

AVERY DENNISON CORPORATION

Form DEF 14A

March 12, 2009

**Table of Contents**

**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a) of the Securities**  
**Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to sec.240.14a-11(c) or sec.240.14a-12

**AVERY DENNISON CORPORATION**

(Name of Registrant as Specified In Its Charter)

**AVERY DENNISON CORPORATION**

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
    - Fee paid previously with preliminary materials.
    - Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
      - (1) Amount Previously Paid:
      - (2) Form, Schedule or Registration Statement No.:
      - (3) Filing Party:
      - (4) Date Filed:

**Table of Contents**

Avery Dennison Corporation  
150 North Orange Grove Boulevard  
Pasadena, California 91103

**Notice of  
Annual Meeting  
of Stockholders**

To be held  
April 23, 2009

To the Stockholders:

The Annual Meeting of Stockholders of Avery Dennison Corporation will be held at 150 North Orange Grove Boulevard, Pasadena, California, on Thursday, April 23, 2009, at 1:30 p.m. for the following purposes:

1. To elect four directors to hold office for a term of three years and until their successors are elected and have qualified;
2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for the current fiscal year, which ends on January 2, 2010;
3. To consider and vote upon a proposal to approve the Senior Executive Annual Incentive Plan; and
4. To transact such other business as may properly come before the meeting and any adjournments thereof.

In accordance with the Bylaws, the Board of Directors has fixed the close of business on Monday, February 23, 2009, as the record date for the determination of stockholders entitled to vote at the Annual Meeting and to receive notice thereof.

All stockholders are cordially invited to attend the meeting.

**BY ORDER OF THE BOARD OF DIRECTORS**

Susan C. Miller  
Secretary

Pasadena, California  
Dated: March 12, 2009

Whether or not you presently plan to attend the Annual Meeting, in order to ensure your representation, please vote by telephone or by using the Internet as instructed on the enclosed proxy card, or complete, sign and date the enclosed proxy card as promptly as possible and return it in the enclosed envelope (which does not require postage if mailed in the United States). If you attend the meeting and wish to vote in person, your proxy will not be used.

**Table of Contents**

(THIS PAGE INTENTIONALLY LEFT BLANK)

---

**TABLE OF CONTENTS**

PROXY STATEMENT

ELECTION OF DIRECTORS (Proxy Item 1)

2009 NOMINEES

CONTINUING DIRECTORS

SECURITY OWNERSHIP OF MANAGEMENT

BOARD OF DIRECTORS AND COMMITTEE MEETINGS

DIRECTOR COMPENSATION FOR 2008

EXECUTIVE COMPENSATION -- COMPENSATION DISCUSSION AND ANALYSIS

ADDITIONAL INFORMATION REGARDING EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

GRANTS OF PLAN-BASED AWARDS FOR 2008

OUTSTANDING EQUITY AWARDS FOR 2008

OPTION EXERCISES AND STOCK VESTED FOR 2008

PENSION BENEFITS FOR 2008

NONQUALIFIED DEFERRED COMPENSATION(1) FOR 2008

EQUITY COMPENSATION PLAN INFORMATION

RELATED PARTY TRANSACTIONS

VOTING SHARES

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS (Proxy Item 2)

AUDIT COMMITTEE REPORT

PROPOSAL TO APPROVE SENIOR EXECUTIVE ANNUAL INCENTIVE PLAN (Proxy Item 3)

