or expectations regarding future events, which may or may not occur. Words such as "aim," "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "guidance," "intend," "may," "might," "objective," "plan," "potential," "project," "seek," "shall," "should," "target," "will," "would," or variations thereof and other expressions, which refer to future events and trends, identify forward-looking statements. These 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 risks and uncertainties are discussed in more detail in Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended January 1, 2011, and include, but are not limited to, risks and uncertainties relating to: investment in development activities and new production facilities; fluctuations in cost and availability of raw materials; ability of the Company to achieve and sustain targeted cost reductions; ability of the Company to generate sustained productivity improvement; successful integration of acquisitions; successful implementation of new manufacturing technologies and installation of manufacturing equipment; disruptions in information technology systems; successful installation of new or upgraded information technology systems; the financial condition and inventory strategies of customers; customer and supplier concentrations; changes in customer order patterns; loss of significant contract(s) or customer(s); timely development and market acceptance of new products; fluctuations in demand affecting sales to customers; collection of receivables from customers; impact of competitive products and pricing; selling prices; business mix shift; volatility of capital and credit markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; ability of the Company to obtain adequate financing arrangements and to maintain access to capital; fluctuations in interest and tax rates; fluctuations in pension, insurance and employee benefit costs; impact of legal proceedings; changes in tax laws and regulations; changes in governmental regulations; changes in political conditions; fluctuations in foreign currency exchange rates and other risks associated with foreign operations; worldwide and local economic conditions; impact of epidemiological events on the economy and the Company's customers, suppliers and employees; acts of war, terrorism, and natural disasters; and other factors.

The Company believes that the most significant risk factors that could affect its financial performance in the near-term include: (1) the degree to which higher costs can be offset with productivity measures and/or passed on to customers through selling price increases, without a significant loss of volume; (2) the impact of competitors' actions, including pricing, expansion in key market segments, and product offerings; (3) the impact of economic conditions on underlying demand for the Company's products; and (4) the impact of changes in tax laws and regulations throughout the world.

The Company's forward-looking statements represent judgment only on the dates such statements were made. By making these 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.

# Five-year Summary

| (Dollars in millions, except % and per share amounts) | 5-Year Compound Growth Rate | 2010 Dollars | 2010 % | 2009(1) Dollars | 2009(1) % | 2008 Dollars | 2008 % | 2007 Dollars | 2007 % | 2006 Dollars | 2006 % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **For the Year** | | | | | | | | | | | |
| Net sales | 3.5% | $ 6,512.7 | 100.0 | $ 5,952.7 | 100.0 | $ 6,710.4 | 100.0 | $ 6,307.8 | 100.0 | $ 5,575.9 | 100.0 |
| Gross profit | 4.3 | 1,826.0 | 28.0 | 1,586.5 | 26.7 | 1,727.0 | 25.7 | 1,722.4 | 27.3 | 1,538.0 | 27.6 |
| Marketing, general and administrative expense | 6.8 | 1,370.4 | 21.0 | 1,268.8 | 21.3 | 1,304.3 | 19.4 | 1,182.5 | 18.7 | 1,011.1 | 18.1 |
| Goodwill and indefinite-lived intangible asset impairment charges | N/A | – | – | 832.0 | 14.0 | – | – | – | – | – | – |
| Interest expense | 5.8 | 76.6 | 1.2 | 85.3 | 1.4 | 115.9 | 1.7 | 105.2 | 1.7 | 55.5 | 1.0 |
| Other expense, net(2) | (15.3) | 27.7 | .4 | 191.3 | 3.2 | 36.2 | .5 | 59.4 | .9 | 36.2 | .6 |
| Income (loss) from continuing operations before taxes | (.9) | 351.3 | 5.4 | (790.9) | (13.3) | 270.6 | 4.0 | 375.3 | 5.9 | 435.2 | 7.8 |
| Provision for (benefit from) income taxes | (14.5) | 34.4 | .5 | (44.2) | (.7) | 4.5 | .1 | 71.8 | 1.1 | 76.7 | 1.4 |
| Income (loss) from continuing operations | 1.6 | 316.9 | 4.9 | (746.7) | (12.5) | 266.1 | 4.0 | 303.5 | 4.8 | 358.5 | 6.4 |
| Income from discontinued operations, net of tax(3) | N/A | – | N/A | – | N/A | – | N/A | – | N/A | 14.7 | N/A |
| Net income (loss) | 6.9 | 316.9 | 4.9 | (746.7) | (12.5) | 266.1 | 4.0 | 303.5 | 4.8 | 373.2 | 6.7 |

| | 5-Year Compound Growth Rate | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| **Per Share Information** | | | | | | |
| Income (loss) per common share from continuing operations | .5% | $ 3.00 | $ (7.21) | $ 2.70 | $ 3.09 | $ 3.59 |
| Income (loss) per common share from continuing operations, assuming dilution | .4 | 2.97 | (7.21) | 2.70 | 3.07 | 3.57 |
| Net income (loss) per common share | 5.7 | 3.00 | (7.21) | 2.70 | 3.09 | 3.74 |
| Net income (loss) per common share, assuming dilution | 5.6 | 2.97 | (7.21) | 2.70 | 3.07 | 3.72 |
| Dividends per common share | (12.2) | .80 | 1.22 | 1.64 | 1.61 | 1.57 |
| Weighted-average common shares outstanding (in millions) | 1.1 | 105.8 | 103.6 | 98.4 | 98.1 | 99.8 |
| Weighted-average common shares outstanding, assuming dilution (in millions) | 1.2 | 106.8 | 103.6 | 98.7 | 98.9 | 100.4 |
| Book value per share at fiscal year end | .5 | $ 15.61 | $ 12.94 | $ 17.78 | $ 20.22 | $ 17.26 |
| Market price per share at fiscal year end | (5.2) | 42.34 | 36.49 | 31.53 | 53.41 | 67.93 |
| Market price per share range | | 30.79 to 42.49 | 17.26 to 40.02 | 25.02 to 53.14 | 49.69 to 69.67 | 55.09 to 69.11 |
| **At End of Year** | | | | | | |
| Working capital (deficit) | | $ 120.1 | $ (134.5) | $ (127.6) | $ (419.3) | $ (12.1) |
| Property, plant and equipment, net | | 1,262.9 | 1,354.7 | 1,493.0 | 1,591.4 | 1,309.4 |
| Total assets | | 5,099.4 | 5,002.8 | 6,035.7 | 6,244.8 | 4,324.9 |
| Long-term debt | | 956.2 | 1,088.7 | 1,544.8 | 1,145.0 | 501.6 |
| Total debt | | 1,337.2 | 1,624.3 | 2,209.8 | 2,255.8 | 968.0 |
| Shareholders' equity | | 1,645.7 | 1,362.6 | 1,750.0 | 1,989.4 | 1,696.2 |
| Number of employees | | 32,100 | 31,300 | 35,700 | 37,300 | 22,700 |
| **Other Information** | | | | | | |
| Depreciation expense(4) | | $ 172.9 | $ 187.6 | $ 204.6 | $ 184.1 | $ 153.8 |
| Research and development expense(4) | | 95.6 | 90.7 | 94.0 | 95.5 | 87.9 |
| Effective tax rate(4) | | 9.8% | 5.6% | 1.7% | 19.1% | 17.6% |
| Return on average shareholders' equity | | 21.6 | (55.7) | 13.1 | 16.5 | 22.7 |
| Return on average total capital | | 12.8 | (20.6) | 8.8 | 10.6 | 15.7 |

(1) Results for 2009 reflected a 53-week period.

(2) Included pretax charges for restructuring costs, asset impairment charges, lease cancellation costs, and other items.

(3) Results for 2006 included a tax benefit of $14.9 due to capital losses arising from the sale of discontinued operations and a pretax gain on the sale of discontinued operations of $1.3.

(4) 2006 amounts are related to continuing operations.

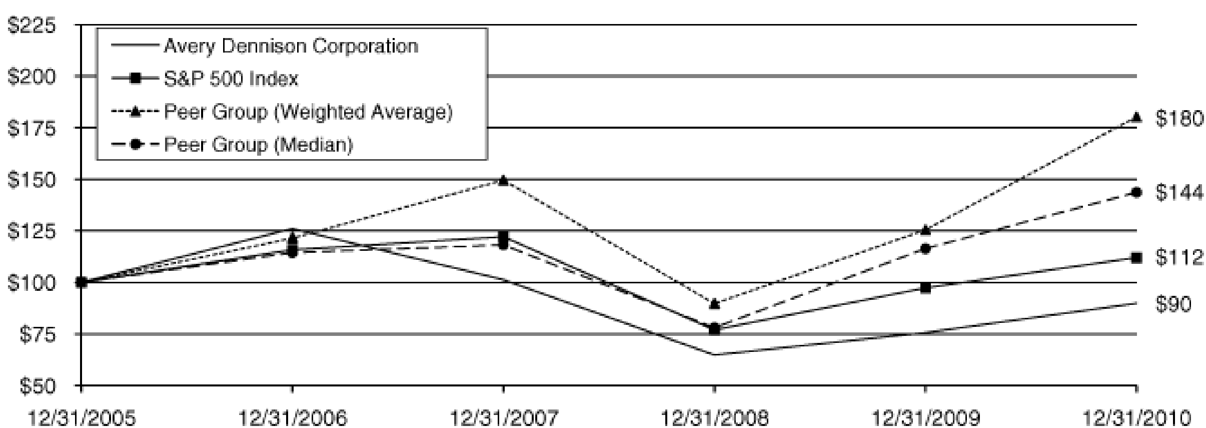
**Stockholder Return Performance**

The following graph compares the Company's cumulative stockholder return on its common stock, including the reinvestment of dividends, with the return on the Standard & Poor's 500 Stock Index (the "S&P 500 Index") and the average return, weighted by market capitalization, of the peer group set forth below ("Peer Group") for the five-year period ending December 31, 2010. The Company has also included the median return of the Peer Group in the graph as an additional comparison.

The Peer Group consists of 50 publicly-traded U.S. companies selected on the basis of market diversity, international focus and investment, market volatility, and product line mix. The selection of the Peer Group was based on the recommendation of Mercer, an independent executive compensation consultant.

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

**Comparison of Five-Year Cumulative Total Return**
**As of December 31, 2010**




**Total Return Analysis**(1)

| | 12/31/2005 | 12/31/2006 | 12/31/2007 | 12/31/2008 | 12/31/2009 | 12/31/2010 |
|---|---|---|---|---|---|---|
| Avery Dennison Corporation | $ 100.00 | $ 126.08 | $ 101.28 | $ 64.83 | $ 75.67 | $ 89.82 |
| S&P 500 Index | $ 100.00 | $ 115.78 | $122.14 | $ 76.96 | $ 97.33 | $112.01 |
| Peer Group (Weighted Average)(2) | $ 100.00 | $121.42 | $ 149.60 | $ 89.70 | $125.47 | $180.25 |
| Peer Group (Median) | $ 100.00 | $ 114.44 | $ 118.18 | $ 78.01 | $116.41 | $ 143.64 |

(1) Assumes $100 invested on December 31, 2005, and the reinvestment of dividends; chart reflects performance on a calendar year basis.

(2) Weighted average is weighted by market capitalization.

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

# Management’s Discussion and Analysis
## of Results of Operations and Financial Condition

### ORGANIZATION OF INFORMATION

Management’s Discussion and Analysis of Results of Operations and Financial Condition narratively expresses our view of our financial performance and condition and should be read in conjunction with the accompanying financial statements. It includes the following sections:


| | |
|---|---|
| Non-GAAP Financial Measures | 4 |
| Forward-looking Statements | 4 |
| Overview and Outlook | 4 |
| Analysis of Results of Operations | 6 |
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| Recent Accounting Requirements | 17 |
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### NON-GAAP FINANCIAL MEASURES

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, or GAAP. Our discussion of financial results includes several non-GAAP financial measures to provide additional information concerning our operating performance and liquidity measures. These non-GAAP financial measures are not in accordance with, nor are they a substitute for, the comparable GAAP financial measures. These non-GAAP financial measures are intended to supplement our presentation of our financial results that are prepared in accordance with GAAP. Based upon feedback from our investors and financial analysis, we believe that supplemental non-GAAP financial measures provide information that is useful to the assessment of our performance and operating trends, as well as liquidity.

Non-GAAP financial measures 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 financial measures, may make it difficult to assess our underlying performance in a single period. By excluding certain accounting effects, both positive and negative, from certain of our GAAP financial measures, we believe that we are providing meaningful supplemental information to facilitate an understanding of our core or underlying operating results and liquidity measures. These non-GAAP financial 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. While some of the items we exclude from GAAP financial measures recur, these items tend to be disparate in amount and timing.

We use the following non-GAAP financial measures:

- *Organic sales growth (decline)* refers to the change in sales excluding the estimated impact of currency translation, acquisitions and divestitures and the extra week in fiscal year 2009.
- *Free cash flow* refers to cash flow from operations, less net payments for property, plant, equipment, software and other deferred charges, plus net proceeds from sale (purchase) of investments. Free cash flow excludes mandatory debt service requirements and other uses of cash that do not directly or immediately support the underlying business (such as discretionary debt reductions, dividends, share repurchases, acquisitions, etc.).
- *Operational working capital* refers to trade accounts receivable and inventories, net of accounts payable. This non-GAAP financial measure excludes cash and cash equivalents, short-term debt, deferred taxes, other current assets and other current liabilities, as well as current assets and current liabilities of held-for-sale businesses.
- *Net debt to EBITDA ratio* refers to total debt less cash and cash equivalents, divided by earnings before interest, taxes, depreciation and amortization (“EBITDA”).

### FORWARD-LOOKING STATEMENTS

Certain statements contained in this discussion are “forward-looking statements” and are subject to certain risks and uncertainties. Refer to our “Safe Harbor Statement” at the beginning of this report.

### OVERVIEW AND OUTLOOK

**Overview**

*Fiscal Year*

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

*Sales*

Our sales from operations increased 9% in 2010 compared to a decline of 11% in 2009. The increase in 2010 resulted from increased global demand, reflecting improvement from the weak market conditions experienced in 2009.

| Estimated change in sales due to: | 2010 | 2009 | 2008 |
|---|---|---|---|
| Organic sales growth (decline) | 10% | (9)% | (3)% |
| Extra week in fiscal year | (1) | 1 | – |
| Foreign currency translation | 1 | (4) | 3 |
| Acquisitions, net of divestitures | – | – | 7 |
| Reported sales growth (decline)[1] | 9% | (11)% | 6% |

(1) Totals may not sum due to rounding.

*Net Income (Loss)*

In 2010, we had net income of approximately $317 million, compared to a net loss of approximately $747 million in 2009.

Factors affecting changes in net income in 2010 compared to 2009 included:

Positive factors:

- No impairment of goodwill and indefinite-lived intangible assets, which impacted results in the prior year
- Higher volume
- Cost savings from productivity improvement initiatives, including savings from restructuring actions
- Lower restructuring, asset impairment, and lease cancellation charges related to cost reduction actions
- Lower net legal settlement costs
- Lower loss on debt extinguishment

Negative factors:

- Higher raw material costs
- Higher tax expense

- Higher employee-related costs
- Higher investments in growth and infrastructure
- Impact of changes in customer programs in the Office and Consumer Products segment

**Cost Reduction Actions**

*Q3 2010 — Q4 2010 Actions*

In the second half of 2010, we recorded approximately $10 million in pretax charges, consisting of severance and related costs for the reduction of approximately 725 positions, asset impairment charges, and lease cancellation costs. We anticipate approximately $12 million in annualized savings from these restructuring actions to be realized by the end of 2012.

*Q4 2008 — Q2 2010 Program*

In the fourth quarter of 2008, we initiated a restructuring program that generated approximately $180 million in annualized savings. We realized actual savings, net of transition costs, of approximately $75 million in 2009 and an incremental $72 million in 2010. We expect the remainder of the savings to be realized in 2011.

We recorded approximately $150 million in pretax charges (of which $105 million represents cash charges) related to this restructuring program, consisting of severance and related costs, asset impairment charges, and lease cancellation costs. Of the total charges, approximately $12 million was recorded in 2008, $129 million was recorded in 2009, and $9 million was recorded in 2010. Severance and related costs were related to approximately 4,350 positions. We do not expect to incur any further charges related to this program.

*Q1 2008 — Q3 2008 Actions*

During the first three quarters of 2008, we implemented cost reduction actions resulting in pretax charges of $22.8 million, including severance and related costs for approximately 775 positions, asset impairment charges, and lease cancellation costs. We achieved annualized savings of approximately $20 million (most of which benefited 2009) as a result of these actions.

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

**Free Cash Flow**

We use free cash flow as a measure of funds available for other corporate purposes, such as dividends, debt reduction, acquisitions, and repurchases of common stock. We believe that this measure provides meaningful supplemental information to our investors to assist them in their financial analysis of the Company.

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Net cash provided by operating activities | $ 486.7 | $ 569.0 | $ 539.7 |
| Purchase of property, plant and equipment, net | (83.5) | (69.7) | (118.4) |
| Purchase of software and other deferred charges | (25.1) | (30.6) | (63.1) |
| Proceeds from sale (purchase) of investments, net[1] | .8 | (.5) | 17.2 |
| Free cash flow | $ 378.9 | $ 468.2 | $ 375.4 |

(1) Net proceeds from sale (purchase) of investments relate to net sales/purchases of securities held by our captive insurance company in 2010, 2009 and 2008, and sales of other investments in 2010 and 2008.

Free cash flow in 2010 reflected higher income from operations, the amount and timing of payments for inventory purchases, and improved accounts receivable collection efforts, as well as lower spending on software and other deferred charges. These factors were more than offset by higher accounts receivable and inventory levels due to the increase in sales, payments of severance and other costs related to various restructuring programs, bonuses and trade rebates, as well as higher net spending on property, plant, and equipment.

Free cash flow in 2009 reflected improved inventory management and collection of trade accounts receivables, as well as lower spending on property, plant and equipment, software and other deferred charges, partially offset by lower income from operations.

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

**Outlook**

Certain factors that we believe may contribute to results for 2011 compared to results for 2010 are listed below.

We expect revenue and earnings to increase in 2011, the extent to which is subject, but not limited, to the amount of higher costs, principally due to expected raw materials inflation, that can be offset with productivity measures and/or price increases and changes in global economic conditions.

We expect a reduction in ongoing retirement plan expenses and contributions to our pension plans (domestic and international) of approximately $50 million in 2011.

We anticipate restructuring cash charges to be approximately $20 million.

We anticipate 2011 interest expense to be comparable to 2010. Our assumptions on interest expense are subject to changes in market rates through the remainder of the year.

Our annual effective tax rate may be impacted by future events including changes in tax laws, geographic income mix, repatriation of cash, tax audits, closure of tax years, legal entity restructuring, and changes in valuation allowances on deferred tax assets. Our 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 increased investments in marketing, research and development, and infrastructure.

We anticipate our capital and software expenditures to be approximately $175 million.

## ANALYSIS OF RESULTS OF OPERATIONS

**Income (Loss) Before Taxes:**

| (In millions) | | 2010 | | 2009 | | 2008 |
|---|---|---|---|---|---|---|
| Net sales | $ | 6,512.7 | $ | 5,952.7 | $ | 6,710.4 |
| Cost of products sold | | 4,686.7 | | 4,366.2 | | 4,983.4 |
| Gross profit | | 1,826.0 | | 1,586.5 | | 1,727.0 |
| Marketing, general and administrative expense | | 1,370.4 | | 1,268.8 | | 1,304.3 |
| Goodwill and indefinite-lived intangible asset impairment charges | | – | | 832.0 | | – |
| Interest expense | | 76.6 | | 85.3 | | 115.9 |
| Other expense, net | | 27.7 | | 191.3 | | 36.2 |
| Income (loss) before taxes | $ | 351.3 | $ | (790.9) | $ | 270.6 |

| As a Percent of Sales: | % | % | % |
|---|---|---|---|
| Gross profit margin | 28.0 | 26.7 | 25.7 |
| Marketing, general and administrative expense | 21.0 | 21.3 | 19.4 |
| Income (loss) before taxes | 5.4 | (13.3) | 4.0 |

**Sales**

Sales increased 9% in 2010 and decreased 11% in 2009.

The increase in 2010 reflected higher sales on an organic basis and the favorable impact of foreign currency translation (approximately $27 million), partially offset by the estimated impact of the extra week in the first quarter of 2009. On an organic basis, the sales growth in 2010 reflected higher volume driven by increased demand across all major regions, led by double-digit growth in the Pressure-sensitive Materials and Retail Information Services segments.

The decrease in 2009 reflected lower sales on an organic basis, partially offset by incremental sales from the DM Label Group ("DM Label") acquisition (approximately $9 million) and the estimated impact of the extra week in the first quarter of 2009. In addition, foreign currency translation had an unfavorable impact on the change in sales of approximately $269 million. On an organic basis, sales declined 9% in 2009, as deterioration in market conditions contributed to volume declines, partially offset by the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008.

**Gross Profit Margin**

Gross profit margin in 2010 improved compared to 2009, reflecting increased volume and the benefits from restructuring and productivity initiatives. These benefits were partially offset by raw material inflation, higher employee costs, and the impact of changes in customer programs in the Office and Consumer Products segment.

Gross profit margin in 2009 improved compared to 2008, primarily due to benefits from restructuring and productivity improvement initiatives, the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008, and lower raw material and energy costs. These benefits were partially offset by reduced fixed-cost leverage due to lower volume, unfavorable segment mix, and higher employee costs.

**Marketing, General and Administrative Expense**

The increase in marketing, general and administrative expense in 2010 compared to 2009 primarily reflected higher employee-related costs, higher investments in growth and infrastructure, and lower spending in 2009 due to adverse global economic conditions. These increases were partially offset by savings from restructuring and productivity initiatives.

Marketing, general and administrative expense in 2009 decreased from 2008 as cost reductions consistent with a recessionary environment, benefits from restructuring and productivity initiatives, and the impact of foreign currency translation (approximately $40 million) were partially offset by higher employee costs, investment in growth initiatives, and the estimated impact of the extra week in 2009.

**Interest Expense**

Interest expense decreased 10%, or approximately $9 million, in 2010, and 26%, or approximately $31 million, in 2009, due to retirements and repayments of certain indebtedness and lower interest rates on short-term borrowings.

**Other Expense, net**

| (In millions, pretax) | | 2010 | | 2009 | | 2008 |
|---|---|---|---|---|---|---|
| Restructuring costs | $ | 15.3 | $ | 86.8 | $ | 29.8 |
| Asset impairment and lease cancellation charges | | 3.7 | | 42.3 | | 10.9 |
| Other items | | 8.7 | | 62.2 | | (4.5) |
| Other expense, net | $ | 27.7 | $ | 191.3 | $ | 36.2 |

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

In 2010, other items in "Other expense, net" included:

- Loss from curtailment and settlement of pension obligations ($4.3 million)
- Loss from debt extinguishment ($4 million)
- Net legal settlement costs ($.9 million)
- Gain on sale of investment ($.5 million)

In 2009, other items in "Other expense, net" included:

- Legal settlement costs ($41 million)
- Loss from debt extinguishment ($21.2 million)

For more information regarding the debt extinguishment, refer to "Financial Condition" below, and Note 4, "Debt," to the Consolidated Financial

Statements. For more information regarding the legal settlement costs, refer to Note 8, “Contingencies,” to the Consolidated Financial Statements.

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

**Net Income (Loss) and Earnings per Share:**

| (In millions, except per share amounts) | | 2010 | | 2009 | | 2008 |
|---|---|---|---|---|---|---|
| Income (loss) before taxes | $ | 351.3 | $ | (790.9) | $ | 270.6 |
| Provision for (benefit from) income taxes | | 34.4 | | (44.2) | | 4.5 |
| Net income (loss) | $ | 316.9 | $ | (746.7) | $ | 266.1 |
| Net income (loss) per common share | $ | 3.00 | $ | (7.21) | $ | 2.70 |
| Net income (loss) per common share, assuming dilution | $ | 2.97 | $ | (7.21) | $ | 2.70 |
| Net income (loss) as a percent of sales | | 4.9% | | (12.5)% | | 4.0% |
| Effective tax rate | | 9.8% | | 5.6% | | 1.7% |

**Provision for (Benefit from) Income Taxes**
The effective tax rate was approximately 10% for 2010 compared to approximately 6% for 2009. The 2010 effective tax rate reflected $45.5 million of benefit from net operating losses resulting from the local statutory write down of certain investments in Europe and a $17.7 million net benefit from releases and accruals of certain tax reserves.

The effective tax rate was approximately 6% for 2009 compared to approximately 2% for 2008. The 2009 effective tax rate was most significantly influenced by the non-cash goodwill and indefinite-lived intangible asset impairment charges, as these expenses were largely not tax deductible, and from one-time benefits from tax planning actions, partially offset by increases to our tax reserves.

Refer to Note 11, "Taxes on Income," to the Consolidated Financial Statements for more information.

## RESULTS OF OPERATIONS BY SEGMENT

*Operating income (loss)* refers to income (loss) before interest and taxes.