EXHIBIT A

EXHIBIT B

EXHIBIT C

EXHIBIT D

---

**Table of Contents**

**AVERY DENNISON CORPORATION  
150 North Orange Grove Boulevard  
Pasadena, California 91103**

**PROXY STATEMENT**

This proxy statement is furnished to the stockholders on behalf of the Board of Directors of Avery Dennison Corporation, a Delaware corporation (hereinafter called "Avery Dennison" or the "Company"), for solicitation of proxies for use at the Annual Meeting of Stockholders (the "Annual Meeting") to be held on Thursday, April 23, 2009, at 1:30 p.m. and at any and all adjournments and postponements thereof. A stockholder giving a proxy pursuant to the present solicitation may revoke it at any time before it is exercised by delivering a later dated proxy, by delivering to the Secretary of the Company a written notice of revocation prior to the voting of the proxy at the Annual Meeting, or by voting in person at the Annual Meeting. Simply attending the Annual Meeting will not revoke your proxy. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the election inspectors appointed for the meeting and the inspectors also will determine whether or not a quorum is present. At the Annual Meeting: (i) shares represented by proxies that reflect abstentions or broker non-votes (i.e., shares held by a broker or nominee that are represented at the meeting, but with respect to which such broker or nominee is not empowered to vote on a particular proposal) will be counted as shares that are present and entitled to vote at the Annual Meeting for purposes of determining the presence of a quorum; (ii) there is no cumulative voting and the director nominees receiving a majority of the votes cast (in uncontested elections) will be elected (for purposes of determining the vote required to elect directors, a majority of the votes cast shall mean that the number of shares voted for a director's election exceeds 50% of the total votes cast with respect to that director and votes cast shall include votes to withhold authority (which shall be treated as votes against the election of that director) and exclude abstentions with respect to that director's election); and (iii) for all matters other than the election of directors, the affirmative vote of the majority in voting power of the shares represented at the Annual Meeting and entitled to vote on the matter shall be the act of the stockholders and, therefore, proxies that reflect abstentions as to a particular proposal will have the same effect as a vote against that proposal and proxies that reflect broker non-votes will also have no effect on the vote. The Company has retained D. F. King & Co., Inc. to assist in soliciting proxies for this meeting at a fee estimated at \$11,000 plus out of pocket expenses. Expenses incident to the preparation and mailing of the notice of meeting, proxy statement and form of proxy are to be paid by the Company. This proxy statement is to be mailed to stockholders on or about March 12, 2009.

The purpose of the meeting and the matters to be acted upon are set forth in the preceding Notice of Annual Meeting. In addition to the election of four directors and ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors for the Company, the Senior Executive Annual Incentive Plan will be submitted for approval by the Company's stockholders.

As of the date of this proxy statement, management knows of no other business that will be presented for consideration at the meeting. However, if any such other business shall properly come before the meeting, votes will be cast pursuant to these proxies in respect of any such other business in accordance with the best judgment of the persons acting under these proxies. See "GENERAL Stockholder Proposals."

**Important Notice Regarding the Availability of Proxy Materials  
for the Stockholder Meeting to be Held on April 23, 2009.**

**The Proxy Statement and the Annual Report to Stockholders  
are available at [www.investors.averydennison.com](http://www.investors.averydennison.com)**

**ELECTION OF DIRECTORS (Proxy Item 1)**

The Bylaws of the Company presently provide for eleven directors, divided into three classes. Four directors are to be elected at the 2009 Annual Meeting and will hold office until the Annual Meeting in 2012 and until their

**Table of Contents**

successors are elected and have qualified. It is intended that the persons so appointed in the enclosed proxy will, unless authority is withheld, vote for the election of the four nominees proposed by the Board of Directors, all of whom are presently directors of the Company. In voting for the election of directors, each share has one vote for each position to be filled. All of the nominees have consented to being named herein and to serve if elected. In the event that any of them should become unavailable prior to the Annual Meeting, the proxy may be voted for a substitute nominee or nominees designated by the Board, or the number of directors may be reduced accordingly.

The following information, which has been provided by the directors, shows for each of the nominees for election to the Board of Directors and for each director whose term continues, his or her name, age and principal occupation or employment during the past five years, the name of the corporation or other organization, if any, in which such occupation or employment is or was carried on, the period during which such person has served as a director of the Company and the year in which each continuing director's present term as director expires.

**2009 NOMINEES**

The Board of Directors recommends a vote **FOR** the four nominees below.

**John T. Cardis**, age 67. Mr. Cardis is a private investor. In May 2004, Mr. Cardis retired as National Managing Partner - Global Strategic Clients of Deloitte & Touche USA LLP, an audit, tax, consulting and financial advisory service company. From 1991 through June 1999, Mr. Cardis served as Office Managing Partner, Los Angeles, for Deloitte & Touche. He was also a member of the executive committee and a member of the board of directors. He also is a director of Edwards Lifesciences Corporation, a cardiovascular disease treatment company. He has been a director of Avery Dennison Corporation since October 2004.

**David E.I. Pyott**, age 55. Since February 2006, Mr. Pyott has been Chairman and Chief Executive Officer of Allergan, Inc., a global healthcare company. From April 2001 through January 2006, Mr. Pyott was Chairman, President and Chief Executive Officer and from January 1998 through March 2001, he was President and Chief Executive Officer of Allergan. He is also a director of Edwards Lifesciences Corporation, a cardiovascular disease treatment company. He has been a director of Avery Dennison Corporation since November 1999.

**Dean A. Scarborough**, age 53. Since May 2005, Mr. Scarborough has been President and Chief Executive Officer of Avery Dennison Corporation, a global leader in pressure-sensitive technology. From May 2000 through April 2005, Mr. Scarborough served the Company as President and Chief Operating Officer. From November 1999 through April 2000, Mr. Scarborough served the Company as Group Vice President, Fasson Roll Worldwide. Prior to November 1999, Mr. Scarborough held other executive positions with the Company. He is also a director of Mattel Corporation, a manufacturer and marketer of toys and family products. He has been a director of Avery Dennison Corporation since May 2000.

**Julia A. Stewart**, age 53. Since June 2008, Ms. Stewart has been Chairman and Chief Executive Officer of DineEquity, Inc. (formerly IHOP Corporation), which owns, operates and franchises the IHOP and Applebee's restaurant chains. From May 2006 through May 2008, Ms. Stewart was Chairman and Chief Executive Officer, and from May 2002 through April 2006, Ms. Stewart was President, Chief Executive Officer and Chief Operating Officer of IHOP. She has been a director of Avery Dennison Corporation since January 2003.





Table of Contents

**CONTINUING DIRECTORS**

**Peter K. Barker**, age 60. Mr. Barker is a private investor. From November 1982 through November 1998, Mr. Barker was a partner in Goldman Sachs & Company, an investment banking, securities and investment management firm. He is also a director of Fluor Corporation, an engineering, procurement, construction, and maintenance services company, and GSC Investment Company, a business development company. He has been a director of Avery Dennison Corporation since January 2003. His present term expires in 2011.

**Richard M. Ferry**, age 71. Mr. Ferry is a private investor. Since July 2001, Mr. Ferry has been Founder Chairman of Korn/Ferry International, an international executive search firm. In June 2001, Mr. Ferry retired as Chairman of Korn/Ferry, a position he had held since May 1997; and in June 2002, he left the board. From May 1991 through May 1997, Mr. Ferry was Chairman and Chief Executive Officer of Korn/Ferry. He is also a director of Pacific Mutual Holding Company, the parent of Pacific Life Insurance Company, a provider of life insurance, annuities and mutual funds. He has been a director of Avery Dennison Corporation since December 1985. His present term expires in 2011.

**Ken C. Hicks**, age 56. Since January 2005, Mr. Hicks has been President and Chief Merchandising Officer of J.C. Penney Company, Inc., a retailing company. From July 2002 through December 2004, Mr. Hicks was President, Chief Operating Officer of J.C. Penney Company. From January 1999 through February 2002, he was President of Payless ShoeSource, Inc. He is also a director of J.C. Penney Company. He has been a director of Avery Dennison Corporation since July 2007. His present term expires in 2011.

**Kent Kresa**, age 70. Since December 2005, Mr. Kresa has served as non-executive Chairman of Avery Dennison Corporation; since October 2003, he has been Chairman Emeritus of Northrop Grumman Corporation, an aeronautics and defense systems manufacturer. In October 2003, Mr. Kresa retired as Chairman of Northrop Grumman, a position he had held since September 1990. From September 1990 through March 2003, he served as Chairman and Chief Executive Officer of Northrop Grumman. He is also a director of Fluor Corporation, an engineering, procurement, construction, and maintenance services company; General Motors Corporation, an automotive manufacturer; and Mannkind Corporation, a pharmaceutical manufacturer. He has been a director of Avery Dennison Corporation since February 1999. His present term expires in 2011.

**Table of Contents**

**Rolf Börjesson**, age 66. Since May 2008, Mr. Börjesson has been the Retired Chairman of Rexam PLC, a worldwide consumer packaging company in London, United Kingdom. From May 2004 through April 2008, Mr. Börjesson was non-executive Chairman of Rexam. From 1996 through May 2004, Mr. Börjesson served as Chief Executive Officer of Rexam. He is also a director of SCA AB (Svenska Cellulosa Aktiebolaget), a pulp and paper manufacturer based in Stockholm, Sweden and Huhtamäki Oyj, a manufacturer of consumer and specialty packaging based in Espoo, Finland. He has been a director of Avery Dennison Corporation since January 2005. His present term expires in 2010.

**Peter W. Mullin**, age 68. Since November 2008, Mr. Mullin has been Chairman Emeritus of MullinTBG, an executive compensation, benefit planning and corporate insurance consulting firm. From March 2006 through October 2008, Mr. Mullin was Chairman of MullinTBG; prior to March 2006, he was Chairman of Mullin Consulting, Inc.; and prior to July 2003, Mr. Mullin also served as Chief Executive Officer of Mullin Consulting. He has been a director of Avery Dennison Corporation since January 1988. His present term expires in 2010.

**Patrick T. Siewert**, age 53. Since April 2007, Mr. Siewert has been a Managing Director for The Carlyle Group, an investment company. From February 2006 through March 2007, Mr. Siewert was a Senior Advisor to The Coca-Cola Company, a worldwide beverage company. From August 2001 through March 2007, Mr. Siewert was Group President, Asia The Coca-Cola Company. He is also a director of Computime Group Ltd., a manufacturer of home and commercial control products in Hong Kong. He has been a director of Avery Dennison Corporation since April 2005. His present term expires in 2010.