**Pressure-sensitive Materials Segment**

| (In millions) | | 2010 | | 2009 | | 2008 |
|---|---|---|---|---|---|---|
| Net sales including intersegment sales | $ | 3,796.8 | $ | 3,447.1 | $ | 3,816.3 |
| Less intersegment sales | | (157.0) | | (147.1) | | (172.5) |
| Net sales | $ | 3,639.8 | $ | 3,300.0 | $ | 3,643.8 |
| Operating income(1) | | 317.8 | | 184.7 | | 257.2 |
| (1) Included restructuring costs and asset impairment charges for all years presented, loss from curtailment of domestic pension obligations in 2010, and lease cancellation costs in 2009 and 2008 | $ | 6.9 | $ | 75.3 | $ | 12.6 |

*Net Sales*
Sales in our Pressure-sensitive Materials segment increased 10% in 2010 and decreased 9% in 2009.

In 2010, the increase reflected sales growth on an organic basis and the favorable impact of foreign currency translation (approximately $17 million), partially offset by the estimated impact of the extra week in the first quarter of 2009. On an organic basis, sales grew 11% in 2010, reflecting higher volume driven by increased demand.

On an organic basis, sales in our roll materials business in 2010 increased at a low-double digit rate compared to 2009, reflecting growth in all of our geographic regions.

On an organic basis, sales in our graphics and reflective business increased at a high-single digit rate, reflecting increased promotional spending by customers and our new product launches.

In 2009, the decrease in reported sales reflected lower sales on an organic basis and the unfavorable impact of foreign currency translation (approximately $186 million), partially offset by the estimated impact of the extra week in the first quarter of 2009. On an organic basis, sales declined 6% in 2009 primarily due to declines in volume, partially offset by the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008.

On an organic basis, sales in our roll materials business in 2009 declined at a high single-digit rate in Europe, a mid single-digit rate (excluding intercompany sales) in North America, and a low single-digit rate in Latin America, reflecting weakness in end markets. These declines were partially offset by mid-single digit growth in Asia. On an organic basis, sales in our emerging markets (Asia, Latin America, and Eastern Europe) remained flat in 2009 compared to 2008.

On an organic basis, sales in our graphics and reflective business in 2009 declined at a mid-teen rate, reflecting lower promotional spending by businesses in response to weak market conditions.

*Operating Income*
Increased operating income in 2010 reflected higher volume, lower net legal settlement costs, cost savings from restructuring and productivity improvement initiatives, the benefits from pricing, and lower restructuring and asset impairment charges, partially offset by raw material inflation, higher employee-related costs, and higher investments in growth and infrastructure.

Decreased operating income in 2009 reflected lower volume, legal settlement costs, the unfavorable impact of currency translation, higher restructuring, asset impairment, and lease cancellation charges, and higher employee costs. These factors were partially offset by the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008, cost savings from restructuring and productivity improvement initiatives, and lower raw material and energy costs.

**Retail Information Services Segment**

| (In millions) | | 2010 | | 2009 | | 2008 |
|---|---|---|---|---|---|---|
| Net sales including intersegment sales | $ | 1,523.7 | $ | 1,322.5 | $ | 1,549.3 |
| Less intersegment sales | | (2.0) | | (1.6) | | (2.1) |
| Net sales | $ | 1,521.7 | $ | 1,320.9 | $ | 1,547.2 |
| Operating income (loss)(1)(2) | | 65.0 | | (899.0) | | 13.5 |
| (1) Included restructuring costs, asset impairment charges, and lease cancellation costs in all years presented, and loss from curtailment of domestic pension obligations and net legal settlement costs in 2010 | $ | 5.8 | $ | 51.6 | $ | 12.2 |
| (2) Included goodwill and indefinite-lived intangible asset impairment charges in 2009 and transition costs associated with acquisition integrations in 2008 | $ | – | $ | 832.0 | $ | 24.1 |

*Net Sales*

Sales in our Retail Information Services segment increased 15% in 2010 and decreased 15% in 2009.

In 2010, sales on reported and organic bases increased 15% compared to 2009, as the favorable impact of foreign currency translation

(approximately $7 million) was offset by the estimated impact of the extra week in the first quarter of 2009. The sales growth reflected increased demand due in part to significant inventory reductions by apparel retailers during 2009, as well as new programs with key brands and retailers.

In 2009, the decrease in reported sales reflected lower sales on an organic basis and the unfavorable impact of foreign currency translation (approximately $46 million), partially offset by the estimated impact of the extra week in the first quarter of 2009 and incremental sales from the DM Label acquisition (approximately $9 million). On an organic basis, sales declined 14% in 2009 due primarily to lower volume from weakness in the apparel markets in the U.S. and Europe, and tighter inventory controls by retailers and brands.

*Operating Income (Loss)*

Increased operating income in 2010 primarily reflected the absence of the goodwill and indefinite-lived intangible asset impairment charges recorded in the prior year. Operating income also increased due to the benefits of higher volume, cost savings from restructuring and productivity improvement initiatives, and lower restructuring, asset impairment charges and lease cancellation costs, partially offset by higher employee-related costs.

Operating loss in 2009 reflected goodwill and indefinite-lived intangible asset impairment charges, lower volume, higher restructuring, asset impairment and lease cancellation charges, changes in pricing, and higher employee costs. These factors were partially offset by incremental savings from integration actions and the benefit of restructuring and productivity improvement initiatives, along with reduced transition costs associated with acquisition integrations in 2009.

**Office and Consumer Products Segment**

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Net sales including intersegment sales | $ 816.0 | $ 850.0 | $ 937.0 |
| Less intersegment sales | (.8) | (.7) | (1.2) |
| Net sales | $ 815.2 | $ 849.3 | $ 935.8 |
| Operating income[1] | 91.5 | 118.1 | 145.7 |
| (1) Included restructuring costs in all years presented, asset impairment charges in 2009 and 2008, and loss from curtailment and settlement of pension obligations and lease cancellation costs in 2010 | $ 8.4 | $ 14.0 | $ 12.7 |

*Net Sales*

Sales in our Office and Consumer Products segment decreased 4% in 2010 and 9% in 2009.

Sales in our Office and Consumer Products segment on a reported and organic basis decreased 4% in 2010 compared to 2009, as the estimated impact of the extra week in the first quarter of 2009 offset the favorable impact of foreign currency translation (approximately $5 million). On an organic basis, the sales decline in 2010 reflected continued weak end-market demand, increased competition in the label category, and changes in customer programs.

In 2009, the decrease in reported sales reflected lower sales on an organic basis and the unfavorable impact of foreign currency translation (approximately $22 million), partially offset by the estimated impact of the extra week in the first quarter of 2009. On an organic basis, sales declined 8% in 2009 due primarily to lower volume from weak end market demand led by slower corporate purchasing activity, partially offset by strong back-to-school sales and the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008.

*Operating Income*

Decreased operating income in 2010 reflected higher investment in demand creation, innovation, and consumer promotions and marketing, changes in customer programs, and raw material inflation, partially offset by benefits from restructuring and productivity improvement initiatives and lower restructuring and asset impairment charges.

Decreased operating income in 2009 reflected the impact of lower volume, higher employee costs, and increased marketing and product development spending, partially offset by cost savings from restructuring and productivity improvement initiatives and the effect of changes in pricing to offset the cumulative impact of inflation experienced in 2008.

**Other specialty converting businesses**

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Net sales including intersegment sales | $ 566.7 | $ 498.3 | $ 609.9 |
| Less intersegment sales | (30.7) | (15.8) | (26.3) |
| Net sales | $ 536.0 | $ 482.5 | $ 583.6 |
| Operating income (loss)[1] | 4.8 | (44.1) | 5.2 |
| (1) Included restructuring costs and asset impairment charges for all years presented and loss from curtailment of domestic pension obligations in 2010 | $ 3.1 | $ 29.2 | $ 3.2 |

*Net Sales*

Sales in our other specialty converting businesses increased 11% in 2010 and decreased 18% in 2009.

Sales in our other specialty converting businesses increased 11% in 2010 compared to 2009, due primarily to the increase in sales on an organic basis, partially offset by the unfavorable impact of foreign currency translation (approximately $2 million) and the estimated impact of the extra week in the first quarter of 2009. On an organic basis, sales grew 12% in 2010, reflecting increased demand for products for automotive applications, which was down sharply in 2009.

In 2009, the decrease in reported sales reflected lower sales on an organic basis and the unfavorable impact of foreign currency translation (approximately $15 million), partially offset by the estimated impact of the extra week in the first quarter of 2009. On an organic basis, sales declined 16% in 2009, primarily reflecting lower volume in products sold to the automotive, housing, and construction industries.

*Operating Income (Loss)*

Operating income for these businesses in 2010 reflected lower restructuring and asset impairment charges, higher volume, and the benefits from restructuring and productivity improvement initiatives, partially offset by raw material inflation and higher employee-related costs.

Operating loss for these businesses in 2009 reflected lower volume and higher restructuring and asset impairment charges, partially offset by the benefit of restructuring and productivity improvement initiatives.

## FINANCIAL CONDITION

### Liquidity

**Cash Flow from Operating Activities:**

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Net income (loss) | $ 316.9 | $ (746.7) | $ 266.1 |
| Depreciation and amortization | 247.6 | 267.3 | 278.4 |
| Provision for doubtful accounts | 16.3 | 19.3 | 17.7 |
| Goodwill and indefinite-lived intangible asset impairment charges | – | 832.0 | – |
| Asset impairment and net loss on sale and disposal of assets | 5.1 | 48.0 | 16.8 |
| Loss from debt extinguishments | 4.0 | 21.2 | – |
| Stock-based compensation | 35.2 | 25.8 | 29.0 |
| Other non-cash expense and loss | 43.6 | 22.0 | 11.3 |
| Other non-cash income and gain | (.5) | (8.7) | (12.4) |
| Trade accounts receivable | (87.6) | 95.7 | 57.7 |
| Inventories | (35.6) | 133.3 | 16.5 |
| Other current assets | (39.8) | 40.6 | (30.0) |
| Accounts payable | 76.5 | (14.5) | 3.4 |
| Accrued liabilities | 30.0 | (37.9) | (19.2) |
| Income taxes (deferred and accrued) | (60.2) | (90.7) | (79.9) |
| Other assets | (12.2) | 2.3 | 20.8 |
| Long-term retirement benefits and other liabilities | (52.6) | (40.0) | (36.5) |
| Net cash provided by operating activities | $ 486.7 | $ 569.0 | $ 539.7 |

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

In 2010, cash flow provided by operating activities reflected higher income from operations, the amount and timing of payments for inventory purchases, and improved accounts receivable collection efforts. These factors were more than offset by higher accounts receivable and inventory levels due to the increase in sales, and payments of severance and other costs related to various restructuring programs, bonuses and trade rebates.

In 2009, cash flow provided by operating activities reflected improved inventory management and collection of trade accounts receivable, partially offset by lower income from operations.

**Cash Flow from Investing Activities:**

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Purchase of property, plant and equipment, net | $ (83.5) | $ (69.7) | $ (118.4) |
| Purchase of software and other deferred charges | (25.1) | (30.6) | (63.1) |
| Payments for acquisitions | – | – | (131.2) |
| Proceeds from sale (purchase) of investments, net | .8 | (.5) | 17.2 |
| Other | – | (5.0) | 2.0 |
| Net cash used in investing activities | $ (107.8) | $ (105.8) | $ (293.5) |

*Capital and Software Spending*

In 2010 and 2009, we invested in various capital projects companywide.

Information technology investments in 2010 and 2009 included customer service and standardization initiatives.

*Payments for acquisitions*

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

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

*Proceeds from Sale (Purchase) of Investments, net*

In 2008, net proceeds from sale (purchase) of investments consisted of the sale of securities primarily held by our captive insurance company.

**Cash Flow from Financing Activities:**

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Net change in borrowings and payments of debt | $ (189.8) | $ (300.6) | $ (40.7) |
| Dividends paid | (88.7) | (134.9) | (175.0) |
| Purchase of treasury stock | (108.7) | – | (9.8) |
| Proceeds from exercise of stock options, net | 2.5 | .6 | 2.7 |
| Other | (6.8) | 2.2 | 14.3 |
| Net cash used in financing activities | $ (391.5) | $ (432.7) | $ (208.5) |

*Borrowings and Repayment of Debt*

Short-term variable rate domestic borrowings from commercial paper issuances were approximately $298 million at year end 2010 (weighted-average interest rate of .4%), compared to approximately $415 million at year end 2009 (weighted-average interest rate of .2%).

At year end 2010, our borrowings outstanding under foreign short-term lines of credit were approximately $82 million (weighted-average interest rate of 10.6%), compared to approximately $60 million at year end 2009 (weighted-average interest rate of 12.8%).

The decrease in outstanding commercial paper reflects positive cash flow from improved operating income, partially offset by share repurchases

during the fourth quarter of 2010. Refer to "Share Repurchases" below for more information.

We had medium-term notes of $50 million outstanding at both year end 2010 and 2009.

In March 2009, we completed an exchange of approximately 6.6 million units (or 75.15%) of our HiMEDS units. We issued approximately 6.5 million shares of our common stock and paid approximately $43 million in cash for the exchanged HiMEDS units with a carrying value of approximately $331 million. As a result of this exchange, we recorded a debt extinguishment loss of approximately $21 million (included in "Other expense, net" in the Consolidated Statements of Operations) in the first quarter of 2009, which included a write-off of $9.6 million related to unamortized debt issuance costs. In November 2010, we completed the remarketing of our remaining HiMEDS senior notes in accordance with the original terms of the HiMEDS units by purchasing approximately $109 million of these senior notes. In aggregate, this remarketing resulted in the extinguishment of approximately $109 million of senior notes and the issuance of approximately 2.1 million shares of our common stock. As a result of this remarketing, we recorded a debt extinguishment loss of $2.8 million (included in "Other expense, net" in the Consolidated Statements' of Operations), which consisted of a write-off related to unamortized debt issuance costs.

In January 2009, one of our subsidiaries entered into an amendment to a credit agreement for a $400 million term loan credit facility ("Credit Facility") with certain domestic and foreign banks, which we guaranteed. Financing available under the Credit Facility was permitted to be used for working capital and other general corporate purposes. The amendment increased our flexibility for a specified period of time in complying with the financial covenants to which the Credit Facility is subject and excluded certain restructuring charges from the calculation of the financial ratios under those covenants. The amendment also increased the annual interest rate of the Credit Facility. In April 2010, we issued $250 million of senior notes bearing an interest rate of 5.375% per year, due April 2020. Approximately $248 million in proceeds from the offering, net of underwriting discounts and offering expenses, were used, together with commercial paper borrowings, to repay the $325 million in indebtedness outstanding under the Credit Facility in May 2010. In the second quarter of 2010, we recorded a debt extinguishment loss of $1.2 million related to unamortized debt issuance costs from the Credit Facility.

Refer to Note 4, "Debt," to the Consolidated Financial Statements for more information.

Refer to "Capital Resources" below for further information on the 2010 and 2009 borrowings and repayment of debt.

*Dividend Payments*

In July 2009, we reduced our quarterly dividend per share of $.41 to $.20, resulting in an annual dividend per share of $.80 in 2010 compared to $1.22 in 2009.

Subsequent to the end of 2010, on February 2, 2011, we announced a first quarter 2011 dividend of $.25 per share, which represents a 25% increase from our previous dividend of $.20 per share.

*Share Repurchases*

The Board of Directors authorizes share repurchases of our outstanding common stock. Repurchased shares may be reissued under our stock option and incentive plans or used for other corporate purposes. We repurchased approximately 2.7 million shares totaling $108.7 million during the fourth quarter of 2010 to offset the impact of dilution on earnings per share associated with the issuance of approximately 2.1 million shares of our common stock as a result of the remarketing of our remaining HiMEDS senior notes in November 2010. Additionally, in December 2010, we executed the repurchase of approximately .3 million shares for $13.5 million which settled in January 2011. As of January 1, 2011, approximately 1.2 million shares were available for repurchase under the Board of Directors' October 2006 authorization.

Subsequent to the end of 2010, on January 27, 2011, the Board of Directors authorized us to repurchase an additional five million shares of our stock.

**Analysis of Selected Balance Sheet Accounts**

*Long-lived Assets*

Goodwill decreased approximately $10 million during 2010, which primarily reflected the impact of foreign currency translation.

Other intangibles resulting from business acquisitions, net, decreased approximately $33 million during 2010, which primarily reflected current year amortization expense.

Refer to Note 3, "Goodwill and Other Intangibles Resulting from Business Acquisitions," to the Consolidated Financial Statements for more information.

Other assets decreased approximately $16 million during 2010, which reflected amortization expense of software and other deferred charges ($38 million), a decrease in long-term pension assets ($6 million), a reclassification of a third-party loan receivable to short-term receivables ($5 million), the write-off of unamortized debt issuance costs associated with the remarketing of the HiMEDS units, net of additional financing costs, related to the issuance of senior notes discussed in "Borrowings and Repayment of Debt" ($2 million), and the impact of foreign currency translation ($2 million). These decreases were partially offset by purchases of software and other deferred charges ($25 million) and an increase in the cash surrender value of our corporate-owned life insurance ($12 million).

*Shareholders' Equity Accounts*

Our shareholders' equity was $1.65 billion at year end 2010, compared to $1.36 billion at year end 2009. The increase in our shareholders' equity was primarily due to higher net income, a decrease in dividend payments and recognition of current year stock-based compensation expense.

The value of our Employee Stock Benefit Trust ("ESBT") decreased approximately $170 million in 2010 due primarily to the release of approximately 4.3 million common shares from the ESBT, resulting from the settlement of our employee benefit obligations ($163 million). These shares were included as "Treasury stock at cost" in the Consolidated Balance Sheet. The decrease was also attributable to the issuance of shares under our incentive plans and our defined contribution plan ($22 million), partially offset by an increase in the market value of shares held in the trust ($15 million).

Accumulated other comprehensive loss decreased by approximately $2 million during 2010 due primarily to the impact of foreign currency translation ($18 million) and lower net loss on derivative instruments designated as cash flow and firm commitment hedges ($2 million). These decreases were partially offset by the current year amortization of net pension transition obligations, prior service cost, and net actuarial losses in our pension and other postretirement plans ($18 million). Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for more information.

**Impact of Foreign Currency Translation:**

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Change in net sales | $ 27 | $ (269) | $ 168 |
| Change in net income | (3) | (6) | 8 |

In 2010, international operations generated approximately 68% of our net sales. Our future results are subject to changes in political and economic conditions in the regions in which we operate and the impact of fluctuations in foreign currency exchange and interest rates.

The effect of currency translation on sales in 2010 primarily reflected a positive impact from sales in the currencies of Australia, Brazil, Canada and South Korea, partially offset by a negative impact from sales denominated in euros.

Translation gains and losses for operations in hyperinflationary economies, if any, 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 2010, 2009 and 2008, we had no operations in hyperinflationary economies.

**Effect of Foreign Currency Transactions**
The impact on net income from transactions denominated in foreign currencies may be mitigated because the costs of our products are generally denominated in the same currencies in which they are sold. In addition, to reduce our income and cash flow exposure to transactions in foreign currencies, we may enter into foreign exchange forward, option and swap contracts, where available and appropriate.

**Analysis of Selected Financial Ratios**
We utilize certain financial ratios to assess our financial condition and operating performance, as discussed below.

*Operational Working Capital Ratio*
Working capital (deficit) (current assets minus current liabilities) as a percent of net sales increased in 2010 due to a decrease in short-term and the current portion of long-term debt, as well as an increase in net accounts receivable, net inventory, and current deferred tax assets, partially offset by an increase in accounts payable.

Operational working capital, as a percent of net sales, is a non-GAAP financial measure and is reconciled with working capital below. We use this non-GAAP financial measure as a tool to assess our working capital requirements because it excludes the impact of fluctuations attributable to our financing and other activities (that affect cash and cash equivalents, deferred taxes, 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 "Non-GAAP Financial Measures." Our objective is to minimize our investment in operational working capital, as a percentage of sales, by reducing this ratio to maximize cash flow and return on investment.

**Operational Working Capital:**

| (In millions) | | 2010 | | 2009 |
|---|---|---|---|---|
| (A) Working capital (deficit) (current assets minus current liabilities) | $ | 120.1 | $ | (134.5) |
| Reconciling items: | | | | |
| Cash and cash equivalents | | (127.5) | | (138.1) |
| Current deferred and refundable income taxes and other current assets | | (308.4) | | (199.2) |
| Short-term and current portion of long-term debt | | 381.0 | | 535.6 |
| Current deferred and payable income taxes and other current accrued liabilities | | 702.6 | | 642.3 |
| (B) Operational working capital | $ | 767.8 | $ | 706.1 |
| (C) Net sales | $ | 6,512.7 | $ | 5,850.8(1) |
| Working capital (deficit), as a percent of net sales (A) ÷ (C) | | 1.8% | | (2.3)% |
| Operational working capital, as a percent of net sales (B) ÷ (C) | | 11.8% | | 12.1% |

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

As a percent of net sales, operational working capital in 2010 decreased compared to 2009. The primary factors contributing to this change, which includes the impact of foreign currency translation, are discussed below.

*Accounts Receivable Ratio*
The average number of days sales outstanding was 57 days in 2010 compared to 59 days in 2009, calculated using a four-quarter average accounts receivable balance divided by the average daily sales for the year. The change from prior year in the average number of days sales outstanding primarily reflected improvement in collection efforts.

*Inventory Ratio*
Average inventory turnover was 8.6 in 2010 compared to 8.4 in 2009, calculated using the annual cost of sales divided by a four-quarter average inventory balance. The change from prior year in the average inventory turnover reflected a continued focus on improvements in inventory management.

*Accounts Payable Ratio*
The average number of days payable outstanding was 58 days in 2010 compared to 53 days in 2009, calculated using a four-quarter average accounts payable balance divided by the average daily cost of products sold for the year. The change from prior year in the average number of days payable outstanding was primarily due to the amount and timing of inventory purchases and timing of payments to vendors.

*Net Debt to EBITDA Ratio*

| (Dollars in millions) | | 2010 | | 2009 | | 2008 |
|---|---|---|---|---|---|---|
| Net income (loss) | $ | 316.9 | $ | (746.7) | $ | 266.1 |
| Reconciling items: | | | | | | |
| Interest expense | | 76.6 | | 85.3 | | 115.9 |
| Provision for (benefit from) income taxes | | 34.4 | | (44.2) | | 4.5 |
| Depreciation | | 172.9 | | 187.6 | | 204.6 |
| Amortization | | 74.7 | | 79.7 | | 73.8 |
| EBITDA | $ | 675.5 | $ | (438.3) | $ | 664.9 |
| Total debt | $ | 1,337.2 | $ | 1,624.3 | $ | 2,209.8 |
| Less cash and cash equivalents | | (127.5) | | (138.1) | | (105.5) |
| Net debt | $ | 1,209.7 | $ | 1,486.2 | $ | 2,104.3 |
| Net debt to EBITDA ratio | | 1.8 | | n/m(1) | | 3.2 |

(1) The net debt to EBITDA ratio was not meaningful for 2009 as EBITDA was negative. EBITDA in 2009 included $832 in charges related to the impairment of goodwill and indefinite-lived intangibles.

We believe that the net debt to EBITDA ratio is a meaningful measurement because investors view it as an indicator of our leverage position.
In 2010, the net debt to EBITDA ratio improved compared to 2009 primarily due to the impact of goodwill and indefinite-lived intangible asset impairment charges recorded in the prior year, repayment of debt, and an increase in operating income.

*Financial Covenants*
Our various loan agreements in effect at year end require that we maintain specified financial covenant ratios on total debt and interest expense in

relation to certain measures of income. As of January 1, 2011, we were in compliance with these financial covenants. In January 2009, we amended the covenants included in the revolving credit agreement and term loan agreement to exclude certain restructuring charges and adjust covenant levels. The adjusted covenant levels changed quarterly and reverted back to the pre-amendment levels during 2010. The amendments also resulted in increased pricing levels for borrowings under both agreements through the end of their respective terms. Refer to Note 4, "Debt," to the Consolidated Financial Statements for further information.

The fair value of our long-term debt is estimated primarily based on the credit spread above U.S. Treasury securities on notes with similar rates, credit rating, and remaining maturities. At year end, the fair value of our total debt, including short-term borrowings, was $1.39 billion in 2010 and $1.60 billion in 2009. Fair value amounts were determined primarily based on Level 2 inputs, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable. Refer to Note 1, "Summary of Significant Accounting Policies" to the Consolidated Financial Statements for further information.

**Capital Resources**

Capital resources include cash flows from operations, cash and cash equivalents and debt financing. At year end 2010, we had cash and cash equivalents of approximately $128 million held in accounts at third-party financial institutions.

Our $1 billion revolving credit facility, which supports our commercial paper programs in the U.S. and Europe, matures in 2012. Based upon our current outlook for our business and market conditions, we believe that this facility, in addition to the uncommitted bank lines of credit maintained in the countries in which we operate, will provide the liquidity to fund our operations during 2011.

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

*Capital from Debt*

Our total debt decreased by approximately $287 million in 2010 to $1.34 billion compared to $1.62 billion at year end 2009, reflecting a decrease in long-term borrowings, as well as a decrease in commercial paper borrowings. Refer to "Borrowings and Repayment of Debt" above for more information.

We have $1.2 million of debt maturities due in 2011.

We had standby letters of credit outstanding of $41.1 million and $52.5 million at the end of 2010 and 2009, respectively. The aggregate contract amount of outstanding standby letters of credit approximated fair value.

Our uncommitted lines of credit were approximately $407 million at year end 2010 and may be cancelled by the banks or us at any time.

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

**Contractual Obligations, Commitments and Off-Balance Sheet Arrangements**

Contractual Obligations at End of Year 2010:

| | | Payments Due by Period | | | | | |
|---|---|---|---|---|---|---|---|
| (In millions) | Total | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
| Short-term lines of credit | $ 379.8 | $ 379.8 | $ – | $ – | $ – | $ – | $ – |
| Long-term debt | 949.2 | .1 | – | 250.0 | – | 5.0 | 694.1 |
| Long-term capital leases | 8.2 | 1.1 | 2.3 | 2.0 | 1.6 | .6 | .6 |
| Interest on long-term debt(1) | 503.2 | 54.6 | 54.6 | 42.9 | 42.4 | 42.4 | 266.3 |
| Operating leases | 244.2 | 66.1 | 52.2 | 36.8 | 23.1 | 17.5 | 48.5 |
| Pension and postretirement benefit payments (unfunded plans) | 56.7 | 4.5 | 4.3 | 3.8 | 4.0 | 4.0 | 36.1 |
| Total contractual obligations | $2,141.3 | $506.2 | $113.4 | $ 335.5 | $71.1 | $ 69.5 | $1,045.6 |

(1) Interest on floating rate debt was estimated using the index rate in effect as of January 1, 2011.

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

The table above does not include:

- Purchase obligations or open purchase orders at year end. It is impracticable for us to either obtain such information or provide a reasonable estimate due to the decentralized nature of our purchasing systems. In addition, purchase orders are generally at fair value and are cancelable without penalty.
- Cash funding requirements for pension benefits payable to certain eligible current and future retirees under our funded plans — Benefits paid by our funded pension plans are paid through a trust or trust equivalent. Cash funding requirements for our funded plans, which can be significantly impacted by earnings on investments, the discount rate, changes in the plans, and funding laws and regulations, are not included in this table as we are not able to estimate required contributions to the trust or trust equivalent. Refer to Note 6, "Pension and Other Postretirement Benefits," to the Consolidated Financial Statements for expected contributions to our plans.

- Unfunded termination indemnity benefits to certain employees outside of the U.S. — These benefits are subject to applicable agreements, local laws and regulations. We have not incurred significant costs related to performance under these types of arrangements.
- Unrecognized tax benefit reserves of approximately $154 million, of which approximately $14 million may become payable during 2011. The resolution of the balance, including the timing of payments, is contingent upon various unknown factors and cannot be reasonably estimated. Refer to Note 11, "Taxes Based on Income," to the Consolidated Financial Statements for further information on unrecognized tax benefits.
- Obligations associated with the headquarters and research center for our roll materials division (the "Facility"), located in Mentor, Ohio — We completed the lease financing for the Facility, which consists generally of land, buildings, equipment and office furnishings, on September 9, 2005. We have leased the Facility under an operating lease arrangement, which contains a residual value guarantee of $33.4 million.

**Legal Proceedings**

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 us, UPM-Kymenne Corporation ("UPM") and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, with allegations including that the defendants attempted to limit competition among themselves through anticompetitive understandings. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for the City and County of San Francisco on March 30, 2004. On September 30, 2004, the Harman Press amended its complaint to add Bemis Company Inc.'s subsidiary Morgan Adhesives Company ("MACtac") as a defendant. On January 21, 2005, American International Distribution Corporation filed a purported class action on behalf of indirect purchasers in the Superior Court for Chittenden County, Vermont. Similar actions were filed by Richard Wrobel, on February 16, 2005, in the District Court of Johnson County, Kansas; and by Chad and Terry Muzzey, on February 16, 2005 in the District Court of Scotts Bluff County, Nebraska. On February 17, 2005, Judy Benson filed a purported multi-state class action on behalf of indirect purchasers in the Circuit Court for Cocke County, Tennessee. Without admitting liability, we agreed to pay plaintiffs $2 million to resolve all claims related to the purported state class actions in the states of Kansas, Nebraska, Tennessee and Vermont. Those settlements were approved by the Tennessee court on March 12, 2010 and the complaints in those state actions were dismissed with prejudice. We recorded $2 million in the third quarter of 2009 in respect of the settlement of those claims, and made that payment on December 28, 2009. Also, without admitting liability, we paid $2.5 million on July 15, 2010 to resolve all claims in the California action. On December 8, 2010, the California court granted final approval of the settlement and dismissed all claims against us with prejudice. In respect of settlement of this claim, we recorded $.7 million in the fourth quarter of 2009 and $.3 million and $1.5 million in the first and second quarters of 2010, respectively.

We and our subsidiaries are involved in various other lawsuits, claims, inquiries, and other regulatory and compliance matters, which are either routine to the nature of our business, or, based upon current information, if determined to be adverse for us, are not expected to have a material effect on our financial condition, results of operations and cash flows.

**Environmental Matters**

As of January 1, 2011, we have been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at fourteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of our liability has been agreed. We are participating with other PRPs at such sites and anticipate that our share of cleanup costs will be determined pursuant to remediation agreements 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 where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites and any sites that could be identified in the future for cleanup could be higher than the liabilities accrued.

The activity in 2010 and 2009 related to environmental liabilities was as follows:

| (In millions) | 2010 | 2009 |
|---|---|---|
| Balance at beginning of year | $ 51.5 | $ 54.6 |
| Purchase price adjustments related to acquisitions | – | .9 |
| Accruals | (1.2) | 1.0 |
| Payments | (4.0) | (5.0) |
| Balance at end of year | $ 46.3 | $ 51.5 |

At year end 2010, approximately $9 million of the total balance was classified as short-term.

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

**Other**

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 year end 2010, we had guaranteed approximately $14 million.

At year end 2010, we guaranteed up to approximately $17 million of certain of our foreign subsidiaries' credit granted by suppliers and $393 million of certain of our subsidiaries' lines of credit with various financial institutions.

Refer to Note 1, "Summary of Significant Accounting Policies," in the Consolidated Financial Statements for information regarding asset retirement obligations and product warranties.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

### Revenue Recognition

Sales are recognized when persuasive evidence of an arrangement exists, pricing is determinable, delivery has occurred based on applicable sales terms, and collection is reasonably assured. Sales terms are generally free on board (f.o.b.) 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. 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. 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 collectability 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 in, or trade accounts receivable at year end of, 2010 or 2009. However, during 2010, our ten largest customers by net sales represented 12% of our net sales. As of January 1, 2011, our ten largest customers by trade accounts receivable represented 13% of our trade accounts receivable. These customers were primarily concentrated in Office and Consumer Products segment. The financial position and operations of these customers are monitored on an ongoing basis.

### Inventory and Inventory Reserves

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

### Impairment of Long-lived Assets

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

### Goodwill

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

Certain factors may result in the need to perform an impairment test prior to the fourth quarter, including significant underperformance of our business relative to expected operating results, significant adverse

economic and industry trends, significant decline in our market capitalization for an extended period of time relative to net book value, or decision to divest an individual business within a reporting unit.

We estimate the fair value of our reporting units using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various assumptions about sales, operating margins, growth rates and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based on our forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period.

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

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

**Fair Value Measurements**

We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability.

We determine fair value based on a three-tier fair value hierarchy, which we use to prioritize the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions to determine the best estimate of fair value.

**Pension and Postretirement Benefits**

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 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011. This rate is expected to decrease to approximately 5% by 2018.

**Income Taxes**

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

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

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." A tax planning strategy is defined as "an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets." In the event we determine the deferred tax assets will not be realized in the future, the valuation adjustment to the deferred tax assets will be charged to earnings in the period in which we make such a determination. We have also acquired certain net deferred tax assets with existing valuation allowances. If it is later determined that it is more likely than not that the deferred tax assets will be realized, we will release the valuation allowance to current earnings or adjust the purchase price allocation.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in

income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified.

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

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. We use 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 and tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. We report tax-related interest and penalties as a component of income tax expense.

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

**Stock-Based Compensation**

*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 as of the date of grant using the Black-Scholes option-pricing model. This model requires input assumptions for our expected dividend yield, expected stock price volatility, risk-free interest rate and the expected option term.

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

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

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

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

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

The fair value of certain stock-based awards that are subject to performance metrics based on market conditions is determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected volatility assumptions and other assumptions appropriate for determining fair value to estimate the probability of satisfying the market condition target stipulated in the award.

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 have severance pay plans that provide 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 plans. Accordingly, we record provisions for such amounts and other related exit costs when they are probable and estimable. In the absence of a plan or established local practice for overseas jurisdictions, liabilities for severance and related costs are recognized when incurred.

**Litigation and Environmental Matters**

We are currently involved in various lawsuits, claims, inquiries and other regulatory and compliance matters, most of which are routine to the nature of our business. When it is probable that obligations have been incurred and where a range of the cost of compliance or remediation can be estimated, the best estimate within the range — or, if the most likely amount cannot be determined, the low end of the range — is accrued. The ultimate resolution of these claims could affect future results of operations should our exposure be materially different from our 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. During each annual reporting period, we review our estimates of costs of compliance with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated us a potentially responsible party. When it is probable that obligations have been incurred and where a range of the cost of compliance or remediation can be estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. Potential insurance reimbursements are not offset against potential liabilities, and such liabilities are not discounted.

**Asset Retirement Obligations**

We recognize liabilities for the fair value of conditional asset retirement obligations based on estimates determined through present value techniques. An asset retirement is 'conditional' when the timing and (or) method of settlement of the retirement obligation is conditioned upon a future event that may or may not be within our control. Our asset retirement obligations primarily relate to lease restoration costs.

**Business Combinations**

We record the assets acquired and liabilities assumed from acquired businesses at fair value, and we make estimates and assumptions to determine such fair values.

We utilize a variety of assumptions and estimates that are believed to be reasonable in determining fair value for assets acquired and liabilities assumed. These assumptions and estimates include discounted cash flow analysis, growth rates, discount rates, current replacement cost for similar capacity for certain assets, market rate assumptions for certain

obligations and certain potential costs of compliance with environmental laws related to remediation and cleanup of acquired properties. We also utilize information obtained from management of the acquired businesses and our own historical experience from previous acquisitions.

We apply significant assumptions and estimates in determining certain intangible assets resulting from the acquisitions (such as customer relationships, patents and other acquired technology, and trademarks and trade names, as well as 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 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 2010, we adopted certain accounting and financial disclosure requirements of the Financial Accounting Standards Board ("FASB"), none of which had a significant impact on our financial results of operations and financial position. Refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements for more information.

## MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

### Risk Management

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

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

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

Our objective in managing our exposure to interest rate changes is to reduce the impact of interest rate changes on earnings and cash flows. To achieve our objectives, we may periodically use interest rate contracts to manage the exposure to interest rate changes related to our borrowings.

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

In the normal course of operations, we also face other risks that are either non-financial or non-quantifiable. 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 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.

In 2010, the VAR was estimated using a variance-covariance methodology. The currency correlation was based on one-year historical data obtained from one of our domestic banks. The estimated maximum potential one-day loss in earnings for our foreign exchange positions and contracts was approximately $.8 million at year end 2010.

In 2009, 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. The estimated maximum potential one-day loss in earnings for our foreign exchange positions and contracts was approximately $1 million at year end 2009.

In both 2010 and 2009, 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.

### Interest Rate Sensitivity

An assumed 19 basis point move in interest rates affecting our variable-rate borrowings (10% of our weighted-average interest rate on floating rate debt) would have had an estimated $1 million effect on our 2010 earnings.

An assumed 25 basis point move in interest rates affecting our variable-rate borrowings (10% of our weighted-average interest rate on floating rate debt) would have had an estimated $3 million effect on our 2009 earnings.

## CONSOLIDATED BALANCE SHEETS

| (Dollars in millions) | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 127.5 | $ 138.1 |
| Trade accounts receivable, less allowances of $51.4 and $56.2 at end of year 2010 and 2009, respectively | 996.1 | 918.6 |
| Inventories, net | 519.9 | 477.3 |
| Current deferred and refundable income taxes | 144.7 | 103.5 |
| Other current assets | 163.7 | 95.7 |
| Total current assets | 1,951.9 | 1,733.2 |
| Property, plant and equipment, net | 1,262.9 | 1,354.7 |
| Goodwill | 940.8 | 950.8 |
| Other intangibles resulting from business acquisitions, net | 228.9 | 262.2 |
| Non-current deferred and refundable income taxes | 266.0 | 236.6 |
| Other assets | 448.9 | 465.3 |
| | $ 5,099.4 | $ 5,002.8 |

| | 2010 | 2009 |
|---|---|---|
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Short-term and current portion of long-term debt | $ 381.0 | $ 535.6 |
| Accounts payable | 748.2 | 689.8 |
| Accrued payroll and employee benefits | 259.7 | 216.0 |
| Accrued trade rebates | 126.0 | 115.1 |
| Current deferred and payable income taxes | 53.2 | 40.8 |
| Other accrued liabilities | 263.7 | 270.4 |
| Total current liabilities | 1,831.8 | 1,867.7 |
| Long-term debt | 956.2 | 1,088.7 |
| Long-term retirement benefits and other liabilities | 541.1 | 556.0 |
| Non-current deferred and payable income taxes | 124.6 | 127.8 |
| Commitments and contingencies (see Notes 7 and 8) | | |
| Shareholders' equity: | | |
| Common stock, $1 par value, authorized — 400,000,000 shares at end of year 2010 and 2009; issued — 124,126,624 shares at end of year 2010 and 2009; outstanding — 105,391,940 shares and 105,298,317 shares at end of year 2010 and 2009, respectively | 124.1 | 124.1 |
| Capital in excess of par value | 768.0 | 722.9 |
| Retained earnings | 1,727.9 | 1,499.7 |
| Employee stock benefit trust, 1,784,741 shares and 6,744,845 shares at end of year 2010 and 2009, respectively | (73.2) | (243.1) |
| Treasury stock at cost, 16,934,943 shares and 12,068,462 shares at end of year 2010 and 2009, respectively | (758.2) | (595.8) |
| Accumulated other comprehensive loss | (142.9) | (145.2) |
| Total shareholders' equity | 1,645.7 | 1,362.6 |
| | $ 5,099.4 | $ 5,002.8 |

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF OPERATIONS

| (In millions, except per share amounts) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Net sales | $6,512.7 | $5,952.7 | $6,710.4 |
| Cost of products sold | 4,686.7 | 4,366.2 | 4,983.4 |
| Gross profit | 1,826.0 | 1,586.5 | 1,727.0 |
| Marketing, general and administrative expense | 1,370.4 | 1,268.8 | 1,304.3 |
| Goodwill and indefinite-lived intangible asset impairment charges | – | 832.0 | – |
| Interest expense | 76.6 | 85.3 | 115.9 |
| Other expense, net | 27.7 | 191.3 | 36.2 |
| Income (loss) before taxes | 351.3 | (790.9) | 270.6 |
| Provision for (benefit from) income taxes | 34.4 | (44.2) | 4.5 |
| Net income (loss) | $ 316.9 | $ (746.7) | $ 266.1 |
| | | | |
| Per share amounts: | | | |
| Net income (loss) per common share | $ 3.00 | $ (7.21) | $ 2.70 |
| Net income (loss) per common share, assuming dilution | $ 2.97 | $ (7.21) | $ 2.70 |
| Dividends | $ .80 | $ 1.22 | $ 1.64 |
| | | | |
| Average shares outstanding: | | | |
| Common shares | 105.8 | 103.6 | 98.4 |
| Common shares, assuming dilution | 106.8 | 103.6 | 98.7 |

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (Dollars in millions, except per share amounts) | Common stock, $1 par value | Capital in excess of par value | Retained earnings | Cost of unallocated ESOP shares | Employee stock benefit trust | Treasury stock | Accumulated other comprehensive income (loss) | Total |
|---|---|---|---|---|---|---|---|---|
| **Fiscal year ended 2007** | $ 124.1 | $ 781.1 | $ 2,290.2 | $ (3.8) | $ (428.8) | $ (858.2) | $ 84.8 | $ 1,989.4 |
| Comprehensive income: | | | | | | | | |
| Net income | | | 266.1 | | | | | 266.1 |
| Other comprehensive income (loss): | | | | | | | | |
| Foreign currency translation adjustment | | | | | | | (177.3) | (177.3) |
| Effective portion of gains or losses on cash flow hedges, net of tax of $(.6) | | | | | | | 1.0 | 1.0 |
| Net actuarial loss, prior service cost and net transition asset, net of tax of $(103.5) | | | | | | | (191.0) | (191.0) |
| Other comprehensive loss | | | | | | | (367.3) | (367.3) |
| Total comprehensive loss | | | | | | | | (101.2) |
| Repurchase of 195,221 shares for treasury, net of shares issued | | | | | | (9.5) | | (9.5) |
| Stock issued under option plans, including $13.4 of tax and dividends paid on stock held in stock trust | | 36.2 | | | 7.5 | | | 43.7 |
| Dividends: $1.64 per share | | | (175.0) | | | | | (175.0) |
| ESOP transactions, net | | | | 2.6 | | | | 2.6 |
| Employee stock benefit trust market value adjustment | | (174.4) | | | 174.4 | | | – |
| **Fiscal year ended 2008** | 124.1 | 642.9 | 2,381.3 | (1.2) | (246.9) | (867.7) | (282.5) | 1,750.0 |
| Comprehensive income: | | | | | | | | |
| Net loss | | | (746.7) | | | | | (746.7) |
| Other comprehensive income (loss): | | | | | | | | |
| Foreign currency translation adjustment | | | | | | | 103.4 | 103.4 |
| Effective portion of gains or losses on cash flow hedges, net of tax of $2.9 | | | | | | | 4.8 | 4.8 |
| Net actuarial loss, prior service cost and net transition asset, net of tax of $6.2 | | | | | | | 29.1 | 29.1 |
| Other comprehensive income | | | | | | | 137.3 | 137.3 |
| Total comprehensive loss | | | | | | | | (609.4) |
| Issuance of 6,459,088 shares for treasury in conjunction with HiMEDS conversion | | 16.0 | | | | 296.9 | | 312.9 |
| Employee stock benefit trust transfer of 686,500 shares to treasury | | | | | 25.0 | (25.0) | | – |
| Stock issued under option plans, including $8.2 of tax and dividends paid on stock held in stock trust | | 28.1 | | | 14.7 | | | 42.8 |
| Dividends: $1.22 per share | | | (134.9) | | | | | (134.9) |
| ESOP transactions, net | | | | 1.2 | | | | 1.2 |
| Employee stock benefit trust market value adjustment | | 35.9 | | | (35.9) | | | – |
| **Fiscal year ended 2009** | 124.1 | 722.9 | 1,499.7 | – | (243.1) | (595.8) | (145.2) | 1,362.6 |
| Comprehensive income: | | | | | | | | |
| Net income | | | 316.9 | | | | | 316.9 |
| Other comprehensive income: | | | | | | | | |
| Foreign currency translation adjustment | | | | | | | 18.1 | 18.1 |
| Effective portion of gains or losses on cash flow hedges, net of tax of $1.2 | | | | | | | 2.0 | 2.0 |
| Net actuarial loss, prior service cost and net transition asset, net of tax of $(3.3) | | | | | | | (17.8) | (17.8) |
| Other comprehensive income | | | | | | | 2.3 | 2.3 |
| Total comprehensive income | | | | | | | | 319.2 |
| Issuance of 2,133,656 shares for treasury in conjunction with HiMEDS remarketing | | | | | | 109.3 | | 109.3 |
| Repurchase of 2,683,243 shares for treasury | | | | | | (108.7) | | (108.7) |
| Employee stock benefit transfer of 4,316,894 shares to treasury | | | | | 163.0 | (163.0) | | – |
| Stock issued under stock option plans, including $4.4 of tax and dividends paid on stock held in stock trust | | 29.8 | | | 22.2 | | | 52.0 |
| Dividends: $.80 per share | | | (88.7) | | | | | (88.7) |
| Employee stock benefit trust market value adjustment | | 15.3 | | | (15.3) | | | – |
| **Fiscal year ended 2010** | $ 124.1 | $ 768.0 | $ 1,727.9 | $ – | $ (73.2) | $ (758.2) | $ (142.9) | $ 1,645.7 |

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income (loss) | $ 316.9 | $ (746.7) | $ 266.1 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation | 172.9 | 187.6 | 204.6 |
| Amortization | 74.7 | 79.7 | 73.8 |
| Provision for doubtful accounts | 16.3 | 19.3 | 17.7 |
| Goodwill and indefinite-lived intangible asset impairment charges | – | 832.0 | – |
| Asset impairment and net loss on sale and disposal of assets of $2.8, $9.4, and $6.5 in 2010, 2009, and 2008, respectively | 5.1 | 48.0 | 16.8 |
| Loss from debt extinguishments | 4.0 | 21.2 | – |
| Stock-based compensation | 35.2 | 25.8 | 29.0 |
| Other non-cash expense and loss | 43.6 | 22.0 | 11.3 |
| Other non-cash income and gain | (.5) | (8.7) | (12.4) |
| Changes in assets and liabilities and other adjustments, net of the effect of business acquisitions: | | | |
| Trade accounts receivable | (87.6) | 95.7 | 57.7 |
| Inventories | (35.6) | 133.3 | 16.5 |
| Other current assets | (39.8) | 40.6 | (30.0) |
| Accounts payable | 76.5 | (14.5) | 3.4 |
| Accrued liabilities | 30.0 | (37.9) | (19.2) |
| Taxes on income | (12.0) | .3 | 34.3 |
| Deferred taxes | (48.2) | (91.0) | (114.2) |
| Other assets | (12.2) | 2.3 | 20.8 |
| Long-term retirement benefits and other liabilities | (52.6) | (40.0) | (36.5) |
| Net cash provided by operating activities | 486.7 | 569.0 | 539.7 |
| **Investing Activities** | | | |
| Purchase of property, plant and equipment, net | (83.5) | (69.7) | (118.4) |
| Purchase of software and other deferred charges | (25.1) | (30.6) | (63.1) |
| Payments for acquisitions | – | – | (131.2) |
| Proceeds from sale (purchase) of investments, net | .8 | (.5) | 17.2 |
| Other | – | (5.0) | 2.0 |
| Net cash used in investing activities | (107.8) | (105.8) | (293.5) |
| **Financing Activities** | | | |
| Net decrease in borrowings (maturities of 90 days or less) | (98.4) | (192.3) | (390.1) |
| Additional borrowings (maturities longer than 90 days) | 249.8 | – | 400.1 |
| Payments of debt (maturities longer than 90 days) | (341.2) | (108.3) | (50.7) |
| Dividends paid | (88.7) | (134.9) | (175.0) |
| Purchase of treasury stock | (108.7) | – | (9.8) |
| Proceeds from exercise of stock options, net | 2.5 | .6 | 2.7 |
| Other | (6.8) | 2.2 | 14.3 |
| Net cash used in financing activities | (391.5) | (432.7) | (208.5) |
| Effect of foreign currency translation on cash balances | 2.0 | 2.1 | (3.7) |
| (Decrease) increase in cash and cash equivalents | (10.6) | 32.6 | 34.0 |
| Cash and cash equivalents, beginning of year | 138.1 | 105.5 | 71.5 |
| Cash and cash equivalents, end of year | $ 127.5 | $ 138.1 | $ 105.5 |

See Notes to Consolidated Financial Statements

# Notes to Consolidated Financial Statements

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations**

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

**Principles of Consolidation**

The consolidated financial statements include the accounts of majority-owned subsidiaries. Intercompany accounts, transactions and profits are eliminated in consolidation. Investments representing less than 20% ownership are accounted for using the cost method of accounting.

**Financial Presentation**

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

**Segment Reporting**

The Company has determined that it has three reportable segments for financial reporting purposes:

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

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

In 2010, the Pressure-sensitive Materials segment contributed approximately 56% of the Company's total sales, while the Retail Information Services and Office and Consumer Products segments contributed approximately 23% and 13%, respectively, of the Company's total sales. The other specialty converting businesses contributed the remaining 8% of the Company's total sales. Of the Company's total sales in 2010, international and domestic operations generated approximately 68% and 32%, respectively. Refer to Note 12, "Segment Information," for further information.

**Fiscal Year**

Normally, each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks. The Company's 2010 and 2008 fiscal years consisted of 52-week periods ending January 1, 2011 and December 27, 2008, respectively. The Company's 2009 fiscal year consisted of a 53-week period ending January 2, 2010, with the extra week reflected in the first quarter.