**Table of Contents****SECURITY OWNERSHIP OF MANAGEMENT**

The following table shows the number of shares of the Company's common stock beneficially owned by each director of the Company and each of the executive officers named on page 10, and the aggregate number of such shares beneficially owned by all directors and executive officers as of December 31, 2008.

Name	Amount and Nature of Beneficial Ownership <sup>(1)</sup>	Percent of Class
Dean A. Scarborough	678,755 <sup>(3)</sup>	(2)
Richard M. Ferry	59,138 <sup>(4)</sup>	(2)
Peter W. Mullin	94,135 <sup>(5)</sup>	(2)
Kent Kresa	49,587 <sup>(6)</sup>	(2)
David E.I. Pyott	40,583 <sup>(7)</sup>	(2)
Julia A. Stewart	25,790 <sup>(8)</sup>	(2)
Peter K. Barker	26,430 <sup>(9)</sup>	(2)
John T. Cardis	17,053 <sup>(10)</sup>	(2)
Rolf Börjesson	12,750 <sup>(11)</sup>	(2)
Patrick T. Siewert	17,600 <sup>(12)</sup>	(2)
Ken C. Hicks	7,534 <sup>(13)</sup>	(2)
Daniel R. O Bryant	306,201 <sup>(14)</sup>	(2)
Robert G. van Schoonenberg	380,098 <sup>(15)</sup>	(2)
Timothy S. Clyde	250,632 <sup>(16)</sup>	(2)
Robert M. Malchione	283,986 <sup>(17)</sup>	(2)
All Directors and Executive Officers as a Group (23 persons, including those named)	2,794,056 <sup>(18)</sup>	2.6%

(1) Except as otherwise indicated and subject to applicable community property and similar statutes, the persons listed as beneficial owners of the shares have voting and/or investment power with respect to such shares. Exercise prices for stock options on shares range from \$49.44 to \$67.80.

(2) Less than 1%.

(3) Includes 591,600 shares with respect to which Mr. Scarborough holds options exercisable within 60 days from December 31, 2008. Also includes 137 shares held by Mrs. Scarborough, as to which Mr. Scarborough disclaims beneficial ownership, and 2,583 shares issuable under stock units designated for Mr. Scarborough under the Company's Capital Accumulation Plan ( CAP ) trust.

(4) Includes 17,000 shares with respect to which Mr. Ferry holds options exercisable within 60 days from December 31, 2008. Also includes 2,372 stock units designated for Mr. Ferry under the Director Deferred Equity Compensation Program ( DDECP ). Also includes 1,500 shares issuable under stock units designated for Mr. Ferry under the CAP trust.

(5)

Includes 17,000 shares with respect to which Mr. Mullin holds options exercisable within 60 days from December 31, 2008. Also includes 750 shares issuable under stock units designated for Mr. Mullin under the CAP trust. Also includes 3,000 shares held by Mrs. Mullin (405 shares of which are held in a trust), as to which Mr. Mullin disclaims beneficial ownership.

- (6) Includes 22,000 shares with respect to which Mr. Kresa holds options exercisable within 60 days from December 31, 2008. Also includes 23,637 stock units designated for Mr. Kresa under the DDECP.
- (7) Includes 22,000 shares with respect to which Mr. Pyott holds options exercisable within 60 days from December 31, 2008. Also includes 14,833 stock units designated for Mr. Pyott under the DDECP.
- (8) Includes 14,000 shares with respect to which Ms. Stewart holds options exercisable within 60 days from December 31, 2008. Also includes 8,640 stock units designated for Ms. Stewart under the DDECP.
- (9) Includes 14,000 shares with respect to which Mr. Barker holds options exercisable within 60 days from December 31, 2008. Also includes 2,280 stock units designated for Mr. Barker under the DDECP.
- (10) Includes 12,000 shares with respect to which Mr. Cardis holds options exercisable within 60 days from December 31, 2008. Also includes 303 stock units designated for Mr. Cardis under the DDECP.
- (11) Includes 10,000 shares with respect to which Mr. Börjesson holds options exercisable within 60 days from December 31, 2008.
- (12) Includes 10,000 shares with respect to which Mr. Siewert holds options exercisable within 60 days from December 31, 2008.
- (13) Includes 3,500 shares with respect to which Mr. Hicks holds options exercisable within 60 days from December 31, 2008. Also includes 1,284 stock units designated for Mr. Hicks under the DDECP.