**Use of Estimates**

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

**Cash and Cash Equivalents**

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

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Interest, net of capitalized amounts | $ 69.7 | $ 78.3 | $ 114.6 |
| Income taxes, net of refunds | 94.5 | 47.5 | 77.0 |

In 2010, 2009, and 2008, non-cash activities included accruals for capital expenditures of approximately $12 million, $8 million, and $5 million, respectively, due to the timing of payments. In 2010, the Company released approximately 4.3 million common shares, totaling $163 million, from the Company's Employee Stock Benefit Trust ("ESBT"), resulting from the settlement of the Company's employee benefit obligations. These shares were included as "Treasury Stock at Cost" in the Consolidated Balance Sheets.

**Accounts Receivable**

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

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

No single customer represented 10% or more of the Company's net sales in, or trade accounts receivable at year end of, 2010 or 2009. However, during 2010, the ten largest customers by net sales represented 12% of the Company's net sales. As of January 1, 2011, the ten largest customers by trade accounts receivable represented 13% of the Company's trade accounts receivable. These customers were primarily concentrated in the Office

and Consumer Products segment. The Company does not generally require its customers to provide collateral.

**Inventories**

Inventories are stated at the lower-of-cost-or-market value and are categorized as raw materials, work-in-progress or finished goods. Cost is determined using the first-in, first-out ("FIFO") method. Inventory reserves are recorded for matters such as damaged, obsolete, excess and slow-moving inventory. The Company uses 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.

Inventories at end of year were as follows:

| (In millions) | 2010 | 2009 |
|---|---|---|
| Raw materials | $ 243.3 | $ 217.9 |
| Work-in-progress | 130.5 | 119.6 |
| Finished goods | 205.3 | 205.2 |
| Inventories at lower of cost or market (approximates replacement cost) | 579.1 | 542.7 |
| Inventory reserves | (59.2) | (65.4) |
| Inventories, net | $ 519.9 | $ 477.3 |

**Property, Plant and Equipment**

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

| (In millions) | 2010 | 2009 |
|---|---|---|
| Land | $ 65.1 | $ 68.4 |
| Buildings and improvements | 738.1 | 764.1 |
| Machinery and equipment | 2,325.7 | 2,334.8 |
| Construction-in-progress | 57.3 | 40.6 |
| Property, plant and equipment | 3,186.2 | 3,207.9 |
| Accumulated depreciation | (1,923.3) | (1,853.2) |
| Property, plant and equipment, net | $ 1,262.9 | $ 1,354.7 |

Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets ranging from two to forty-five years for buildings and improvements and two to fifteen years for machinery and equipment. Leasehold improvements are depreciated over the shorter of the useful life of the asset or the term of the associated leases. Maintenance and repair costs are expensed as incurred; renewals and betterments are capitalized. Upon the sale or retirement of assets, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting gain or loss included in net income. There were no significant capital lease assets at year end 2010 and 2009.

**Software**

The Company capitalizes internal and external software costs that are incurred during the application development stage of the software development, including costs incurred for the design, coding, installation to hardware, testing, and upgrades and enhancements that provide additional functionalities and capabilities to the software and hardware of the chosen path. Internal and external software costs during the preliminary project stage are expensed, as are those costs during the post-implementation and/or operation stage, including internal and external training costs and maintenance costs.

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

| (In millions) | 2010 | 2009 |
|---|---|---|
| Cost | $ 381.7 | $ 364.0 |
| Accumulated amortization | (238.7) | (214.1) |
| | $ 143.0 | $ 149.9 |

**Impairment of Long-lived Assets**

Impairment charges are recorded when the carrying amounts of long-lived assets are determined not to be recoverable. Impairment is measured by assessing the usefulness of an asset or by comparing the carrying value of an asset to its fair value. Fair value is typically determined using quoted market prices, if available, or an estimate of 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. Historically, changes in market conditions and management strategy have caused the Company to reassess the carrying amount of its long-lived assets.

**Goodwill and Other Intangibles Resulting from Business Acquisitions**

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

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

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

The Company estimates the fair value of its reporting units using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires the Company to make various assumptions about sales, operating margins, growth rates and discount rates. Assumptions about discount rates are based on a weighted-average cost of capital for comparable companies. Assumptions about sales, operating margins, and growth rates are based

on the Company's forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period.

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

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

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

**Foreign Currency**

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

Gains and losses resulting from foreign currency transactions are included in income in the period incurred. Transactions in foreign currencies (including receivables, payables and loans denominated in currencies other than the functional currency) decreased net income by $5.8 million and $2.8 million in 2010 and 2009, respectively, and increased net income by $16.1 million in 2008. In 2008, transactions in foreign currencies included a foreign currency net gain related to certain intercompany transactions of approximately $9 million. These amounts exclude the effects from translation of foreign currencies on the Company's financial statements.

The Company had no operations in hyperinflationary economies in fiscal years 2010, 2009, and 2008.

**Financial Instruments**

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

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

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

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

See also Note 5, "Financial Instruments."

**Fair Value Measurements**

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability.

The Company determines fair value based on a three-tier fair value hierarchy, which it uses to prioritize the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions to determine the best estimate of fair value.

**Revenue Recognition**

Sales are recognized when persuasive evidence of an arrangement exists, pricing is determinable, delivery has occurred based on applicable sales terms, and collection is reasonably assured. Sales terms are generally free on board (f.o.b.) shipping point or f.o.b. destination, depending upon local business customs. For most regions in which the Company operates, f.o.b. shipping point terms are utilized and sales are recorded at the time of shipment, because this is when title and risk of loss are transferred. In certain regions, notably in Europe, f.o.b. destination terms are generally utilized and sales are recorded when the products are delivered to the customer's delivery site, because this is when title and risk of loss are

transferred. 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. Actual product returns are charged against estimated sales return allowances.

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

### Advertising Costs

Advertising costs included in "Marketing, general and administrative expense" were approximately $39 million in 2010, $24 million in 2009, and $23 million in 2008. The Company's policy is to expense advertising costs as incurred.

### Research and Development

Research and development costs are related to research, design and testing of new products and applications and are expensed as incurred. Research and development expense was $95.6 million in 2010, $90.7 million in 2009, and $94 million in 2008.

### Pension and Postretirement Benefits

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

### Product Warranty

The Company provides for an estimate of costs that may be incurred under its basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of the product. Factors that affect the Company's warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy the Company's warranty obligation and availability of insurance coverage. Because these factors are impacted by actual experience and future expectations, the Company assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. The Company's liability associated with product warranty was $1.7 million and $2 million at year end 2010 and 2009, respectively.

### Stock-Based Compensation

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

The fair value of certain stock-based awards that are subject to performance metrics based on market conditions is determined using the Monte-Carlo simulation model, which utilizes multiple input variables, including expected volatility assumptions and other assumptions appropriate for determining fair value to estimate the probability of satisfying the market condition target stipulated in the award.

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

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

### Environmental Expenditures

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

### Asset Retirement Obligations

The Company recognizes a liability for the fair value of conditional asset retirement obligations based on estimates determined through present value techniques. An asset retirement is 'conditional' when the timing and (or) method of settlement of the retirement obligation is conditional upon a future event that may or may not be within the control of the Company. The Company's asset retirement obligations primarily relate to lease restoration costs. The Company's estimated liability associated with asset retirement obligations was $8 million and $7.9 million at year end 2010 and 2009, respectively.

### Restructuring and Severance Costs

The Company has severance pay plans that provide eligible employees with severance payments in the event of an involuntary termination due to qualifying cost reduction actions. Severance pay is calculated by using a severance benefit formula under the plans. Accordingly, the provisions for such amounts and other related exit costs are recorded when they are

probable and estimable. In the absence of a plan or established local practice for overseas jurisdictions, liabilities for severance and related costs are recognized when incurred. See also Note 10, “Cost Reduction Actions.”

**Taxes on Income**

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

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

When establishing a valuation allowance, the Company considers future sources of taxable income such as “future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards” and “tax planning strategies.” A tax planning strategy is defined as “an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets.” In the event the Company determines that the deferred tax assets will not be realized in the future, the valuation adjustment to the deferred tax assets is charged to earnings in the period in which the Company makes such a determination. The Company has also acquired certain net deferred tax assets with existing valuation allowances. If it is later determined that it is more likely than not that the deferred tax assets will be realized, the Company will release the valuation allowance to current earnings or adjust the purchase price allocation.

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

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

The amount of income taxes the Company pays is subject to ongoing audits by federal, state and foreign tax authorities. The Company’s estimate of the potential outcome of any uncertain tax issue is subject to management’s assessment of relevant risks, facts, and circumstances existing at that time. The Company applies a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The Company records a liability for the difference between the benefit recognized and measured and the tax position taken or expected to be taken on the tax return. To the extent that the Company’s assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. The Company reports tax-related interest and penalties as a component of income tax expense.

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

See also Note 11, “Taxes Based on Income.”

**Net Income (Loss) Per Share**

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

| (In millions, except per share amounts) | 2010 | 2009 | 2008 |
|---|---|---|---|
| (A) Net income (loss) available to common shareholders | $316.9 | $(746.7) | $266.1 |
| (B) Weighted-average number of common shares outstanding | 105.8 | 103.6 | 98.4 |
| Dilutive shares (additional common shares issuable under employee stock-based awards) | 1.0 | – | .3 |
| (C) Weighted-average number of common shares outstanding, assuming dilution | 106.8 | 103.6 | 98.7 |
| Net income (loss) per common share (A) ÷ (B) | $ 3.00 | $ (7.21) | $ 2.70 |
| Net income (loss) per common share, assuming dilution (A) ÷ (C) | $ 2.97 | $ (7.21) | $ 2.70 |

Certain employee stock-based awards were not included in the computation of net income (loss) per common share, assuming dilution, because they would not have had a dilutive effect. Employee stock-based awards excluded from the computation totaled approximately 9 million shares and 10 million shares in 2010 and 2008, respectively.

In 2009, the effect of normally dilutive securities (for example, stock-based awards) was not dilutive because the Company generated a net operating loss. Employee stock-based awards excluded from the computation totaled approximately 11 million shares in 2009.

As further discussed under “Recent Accounting Requirements” below, effective at the beginning of 2009, the Company adopted additional guidance from the Financial Accounting Standards Board (“FASB”) regarding the calculation of earnings per share. This did not have a material impact on net income (loss) per share.

**Comprehensive Income (Loss)**

Comprehensive income (loss) includes net income (loss), foreign currency translation adjustment, net actuarial loss, prior service cost and net transition assets, net of tax, and the gains or losses on the effective portion of cash flow and firm commitment hedges, net of tax, that are currently presented as a component of shareholders’ equity.

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

| (In millions) | | 2010 | | 2009 |
|---|---|---|---|---|
| Foreign currency translation adjustment | $ | 187.3 | $ | 169.2 |
| Net actuarial loss, prior service cost and net transition assets, less amortization, net of tax benefits of $152.7 and $149.4 at year end 2010 and 2009, respectively | | (321.2) | | (303.4) |
| Net loss on derivative instruments designated as cash flow and firm commitment hedges, net of tax benefits of $5.4 and $6.6 at year end 2010 and 2009, respectively | | (9.0) | | (11.0) |
| Accumulated other comprehensive loss | $ | (142.9) | $ | (145.2) |

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

| (In millions) | | 2010 | | 2009 |
|---|---|---|---|---|
| Beginning accumulated derivative loss | $ | (11.0) | $ | (15.8) |
| Net loss reclassified to earnings | | 12.3 | | 15.2 |
| Net change in the revaluation of hedging transactions | | (10.3) | | (10.4) |
| Ending accumulated derivative loss | $ | (9.0) | $ | (11.0) |

**Business Combinations**

The Company records the assets acquired and liabilities assumed from acquired businesses at fair value, and the Company makes estimates and assumptions to determine such fair values.

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

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

**Recent Accounting Requirements**

In December 2010, the FASB issued an amendment to the accounting standards related to goodwill which (1) modifies step one of the goodwill impairment test by requiring entities with reporting units that have a zero or negative carrying value to assess whether it is more likely than not that a goodwill impairment exists, and (2) does not prescribe a specific method of calculating the carrying value of a reporting unit in the performance of step one of the goodwill impairment test. Under the requirements of the amended standards, if the entity concludes that it is more likely than not that a goodwill impairment exists, an entity must perform step two of the goodwill impairment test. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment exists. This amendment will be effective for fiscal years beginning after December 15, 2010. The Company does not expect this amendment to have a material impact on the Company's financial results of operations and financial condition.

In January 2010, the FASB updated the accounting guidance regarding fair value measurement disclosure. This guidance requires companies to disclose the amount of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers and for any transfers in or out of Level 3 of the fair value hierarchy. In addition, the guidance clarifies certain existing disclosure requirements. This updated guidance was effective at the beginning of 2010 and did not have a material impact on the Company's disclosures.

In June 2009, the FASB issued changes to consolidation accounting. Among other items, these changes respond to concerns about the application of certain key provisions of previous accounting standards, including those regarding the transparency of the involvement with variable interest entities. The Company adopted these changes at the beginning of 2010. These changes did not have a material impact on the Company's financial condition, results of operations, cash flows, or disclosures.

In June 2009, the FASB established the FASB Accounting Standards Codification (the "Codification") as the single source of authoritative non-governmental U.S. GAAP. The Codification was effective for interim and annual periods ending after September 15, 2009. The adoption of the Codification changed the manner in which U.S. GAAP guidance is referenced, but did not have any impact on the Company's financial condition, results of operations, cash flows, or disclosures.

The FASB issued in May 2009, and amended in February 2010, a new accounting standard on subsequent events. This standard defines what qualifies as a subsequent event — those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued. This standard was effective for interim and annual periods ending after June 15, 2009. The Company adopted this accounting standard in the second quarter of 2009.

In April 2009, the FASB issued changes to disclosure requirements regarding fair value of financial instruments, which require disclosure about fair value of financial instruments, whether recognized or not recognized in the statements of financial position, in interim financial information. These changes also require fair value information to be presented together with the related carrying amount and disclosure regarding the methods and significant assumptions used to estimate fair value. These changes were effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has included the required disclosures in Note 4, "Debt."

The FASB issued in December 2007, and amended in April 2009, a revised accounting standard for business combinations. This standard defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. In general, this standard requires the acquiring entity in a business combination to recognize the fair value of all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date as the fair value measurement point; and modifies the disclosure requirements. This standard applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. The adoption of this standard has not had a material impact on the Company's financial results of operations and financial condition as there have been no acquisitions since the effective date.

In December 2008, the FASB issued changes to disclosure requirements about postretirement benefit plan assets, which provides additional guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. These changes were effective for financial statements issued for fiscal years ending after December 15, 2009. These changes increased the disclosures in the financial statements related to the assets of the Company's pension and postretirement benefits plans. These disclosures are included in Note 6, "Pension and Other Postretirement Benefits."

In August 2008, the FASB issued additional accounting guidance regarding defensive intangible assets. This guidance clarifies that a defensive intangible asset should be accounted for as a separate unit of accounting. This applies to all intangible assets acquired, including intangible assets acquired in a business combination, in situations in which the acquirer does not intend to actively use the asset but intends to hold (lock up) the asset to prevent its competitors from obtaining access to the asset (defensive assets). This guidance was effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on December 15, 2008. The adoption of this guidance did not have an impact on the Company's financial results of operations and financial condition as there have been no acquisitions since the effective date.

In June 2008, the FASB issued additional accounting guidance regarding the effect of share-based payments transactions on the computation of earnings per share. This guidance clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. This guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years and required retrospective application. The adoption of this guidance did not have a material impact on the Company's financial results of operations and financial condition as the Company does not have participating securities.

In April 2008, the FASB issued changes to the method for determining the useful life of intangible assets. These changes modified factors that should be considered in developing renewal or extension assumptions used for purposes of determining the useful life of a recognized intangible asset. These changes were intended to improve the consistency between the useful life of a recognized intangible asset for purposes of determining impairment and the period of expected cash flows used to measure the fair value of the asset in a business combination and other U.S. generally accepted accounting principles. These changes were effective for fiscal years beginning after December 15, 2008. The adoption of these changes did not have a material impact on the Company's financial results of operations and financial condition.

In March 2008, the FASB issued changes to disclosure requirements regarding derivative instruments and hedging activities. These changes were intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. These disclosure requirements apply to all derivative instruments as well as related hedged items, bifurcated derivatives, and non-derivative instruments that are designated and qualify as hedging instruments. Entities with such instruments must provide more robust qualitative disclosures and expanded quantitative disclosures. These changes were effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company has included the required disclosures in Note 5, "Financial Instruments."

In December 2007, the FASB issued a new accounting standard on non-controlling interests. This standard was effective for fiscal years and interim periods beginning on or after December 15, 2008, with earlier adoption prohibited. This standard requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the statements of operations. This standard also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. The adoption of this standard did not have a material impact on the Company's financial results of operations and financial condition.

In September 2006, the FASB issued a new accounting standard on fair value measurements, which was effective for fiscal years and interim periods after November 15, 2007. This standard defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This standard applies to all financial assets and liabilities and to all non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. This standard indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. This standard defines fair value based upon an exit price model. The Company applied the provisions of this standard to assets and liabilities measured on a non-recurring basis as of the beginning of the 2009 fiscal year. The adoption of this standard did not have a significant impact on the Company's financial results of operations or financial position.

**Transactions with Related Persons**

From time to time, the Company enters into transactions in the normal course of business with related persons. Management believes that such transactions are on terms that would have been obtained from unaffiliated third persons.

One of the Company's directors, Peter W. Mullin, is the chairman, chief executive officer and majority stockholder in various entities (collectively referred to as the "Mullin Companies"), which previously provided executive compensation, benefit consulting and insurance agency services. In October 2008, the above described operations of the Mullin

Companies were sold to a subsidiary of Prudential Financial, Inc. ("Prudential"). During 2010, the Company paid premiums to insurance carriers for life insurance originally placed by the Mullin Companies in connection with various Company employee benefit plans (however, the interests of the Mullin Companies in this insurance were sold to Prudential in October 2008). Prudential has advised the Company that it earned commissions from such insurance carriers in an aggregate amount of approximately $.4 million, $.4 million, and $.6 million in 2010, 2009, and 2008, respectively, for the placement and renewal of this insurance, in which Mr. Mullin had an interest of approximately $.09 million, $.09 million, and $.3 million in 2010, 2009, and 2008, respectively. Mr. Mullin's interest in the 2010 and 2009 commissions was determined in accordance with the terms of a commission sharing agreement entered into between Mr. Mullin and Prudential at the time of the sale.

The Mullin Companies own a minority interest in M Financial Holdings, Inc. ("MFH"). Substantially all of the life insurance policies, which the Company originally placed through the Mullin Companies, are issued by insurance carriers that participate in reinsurance agreements entered into between these insurance carriers and M Life Insurance Company ("M Life"), a wholly-owned subsidiary of MFH. Reinsurance returns earned by M Life are determined annually by the insurance carriers and can be negative or positive, depending upon the results of M Life's aggregate reinsurance pool, which consists of the insured lives reinsured by M Life. The Mullin Companies have advised that in 2010, 2009 and 2008 they participated in net reinsurance gains (without risk of forfeiture) of M Life, of which approximately $.2 million, none and $.2 million, respectively, of such gains were ascribed by M Life to the Company's life insurance policies referred to above, and in which gains Mr. Mullin had an interest of approximately $.1 million, none and $.1 million, respectively. In addition, the Mullin Companies have advised that in 2010, 2009 and 2008, they also participated in net reinsurance gains of M Life that are subject to risk of forfeiture, of which approximately $.03 million, none and $.05 million, respectively, of such gains were ascribed by M Life to the Company's life insurance policies, and in which gains Mr. Mullin had an interest of approximately $.02 million, none and $.04 million, respectively.

## NOTE 2. ACQUISITIONS

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

## NOTE 3. GOODWILL AND OTHER INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Results from the Company's annual impairment test in the fourth quarter of 2010 indicated that no impairment had occurred in 2010.

In connection with the preparation of its first quarter 2009 financial statements, the Company determined that there was a need to initiate an interim impairment test of goodwill and indefinite-lived intangible assets ("goodwill impairment"). The factors considered included both a sustained decline in the Company's stock price and a decline in the Company's 2009 revenue projections for the retail information services reporting unit, following lower than expected revenues in March 2009, which continued in April 2009. The peak season for the retail information services reporting unit has traditionally been March through the end of the second quarter.

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

In the first quarter of 2009, the Company recorded non-cash impairment charges of $832 million for the retail information services reporting unit, of which $820 million was related to goodwill and $12 million was related to indefinite-lived intangible assets. The Company completed its interim goodwill impairment test in the second quarter of 2009, with no additional impairment charge recorded thereafter. Results from the Company's annual impairment test in the fourth quarter of 2009 indicated that no further impairment had occurred.

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

**Goodwill**

Changes in the net carrying amount of goodwill from operations for 2010 and 2009, by reportable segment, were as follows:

| (In millions) | Pressure-sensitive Materials | Retail Information Services | Office and Consumer Products | Other specialty converting businesses | Total |
|---|---|---|---|---|---|
| Balance as of December 27, 2008 | $ 334.4 | $ 1,211.6 | $ 167.2 | $ 3.5 | $1,716.7 |
| Acquisition adjustments(1) | – | 30.9 | – | – | 30.9 |
| Goodwill impairment charges(2) | – | (820.0) | – | – | (820.0) |
| Translation adjustments | 17.0 | .3 | 5.8 | .1 | 23.2 |
| Balance as of January 2, 2010 | 351.4 | 422.8 | 173.0 | 3.6 | 950.8 |
| Goodwill | 351.4 | 1,242.8 | 173.0 | 3.6 | 1,770.8 |
| Accumulated impairment losses | – | (820.0) | – | – | (820.0) |
| Balance as of January 2, 2010 | 351.4 | 422.8 | 173.0 | 3.6 | 950.8 |
| Acquisitions | – | .7 | – | – | .7 |
| Translation adjustments | (5.4) | (.3) | (4.9) | (.1) | (10.7) |
| Balance as of January 1, 2011 | 346.0 | 423.2 | 168.1 | 3.5 | 940.8 |
| Goodwill | 346.0 | 1,243.2 | 168.1 | 3.5 | 1,760.8 |
| Accumulated impairment losses | – | (820.0) | – | – | (820.0) |
| Balance as of January 1, 2011 | $ 346.0 | $ 423.2 | $ 168.1 | $ 3.5 | $ 940.8 |

(1) Acquisition adjustments in 2009 consisted of opening balance sheet adjustments associated with the DM Label acquisition in April 2008 of $32.6 and other acquisition adjustments of $(1.7).

(2) As part of the interim goodwill impairment test completed in the second quarter of 2009, the Company recorded a non-cash impairment charge of $820 for the retail information services reporting unit in the first quarter of 2009, with no additional impairment charge recorded thereafter.

**Indefinite-Lived Intangible Assets**

In connection with the acquisition of Paxar, the Company acquired approximately $30 million of indefinite-lived intangible assets, consisting of certain trade names and trademarks, which are not subject to amortization because they have an indefinite useful life. In the first quarter of 2009, the Company recorded a non-cash impairment charge of $12 million related to these indefinite-lived intangible assets, with no additional impairment charge recorded thereafter. At January 1, 2011, the carrying value of these indefinite-lived intangible assets was $18 million. At January 2, 2010, the carrying value of these indefinite-lived intangible assets was $17.9 million, which included $.1 million of negative currency impact.

**Finite-Lived Intangible Assets**

The following table sets forth the Company's finite-lived intangible assets resulting from business acquisitions at January 1, 2011 and January 2, 2010, which continue to be amortized:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| (In millions) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | $ 291.9 | $ 119.2 | $ 172.7 | $ 295.0 | $ 94.8 | $ 200.2 |
| Patents and other acquired technology | 53.6 | 28.1 | 25.5 | 53.6 | 23.5 | 30.1 |
| Trade names and trademarks | 44.8 | 38.0 | 6.8 | 47.0 | 39.8 | 7.2 |
| Other intangibles | 14.4 | 8.5 | 5.9 | 13.9 | 7.1 | 6.8 |
| Total | $ 404.7 | $ 193.8 | $ 210.9 | $ 409.5 | $ 165.2 | $ 244.3 |

Amortization expense on finite-lived intangible assets resulting from business acquisitions was $32.9 million for 2010, $33.5 million for 2009, and $32.8 million for 2008. The estimated amortization expense for finite-lived intangible assets resulting from completed business acquisitions for each of the next five fiscal years is expected to be approximately $33 million in 2011, $33 million in 2012, $31 million in 2013, $28 million in 2014, and $24 million in 2015.

As of January 1, 2011, the weighted-average amortization periods from the date of acquisition and weighted-average remaining useful lives of finite-lived intangible assets were as follows:

| (In years) | Weighted-average amortization periods from the date of acquisition | Weighted-average remaining useful life |
|---|---|---|
| Customer relationships | 13 | 8 |
| Patents and other acquired technology | 13 | 6 |
| Trade names and trademarks | 12 | 5 |
| Other intangibles | 7 | 3 |

**NOTE 4. DEBT**

Short-term variable rate domestic borrowings from commercial paper issuances were approximately $298 million (weighted-average interest rate of .4%) at January 1, 2011 and approximately $415 million (weighted-average interest rate of .2%) at January 2, 2010.