**Table of Contents**

- (14) Includes 256,043 shares with respect to which Mr. O Bryant holds options exercisable within 60 days from December 31, 2008. Also includes 33,555 shares of restricted stock that are scheduled to vest in two equal installments on April 1, 2009 and August 14, 2012.
- (15) Includes 337,650 shares with respect to which Mr. van Schoonenberg holds options exercisable within 60 days from December 31, 2008.
- (16) Includes 240,420 shares with respect to which Mr. Clyde holds options exercisable within 60 days from December 31, 2008.
- (17) Includes 270,659 shares with respect to which Mr. Malchione holds options exercisable within 60 days from December 31, 2008.
- (18) Includes 2,359,810 shares with respect to which all executive officers and directors as a group hold options exercisable within 60 days from December 31, 2008.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended ( 1934 Act ) requires the Company's executive officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities (collectively, Insiders ), to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission ( SEC ) and the New York Stock Exchange ( NYSE ). Insiders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company and written representations from certain Insiders that no other reports were required for such Insiders, the Company believes that, during the 2008 fiscal year, Insiders complied with the Section 16(a) filing requirements applicable to Insiders, except as follows: certain grants of restricted stock units were not included on Form 4s for Messrs. Bond, Butier, Clyde, Nolan and van Schoonenberg and Ms. Hill, but each of them subsequently filed, or amended a previously-filed, Form 4 to report such grants (which encompassed one such grant and report for Messrs. Bond, Butier, Clyde, Nolan and van Schoonenberg, and two such grants and reports for Ms. Hill); certain holdings of restricted stock units were not included on Form 3s that were filed by Messrs. Bond, Butier and Hemmelgarn and Ms. Miller at the time they became reporting persons under Section 16 of the Exchange Act, and accordingly each of them filed an amended Form 3 to report such holdings; and Ms. Dixon filed a late Form 4 to report a deemed sale of shares arising from a fund transfer election under the Company's employee savings (401(k)) plan.

**BOARD OF DIRECTORS AND COMMITTEE MEETINGS**

During 2008, there were seven meetings of the full Board of Directors ( Board ) and seventeen meetings of committees of the Board. All of the Avery Dennison directors attended at least 75% of the aggregate number of meetings of the Board and meetings of Board committees (of which they were members) held during the time they served on the Board or committees. The Company has a policy of encouraging directors to attend the Annual Meeting of Stockholders, and ten of the directors attended the 2008 Annual Meeting.

After review and discussion of the relevant facts and circumstances for each director, including any relationships with Avery Dennison, the Board has determined that the following directors, who (i) have no material relationships with Avery Dennison, and (ii) meet the Board's categorical independence standards for directors (which are attached as Exhibit A), are independent based on the NYSE listing standards: Peter K. Barker, Rolf Börjesson, John T. Cardis, Richard M. Ferry, Ken C. Hicks, Kent Kresa, David E.I. Pyott, Patrick T. Siewert and Julia A. Stewart. These nine

directors constitute a majority of the Board. As a part of its independence determinations, the Board considered sales and purchases of products and services, in the ordinary course of business, between the Company and its subsidiaries and the companies at which some of the Company's directors were officers during 2008. However, the amounts paid to or received from these companies during the last three years did not come close to the 2% threshold in the Board's independence standards for these nine directors. The Board also determined that none of these relationships impaired the independence of these nine directors.

### **Corporate Governance**

The Board and Avery Dennison management have taken a number of steps to enhance the Company's corporate governance policies and procedures, and to comply with the Sarbanes-Oxley Act, as well as the NYSE listing standards. There is a corporate governance section on the Company's Web site, which includes key information about

## **Table of Contents**

the Company's corporate governance. You can access this information by going to [www.averydennison.com](http://www.averydennison.com), selecting the Investors / Corporate Governance section to find the Company's Corporate Governance Guidelines; Charters for the Audit, the Compensation and Executive Personnel, and the Nominating and Governance Committees; Code of Ethics and Business Conduct for Directors, Officers and Employees; Code of Ethics for the Chief Executive Officer and Senior Financial Officers; and the Audit Committee Complaint Procedures. *The Company's Web site address provided above is not intended to function as a hyperlink, and the information on the Company's Web site is not and should not be considered part of this proxy statement and is not incorporated by reference herein.*

On December 1, 2005, the Board elected Kent Kresa as non-executive Chairman. Mr. Kresa presides at executive sessions of the Board. During 2008, the Board held five executive sessions with non-management directors only during regularly scheduled Board meetings, including one executive session with independent directors only. Stockholders and other interested parties may write to Mr. Kresa concerning matters other than accounting and auditing matters c/o Secretary, Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, California 91103. Stockholders may also write to John T. Cardis, Chairman of the Audit Committee, regarding accounting and auditing matters c/o Secretary at the same address.

### **Standing Committees of the Board of Directors**

The Audit Committee, which is composed of the following independent directors: John T. Cardis (Chairman), Peter K. Barker, Richard M. Ferry, Ken C. Hicks and Kent Kresa, met three times during 2008. The Audit Committee also held four teleconference reviews prior to the Company's issuing its quarterly and annual news releases concerning financial results. The Audit Committee is appointed by the Board to assist the Board with its oversight responsibilities in monitoring (i) the integrity of the financial statements of the Company; (ii) the independent auditors' qualifications and independence; (iii) the performance of the Company's internal audit function and independent auditors; and (iv) the compliance by the Company with legal and regulatory requirements. A copy of the Audit Committee Charter is available on the Company's Web site. The Board has designated Mr. Cardis and Mr. Barker as audit committee financial experts (as defined by applicable SEC regulations). The Board has determined that each of the members of the Audit Committee is independent (as defined by applicable SEC regulations).

The Compensation and Executive Personnel Committee ( Compensation Committee ), which is composed of the following independent directors: David E.I. Pyott (Chairman), Peter K. Barker, Richard M. Ferry and Julia A. Stewart, met seven times during 2008. The Compensation Committee is appointed by the Board to discharge the Board's responsibilities relating to compensation of the Company's directors, Chairman, and Chief Executive Officer ( CEO ) and other executive officers. The Compensation Committee has overall responsibility for approving and evaluating compensation plans, policies and programs of the Company, as they affect the directors, CEO and executive officers. In addition, the Compensation Committee reviews plans and candidates for succession to CEO and other executive officers. The Compensation Committee is also responsible for providing a report concerning its review of the Compensation Discussion and Analysis section of this annual proxy statement. A copy of the Compensation Committee's Charter is available on the Company's Web site.

The Ethics and Conflict of Interest Committee, which is composed of the following directors: Julia A. Stewart (Chairman), Rolf Börjesson, John T. Cardis, Kent Kresa and Patrick T. Siewert, met twice during 2008. The functions of the Ethics and Conflict of Interest Committee are to survey, monitor and provide counsel as to the business relationships, affiliations and financial transactions of directors, officers and key employees, as they may relate to possible conflicts of interest or to the Company's Legal and Ethical Conduct Policy; monitor the Company's compliance program; and report and make recommendations to the Board in instances where it is believed that possible violations of Company policy could exist.



The Finance Committee, which is composed of the following directors: Peter K. Barker (Chairman), Rolf Börjesson, John T. Cardis, Peter W. Mullin and Patrick T. Siewert, met once during 2008. The functions of the Finance Committee are to assist the Board in consideration of matters relating to the financial affairs and

**Table of Contents**

capital requirements of the Company; provide an overview of the financial planning and policies of the Company; and review significant borrowings and changes in the financial structure of the Company.

The Nominating and Governance Committee ( Nominating Committee ), which is composed of the following independent directors: Richard M. Ferry (Chairman), Rolf Börjesson, Ken C. Hicks, David E.I. Pyott and Julia A. Stewart, met three times during 2008. The Nominating Committee is appointed by the Board (i) to assist the Board by identifying individuals qualified to become Board members consistent with criteria approved by the Board, and to recommend to the Board the director nominees for the next annual meeting of stockholders, as well as between annual meetings when appropriate; (ii) to review and recommend to the Board, the Company s Corporate Governance Guidelines; (iii) to oversee the evaluations of the Board and management (related to corporate governance); and (iv) to recommend to the Board director nominees for each committee. A copy of the Nominating Committee s Charter is available on the Company s Web site. The Nominating Committee has a process under which all director candidates are evaluated. The Nominating Committee uses certain criteria in evaluating any candidate s capabilities to serve as a member of the Board including: attendance, independence, number of other board directorships, time commitments, education, conflict of interest, senior management experience with a multinational business or other organization with the size, scope, and complexity of the Company, as well as an ability and desire to contribute to the oversight and governance of the Company and to represent the balanced interests of stockholders as a whole, rather than those of special interest groups. Further, the Nominating Committee reviews the qualifications of any candidate with those of current directors to determine coverage and gaps in experience in related industries and in functional areas, such as finance, manufacturing, technology, and investing. Sources for identifying potential nominees include members of the Nominating Committee, other Board members, executive officers of the Company, third-party search firms, and stockholders. Stockholders desiring to make recommendations concerning new directors should submit the candidate s name, together with biographical information and professional experience, and the candidate s written consent to nomination c/o Secretary, Nominating and Governance Committee of the Board of Directors, Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, California 91103. Stockholders wishing to nominate new directors for election at an annual meeting must comply with the requirements described under the heading GENERAL Stockholder Proposals on page 46.