The Company had $81.8 million (weighted-average interest rate of 10.6%) and $60.1 million (weighted-average interest rate of 12.8%) of borrowings outstanding under foreign short-term lines of credit at January 1, 2011 and January 2, 2010, respectively.

Uncommitted lines of credit were approximately $407 million at January 1, 2011 and may be cancelled at any time by the Company or the banks.

Available short-term financing arrangements totaled $1.03 billion at January 1, 2011.

Commitment fees related to the Company's committed lines of credit in 2010, 2009, and 2008 were $2.6 million, $2.3 million, and $.8 million, respectively.

Long-term debt and its respective weighted-average interest rates at January 1, 2011 consisted of the following:

| (In millions) | 2010 | 2009 |
|---|---|---|
| Medium-term notes: | | |
| Series 1995 at 7.5% — due 2015 through 2025 | $ 50.0 | $ 50.0 |
| Long-term notes: | | |
| Bank term loan | – | 340.0 |
| Senior notes due 2013 at 4.8% | 250.0 | 250.0 |
| Senior notes due 2017 at 6.6% | 249.2 | 249.0 |
| HiMEDS Senior notes | – | 109.4 |
| Senior notes due 2020 at 5.4% | 249.8 | – |
| Senior notes due 2033 at 6.0% | 150.0 | 150.0 |
| Other long-term borrowings | 8.4 | .8 |
| Less amount classified as current | (1.2) | (60.5) |
| Total long-term debt | $ 956.2 | $ 1,088.7 |

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

Maturities of long-term debt during the years 2011 through 2015 are $1.2 million (classified as current), $2.3 million, $252 million, $1.6 million and $5.6 million, respectively, with $694.7 million maturing in 2016 and thereafter.

In March 2009, the Company completed an exchange of approximately 6.6 million units (or 75.15%) of its HiMEDS units. The Company issued approximately 6.5 million shares of its common stock and paid approximately $43 million in cash for the exchanged HiMEDS units with a carrying value of approximately $331 million. As a result of this exchange, the Company recorded a debt extinguishment loss of approximately $21 million (included in "Other expense, net" in the Consolidated Statements of Operations) in the first quarter of 2009, which included a write-off of $9.6 million related to unamortized debt issuance costs. In November 2010, the Company completed the remarketing of its remaining HiMEDS senior notes in accordance with the original terms of the HiMEDS units by purchasing approximately $109 million of these senior notes. In aggregate, this remarketing resulted in the extinguishment of approximately $109 million of senior notes and the issuance of approximately 2.1 million shares of the Company's common stock. As a result of this remarketing, the Company recorded a debt extinguishment loss of $2.8 million (included in "Other expense, net" in the Consolidated Statements of Operations), which consisted of a write-off related to unamortized debt issuance costs.

In January 2009, the Company entered into an amendment to a credit agreement for a $1 billion revolving credit facility (the "Revolver") with certain domestic and foreign banks, maturing August 10, 2012. The amendment increased the Company's flexibility for a specified period of time in complying with the financial covenants to which the Revolver is subject and excluded certain restructuring charges from the calculation of the financial ratios under those covenants. Additionally, the amendment increased the annual interest rate of the Revolver and provided for an increase in the facility fee payable under the Revolver. Financing available under the Revolver was used as a commercial paper back-up facility and to finance other corporate requirements.

In January 2009, a wholly-owned subsidiary of the Company entered into an amendment to a credit agreement for a $400 million term loan credit facility ("Credit Facility") with certain domestic and foreign banks. The subsidiary's payment and performance under the agreement were guaranteed by the Company. Financing available under the Credit Facility was permitted to be used for working capital and other general corporate purposes. The amendment increased the Company's flexibility for a specified period of time in complying with the financial covenants to which the Credit Facility is subject and excluded certain restructuring charges from the calculation of the financial ratios under those covenants. The amendment also increased the annual interest rate of the Credit Facility. In April 2010, the Company issued $250 million of senior notes bearing an interest rate of 5.375% per year, due April 2020. Approximately $248 million in proceeds from the offering, net of underwriting discounts and offering expenses, were used, together with commercial paper borrowings, to repay the $325 million in indebtedness outstanding under the Credit Facility in May 2010. In the second quarter of 2010, the Company recorded a debt extinguishment loss of $1.2 million related to unamortized debt issuance costs from the Credit Facility.

As of January 1, 2011, the Company was in compliance with its financial covenants.

The Company's total interest costs in 2010, 2009 and 2008 were $80.6 million, $89.5 million and $122.1 million, respectively, of which $4 million, $4.2 million and $6.2 million, respectively, were capitalized as part of the cost of assets.

The fair value of the Company's long-term debt is estimated primarily based on the credit spread above U.S. Treasury securities on comparable notes with similar rates, credit rating, and remaining maturities. The fair value of the Company's total debt, including short-term borrowings, was $1.39 billion at January 1, 2011 and $1.60 billion at January 2, 2010. Fair value amounts were determined primarily based on Level 2 inputs. Refer to Note 1, "Summary of Significant Accounting Policies."

The Company had standby letters of credit with an aggregate contract amount of outstanding totaling $41.1 million and $52.5 million at January 1, 2011 and January 2, 2010, respectively. The aggregate contract amount of outstanding standby letters of credit approximated fair value.

## NOTE 5. FINANCIAL INSTRUMENTS

As of January 1, 2011, the U.S. dollar equivalent notional values of the Company's outstanding commodity contracts and foreign exchange contracts were approximately $6.9 million and $1.18 billion, respectively.

The Company recognizes all derivative instruments as either assets or liabilities at fair value in the statements of financial position. The Company designates commodity forward contracts on forecasted purchases of commodities and foreign currency contracts on forecasted transactions as cash flow hedges and foreign currency contracts on existing balance sheet items as fair value hedges.

In April 2010, the Company entered into a contract to lock in the Treasury rate component of the interest rate on its $250 million debt issuance, which is discussed in Note 4, "Debt." On April 9, 2010, the contract settled at a loss of $.3 million, which is being amortized into interest expense over the term of the related debt.

The following table provides the balances and locations of derivatives as of January 1, 2011:

| | Asset | | Liability | |
|---|---|---|---|---|
| (In millions) | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Foreign exchange contracts | Other current assets | $ 16.8 | Other current liabilities | $ 7.9 |
| Commodity contracts | Other current assets | .1 | Other current liabilities | 2.4 |
| | | $ 16.9 | | $ 10.3 |

The following table provides the balances and locations of derivatives as of January 2, 2010:

| | Asset | | Liability | |
|---|---|---|---|---|
| (In millions) | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Foreign exchange contracts | Other current assets | $ 5.0 | Other current liabilities | $ 6.5 |
| Commodity contracts | Other current assets | .5 | Other current liabilities | 3.5 |
| | | $ 5.5 | | $ 10.0 |

### Fair Value Hedges

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

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

| (In millions) | Location of Gain (Loss) in Income | 2010 | 2009 |
|---|---|---|---|
| Foreign exchange contracts | Cost of products sold | $ (3.4) | $ (2.8) |
| Foreign exchange contracts | Marketing, general and administrative expense | 40.2 | 15.3 |
| | | $ 36.8 | $ 12.5 |

### Cash Flow Hedges

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

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

| (In millions) | 2010 | 2009 |
|---|---|---|
| Interest rate contracts | $ (.3) | $ – |
| Foreign exchange contracts | (6.0) | (7.7) |
| Commodity contracts | (4.0) | (2.7) |
| | $ (10.3) | $ (10.4) |

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

| (In millions) | Location of Loss in Income | 2010 | 2009 |
|---|---|---|---|
| Interest rate contracts | Interest expense | $ (4.8) | $ (6.9) |
| Foreign exchange contracts | Cost of products sold | (2.9) | (2.5) |
| Commodity contracts | Cost of products sold | (4.6) | (5.8) |
| | | $ (12.3) | $ (15.2) |

The amount of gain or loss recognized in income related to the ineffective portion of, and the amounts excluded from, effectiveness testing for cash flow hedges and derivatives not designated as hedging instruments was not significant in 2010 and 2009.

As of January 1, 2011, a net loss of approximately $8 million is expected to be reclassified from accumulated other comprehensive loss to earnings within the next 12 months.

## NOTE 6. PENSION AND OTHER POSTRETIREMENT BENEFITS

### Defined Benefit Plans

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

The Company is also obligated to pay unfunded termination indemnity benefits to certain employees outside of the U.S. These benefits are subject to applicable agreements, local laws and regulations. The Company has not incurred significant costs related to performance under these types of arrangements and the associated liability is not included in the disclosures below.

The Company's U.S. defined benefit pension plans and early retiree medical plan were closed to employees hired after December 31, 2008. Employees who participated in these plans before December 31, 2008 continued to participate and accrue pension benefits after satisfying the eligibility requirements of these plans.

Effective December 31, 2010, benefits for three of the Company's U.S. defined benefit plans — the Avery Dennison Pension Plan ("ADPP"), the Benefit Restoration Plan ("BRP"), and the Supplemental Executive Retirement Plan ("SERP") — were frozen. Benefits under these plans stopped accruing; however, pension benefits accrued through December 31, 2010 were preserved and will be paid out (for employees fully vested at the time of retirement or other qualified event) under the terms of their respective plans. As a result of freezing the ADPP and BRP, the Company recognized a curtailment loss of $2.4 million in 2010, recorded in "Other expense, net" in the Consolidated Statements of Operations. No curtailment gain or loss was recognized from freezing the SERP, as future service continues to impact the plan's benefits and the determination of the value is not known until retirement of the participants. In connection with the freezing of the SERP, the Company granted an aggregate of approximately .2 million of stock options to the active SERP participants, which resulted in approximately $2.2 million of pretax stock-based compensation expense in the fourth quarter of 2010. This expense reflected the immediate recognition of compensation cost associated with those stock options granted to employees who are retirement eligible, as defined in the Company's stock option and incentive plan. Refer to Note 9, "Shareholders' Equity and Stock-based Compensation."

Additionally, settlement events in Canada, Belgium, and Korea resulted in the Company's recognition of a $2.3 million settlement loss in 2010.

### Plan Assets

Assets of the Company's U.S. defined benefit pension plans are invested in a diversified portfolio that consists primarily of equity and fixed income securities. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, including growth, value, and both small and large capitalization stocks. The Company's target plan asset investment allocation in the U.S. is 75% in equity securities and 25% in fixed income securities and cash, subject to periodic fluctuations in these respective asset classes. The investment objective of the plans is to maximize the total rate of return (income and appreciation) within the limits of prudent risk-taking and Section 404 of the Employee Retirement Income Security Act of 1974, as amended. The plans are diversified across asset classes, striving to achieve an optimal balance between risk and return and between income and capital appreciation. Because many of the pension liabilities are long-term, the investment horizon is also long-term, but the investment plan must also ensure adequate near-term liquidity to meet benefit payments.

Assets of the Company's international plans are invested in accordance with local accepted practices and include equity securities, fixed income securities, insurance contracts and cash. Asset allocations and investments vary by country and plan. The Company's target plan asset investment allocation for its international plans combined is 54% in equity securities, 37% in fixed income securities and cash, and 8% in insurance contracts and other investments, subject to periodic fluctuations in these respective asset classes.

The weighted-average asset allocations for the Company's defined benefit pension plans at end of year 2010 and 2009, by asset category, are as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | U.S. | Int'l | U.S. | Int'l |
| Equity securities | 70% | 47% | 71% | 42% |
| Fixed income securities and cash | 30 | 43 | 29 | 47 |
| Insurance contracts and other investments | – | 10 | – | 11 |
| Total | 100% | 100% | 100% | 100% |

*Fair Value Measurements*

The following is a description of the valuation methodologies used for assets measured at fair value:

Cash is valued at nominal value. Money market funds are valued at a net asset value ("NAV"). Mutual funds are valued at fair value as determined by quoted market prices, based upon the NAV of shares held by the plans at year end. Pooled funds, which include real estate pooled funds and multi-asset common trust funds are comprised of shares or units in funds that are not publicly traded and are valued at net unit value, as determined by the fund's trustees based on the underlying securities in the trust. Equities are valued at the closing price reported on the active market on which the individual securities are traded. Real estate investment trusts are valued based on quoted prices in active markets. Bonds and debentures consist primarily of government bonds, corporate bonds, and financial debentures, and are valued at average price provided by independent pricing companies. Insurance contracts are valued at book value, which approximates fair value and is calculated using the prior year balance plus or minus investment returns and changes in cash flows.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth, by level within the fair value hierarchy, the U.S. plans' assets at fair value as of year end 2010:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| (In millions) | Total | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| **Assets:** | | | | |
| Cash | $ .2 | $ .2 | $ – | $ – |
| Fixed income securities | | | | |
| Money market funds | 56.3 | – | 56.3 | – |
| Pooled funds — U.S. bonds | 109.3 | – | 109.3 | – |
| Total fixed income securities | 165.6 | – | 165.6 | – |
| Equity securities | | | | |
| Equities — U.S. growth | 84.1 | 84.1 | – | – |
| Equities — U.S. value | 83.1 | 83.1 | – | – |
| Equities — international | 19.0 | 19.0 | – | – |
| Mutual fund — international | 12.7 | 12.7 | – | – |
| Pooled funds — U.S. equities | 140.4 | – | 140.4 | – |
| Pooled funds — international | 34.6 | – | 34.6 | – |
| Total equity securities | 373.9 | 198.9 | 175.0 | – |
| Total U.S. plan assets at fair value | $ 539.7 | $ 199.1 | $ 340.6 | $ – |
| Other assets(1) | .3 | | | |
| Total U.S. plan assets | $ 540.0 | | | |

(1) Included accrued receivables and pending broker settlements at year end 2010.

The following table sets forth, by level within the fair value hierarchy, the international plans' assets at fair value as of year end 2010:

| (In millions) | Total | Fair Value Measurements Using<br>Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash | $ 4.1 | $ 4.1 | $ – | $ – |
| Fixed income securities | | | | |
| Money market funds | – | – | – | – |
| Mutual funds | .3 | .3 | – | – |
| Pooled funds — European bonds | 179.4 | – | 179.4 | – |
| Total fixed income securities | 179.7 | .3 | 179.4 | – |
| Equity securities | | | | |
| Pooled funds — global | 79.3 | – | 79.3 | – |
| Pooled funds — European region | 63.8 | – | 63.8 | – |
| Pooled funds — Asia Pacific region | 12.2 | – | 12.2 | – |
| Pooled funds — U.S. | 11.9 | – | 11.9 | – |
| Pooled funds — emerging markets | 9.3 | – | 9.3 | – |
| Pooled funds — real estate investment trusts | 21.7 | – | 21.7 | – |
| Total equity securities | 198.2 | – | 198.2 | – |
| Other investments | | | | |
| Pooled funds — other | 16.7 | – | 16.7 | – |
| Insurance contracts | 27.3 | – | – | 27.3 |
| Total other investments | 44.0 | – | 16.7 | 27.3 |
| Total international plan assets at fair value | $ 426.0 | $ 4.4 | $ 394.3 | $ 27.3 |
| Other assets[1] | .6 | | | |
| Total international plan assets | $ 426.6 | | | |

(1) Included accrued receivables and pending broker settlements at year end 2010.

The following table presents a reconciliation of Level 3 assets held during the year ended January 1, 2011:

| (In millions) | Level 3 assets<br>Insurance Contracts |
|---|---|
| Beginning balance at January 2, 2010 | $ 26.9 |
| Net realized and unrealized gain | .8 |
| Net purchases, issuances and settlements | (.3) |
| Net transfers in (out) of Level 3 | – |
| Impact of changes in foreign currency exchange rates | (.1) |
| Ending balance at January 1, 2011 | $ 27.3 |

The following table sets forth, by level within the fair value hierarchy, the U.S. plans' assets at fair value as of year end 2009:

| (In millions) | Total | Fair Value Measurements Using Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash | $ .3 | $ .3 | $ – | $ – |
| Fixed income securities | | | | |
| Money market funds | 40.5 | – | 40.5 | – |
| Pooled funds | 97.8 | – | 97.8 | – |
| Total fixed income securities | 138.3 | – | 138.3 | – |
| Equity securities | | | | |
| Equities | 174.9 | 174.9 | – | – |
| Mutual funds | 15.2 | 15.2 | – | – |
| Pooled funds | 137.3 | – | 137.3 | – |
| Total equity securities | 327.4 | 190.1 | 137.3 | – |
| Real estate investment trusts | 1.9 | 1.9 | – | – |
| Total U.S. plan assets at fair value | $ 467.9 | $ 192.3 | $ 275.6 | $ – |
| Other assets(1) | (.2) | | | |
| Total U.S. plan assets | $ 467.7 | | | |

(1) Included accrued receivables and pending broker settlements at year end 2009.

The following table sets forth, by level within the fair value hierarchy, the international plans' assets at fair value as of year end 2009:

| (In millions) | Total | Fair Value Measurements Using Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash | $ 4.7 | $ 4.7 | $ – | $ – |
| Fixed income securities | | | | |
| Mutual funds | .2 | .2 | – | – |
| Bonds and debentures | 1.0 | – | 1.0 | – |
| Pooled funds | 179.8 | – | 179.8 | – |
| Total fixed income securities | 181.0 | .2 | 180.8 | – |
| Equity pooled funds | 163.9 | – | 163.9 | – |
| Insurance contracts | 26.9 | – | – | 26.9 |
| Real estate pooled funds | 18.2 | – | 18.2 | – |
| Multi-asset common trust funds | 7.0 | – | 7.0 | – |
| Total international plan assets at fair value | $ 401.7 | $ 4.9 | $ 369.9 | $ 26.9 |
| Other assets(1) | .4 | | | |
| Total international plan assets | $ 402.1 | | | |

(1) Included accrued receivables and pending broker settlements at year end 2009.

The following table presents a reconciliation of Level 3 assets held during the year ended January 2, 2010:

| (In millions) | Level 3 assets Insurance Contracts |
|---|---|
| Beginning balance at December 27, 2008 | $ 23.0 |
| Net realized and unrealized gain | .9 |
| Net purchases, issuances and settlements | 1.8 |
| Net transfers in (out) of Level 3 | – |
| Impact of changes in foreign currency exchange rates | 1.2 |
| Ending balance at January 2, 2010 | $ 26.9 |

**Postretirement Health Benefits**
The Company provides postretirement health benefits to certain U.S. retired employees up to the age of 65 under a cost-sharing arrangement, and provides supplemental Medicare benefits to certain U.S. retirees over the age of 65. The Company's policy is to fund the cost of the postretirement benefits on a cash basis. While the Company has not expressed any intent to terminate postretirement health benefits, the Company may do so at any time.

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

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

*Healthcare Cost Trend Rate*
The Company's practice is to fund the cost of postretirement benefits on a cash basis. For measurement purposes, an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011. This rate is expected to decrease to approximately 5% by 2018.

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

| (In millions) | One-percentage-point increase | One-percentage-point decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ .2 | $ (.2) |
| Effect on postretirement benefit obligation | 3.5 | (3.1) |

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

*Plan Benefit Obligations*

| | Pension Benefits | | | | U.S. Postretirement Health Benefits | |
|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2010 | 2009 |
| (In millions) | U.S. | Int'l | U.S. | Int'l | | |
| **Change in projected benefit obligation:** | | | | | | |
| Projected benefit obligation at beginning of year | $ 693.6 | $ 465.8 | $ 611.9 | $ 449.9 | $ 37.0 | $ 31.8 |
| Service cost | 23.8 | 9.8 | 18.9 | 11.8 | 1.5 | 1.0 |
| Interest cost | 40.1 | 24.5 | 38.8 | 25.8 | 1.9 | 1.9 |
| Participant contribution | – | 4.1 | – | 4.3 | 1.2 | 1.8 |
| Amendments | .8 | .1 | – | (.3) | – | – |
| Actuarial loss (gain) | 56.3 | 50.3 | 63.2 | (25.0) | 1.9 | 5.3 |
| Plan transfer(1) | 2.0 | .3 | 2.0 | – | – | – |
| Benefits paid | (37.8) | (19.5) | (41.2) | (20.1) | (4.8) | (4.8) |
| Net transfer in | – | – | – | .3 | – | – |
| Pension curtailment | (34.0) | (.8) | – | – | – | – |
| Pension settlements(2) | – | (8.2) | – | (.8) | – | – |
| Foreign currency translation | – | (21.7) | – | 19.9 | – | – |
| Projected benefit obligation at end of year | $ 744.8 | $ 504.7 | $ 693.6 | $ 465.8 | $ 38.7 | $ 37.0 |
| Accumulated benefit obligation at end of year | $ 742.3 | $ 474.9 | $ 658.0 | $ 439.2 | | |

(1) Plan transfer for the U.S. represented a transfer from the Company's savings plan.

(2) Pension settlements in 2010 represented settlement events in Canada, Belgium, Korea, Taiwan, and France.

*Plan Assets*

| (In millions) | Pension Benefits 2010 U.S. | Int'l | 2009 U.S. | Int'l | U.S. Postretirement Health Benefits 2010 | 2009 |
|---|---|---|---|---|---|---|
| **Change in plan assets:** | | | | | | |
| Fair value of plan assets at beginning of year | $ 467.7 | $ 402.1 | $ 386.6 | $ 325.0 | $ – | $ – |
| Actual return on plan assets | 54.7 | 44.1 | 86.7 | 60.8 | – | – |
| Plan transfer(1) | 2.0 | .1 | 2.0 | – | – | – |
| Employer contribution | 53.4 | 24.5 | 33.5 | 16.5 | 3.6 | 3.0 |
| Participant contribution | – | 4.1 | – | 4.3 | 1.2 | 1.8 |
| Benefits paid | (37.8) | (19.5) | (41.1) | (20.1) | (4.8) | (4.8) |
| Pension settlements(2) | – | (8.2) | – | (.8) | – | – |
| Adjustment(3) | – | – | – | .7 | – | – |
| Foreign currency translation | – | (20.6) | – | 15.7 | – | – |
| Fair value of plan assets at end of year | $ 540.0 | $ 426.6 | $ 467.7 | $ 402.1 | $ – | $ – |

(1) Plan transfer for the U.S. represented a transfer from the Company's savings plan.

(2) Pension settlements in 2010 represented settlement events in Canada, Belgium, Korea, Taiwan, and France.

(3) Adjustment in 2009 represented an additional plan assets related to a German pension plan.

*Funded Status*

| (In millions) | Pension Benefits 2010 U.S. | Int'l | 2009 U.S. | Int'l | U.S. Postretirement Health Benefits 2010 | 2009 |
|---|---|---|---|---|---|---|
| **Funded status of the plans:** | | | | | | |
| Noncurrent assets | $ – | $ 40.0 | $ – | $ 45.7 | $ – | $ – |
| Current liabilities | (3.3) | (2.9) | (3.1) | (2.4) | (2.7) | (3.0) |
| Noncurrent liabilities | (201.5) | (115.2) | (222.8) | (107.0) | (36.0) | (34.0) |
| Plan assets less than benefit obligations | $ (204.8) | $ (78.1) | $ (225.9) | $ (63.7) | $ (38.7) | $ (37.0) |

| | Pension Benefits 2010 U.S. | Int'l | 2009 U.S. | Int'l | 2008 U.S. | Int'l | U.S. Postretirement Health Benefits 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| **Weighted-average assumptions used for determining year end obligations:** | | | | | | | | | |
| Discount rate | 5.50% | 5.24% | 6.00% | 5.72% | 6.60% | 5.74% | 5.25% | 5.50% | 6.60% |
| Rate of increase in future compensation levels | – | 2.95 | 3.59 | 2.99 | 3.59 | 2.59 | – | – | – |

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

For U.S. and international plans combined, the projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were approximately $1.02 billion and $693.3 million, respectively, at year end 2010 and $952.2 million and $616.9 million, respectively, at year end 2009.

For U.S. and international plans combined, the accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were approximately $1 billion and $693.3 million, respectively, at year end 2010 and $897.8 million and $609.5 million, respectively, at year end 2009.

**Notes to Consolidated Financial Statements** *(continued)*

*Accumulated Other Comprehensive Income ("AOCI")*

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

| | Pension Benefits | | | | U.S. Postretirement Health Benefits | |
|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2010 | 2009 |
| (In millions) | U.S. | Int'l | U.S. | Int'l | | |
| Net actuarial loss (gain) | $355.1 | $ (.7) | $359.3 | $ (1.3) | $ 25.8 | $ 25.6 |
| Prior service cost (credit) | 2.2 | 3.8 | 4.7 | 4.1 | (16.5) | (18.5) |
| Net transition obligation | – | 104.2 | – | 78.9 | – | – |
| Net amount recognized in AOCI | $ 357.3 | $ 107.3 | $364.0 | $81.7 | $ 9.3 | $ 7.1 |

The after-tax amounts and reconciliation of AOCI components as of January 1, 2011 are as follows:

| | Pension Benefits | | | | U.S. Postretirement Health Benefits | | |
|---|---|---|---|---|---|---|---|
| (In millions) | Before-Tax Amounts U.S. | Before-Tax Amounts Int'l | Tax Effect | Net-of-Tax Amount | Before-Tax Amount | Tax Effect | Net-of-Tax Amount |
| AOCI at January 2, 2010 | $ 364.0 | $ 81.7 | $ (146.7) | $ 299.0 | $ 7.1 | $ (2.7) | $ 4.4 |
| Less: Amortization | (23.4) | (4.7) | 9.7 | (18.4) | .4 | (.2) | .2 |
| Net AOCI | 340.6 | 77.0 | (137.0) | 280.6 | 7.5 | (2.9) | 4.6 |
| Net actuarial loss (gain) | 15.9 | 30.1(1) | (11.8) | 34.2 | 1.8 | (.7) | 1.1 |
| Prior service cost (credit) | .8 | .2 | (.3) | .7 | – | – | – |
| AOCI at January 1, 2011 | $ 357.3 | $ 107.3 | $(149.1) | $ 315.5 | $ 9.3 | $ (3.6) | $ 5.7 |

(1) Net of foreign currency translation gain of $2.1.

**Plan Income Statement Reconciliations**

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

| | Pension Benefits | | | | | | U.S. Postretirement Health Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2008 | | | | |
| (In millions) | U.S. | Int'l | U.S. | Int'l | U.S. | Int'l | 2010 | 2009 | 2008 |
| **Components of net periodic benefit cost:** | | | | | | | | | |
| Service cost | $ 23.8 | $ 9.8 | $ 18.9 | $ 11.8 | $ 19.5 | $ 14.1 | $ 1.5 | $ 1.0 | $ 1.0 |
| Interest cost | 40.1 | 24.5 | 38.8 | 25.8 | 36.1 | 28.1 | 2.0 | 1.9 | 1.8 |
| Expected return on plan assets | (48.4) | (25.9) | (48.6) | (26.8) | (50.9) | (29.0) | | – | – |
| Recognized net actuarial loss | 20.2 | 2.4 | 9.3 | 2.1 | 6.0 | 3.6 | 1.6 | 1.5 | 1.5 |
| Amortization of prior service cost | .8 | .5 | .8 | .5 | 1.1 | 1.4 | (2.0) | (2.0) | (2.0) |
| Amortization of transition obligation (asset) | – | (.5) | – | (.6) | – | (.6) | – | – | – |
| Recognized loss (gain) on curtailment | 2.4 | (.9) | – | – | – | (.1) | – | – | – |
| Recognized loss on settlement | – | 2.3(1) | .9 | .2 | – | – | – | – | – |
| Net periodic benefit cost | $ 38.9 | $ 12.2 | $ 20.1 | $ 13.0 | $ 11.8 | $ 17.5 | $ 3.1 | $ 2.4 | $ 2.3 |

(1) Represented settlement events in Canada, Belgium, and Korea.

| | Pension Benefits | | | | | | U.S. Postretirement Health Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2008 | | | | |
| | U.S. | Int'l | U.S. | Int'l | U.S. | Int'l | 2010 | 2009 | 2008 |
| **Weighted-average assumptions used for determining net periodic cost:** | | | | | | | | | |
| Discount rate | 6.00%(1) | 5.72% | 6.60% | 5.74% | 6.55% | 5.53% | 5.50% | 6.60% | 6.30% |
| Expected long-term rate of return on plan assets | 8.75 | 6.23 | 8.75 | 6.51 | 8.75 | 6.66 | – | – | – |
| Rate of increase in future compensation levels | 3.59 | 2.99 | 3.59 | 2.59 | 3.59 | 2.66 | – | – | – |

(1) The ADPP and BRP were remeasured on August 1, 2010 at 5.40% to reflect the plan freezes effective December 31, 2010.

**Plan Contributions**

In 2011, the Company expects to contribute approximately $8 million and may contribute up to an additional $25 million to its U.S. pension plans, and expects to contribute $21 million to its international pension plans (totaling approximately $50 million). The Company also expects to contribute approximately $3 million to its postretirement benefit plan in 2011.

**Future Benefit Payments**

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

| | Pension Benefits | | U.S. Postretirement Health Benefits |
|---|---|---|---|
| (In millions) | U.S. | Int'l | |
| 2011 | $ 40.5 | $ 18.7 | $ 2.7 |
| 2012 | 41.8 | 20.0 | 2.5 |
| 2013 | 43.1 | 21.0 | 2.5 |
| 2014 | 44.4 | 22.0 | 2.4 |
| 2015 | 45.6 | 23.4 | 2.4 |
| 2016 — 2020 | 259.6 | 143.2 | 13.6 |

**Estimated Amortization Amounts in Accumulated Other Comprehensive Income**

The Company's estimates of fiscal year 2011 amortization of amounts included in accumulated other comprehensive income are as follows:

| | Pension Benefits | | U.S. Postretirement Health Benefits |
|---|---|---|---|
| (In millions) | U.S. | Int'l | |
| Net actuarial loss | $8.4 | $3.9 | $ 1.8 |
| Prior service cost (credit) | .4 | .4 | (2.0) |
| Net transition obligation (asset) | – | (.5) | – |
| Net amount to be recognized | $8.8 | $3.8 | $ (.2) |

**Defined Contribution Plans**

The Company sponsors various defined contribution plans worldwide, with the largest plan being the Avery Dennison Corporation Savings Plan ("Savings Plan"), a 401(k) plan covering its U.S. employees. Employees hired after December 31, 2008, who were no longer eligible to participate in the Company's defined benefit pension plans and early retiree medical plan, received an enhanced Company matching contribution in the Savings Plan through December 31, 2010. Effective January 1, 2011, the Company increased and made uniform its matching contribution for all participants in the Savings Plan in connection with the freeze of the ADPP and BRP on December 31, 2010.

Beginning March 2009, the Company's match to the Savings Plan was funded by shares in the Company's ESBT. During 2010 and 2009, the Company expensed $11.8 million and $9.2 million, respectively, related to its match of participant contributions in the Company's defined contribution plan. This amount was recorded in "Marketing, general and administrative expense" in the Consolidated Statements of Operations. See Note 9, "Shareholders' Equity and Stock-based Compensation," for more information.

*Employee Stock Ownership Plan ("ESOP")*

The Savings Plan has a leveraged ESOP feature, which allows the plan to borrow funds to purchase shares of the Company's common stock at market prices. Savings Plan expense consisted primarily of stock contributions from the ESOP to participant accounts. As of March 2009, the shares in the ESOP were fully allocated to participants, and in August 2009, the final payment of the principal and interest on the outstanding loan was made.

ESOP expense was accounted for under the cost of shares allocated method. Net ESOP expense for 2009 and 2008 was $1.2 million and $1 million, respectively. Company contributions to pay interest or principal on ESOP borrowings were $2.2 million and $3.7 million in 2009 and 2008, respectively.

In 2009, interest costs incurred by the ESOP and dividends on unallocated ESOP shares used for debt service were not significant. In 2008, interest costs incurred by the ESOP were $.3 million and dividends on unallocated ESOP shares used for debt service were $.4 million.

The cost of shares allocated to the ESOP for 2009 and 2008 was $1.3 million and $2.8 million, respectively. Of the total shares held by the ESOP at year end 2008, .8 million shares were allocated and .1 million shares were unallocated.

**Other Retirement Plans**

The Company has deferred compensation plans which permit eligible employees and directors to defer a portion of their compensation. The deferred compensation, together with certain Company contributions, earns specified and variable rates of return. As of year end 2010 and 2009, the Company had accrued $135.3 million and $128.4 million, respectively, for its obligations under these plans. These obligations are funded by corporate-owned life insurance contracts and standby letters of credit. As of year end 2010 and 2009, these obligations were secured by standby letters of credit of $16 million and $28 million, respectively. To assist in the funding of these plans, the Company has purchased corporate-owned life insurance contracts. Proceeds from the insurance policies are payable to the Company upon the death of covered participants. The cash surrender value of these policies, net of outstanding loans, included in "Other assets" in the Consolidated Balance Sheet, was $181.7 million and $170 million at year end 2010 and 2009, respectively.

The Company's deferred compensation expense was $5.2 million, $7 million, and $9.5 million for 2010, 2009 and 2008, respectively. A portion of the interest on certain Company contributions may be forfeited by participants if employment is terminated before age 55 other than by reason of death, disability or retirement.

**NOTE 7. COMMITMENTS**

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

| Year | (In millions) |
|---|---|
| 2011 | $ 66.1 |
| 2012 | 52.2 |
| 2013 | 36.8 |
| 2014 | 23.1 |
| 2015 | 17.5 |
| 2016 and thereafter | 48.5 |
| Total minimum lease payments | $ 244.2 |

Operating leases relate primarily to office and warehouse space, and equipment for electronic data processing and transportation. The terms of these leases do not impose significant restrictions or unusual obligations, except as noted below. There were no significant capital lease obligations at year end 2010 and 2009.

On September 9, 2005, the Company completed the lease financing for a commercial facility (the “Facility”) located in Mentor, Ohio, used primarily for the new headquarters and research center for the Company’s roll materials group. The Facility consists generally of land, buildings,

equipment and office furnishings. The Company has leased the Facility under an operating lease arrangement, which contains a residual value guarantee of $33.4 million.

Rent expense for operating leases, which includes maintenance and insurance costs and property taxes, was approximately $99 million in 2010, $100 million in 2009, and $105 million in 2008.

## NOTE 8. CONTINGENCIES

### Legal Proceedings

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-Kymenne Corporation ("UPM") and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, with allegations including that the defendants attempted to limit competition among themselves through anticompetitive understandings. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for the City and County of San Francisco on March 30, 2004. On September 30, 2004, the Harman Press amended its complaint to add Bemis Company Inc.'s subsidiary Morgan Adhesives Company ("MACtac") as a defendant. On January 21, 2005, American International Distribution Corporation filed a purported class action on behalf of indirect purchasers in the Superior Court for Chittenden County, Vermont. Similar actions were filed by Richard Wrobel, on February 16, 2005, in the District Court of Johnson County, Kansas; and by Chad and Terry Muzzey, on February 16, 2005 in the District Court of Scotts Bluff County, Nebraska. On February 17, 2005, Judy Benson filed a purported multi-state class action on behalf of indirect purchasers in the Circuit Court for Cocke County, Tennessee. Without admitting liability, the Company agreed to pay plaintiffs $2 million to resolve all claims related to the purported state class actions in the states of Kansas, Nebraska, Tennessee and Vermont. Those settlements were approved by the Tennessee court on March 12, 2010 and the complaints in those state actions were dismissed with prejudice. The Company recorded $2 million in the third quarter of 2009 in respect of the settlement of those claims, and made that payment on December 28, 2009. Also, without admitting liability, the Company paid $2.5 million on July 15, 2010 to resolve all claims in the California action. On December 8, 2010, the California court granted final approval of the settlement and dismissed all claims against the Company with prejudice. In respect of settlement of this claim, the Company recorded $.7 million in the fourth quarter of 2009 and $.3 million and $1.5 million in the first and second quarters of 2010, respectively.

The Company and its subsidiaries are involved in various other lawsuits, claims, inquiries, and other regulatory and compliance matters, most of which are routine to the nature of the Company's business. Based upon current information, management believes that the impact of the resolution of these other matters is not material to the Company's financial position, or is not estimable.

### Environmental Matters

As of January 1, 2011, the Company has been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at fourteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed. The Company is participating with other PRPs at such sites and anticipates that its share of cleanup costs will be determined pursuant to remediation 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 where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites and any sites that could be identified in the future for cleanup could be higher than the liabilities accrued.

The activity in 2010 and 2009 related to environmental liabilities was as follows:

| (In millions) | 2010 | 2009 |
|---|---|---|
| Balance at beginning of year | $ 51.5 | $ 54.6 |
| Purchase price adjustments related to acquisitions | – | .9 |
| Accruals | (1.2) | 1.0 |
| Payments | (4.0) | (5.0) |
| Balance at end of year | $ 46.3 | $ 51.5 |

As of January 1, 2011, approximately $9 million of the total balance was classified as short-term.

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

### Other

The Company participates in international receivable financing programs with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At January 1, 2011, the Company had guaranteed approximately $14 million.

As of January 1, 2011, the Company guaranteed up to approximately $17 million of certain foreign subsidiaries' credit granted by suppliers, and $393 million of certain subsidiaries' lines of credit with various financial institutions.

## NOTE 9. SHAREHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

### Common Stock and Common Stock Repurchase Program

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

In 1996, the Company established the ESBT to help meet the Company's future obligations under employee benefit and compensation plans, including stock plans, 401(k) plans, and other employee benefit plans by contributing common stock of the Company. The Board of Directors previously authorized the issuance of up to 18 million shares to be used for the

issuance of stock options and the funding of other Company obligations arising from various employee benefit plans. During 2010 and 2009, approximately 4.3 million and .7 million ESBT shares (with fair values of $163 million and $25 million, respectively) were released by the ESBT upon the settlement of the Company's employee benefit obligations. These released shares were included as "Treasury stock at cost" in the Consolidated Balance Sheets. As of January 1, 2011, approximately 2 million shares remaining available for issuance are held in the ESBT. The ESBT common stock is carried at market value with changes in share price from prior reporting periods reflected as an adjustment to capital in excess of par value.

The Board of Directors authorizes the Company to repurchase shares of the Company's outstanding common stock. Repurchased shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. During the fourth quarter of 2010, the Company repurchased approximately 2.7 million shares totaling $108.7 million. Additionally, in December 2010, the Company executed the repurchase of approximately .3 million shares for $13.5 million, which settled in January 2011. As of January 1, 2011, approximately 1.2 million shares were available for repurchase under the Board of Directors' October 2006 authorization.

Subsequent to the end of 2010, on January 27, 2011, the Board of Directors authorized the Company to repurchase an additional 5 million shares of the Company's stock.

**Stock Based Compensation**

The Company maintains various stock option and incentive plans. Net income for 2010, 2009 and 2008 included pretax stock-based compensation expense, which related to stock options, performance units ("PUs"), restricted stock units ("RSUs") and restricted stock, of $35.2 million, $25.8 million and $29 million, respectively. These expenses were included in "Marketing, general and administrative expense" and were recorded in corporate expense and the Company's operating segments, as appropriate. The total recognized tax benefit related to these stock-based compensation expenses for 2010, 2009 and 2008 was $11.9 million, $8.5 million and $9.7 million, respectively. No stock-based compensation cost was capitalized for the years ended 2010, 2009 and 2008, respectively.

**Stock Options**

Stock options granted to directors and employees may be granted at no less than 100% of the fair market value of the Company's common stock on the date of the grant. Options generally vest ratably over a three-year period for directors and over a four-year period for employees. Prior to fiscal year 2010, options granted to directors generally vested ratably over a two-year period. Unexercised options expire ten years from the date of grant. All stock options granted under these plans have an exercise price equal to the fair market value of the underlying common stock on the date of grant.

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

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

*Expected stock price volatility* for options represents an average of the implied and historical volatility.

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

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

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

The weighted-average fair value per share of options granted during 2010 was $8.76, compared to $6.57 for the year ended 2009 and $13.82 for the year ended 2008.

The underlying weighted-average assumptions used were as follows:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Risk-free interest rate | 2.61% | 2.76% | 4.15% |
| Expected stock price volatility | 31.99% | 41.51% | 29.86% |
| Expected dividend yield | 2.51% | 3.83% | 2.76% |
| Expected option term | 6.0 years | 6.1 years | 6.0 years |

The following table sets forth stock option information related to the Company's stock option plans during 2010:

| | Number of options (in thousands) | Weighted-average exercise price | Weighted-average remaining contractual life (in years) | Aggregate intrinsic value (in millions) |
|---|---|---|---|---|
| Outstanding at January 2, 2010 | 10,760.2 | $ 49.72 | 5.87 | $ 34.0 |
| Granted | 1,850.8 | 33.09 | | |
| Exercised | (121.2) | 21.10 | | |
| Forfeited or expired | (921.4) | 53.41 | | |
| Outstanding at January 1, 2011 | 11,568.4 | $ 47.06 | 5.75 | $ 62.0 |
| Options vested and expected to vest at January 1, 2011 | 11,441.9 | 47.25 | 5.72 | 60.0 |
| Options exercisable at January 1, 2011 | 8,298.1 | $ 52.70 | 4.69 | $ 20.5 |

The total intrinsic value of stock options exercised was $1.9 million in 2010, $.2 million in 2009 and $1.9 million in 2008. Cash received by the Company from the exercise of these stock options was approximately $2.5 million in 2010, $.6 million in 2009 and $3 million in 2008. The tax deduction associated with these options exercised was $.6 million in 2010, $.1 million in 2009 and $.6 million in 2008. The intrinsic value of the stock options is based on the amount by which the market value of the underlying stock exceeds the exercise price of the option.

In April and February 2010, the Company granted its annual stock-based compensation awards to its directors and certain of its eligible employees, respectively. Awards granted to retirement-eligible employees are treated as though they were immediately vested; as a result, the compensation expense related to stock option awards of $2.5 million, $.5 million and $3 million was recognized during 2010, 2009 and 2008, respectively, and was included in the stock option expense noted below.

Net income for 2010, 2009 and 2008 included pretax expense for stock options of $19.4 million, $17 million and $18.6 million, respectively.

The following table summarizes the Company's unvested stock options during 2010:

| | Number of options (in thousands) | | Weighted-average exercise price |
|---|---|---|---|
| Unvested options outstanding at January 2, 2010 | 3,566.3 | $ | 36.01 |
| Granted | 1,850.8 | | 33.09 |
| Vested | (2,006.8) | | 38.59 |
| Forfeited | (140.0) | | 36.32 |
| Unvested options outstanding at January 1, 2011 | 3,270.3 | $ | 32.76 |

As of January 1, 2011, the Company had approximately $20 million of unrecognized compensation cost related to unvested stock option awards granted under the Company's plans. This cost is expected to be recognized over the weighted-average remaining requisite service period of approximately 3 years.

**Performance Units**

Since the second quarter of 2008, following the shareholder approval of the Company's amended and restated stock option and incentive plan on April 24, 2008, the Company has granted PUs to certain eligible employees of the Company. These PUs are payable in shares of the Company's common stock at the end of a three-year cliff vesting period provided that certain performance metrics are achieved at the end of each respective performance period. Over the performance period, the number of the Company's common stock issued will be adjusted upward or downward based upon the probability of achievement of performance metrics. The actual number of shares issued can range from 0% to 200% of the target shares at the time of grant.

The pretax compensation expense related to PUs was $7.7 million, $3.1 million and $1.2 million for the years ended 2010, 2009 and 2008, respectively. The tax deduction associated with the vesting of PUs and the related issuance of common stock was $.2 million in 2010 and $.2 million in 2009.

The following table summarizes information about awarded PUs:

| | Number of PUs (in thousands) | | Weighted-average grant-date fair value |
|---|---|---|---|
| Unvested at January 2, 2010 | 651.2 | $ | 22.12 |
| Granted at target | 342.5 | | 29.06 |
| Vested | (15.1) | | 28.66 |
| Forfeited | (60.5) | | 23.45 |
| Unvested at January 1, 2011 | 918.1 | $ | 24.52 |

As of January 1, 2011, the Company had approximately $12 million of unrecognized compensation cost related to these PUs, which reflects the Company's current expectation of meeting certain performance metrics. This cost is expected to be recognized over the weighted-average remaining requisite service period of approximately 2 years.

**Restricted Stock Units and Restricted Stock**

RSU's are granted under the Company's stock option and incentive plan and vest based on one of the following:

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

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

Certain RSUs granted from 2005 through 2008 include dividend equivalents in the form of additional RSUs, which are equivalent to the amount of the dividend paid or property distributed on a single share of common stock multiplied by the number of RSUs in the employee's account. Starting in fiscal year 2008, the Company began granting RSUs without dividend equivalents.

The following table summarizes information about awarded RSUs:

| | Number of RSUs (in thousands) | | Weighted-average grant-date fair value |
|---|---|---|---|
| Unvested at January 2, 2010 | 783.3 | $ | 32.24 |
| Granted | 598.4 | | 30.01 |
| Vested | (197.8) | | 39.00 |
| Forfeited | (56.0) | | 29.76 |

| | | |
|---|---|---|
| Unvested at January 1, 2011 | 1,127.9 | $ 30.00 |

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

The pretax compensation expense related to RSUs was $8 million, $5.5 million and $7.8 million for the years ended 2010, 2009 and 2008, respectively. The tax deduction associated with the vesting of RSUs and the related issuance of common stock was approximately $2.2 million in 2010, $1.3 million in 2009 and $.8 million in 2008.

The pretax compensation expense related to Paxar converted performance share awards was $.1 million in 2009 and $1.1 million in 2008. The tax deduction associated with the vesting of performance shares and the related issuance of common stock was $.4 million in 2009 and $.2 million in 2008.

During 2005, the Company also awarded 30,000 shares of restricted stock, which vests in two equal increments, the first vested in 2009 and the second will vest in 2012. Pretax compensation expense for this award was $.1 million in 2010, $.1 million in 2009 and $.3 million in 2008.

The Company recognizes stock-based compensation awards granted to retirement-eligible employees as though they were immediately vested; as a result, the pretax compensation expense related to RSUs granted to retirement-eligible employees was recognized and included in the compensation expense noted above.

As of January 1, 2011, the Company had approximately $19 million of unrecognized compensation cost related to unvested RSUs and restricted stock. This cost is expected to be recognized over the remaining requisite service period (weighted-average remaining service period of approximately 2 years for RSUs and restricted stock).

## NOTE 10. COST REDUCTION ACTIONS

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

### 2010

In 2010, the Company continued its cost reduction program initiated in late 2008 and implemented additional restructuring actions resulting in a reduction of approximately 1,040 positions, impairment of certain assets, and lease cancellations. At January 1, 2011, approximately 500 employees impacted by these actions remain with the Company, and are expected to leave in 2011. Pretax charges related to these actions totaled $19 million, including severance and related costs of $15.3 million, impairment of fixed assets, buildings, and land of $2.6 million, and lease cancellation charges of $1.1 million. The table below details the accruals and payments related to these actions:

| (In millions) | Pressure-sensitive Materials Segment | Retail Information Services Segment | Office and Consumer Products Segment | Other specialty converting businesses | Total |
|---|---|---|---|---|---|
| **Total severance and related costs accrued during the period ended** | | | | | |
| April 3, 2010 | $ 1.5 | $ 2.2 | $ .7 | $ .3 | $ 4.7 |
| July 3, 2010 | 2.0 | – | (.1) | – | 1.9 |
| October 2, 2010 | .1 | .9 | 4.5 | .3 | 5.8 |
| January 1, 2011 | .9 | (.4) | .2 | 2.2 | 2.9 |
| Total expense accrued during 2010 | 4.5 | 2.7 | 5.3 | 2.8 | 15.3 |
| 2010 Settlements | (3.9) | (1.9) | (.5) | (.6) | (6.9) |
| Balance at January 1, 2011 | $ .6 | $ .8 | $ 4.8 | $ 2.2 | $ 8.4 |
| **Asset Impairments** | | | | | |
| Machinery and equipment | $ .2 | $ .2 | $ – | $ .1 | $ .5 |
| Buildings | .7 | .9 | – | – | 1.6 |
| Land | .5 | – | – | – | .5 |
| **Other** | | | | | |
| Lease cancellations | – | .2 | .9 | – | 1.1 |
| | $ 1.4 | $ 1.3 | $ .9 | $ .1 | $ 3.7 |

### 2009

In 2009, the Company continued its cost reduction program initiated in late 2008, resulting in a reduction of approximately 3,335 positions, impairment of certain assets, and lease cancellations. At January 1, 2011, no employees impacted by these actions remain with the Company. Pretax charges related to

these actions totaled $129.1 million, including severance and related costs of $86.8 million, impairment of fixed assets, buildings, land and patents of $39.9 million, and lease cancellation charges of $2.4 million. The table below details the accruals and payments related to these actions:

| (In millions) | Pressure-sensitive Materials Segment | Retail Information Services Segment | Office and Consumer Products Segment | Other specialty converting businesses | Total |
|---|---|---|---|---|---|
| **Total severance and related costs accrued during the period ended** | | | | | |
| April 4, 2009 | $ 7.6 | $ 5.8 | $ .9 | $ 2.8 | $ 17.1 |
| July 4, 2009 | 13.4 | 4.6 | .3 | 7.5 | 25.8 |
| October 3, 2009 | 3.9 | 21.0 | (.2) | 2.3 | 27.0 |
| January 2, 2010 | 2.3 | 6.3 | 8.0 | .3 | 16.9 |
| Total expense accrued during 2009 | 27.2 | 37.7 | 9.0 | 12.9 | 86.8 |
| 2009 Settlements | (19.5) | (23.6) | (.3) | (11.0) | (54.4) |
| 2010 Settlements | (7.1) | (13.7) | (8.1) | (1.8) | (30.7) |
| Balance at January 1, 2011 | $ .6 | $ .4 | $ .6 | $ .1 | $ 1.7 |
| **Asset Impairments** | | | | | |
| Machinery and equipment | $ 2.7 | $ 10.6 | $ .7 | $ 14.0 | $ 28.0 |
| Buildings | .7 | 2.4 | 3.9 | .9 | 7.9 |
| Land | .1 | – | – | – | .1 |
| Patents | 1.9 | .2 | .4 | 1.4 | 3.9 |
| **Other** | | | | | |
| Lease cancellations | 1.7 | .7 | – | – | 2.4 |
| | $ 7.1 | $ 13.9 | $ 5.0 | $ 16.3 | $ 42.3 |