In addition to the standing committees noted above, the Board has an Ad Hoc Committee, which is composed of the following directors: Kent Kresa (Chairman) and David E.I. Pyott, that met once during 2008. The Ad Hoc Committee is appointed by the Board and has been assigned the oversight responsibility for, and is empowered to take action (or if deemed appropriate to make recommendations to the Board) with respect to, the Company s response to pending competitive practices related litigation.

**Table of Contents****DIRECTOR COMPENSATION FOR 2008**

The following table provides information regarding compensation earned by the Company's non-employee directors during 2008:

Name	Fees Earned or Paid in Cash <sup>(2)</sup>	Stock Awards <sup>(3)</sup>	Option Awards <sup>(4)</sup>	Change in Pension Non-Equity Value and Incentive		All Other Compensation <sup>(6)</sup>	Total
				Plan Compensation	NQDC Earnings <sup>(5)</sup>		
Peter K. Barker	\$ 93,500	\$ 32,948	\$ 29,146			\$ 10,000	\$ 165,594
Rolf Börjesson	\$ 71,500	\$ 32,948	\$ 29,146				\$ 133,594
John T. Cardis	\$ 92,000	\$ 32,948	\$ 29,146			\$ 10,000	\$ 164,094
Richard M. Ferry	\$ 97,500	\$ 32,948	\$ 29,146		\$ 133,741	\$ 10,000	\$ 303,335
Ken C. Hicks	\$ 76,000	\$ 32,948	\$ 52,297			\$ 10,000	\$ 171,245
Kent Kresa <sup>(1)</sup>	\$ 244,000	\$ 32,948	\$ 29,146			\$ 10,000	\$ 316,094
Peter W. Mullin	\$ 67,000	\$ 32,948	\$ 29,146		\$ 1,609	\$ 10,000	\$ 140,703
David E.I. Pyott	\$ 92,500	\$ 32,948	\$ 29,146		\$ 7,132	\$ 10,000	\$ 171,726
Patrick T. Siewert	\$ 70,000	\$ 32,948	\$ 29,146				\$ 132,094
Julia A. Stewart	\$ 89,500	\$ 32,948	\$ 29,146			\$ 7,500	\$ 159,094

(1) Mr. Kresa serves as Chairman. His annual retainer is \$220,000.

(2) Amounts represent retainers and meeting fees earned by the directors in 2008. The annual retainer for all non-employee directors (except for Mr. Kresa) is \$55,000. Directors may elect to defer all or a portion of their fees into the Director Variable Deferred Compensation Plan ( DVDCP ) or the DDECP.

(3) Amounts represent the value of the stock awards made on June 30, 2008 (750 shares at \$43.93).

(4) Amounts shown do not reflect compensation actually received by the directors. Instead, the amounts shown are the compensation expense recognized by the Company in the 2008 Consolidated Statement of Income for stock options granted to directors in 2008 and in prior years, calculated in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 123(R), *Share-Based Payment*. Options vest in equal installments on the first two anniversaries of the grant date and expire after ten years. As of December 31, 2008, the directors held stock options as follows: Mr. Barker 15,000; Mr. Börjesson 11,000; Mr. Cardis 13,000; Mr. Ferry 18,000; Mr. Hicks 7,000; Mr. Kresa 23,000; Mr. Mullin 18,000; Mr. Pyott 23,000; Mr. Siewert 11,000; and Ms. Stewart 15,000.

(5) NQDC means Nonqualified Deferred Compensation. For Mr. Ferry and Mr. Mullin, the amounts reflect above-market earnings during fiscal year 2008 on fees that were deferred prior to fiscal year 2008 under two legacy plans (the fixed-rate alternatives that were frozen prior to 2008 and are no longer open for additional Company or director contributions): the Director Deferred Compensation Plan and/or the DVDCP. For Mr. Pyott, the amount represents the change in present value of his director retirement plan benefit; this plan was frozen effective December 31, 2002.

<sup>(6)</sup> Reflects amounts of Company matching gifts for director's contributions to the United Way and/or to educational institutions; the maximum Company match is \$10,000.

As President and CEO of the Company, Mr. Scarborough receives no fees for services rendered in his capacity as a director. Each non-employee director is paid an annual retainer fee of \$55,000; the non-executive Chairman is paid an annual retainer of \$220,000. Directors are paid attendance fees of \$1,500 per Board meeting attended, and \$2,000 per committee meeting attended as Chairman of a committee or \$1,500 per committee meeting attended as a member of the committee (whether it is a standing or an ad hoc committee). The Chairmen of the Audit and the Compensation Committees are each also paid an annual retainer fee of \$10,000; the Chairmen of the Finance, the Nominating and Governance, and the Ethics and Conflict of Interest Committees are each paid an annual retainer fee of \$5,000. Committee members are also paid \$1,500 for teleconferences. See Exhibit B for a summary of non-employee director compensation. Under the DVDCP, fees that are deferred accrue earnings at the rate of return of certain bond and equity investment funds managed by an insurance company. Under the DDECP, directors may defer fees into stock units, which will be paid out in shares of Company stock at retirement. As of December 31, 2008, the following directors held stock units in the DDECP: Mr. Barker 2,280; Mr. Cardis 303; Mr. Ferry 2,372; Mr. Hicks 1,284; Mr. Kresa 23,637; Mr. Pyott 14,833; and Ms. Stewart 8,640. The Company has a matching gift program under which the Company will match an amount of up to \$10,000 that a director contributes to charitable and/or educational institutions.