**2008**

In 2008, the Company implemented cost reduction actions, including the new program initiated in the fourth quarter, resulting in a reduction of approximately 1,475 positions, impairment of certain assets and software, as well as lease cancellations. At January 1, 2011, no employees impacted by these actions remain with the Company. Pretax charges related to these actions totaled $40.7 million, including severance and related costs of $29.8 million, impairment of fixed assets and buildings of $7.7 million, lease cancellation charges of $2.3 million and software impairment of $.9 million. The table below details the accruals and payments related to these actions:

| (In millions) | Pressure-sensitive Materials Segment | Retail Information Services Segment | Office and Consumer Products Segment | Other specialty converting businesses | Total |
|---|---|---|---|---|---|
| **Total severance and related costs accrued during the period ended** | | | | | |
| March 29, 2008 | $ 1.5 | $ 1.4 | $ .2 | $ .2 | $ 3.3 |
| June 28, 2008 | .2 | 2.8 | 4.2 | – | 7.2 |
| September 27, 2008 | 2.5 | 1.4 | 3.2 | 1.6 | 8.7 |
| December 27, 2008 | 2.5 | 3.8 | 3.1 | 1.2 | 10.6 |
| Total expense accrued during 2008 | 6.7 | 9.4 | 10.7 | 3.0 | 29.8 |
| 2008 Settlements | (1.5) | (4.7) | (5.2) | (1.1) | (12.5) |
| 2009 Settlements | (5.0) | (4.6) | (4.8) | (1.8) | (16.2) |
| 2010 Settlements | (.2) | (.1) | (.7) | (.1) | (1.1) |
| Balance at January 1, 2011 | $ – | $ – | $ – | $ – | $ – |
| **Asset Impairments** | | | | | |
| Machinery and equipment | $ 4.9 | $ 1.3 | $ 1.2 | $ .2 | $ 7.6 |
| Buildings | – | .1 | – | – | .1 |
| Software | – | – | .9 | – | .9 |
| **Other** | | | | | |
| Lease cancellations | .9 | 1.4 | – | – | 2.3 |
| | $ 5.8 | $ 2.8 | $ 2.1 | $ .2 | $ 10.9 |

**NOTE 11. TAXES BASED ON INCOME**

Taxes based on income (loss) were as follows:

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Current: | | | |
| U.S. federal tax | $ (11.9) | $ (13.1) | $ 4.3 |
| State taxes | (3.6) | 2.0 | 3.9 |
| International taxes | 97.9 | 58.6 | 126.7 |
| | 82.4 | 47.5 | 134.9 |
| Deferred: | | | |
| U.S. federal tax | (16.6) | (49.0) | (36.5) |
| State taxes | 7.2 | (7.5) | 2.3 |
| International taxes | (38.6) | (35.2) | (96.2) |
| | (48.0) | (91.7) | (130.4) |
| Provision for (benefit from) income taxes | $ 34.4 | $ (44.2) | $ 4.5 |

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

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Computed tax at 35% of income (loss) before taxes | $ 123.0 | $ (276.8) | $ 94.7 |
| Increase (decrease) in taxes resulting from: | | | |
| State taxes, net of federal tax benefit | 1.6 | (7.9) | 3.5 |
| Foreign earnings taxed at different rates | (63.6) | (5.9) | (62.2) |
| Valuation allowance | 2.5 | 4.0 | (45.3) |
| Goodwill and indefinite-lived intangible asset impairment | – | 276.4 | – |
| Deferred compensation assets | (7.9) | (30.5) | – |
| U.S. federal tax credits (R&D and low-income housing) | (3.8) | (2.8) | (5.2) |
| Tax contingencies and audit settlements | (17.7) | 7.2 | 24.8 |
| Other items, net | .3 | (7.9) | (5.8) |
| Provision for (benefit from) income taxes | $ 34.4 | $ (44.2) | $ 4.5 |

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

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| U.S. | $ 27.0 | $ (412.6) | $ (14.2) |
| International | 324.3 | (378.3) | 284.8 |
| Income (loss) before taxes | $ 351.3 | $ (790.9) | $ 270.6 |

The effective tax rate was approximately 10% for the full year 2010 compared to approximately 6% for the full year 2009. The 2010 effective tax rate reflects $45.5 million of benefit from net operating losses resulting from the local statutory write down of certain investments in Europe and $17.7 million of net benefit from releases and accruals of certain tax reserves. The 2009 effective tax rate was most significantly influenced by the non-cash goodwill and intangible asset impairment charges, as these expenses are largely not tax deductible, thereby reducing the tax benefit from the loss.

Income taxes have not been provided on certain undistributed earnings of foreign subsidiaries of $1.20 billion and $1.23 billion at years ended 2010 and 2009, respectively, because such earnings are considered to be indefinitely reinvested. It is not practicable to estimate the amount of tax that would be payable upon distribution of these earnings. Deferred taxes have been accrued for earnings that are not considered indefinitely reinvested. The repatriation accrual for 2010 and 2009 was $15.3 million and $21.7 million, respectively.

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

| (In millions) | 2010 | 2009 |
|---|---|---|
| Accrued expenses not currently deductible | $ 69.7 | $ 65.8 |
| Net operating losses | 348.5 | 214.7 |
| Tax credit carryforwards | 111.4 | 101.8 |
| Capital loss carryforward | 13.5 | 14.1 |
| Postretirement and postemployment benefits | 108.6 | 94.8 |
| Pension costs | 104.2 | 107.3 |
| Inventory reserves | 11.6 | 11.3 |
| Other assets | 7.5 | 1.7 |
| Valuation allowance | (115.6) | (115.4) |
| Total deferred tax assets(1) | 659.4 | 496.1 |
| Depreciation and amortization | (188.1) | (184.3) |
| Repatriation accrual | (15.3) | (21.7) |
| Foreign operating loss recapture | (122.0) | – |
| Other liabilities | (6.6) | (13.0) |
| Total deferred tax liabilities(1) | (332.0) | (219.0) |
| Total net deferred tax assets from operations | $ 327.4 | $ 277.1 |

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

A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized. When establishing a valuation allowance, the Company considers future sources of taxable income such as "future reversals of existing taxable temporary differences,

future taxable income exclusive of reversing temporary differences and carryforwards" and "tax planning strategies."

Net operating loss carryforwards of foreign subsidiaries for 2010 and 2009 were $1.14 billion and $709.6 million, respectively. The increase in 2010 is largely due to certain foreign statutory investment impairments. If unused, foreign net operating losses of $41.7 million will expire between 2011 and 2014, and $78.7 million will expire after 2014. Net operating losses of $1.02 billion can be carried forward indefinitely. Based on current projections, certain indefinite lived foreign net operating losses may take approximately 50 years to be fully utilized. Tax credit carryforwards of both domestic and foreign subsidiaries for 2010 and 2009 totaled $111.4 million and $101.8 million, respectively. If unused, tax credit carryforwards of $2.6 million will expire between 2011 and 2013, $54.3 million will expire between 2014 and 2018, and $47.5 million will expire after 2018. Tax credit carryforwards of $7 million can be carried forward indefinitely. The Company has established a valuation allowance for the net operating loss

and credit carryforwards not expected to be utilized. The valuation allowance for 2010 and 2009 is $115.6 million and $115.4 million, respectively.

The Company has been granted tax holidays in several jurisdictions including Bangladesh, China, Thailand and Vietnam. The tax holidays expire between 2011 and 2016. These tax holidays benefit the Company's consolidated effective tax rate on operations by less than 2%.

**Tax Benefit Reserve**

On January 1, 2011, the Company's unrecognized tax benefits totaled $154.2 million, including $102.1 million of unrecognized tax benefits which, if recognized, would reduce the annual effective income tax rate. As of January 2, 2010, the Company's unrecognized tax benefits totaled $182.0 million, including $121.8 million of unrecognized tax benefits which, if recognized, would reduce the annual effective income tax rate.

Where applicable, the Company recognizes potential accrued interest and penalties related to unrecognized tax benefits from its global operations in income tax expense. The Company recognized a benefit of $2.6 million of interest and penalties in the Consolidated Statements of Operations in 2010 and an expense of $1.1 million and $7.6 million of interest and penalties in the Consolidated Statements of Operations in 2009 and 2008, respectively. The Company has accrued for $20.9 million and $23.4 million of interest and penalties in the Consolidated Balance Sheets in 2010 and 2009, respectively.

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

| (In millions) | 2010 | 2009 |
|---|---|---|
| Balance at beginning of year | $ 151.7 | $ 142.9 |
| Acquired balance | – | 8.0 |
| Additions based on tax positions related to the current year | 17.4 | 32.0 |
| Additions for tax position of prior years | 7.0 | 9.8 |
| Reductions for tax positions of prior years: | | |
| Changes in judgment | – | (1.8) |
| Settlements | (7.9) | (2.1) |
| Lapses of applicable statute | (36.7) | (41.9) |
| Changes due to translation of foreign currencies | (4.3) | 4.8 |
| Balance at end of year (excluding interest and penalties) | 127.2 | 151.7 |
| Interest and penalties associated with uncertain tax positions | 27.0 | 30.3 |
| Balance at end of year (including interest and penalties) | $ 154.2 | $ 182.0 |

The amount of income taxes the Company pays is subject to ongoing audits by taxing jurisdictions around the world. The Company's estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Company believes that it has adequately provided for reasonably foreseeable outcomes related to these matters. However, the Company's future results may include favorable or unfavorable adjustments to its estimated tax liabilities in the period the assessments are made or resolved, which may impact the Company's effective tax rate. With some exceptions, the Company and its subsidiaries are no longer subject to income tax examinations by tax authorities for years prior to 2005.

It is reasonably possible that during the next 12 months, the Company may realize a decrease in its gross uncertain tax positions by approximately $32 million, primarily as the result of cash payments and closing tax years. The Company anticipates that it is reasonably possible that cash payments of up to $14 million relating to gross uncertain tax positions could be paid within the next 12 months.

## NOTE 12. SEGMENT INFORMATION

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

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

Financial information by reportable segment and other businesses from operations is set forth below. Prior year amounts have been restated to reflect the transfer of a business from Retail Information Services to other specialty converting businesses to align with a change in the Company's internal reporting structure.

| (In millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Net sales to unaffiliated customers:** | | | |
| Pressure-sensitive Materials | $ 3,639.8 | $ 3,300.0 | $ 3,643.8 |
| Retail Information Services | 1,521.7 | 1,320.9 | 1,547.2 |
| Office and Consumer Products | 815.2 | 849.3 | 935.8 |
| Other specialty converting businesses | 536.0 | 482.5 | 583.6 |
| Net sales to unaffiliated customers | $ 6,512.7 | $ 5,952.7 | $ 6,710.4 |
| **Intersegment sales:** | | | |
| Pressure-sensitive Materials | $ 157.0 | $ 147.1 | $ 172.5 |
| Retail Information Services | 2.0 | 1.6 | 2.1 |
| Office and Consumer Products | .8 | .7 | 1.2 |
| Other specialty converting businesses | 30.7 | 15.8 | 26.3 |
| Eliminations | (190.5) | (165.2) | (202.1) |
| Intersegment sales | $ – | $ – | $ – |
| **Income (loss) before taxes:** | | | |
| Pressure-sensitive Materials | $ 317.8 | $ 184.7 | $ 257.2 |
| Retail Information Services | 65.0 | (899.0) | 13.5 |
| Office and Consumer Products | 91.5 | 118.1 | 145.7 |

| | | | |
|---|---|---|---|
| Other specialty converting businesses | 4.8 | (44.1) | 5.2 |
| Corporate expense | (51.2) | (65.3) | (35.1) |
| Interest expense | (76.6) | (85.3) | (115.9) |
| Income (loss) before taxes | $ 351.3(1) | $ (790.9)(2) | $ 270.6(3) |

| (In millions) | | 2010 | | 2009 | | 2008 |
|---|---|---|---|---|---|---|
| **Capital expenditures:** | | | | | | |
| Pressure-sensitive Materials | $ | 50.2 | $ | 41.5 | $ | 50.1 |
| Retail Information Services | | 28.2 | | 19.6 | | 45.0 |
| Office and Consumer Products | | 4.4 | | 5.6 | | 6.1 |
| Other specialty converting businesses | | 22.7 | | 7.6 | | 16.6 |
| Corporate | | 1.8 | | 1.3 | | 1.4 |
| Capital expenditures(4) | $ | 107.3 | $ | 75.6 | $ | 119.2 |
| **Depreciation expense:** | | | | | | |
| Pressure-sensitive Materials | $ | 77.8 | $ | 86.2 | $ | 91.7 |
| Retail Information Services | | 53.2 | | 58.3 | | 65.6 |
| Office and Consumer Products | | 11.2 | | 13.6 | | 17.0 |
| Other specialty converting businesses | | 26.7 | | 25.6 | | 26.3 |
| Corporate | | 4.0 | | 3.9 | | 4.0 |
| Depreciation expense | $ | 172.9 | $ | 187.6 | $ | 204.6 |

(1) Results for 2010 included "Other expense, net" totaling $27.7, consisting of restructuring costs, asset impairment charges and lease cancellation costs of $19, loss from curtailment and settlement of pension obligations of $4.3, loss from debt extinguishments of $4, net legal settlement costs of $.9, partially offset by a gain on a sale of investment of $(.5). Of the total $27.7, the Pressure-sensitive Materials segment recorded $6.9, the Retail Information Services segment recorded $5.8, the Office and Consumer Products segment recorded $8.4, the other specialty converting businesses recorded $3.1, and Corporate recorded $3.5.

(2) Results for 2009 included "Other expense, net" totaling $191.3, consisting of restructuring costs, asset impairment charges and lease cancellation costs of $129.1, legal settlements of $41, and a loss from debt extinguishment of $21.2. Of the total $191.3, the Pressure-sensitive Materials segment recorded $75.3, the Retail Information Services segment recorded $51.6, the Office and Consumer Products segment recorded $14, the other specialty converting businesses recorded $29.2 and Corporate recorded $21.2.

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

(3) Results for 2008 included "Other expense, net" totaling $36.2, consisting of restructuring costs, asset impairment charges and lease cancellation costs of $40.7, partially offset by a gain on sale of investments of $(4.5). Of the total $36.2, the Pressure-sensitive Materials segment recorded $12.6, the Retail Information Services segment recorded $12.2, the Office and Consumer Products segment recorded $12.7, the other specialty converting businesses recorded $3.2 and Corporate recorded $(4.5).

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

(4) Included capital expenditures accrued but not paid of $12.4 in 2010, $8.2 in 2009 and $4.7 in 2008. Capital expenditures refer to purchases of property, plant and equipment.

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

| (In millions) | | 2010 | | 2009 | | 2008 |
|---|---|---|---|---|---|---|
| **Net sales to unaffiliated customers:** | | | | | | |
| U.S. | $ | 2,111.5 | $ | 2,026.4 | $ | 2,218.4 |
| Europe | | 2,019.5 | | 1,949.4 | | 2,366.6 |
| Asia | | 1,513.3 | | 1,236.8 | | 1,297.6 |
| Latin America | | 484.3 | | 394.2 | | 448.0 |
| Other international | | 384.1 | | 345.9 | | 379.8 |
| Net sales | $ | 6,512.7 | $ | 5,952.7 | $ | 6,710.4 |
| **Property, plant and equipment, net:** | | | | | | |
| U.S. | $ | 488.4 | $ | 509.3 | $ | 604.2 |
| International | | 774.5 | | 845.4 | | 888.8 |
| Property, plant and equipment, net | $ | 1,262.9 | $ | 1,354.7 | $ | 1,493.0 |

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

### NOTE 13. QUARTERLY FINANCIAL INFORMATION (Unaudited)

| (In millions, except per share data) | First Quarter(1) | Second Quarter(2) | Third Quarter(3) | Fourth Quarter(4) |
|---|---|---|---|---|
| **2010** | | | | |
| Net sales | $ 1,554.7 | $ 1,680.1 | $ 1,640.8 | $ 1,637.1 |
| Gross profit | 440.8 | 490.4 | 453.0 | 441.8 |
| Net income | 54.7 | 83.8 | 64.2 | 114.2 |
| Net income per common share | .52 | .79 | .61 | 1.08 |
| Net income per common share, assuming dilution | .51 | .78 | .60 | 1.06 |
| **2009** | | | | |
| Net sales | $ 1,426.2 | $ 1,455.4 | $ 1,549.3 | $ 1,521.8 |
| Gross profit | 345.1 | 390.3 | 436.0 | 415.1 |
| Net income (loss) | (898.9) | 39.8 | 62.5 | 49.9 |
| Net income (loss) per common share | (8.99) | .38 | .59 | .47 |
| Net income (loss) per common share, assuming dilution | (8.99) | .38 | .59 | .47 |

(1) Results in the first quarter of 2010 included pretax "Other expense, net" totaling $6.3, consisting of restructuring costs of $4.7, asset impairment charges of $.2, and an accrual for legal settlements of $1.4.

Results in the first quarter of 2009 included pretax "Other expense, net" totaling $97.3 consisting of asset impairment charges of $21.9, restructuring costs of $17.1, lease cancellation charges of $.1, an accrual for a legal settlement of $37, and a loss of $21.2 from debt extinguishment. Additionally, results included goodwill and indefinite-lived intangible asset impairment charges of $832.

(2) Results in the second quarter of 2010 included pretax "Other expense, net" totaling $4.6, consisting of restructuring costs of $1.9, asset impairment charges of $.6, a loss from curtailment and settlement of a foreign pension obligation of $1.9, and a loss of $1.2 from debt extinguishment, partially offset by a gain on sale of investment of $(.5) and net gain on legal settlements of $(.5).

Results in the second quarter of 2009 included pretax "Other expense, net" totaling $29.6 consisting of restructuring costs of $25.8 asset impairment charges of $3.3, and lease cancellation charges of $.5.

(3) Results in the third quarter of 2010 included pretax "Other expense, net" totaling $10.5, consisting of restructuring costs of $5.8, asset impairment charges of $1.3 and lease cancellation costs of $1 and a loss from curtailment and settlement of domestic pension obligations of $2.4.

Results in the third quarter of 2009 included pretax "Other expense, net" totaling $35.5 consisting of restructuring costs of $27 and asset impairment charges of $4.7, lease cancellation charges of $1.8, and legal settlement charges of $2.

(4) Results in the fourth quarter of 2010 included pretax "Other expense, net" totaling $6.3 consisting of restructuring costs of $2.9, asset impairment charges of $.4, and lease cancellation charges of $.2, and a loss of $2.8 from debt extinguishment.

Results in the fourth quarter of 2009 included pretax "Other expense, net" totaling $28.9 consisting of restructuring costs of $16.9, asset impairment charges of $9.9, lease cancellation charges of $.1, and legal settlement charges of $2. Additionally, results included out-of-period adjustments related to deferred compensation assets of $4.9 and a deferred tax asset of $1, which decreased net income by $5.9.

## NOTE 14. FAIR VALUE MEASUREMENTS

### Recurring Fair Value Measurements

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of January 1, 2011:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| (In millions) | Total | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| **Assets:** | | | | |
| Available for sale securities | $12.2 | $ 12.2 | $ – | $ – |
| Derivative assets | 16.9 | .1 | 16.8 | – |
| **Liabilities:** | | | | |
| Derivative liabilities | $ 10.3 | $ 2.4 | $ 7.9 | $ – |

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of January 2, 2010:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| (In millions) | Total | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| **Assets:** | | | | |
| Available for sale securities | $11.9 | $ 11.9 | $ – | $ – |
| Derivative assets | 5.5 | .5 | 5.0 | – |
| **Liabilities:** | | | | |
| Derivative liabilities | $10.0 | $ 3.5 | $ 6.5 | $ – |

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

### Non-recurring Fair Value Measurements

The following table summarizes the fair value measurements of assets measured on a non-recurring basis during 2010:

| | | Fair Value Measurements Using | | | |
|---|---|---|---|---|---|
| (In millions) | Total | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) | Total Gains (Losses) |
| Long-lived assets | $2.4 | $ – | $ 2.4 | $ – | $ (1.0) |

Long-lived assets with carrying amounts totaling $3.4 million were written down to their fair values of $2.4 million, resulting in an impairment charge of $1.0 million during 2010, which was included in "Other expense, net" in the Consolidated Statements of Operations.

The following table summarizes the fair value measurements of assets measured on a non-recurring basis during 2009:

| (In millions) | Total | Fair Value Measurements Using: Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) | Total Gains (Losses) |
|---|---|---|---|---|---|
| Goodwill | $415.0 | $ – | $ – | $ 415.0 | $ (820.0) |
| Indefinite-lived intangible assets | 18.0 | – | – | 18.0 | (12.0) |
| Long-lived assets | 11.0 | – | 8.0 | 3.0 | (20.3) |

Long-lived assets with carrying amounts totaling $31.3 million were written down to their fair values totaling $11 million, resulting in impairment charges of $20.3 million during 2009. These charges were included in "Other expense, net" in the Consolidated Statements of Operations.

Goodwill with a carrying amount of $1.21 billion was written down to its estimated implied fair value of $415 million, resulting in a non-cash impairment charge of $820 million in the first quarter of 2009. Additionally, certain indefinite-lived assets with a carrying value of approximately $30 million were written down to their estimated implied fair value of $18 million, resulting in a non-cash impairment charge of $12 million in the first quarter of 2009. These charges were included in "Goodwill and indefinite-lived intangible asset impairment charges" in the Consolidated Statements of Operations. Refer to Note 3, "Goodwill and Other Intangibles Resulting from Business Acquisitions," for further information.

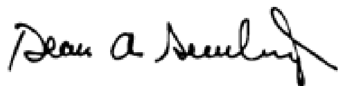
**STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS**

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

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

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company's evaluation under the framework in *Internal Control — Integrated Framework*, management has concluded that internal control over financial reporting was effective as of January 1, 2011. Management's assessment of the effectiveness of internal control over financial reporting as of January 1, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.



**Dean A. Scarborough**
Chairman, President and
Chief Executive Officer

**Mitchell R. Butier**
Senior Vice President
and Chief Financial Officer

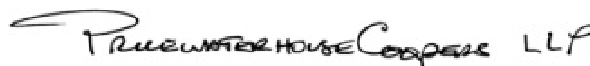
## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Avery Dennison Corporation and its subsidiaries at January 1, 2011 and January 2, 2010, and the results of their operations and their cash flows for each of the three years in the period ended January 1, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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



**PricewaterhouseCoopers LLP**
Los Angeles, California
February 25, 2011

# Corporate Information

**Counsel**
Latham & Watkins LLP
Los Angeles, California

**Independent Registered Public Accounting Firm**
PricewaterhouseCoopers LLP
Los Angeles, California

**Transfer Agent — Registrar**
Computershare Trust Co., N.A.
P. O. Box 43078
Providence, Rhode Island 02940-3078
(877) 498-8861
(800) 952-9245 (TDD/TTY)
www.computershare.com/investor

**Annual Meeting**
The Annual Meeting of Shareholders will be held at 1:30 p.m. on April 28, 2011 in the Conference Center of the Avery Dennison Miller Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California.

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

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

**Other Information**
The Company is including, as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for fiscal year 2010 filed with the Securities and Exchange Commission ("SEC"), certificates of the Chief Executive Officer and Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and the Company submitted to the New York Stock Exchange ("NYSE") the Company's annual written affirmation on April 28, 2010, along with the Chief Executive Officer's certificate that he is not aware of any violation by the Company of NYSE's corporate governance listing standards.

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

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

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

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| Market Price(1) | | | | |
| First Quarter | $ 40.07 | $ 30.79 | $ 33.61 | $ 17.26 |
| Second Quarter | 41.39 | 31.32 | 29.76 | 23.94 |
| Third Quarter | 38.04 | 31.67 | 36.56 | 24.23 |
| Fourth Quarter | 42.49 | 35.80 | 40.02 | 34.81 |

(1) Prices shown represent closing prices on the NYSE

| | 2010 | 2009 |
|---|---|---|
| **Dividends Per Common Share** | | |
| First Quarter | $ .20 | $ .41 |

| | | |
|---|---|---|
| Second Quarter | .20 | .41 |
| Third Quarter | .20 | .20 |
| Fourth Quarter | .20 | .20 |
| Total | $ .80 | $ 1.22 |
| Number of shareholders of record as of year end | 7,610 | 8,180 |

**EXHIBIT 21**

| NAME OF SUBSIDIARY | JURISDICTION OF ORGANIZATION |
|---|---|
| ADC PHILIPPINES, INC. | PHILIPPINES |
| ADESPAN S.R.L. | ITALY |
| ADESPAN U.K. LIMITED | UNITED KINGDOM |
| ADHIPRESS BANGLADESH LTD. | BANGLADESH |
| ADHIPRESS (HONG KONG) LTD. | HONG KONG |
| ADVANCE FAR INVESTMENTS LIMITED | BRITISH VIRGIN ISLANDS |
| ALKAHN HONG KONG LABELS LTD. | HONG KONG |
| AMERICAN TRIM PRODUCTS (ASIA) LIMITED | HONG KONG |
| ARTISTIC INTERNATIONAL (HK) LTD. | HONG KONG |
| ASTRIA S.R.L. | ITALY |
| AVERY CORP. | U.S.A. |
| AVERY DE MEXICO SRL DE CV | MEXICO |
| AVERY DENNISON HOLDINGS (MALTA) LIMITED | MALTA |
| AVERY DENNISON AUSTRALIA GROUP HOLDINGS PTY LIMITED | AUSTRALIA |
| AVERY DENNISON AUSTRALIA INTERNATIONAL HOLDINGS PTY LTD. | AUSTRALIA |
| AVERY DENNISON AUSTRALIA PTY LTD. | AUSTRALIA |
| AVERY DENNISON BELGIE BVBA | BELGIUM |
| AVERY DENNISON BENELUX BVBA | BELGIUM |
| AVERY DENNISON BULGARIA EOOD | BULGARIA |
| AVERY DENNISON BV | NETHERLANDS |
| AVERY DENNISON CANADA CORPORATION | CANADA |
| AVERY DENNISON CENTRAL EUROPE GMBH | GERMANY |
| AVERY DENNISON CHILE S.A. | CHILE |
| AVERY DENNISON COLOMBIA S. A. | COLOMBIA |
| AVERY DENNISON CONVERTED PRODUCTS DE MEXICO, S.A. DE C.V. | MEXICO |
| AVERY DENNISON CONVERTED PRODUCTS EL SALVADOR S. A. DE C. V. | EL SALVADOR |
| AVERY DENNISON COORDINATION CENTER BVBA | BELGIUM |
| AVERY DENNISON CORPORATION | U.S.A. |
| AVERY DENNISON C.A. | VENEZUELA |
| AVERY DENNISON DE ARGENTINA S.A. | ARGENTINA |
| AVERY DENNISON DEUTSCHLAND GMBH | GERMANY |
| AVERY DENNISON DO BRASIL LTDA. | BRAZIL |
| AVERY DENNISON DOMINICAN REPUBLIC S. A. | DOMINICAN REPUBLIC |
| AVERY DENNISON EGYPT LLC | EGYPT |
| AVERY DENNISON ETIKET TICARET LIMITED SIRKETI | TURKEY |
| AVERY DENNISON EUROPE GMBH | SWITZERLAND |
| AVERY DENNISON EUROPE HOLDING (DEUTSCHLAND) GMBH & CO KG | GERMANY |
| AVERY DENNISON FINANCE BELGIUM BVBA | BELGIUM |
| AVERY DENNISON FINANCE GERMANY GMBH | GERMANY |
| AVERY DENNISON FINANCE LUXEMBOURG II SARL | LUXEMBOURG |
| AVERY DENNISON FINANCE LUXEMBOURG S. A. R. L. | LUXEMBOURG |
| AVERY DENNISON FINANCE LUXEMBOURG III SARL | LUXEMBOURG |
| AVERY DENNISON FOUNDATION | U.S.A. |
| AVERY DENNISON FRANCE S.A.S. | FRANCE |
| AVERY DENNISON G HOLDINGS I LLC | U.S.A. |
| AVERY DENNISON G HOLDINGS III LLC | U.S.A. |
| AVERY DENNISON G INVESTMENTS 111 LIMITED | GIBRALTAR |
| AVERY DENNISON G INVESTMENTS V LIMITED | GIBRALTAR |
| AVERY DENNISON GROUP DANMARK APS | DENMARK |
| AVERY DENNISON GROUP SINGAPORE (PTE) LIMITED | SINGAPORE |
| AVERY DENNISON GULF FZCO | UNITED ARAB EMIRATES |

| NAME OF SUBSIDIARY | JURISDICTION OF ORGANIZATION |
| --- | --- |
| AVERY DENNISON HOLDING AG | SWITZERLAND |
| AVERY DENNISON HOLDING GMBH | GERMANY |
| AVERY DENNISON HOLDING LUXEMBOURG S. A. R. L. | LUXEMBOURG |
| AVERY DENNISON HOLDING & FINANCE THE NETHERLANDS BV | NETHERLANDS |
| AVERY DENNISON HOLDINGS LLC | U.S.A. |
| AVERY DENNISON HOLDINGS NEW ZEALAND LIMITED | NEW ZEALAND |
| AVERY DENNISON HONG KONG BV | NETHERLANDS |
| AVERY DENNISON HUNGARY LIMITED | HUNGARY |
| AVERY DENNISON IBERICA, S.A. | SPAIN |
| AVERY DENNISON INVESTMENT LUXEMBOURG II SARL | LUXEMBOURG |
| AVERY DENNISON INVESTMENTS LUXEMBOURG S.A.R.L. | LUXEMBOURG |
| AVERY DENNISON INVESTMENTS LUXEMBOURG III SARL | LUXEMBOURG |
| AVERY DENNISON INVESTMENTS LUXEMBOURG IV SARL | LUXEMBOURG |
| AVERY DENNISON INVESTMENTS LUXEMBOURG V SCA | LUXEMBOURG |
| AVERY DENNISON ITALIA S.R.L. | ITALY |
| AVERY DENNISON JAPAN K.K. | JAPAN |
| AVERY DENNISON KAGIT URUNLERI SANAYI TICARET LIMITED SIRKETI | TURKEY |
| AVERY DENNISON KOREA LIMITED | SOUTH KOREA |
| AVERY DENNISON LANKA (PRIVATE) LIMITED | SRI LANKA |
| AVERY DENNISON LUXEMBOURG SALES SARL | LUXEMBOURG |
| AVERY DENNISON LUXEMBOURG S.A.R.L. | LUXEMBOURG |
| AVERY DENNISON MANAGEMENT GMBH | GERMANY |
| AVERY DENNISON MANAGEMENT KGAA | LUXEMBOURG |
| AVERY DENNISON MANAGEMENT S.A.R.L. | LUXEMBOURG |
| AVERY DENNISON MATERIALS EUROPE B.V. | NETHERLANDS |
| AVERY DENNISON MATERIALS EUROPE GMBH | SWITZERLAND |
| AVERY DENNISON MATERIALS FRANCE S.A.R.L. | FRANCE |
| AVERY DENNISON MATERIALS GMBH | GERMANY |
| AVERY DENNISON MATERIALS IRELAND LIMITED | IRELAND |
| AVERY DENNISON MATERIALS NEDERLAND BV | NETHERLANDS |
| AVERY DENNISON MATERIALS NEW ZEALAND LIMITED | NEW ZEALAND |
| AVERY DENNISON MATERIALS PTY LIMITED | AUSTRALIA |
| AVERY DENNISON MATERIALS ROM SRL | ROMANIA |
| AVERY DENNISON MATERIALS RUSSIA LLC | RUSSIA |
| AVERY DENNISON MATERIALS SALES FRANCE S. A. S. | FRANCE |
| AVERY DENNISON MATERIALS SALES GERMANY GMBH | GERMANY |
| AVERY DENNISON MATERIALS SDN BHD | MALAYSIA |
| AVERY DENNISON MATERIALS U.K. LIMITED | UNITED KINGDOM |
| AVERY DENNISON MAURITIUS LTD. | MAURITIUS |
| AVERY DENNISON MOROCCO SARL | MOROCCO |
| AVERY DENNISON NETHERLANDS INVESTMENT 0 BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT I BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT II B. V. | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT III BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT IX BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT NORTH AMERICA BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT VI BV | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT VII B.V. | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT VIII COOPERATIEF U.A. | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT X B V | NETHERLANDS |
| AVERY DENNISON NETHERLANDS INVESTMENT XI COOPERATIEF U.A. | NETHERLANDS |
| AVERY DENNISON NORDIC APS | DENMARK |
| AVERY DENNISON NORGE A/S | NORWAY |
| AVERY DENNISON NTP A. S. | NORWAY |
| AVERY DENNISON OFFICE ACCESSORIES U.K. LIMITED | UNITED KINGDOM |
| AVERY DENNISON OFFICE PRODUCTS COMPANY | U.S.A. |

| NAME OF SUBSIDIARY | JURISDICTION OF ORGANIZATION |
|---|---|
| AVERY DENNISON OFFICE PRODUCTS DE MEXICO, S DE R.L. DE C.V. | MEXICO |
| AVERY DENNISON OFFICE PRODUCTS FRANCE S. A. S. | FRANCE |
| AVERY DENNISON OFFICE PRODUCTS HOLDINGS COMPANY | U.S.A. |
| AVERY DENNISON OFFICE PRODUCTS ITALIA S.R.L. | ITALY |
| AVERY DENNISON OFFICE PRODUCTS MANUFACTURING U.K. LTD. | UNITED KINGDOM |
| AVERY DENNISON OFFICE PRODUCTS PTY LIMITED | AUSTRALIA |
| AVERY DENNISON OFFICE PRODUCTS (NZ) LIMITED | NEW ZEALAND |
| AVERY DENNISON OFFICE PRODUCTS (PTY.) LTD. | SOUTH AFRICA |
| AVERY DENNISON OVERSEAS CORPORATION | U.S.A. |
| AVERY DENNISON OVERSEAS CORPORATION (JAPAN BRANCH) | JAPAN |
| AVERY DENNISON PENSION TRUSTEE LIMITED | UNITED KINGDOM |
| AVERY DENNISON PERU S. R. L. | PERU |
| AVERY DENNISON POLSKA SP. Z O.O. | POLAND |
| AVERY DENNISON PRAHA SPOL. S R. O. | CZECH REPUBLIC |
| AVERY DENNISON REFLECTIVES DO BRAZIL LTDA. | BRAZIL |
| AVERY DENNISON RETAIL INFORMATION SERVICES COLOMBIA S. A. | COLOMBIA |
| AVERY DENNISON RETAIL INFORMATION SERVICES DE MEXICO, S. A. DE C.V. | MEXICO |
| AVERY DENNISON RETAIL INFORMATION SERVICES DOMINICAN REPUBLIC, S. A. | DOMINICAN REPUBLIC |
| AVERY DENNISON RETAIL INFORMATION SERVICES EL SALVADOR S. A. DE C. V. | EL SALVADOR |
| AVERY DENNISON RETAIL INFORMATION SERVICES GUATEMALA, S. A. | GUATEMALA |
| AVERY DENNISON RETAIL INFORMATION SERVICES LLC | U.S.A. |
| AVERY DENNISON RETAIL INFORMATION SERVICES UK LTD. | UNITED KINGDOM |
| AVERY DENNISON RETAIL INFORMATION SERVICES (PTY) LTD | SOUTH AFRICA |
| AVERY DENNISON RETAIL INFORMATION SERVICES HONDURAS, S. R.L. | HONDURAS |
| AVERY DENNISON RFID COMPANY | U.S.A. |
| AVERY DENNISON RIS KOREA LTD. | KOREA |
| AVERY DENNISON RIS MALAYSIA SDN BHD. | MALAYSIA |
| AVERY DENNISON RIS TAIWAN LTD. | TAIWAN |
| AVERY DENNISON RIS VIETNAM CO. LTD. | VIETNAM |
| AVERY DENNISON R.I.S. FRANCE S. A. S. | FRANCE |
| AVERY DENNISON R.I.S. IBERIA S.L. | SPAIN |
| AVERY DENNISON R.I.S. ITALIA S.R.L. | ITALY |
| AVERY DENNISON R.I.S. POLSKA SP.ZO.O | POLAND |
| AVERY DENNISON SCANDINAVIA AB | SWEDEN |
| AVERY DENNISON SCANDINAVIA APS | DENMARK |
| AVERY DENNISON SCHWEIZ AG | SWITZERLAND |
| AVERY DENNISON SECURITY PRINTING EUROPE APS | DENMARK |
| AVERY DENNISON SHARED SERVICES, INC. | U.S.A. |
| AVERY DENNISON SINGAPORE INVESTMENTS B.V. | NETHERLANDS |
| AVERY DENNISON SINGAPORE (PTE) LTD | SINGAPORE |
| AVERY DENNISON SOUTH AFRICA (PROPRIETARY) LIMITED | SOUTH AFRICA |
| AVERY DENNISON SUOMI OY | FINLAND |
| AVERY DENNISON SVERIGE AB | SWEDEN |
| AVERY DENNISON SYSTEMES D’ETIQUETAGE FRANCE S.A.S. | FRANCE |
| AVERY DENNISON S.R.L. | ROMANIA |
| AVERY DENNISON TEKSTIL URUNLERI SANAYI VE TICARET LIMITED SIRKETI | TURKEY |
| AVERY DENNISON TAIWAN LIMITED | TAIWAN |
| AVERY DENNISON U.K. II LIMITED | UNITED KINGDOM |
| AVERY DENNISON U.K. LIMITED | UNITED KINGDOM |
| AVERY DENNISON VERMOGENSVERWALTUNGS GMBH & CO K.G. | GERMANY |
| AVERY DENNISON ZWECKFORM AUSTRIA GMBH | AUSTRIA |
| AVERY DENNISON ZWECKFORM OFFICE PRODUCTS EUROPE GMBH | GERMANY |
| AVERY DENNISON ZWECKFORM OFFICE PRODUCTS MANUFACTURING GMBH | GERMANY |
| AVERY DENNISON (ASIA) HOLDINGS LIMITED | MAURITIUS |
| AVERY DENNISON (CHINA) COMPANY LIMITED | CHINA |
| AVERY DENNISON (FUZHOU) CONVERTED PRODUCTS LIMITED | CHINA |

| NAME OF SUBSIDIARY | JURISDICTION OF ORGANIZATION |
| --- | --- |
| AVERY DENNISON (GUANGZHOU) CONVERTED PRODUCTS LIMITED | CHINA |
| AVERY DENNISON (GUANGZHOU) CO. LTD. | CHINA |
| AVERY DENNISON (HONG KONG) LIMITED | HONG KONG |
| AVERY DENNISON (INDIA) PRIVATE LIMITED | INDIA |
| AVERY DENNISON (IRELAND) LIMITED | IRELAND |
| AVERY DENNISON (KUNSHAN) CO., LIMITED | CHINA |
| AVERY DENNISON (MALAYSIA) SDN. BHD. | MALAYSIA |
| AVERY DENNISON (QINGDAO) CONVERTED PRODUCTS LIMITED | CHINA |
| AVERY DENNISON (SUZHOU) CO. LIMITED | CHINA |
| AVERY DENNISON (THAILAND) LTD. | THAILAND |
| AVERY DENNISON (VIETNAM) LIMITED | VIETNAM |
| AVERY DENNISON, S.A. DE C.V. | MEXICO |
| AVERY GRAPHIC SYSTEMS, INC. | U.S.A. |
| AVERY GUIDEX LIMITED | UNITED KINGDOM |
| AVERY HOLDING LIMITED | UNITED KINGDOM |
| AVERY HOLDING S.A.S. | FRANCE |
| AVERY LLC | U.S.A. |
| AVERY OFFICE PRODUCTS PUERTO RICO L.L.C. | PUERTO RICO |
| AVERY PACIFIC LLC | U.S.A. |
| AVERY PROPERTIES PTY. LIMITED | AUSTRALIA |
| BEST COURAGE INTERNATIONAL LIMITED | BRITISH VIRGIN ISLANDS |
| BONFIRE MANAGEMENT LIMITED | BRITISH VIRGIN ISLANDS |
| BONNIE NICE INDUSTRIES LTD. | HONG KONG |
| COLLITEX S.R.L. | ITALY |
| CREATERO GMBH | GERMANY |
| DAH MEI LABEL LIMITED | HONG KONG |
| DENNISON COMERCIO, IMPORTACAS E EXPORTACAO LTDA. | BRAZIL |
| DENNISON DEVELOPMENT ASSOCIATES | U.S.A. |
| DENNISON INTERNATIONAL COMPANY | U.S.A. |
| DENNISON MANUFACTURING COMPANY | U.S.A. |
| DM LABELS & RIBBONS LIMITED | UNITED KINGDOM |
| DONGGUAN DAH MEI LABEL CO. LIMITED | CHINA |
| EDMOND PACKAGING (GUANGZHOU) LTD. | CHINA |
| EUSTON FINANCIAL LIMITED | BRITISH VIRGIN ISLANDS |
| INDUSTRIAL DE MARCAS LTDA | COLOMBIA |
| INFODRAGON MANAGEMENT LIMITED | BRITISH VIRGIN ISLANDS |
| JAC ASIA PACIFIC SDN BHD | MALAYSIA |
| JAC CARIBE C.S.Z. | DOMINICAN REPUBLIC |
| JAC DO BRASIL LTDA. | BRAZIL |
| JAC NEW ZEALAND LIMITED | NEW ZEALAND |
| JAC (U.K.) LIMITED | UNITED KINGDOM |
| JACKSTADT FRANCE S.N.C. | FRANCE |
| JACKSTADT SOUTH AFRICA (PTY) LTD. | SOUTH AFRICA |
| JINTEX LIMITED | JERSEY, CHANNEL ISLANDS |
| KUNSHAN DAH MEI WEAVING CO. LTD | CHINA |
| L&E AMERICAS SERVICIOS, S. A. DE C.V. | MEXICO |
| L&E PACKAGING FAR EAST LIMITED | HONG KONG |
| MARKSTAR INTERNATIONAL LTD. | HONG KONG |
| MODERN MARK INTERNATIONAL LIMITED | HONG KONG |
| MONARCH INDUSTRIES, INC. | U.S.A. |
| MONARCH MARKING SYSTEMS HOLDINGS LTD | UNITED KINGDOM |
| MONARCH MARKING (S.E.A.) PTE. LTD | SINGAPORE |
| MONARCH SERVICE BUREAU LTD. | HONG KONG |
| NAPERVILLE GLOBAL LIMITED | BRITISH VIRGIN ISLANDS |
| NEW WALES FINANCE LIMITED | BRITISH VIRGIN ISLANDS |
| NEWCLASSIC INVESTMENT LIMITED | BRITISH VIRGIN ISLANDS |

| NAME OF SUBSIDIARY | JURISDICTION OF ORGANIZATION |
|---|---|
| PAXAR BANGLADESH LTD. | BANGLADESH |
| PAXAR B. V. | NETHERLANDS |
| PAXAR CANADA CORPORATION | CANADA |
| PAXAR CORPORATION | U.S.A. |
| PAXAR CORPORATION PTY LTD. | AUSTRALIA |
| PAXAR CORPORATION (MALAYSIA) SDN. BHD. | MALAYSIA |
| PAXAR CORPORATIVO MEXICO S. A. DE C. V. | MEXICO |
| PAXAR DE COLOMBIA FTZ LTDA. | COLOMBIA |
| PAXAR DE EL SALVADOR S. A. DE C. V. | EL SALVADOR |
| PAXAR DE GUATEMALA, S. A. | GUATEMALA |
| PAXAR DE MEXICO S. A. DE C. V. | MEXICO |
| PAXAR DE NICARAGUA. S.A. | NICARAGUA |
| PAXAR DO BRASIL LTDA | BRAZIL |
| PAXAR EUROPE (1998) LTD. | UNITED KINGDOM |
| PAXAR FAR EAST LTD. | HONG KONG |
| PAXAR KOREA LTD. | SOUTH KOREA |
| PAXAR MOROC SARL | MOROCCO |
| PAXAR PACKAGING (GUANGZHOU) LTD. | CHINA |
| PAXAR PAKISTAN (PVT) LTD. | PAKISTAN |
| PAXAR PERU S. A. C. | PERU |
| PAXAR PRINTING & PACKAGING (SHANGHAI) LTD. | CHINA |
| PAXAR SISTEMAS LTDA | BRAZIL |
| PAXAR SYSTEMS (GUANGZHOU) LTD. | CHINA |
| PAXAR (CHINA) LTD. | HONG KONG |
| PAXAR (SINGAPORE) PTE LTD. | SINGAPORE |
| PAXAR (THAILAND) LIMITED | THAILAND |
| PT AVERY DENNISON INDONESIA | INDONESIA |
| PT AVERY DENNISON PACKAGING INDONESIA | INDONESIA |
| P. T. PACIFIC LABEL INDONESIA | INDONESIA |
| P. T. PAXAR INDONESIA | INDONESIA |
| RAXAP ARRENDADORA, S. A. DE C. V. | MEXICO |
| RAXAP SERVICIOS, S. A. DE C. V. | MEXICO |
| RF IDENTICS, INC. | U.S.A. |
| RINKE DIS TISCARET LTD (SIRKETI) | TURKEY |
| RINKE ETIKET SERVIS SANAYI VE TICARET LTD SIRKETI | TURKEY |
| RINKE FAR EAST LTD | HONG KONG |
| RIPRO FAR EAST LTD | HONG KONG |
| RVL AMERICAS, S DE R.L. DE C.V. | MEXICO |
| RVL CENTRAL AMERICA, S. A. | GUATEMALA |
| RVL PACKAGING FAR EAST LIMITED | HONG KONG |
| RVL PACKAGING SINGAPORE PTE LTD. | SINGAPORE |
| RVL PHILIPPINES, INC. | PHILIPPINES |
| RVL PRINTED LABEL FAR EAST LIMITED | HONG KONG |
| RVL SERVICE, S. DE R. L. DE C. V. | MEXICO |
| SECURITY PRINTING DIVISION, INC. | U.S.A. |
| SINGAPORE LACES & LABELS (PTE) LIMITED | SINGAPORE |
| SKILLFIELD INVESTMENTS LIMITED | BRITISH VIRGIN ISLANDS |
| SU ZHOU JI ZHONG GARMENTS ACCESSORY CO. LIMITED | CHINA |
| SUZHOU FENG YI HENG YE DYE CO. ,LTD. | CHINA |
| TESSITURA ITALIAN ETICHETTE S.R.L. | ITALY |
| TIADECO PARTICIPACOES, LTDA. | BRAZIL |
| TIGER EIGHT GROUP LIMITED | BRITISH VIRGIN ISLANDS |
| UNIVERSAL PACKAGING & DESIGN, LTD. | HONG KONG |
| WORLDWIDE RISK INSURANCE, INC. | U.S.A. |

Exhibit 24

**Power of Attorney**

WHEREAS, Avery Dennison Corporation, a Delaware corporation (the "Company"), proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an Annual Report on Form 10-K for the fiscal year ended January 1, 2011; and

WHEREAS, the undersigned is a director of the Company.

NOW, THEREFORE, each of the undersigned hereby constitutes and appoints Mitchell R. Butier and Susan C. Miller, and each of them, as attorneys-in-fact for and in the name, place and stead of the undersigned, and in the capacity of the undersigned as a director of the Company, to execute the above referenced Form 10-K and any amendments or supplements thereto, hereby giving and granting to said attorneys-in-fact, full power and authority to do and perform each and every act and thing required and necessary to be done in and about the premises, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that each attorney-in-fact may or shall lawfully do or cause to be done by virtue of this Power of Attorney.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney effective February 25, 2011.

| Signature | Title | Date |
| --- | --- | --- |
| /s/ Dean A. Scarborough<br>Dean A. Scarborough | Chairman, President and<br>Chief Executive Officer | February 25, 2011 |
| /s/ Bradley A. Alford<br>Bradley A. Alford | Director | February 25, 2011 |
| /s/ Peter K. Barker<br>Peter K. Barker | Director | February 25, 2011 |
| /s/ Rolf Börjesson<br>Rolf Börjesson | Director | February 25, 2011 |
| /s/ John T. Cardis<br>John T. Cardis | Director | February 25, 2011 |
| /s/ Ken C. Hicks<br>Ken C. Hicks | Director | February 25, 2011 |

| Signature | Title | Date |
|---|---|---|
| /s/ Peter W. Mullin<br>Peter W. Mullin | Director | February 25, 2011 |
| /s/ David E. I. Pyott<br>David E. I. Pyott | Director | February 25, 2011 |
| /s/ Debra L. Reed<br>Debra L. Reed | Director | February 25, 2011 |
| /s/ Patrick T. Siewert<br>Patrick T. Siewert | Director | February 25, 2011 |
| /s/ Julia A. Stewart<br>Julia A. Stewart | Director | February 25, 2011 |

Exhibit 31.1

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

**CERTIFICATION**

I, Dean A. Scarborough, certify that:

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

/s/ Dean A. Scarborough

Dean A. Scarborough
Chairman, President and Chief Executive Officer

February 25, 2011

**Exhibit 31.2**

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

**CERTIFICATION**

I, Mitchell R. Butier, certify that:

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

/s/ Mitchell R. Butier

Mitchell R. Butier
Senior Vice President and
Chief Financial Officer

February 25, 2011

**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER***

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

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

(i) the Annual Report on Form 10-K of the Company for the fiscal year ended January 1, 2011 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: February 25, 2011

/s/ Dean A. Scarborough

Dean A. Scarborough
Chairman, President and Chief Executive Officer

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

**Exhibit 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER***

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

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

(i) the Annual Report on Form 10-K of the Company for the fiscal year ended January 1, 2011 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: February 25, 2011

/s/ Mitchell R. Butier
Mitchell R. Butier
Senior Vice President and
Chief Financial Officer

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