## **Table of Contents**

Each non-employee director received a stock award of 750 shares of the Company's common stock on June 30, 2008, as a portion of their director compensation. Non-employee directors also participate in the Director Equity Plan, which provides for each non-employee director to receive a 5,000 stock option grant upon joining the Board, and an annual grant of 2,000 stock options thereafter. In February 2008, options to purchase a total of 20,000 shares (2,000 options for each non-employee director) of Company stock were granted to the non-employee directors under this plan. When stock options are granted, the option price is 100% of the fair market value of the Company's common stock on the date of grant. All options granted have a term of ten years, and become exercisable in two equal installments on the first and second anniversaries of the grant date, except that all options held by a director, which are otherwise unexercisable on the date the director retires at or after age 72, will become fully exercisable on the date of such retirement.

## **EXECUTIVE COMPENSATION**

### **COMPENSATION DISCUSSION AND ANALYSIS**

The Compensation Discussion and Analysis ( CD&A ) provides an overview and analysis of the Company's compensation programs. Later in this proxy statement under the heading "Additional Information Regarding Executive Compensation" is a series of tables containing information about the compensation for the following individuals, whom the Company refers to as named executive officers, or NEOs, of the Company:

Dean A. Scarborough, President and Chief Executive Officer

Daniel R. O Bryant, Executive Vice President, Finance and Chief Financial Officer ( CFO )

Robert G. van Schoonenberg, Executive Vice President and Chief Legal Officer<sup>(\*)</sup>

Timothy S. Clyde, Group Vice President, Specialty Materials and Converting

Robert M. Malchione, Senior Vice President, Corporate Strategy and Technology

The discussion below is intended to help in understanding the detailed information provided in those tables and put that information into context within the Company's overall compensation program.

### **ROLE OF COMPENSATION COMMITTEE & EXECUTIVE OFFICERS**

The Compensation Committee is appointed by the Board to manage the Board's responsibilities relating to the compensation of the Company's directors, CEO, other NEOs and other executive officers.

The Compensation Committee's major responsibilities are to:

1. Review and approve Company objectives and goals related to CEO compensation annually, evaluate the CEO's performance in light of those goals and objectives, and determine and approve the CEO's overall compensation level based on this evaluation. In determining the incentive components of the CEO's compensation, the Compensation Committee considers the Company's performance and strategic direction and the value incentive awards to CEOs at companies of similar size.

2. Review and approve the annual base salary increases and annual bonus awards of the other executive officers, as well as long-term cash and equity-based incentive awards. In addition, the Compensation Committee provides periodic reports and makes recommendations to the Board on the Company's compensation program for the other

executive officers. The Compensation Committee also reviews and approves employment agreements, special or supplemental compensation and benefits for the CEO and other executive officers, including supplemental retirement benefits and perquisites.

(\*) Mr. van Schoonenberg retired from the Company at the end of 2008.

**Table of Contents**

3. Select, retain and terminate any compensation consultant used to assist the Compensation Committee in the evaluation of compensation for directors, the CEO and other executive officers. The Compensation Committee has sole authority to approve the consultant's fees and other terms and conditions.
4. Conduct an annual evaluation of, and make periodic reports to, the Board on succession planning for the CEO and the CEO's direct reports. To that end, the Compensation Committee meets annually to review and discuss succession planning for the CEO and other executive officers.
5. Review the Compensation Committee Charter annually and recommend any proposed changes to the Board for approval.

The Compensation Committee has retained the services of Watson Wyatt Worldwide ( Watson Wyatt ), an independent executive compensation consultant, to assist the Compensation Committee in determining the overall compensation program. During 2008, Watson Wyatt continued its review of the Company's executive compensation program, including the annual bonus and long-term incentive plans. As a result of this review, the Compensation Committee determined that the cash Long-Term Incentive Plan ( LTIP ) program be phased out at the end of the 2006 - 2008 Employee performance cycle. In 2008, the CEO and other NEOs were eligible to receive stock options and performance units ( PUs ) under the Employee Stock Option and Incentive Plan, which are targeted to represent approximately 60% and 40%, respectively, of their long-term incentive opportunity.