

**EVERY DENNISON SETTLES FCPA CHARGES RELATED TO CONDUCT IN
CHINA, INDONESIA, AND PAKISTAN**

On July 28, 2009, Avery Dennison Corporation (“Avery”) settled civil charges stemming from alleged violations of the Foreign Corrupt Practices Act (the “FCPA”) in China, Indonesia, and Pakistan. In settling the charges with the Securities and Exchange Commission (the “SEC”), Avery agreed to pay approximately \$518,000 in disgorgement, prejudgment interest, and civil penalties. The settlement resolved FCPA allegations relating to improper gifts, travel, and payments to officials and employees at state-owned entities.

According to the SEC’s cease-and-desist order, Avery’s indirect subsidiary in China, Avery (China) Co. Ltd. (“Avery China”), engaged in a variety of activities deemed improper under the FCPA from 2002 to 2005. In 2004, Avery hired a former Chinese official to serve as a sales manager -- allegedly because the former official’s wife was herself an official in charge of two projects that Avery wanted to pursue. From 2004 to 2005, Avery allegedly gave improper gifts to Chinese officials and paid kickbacks to officials at state-owned entities to secure contracts. In one case, Avery allegedly disguised a kickback as a “commission” to its Chinese distributor. In another case, Avery artificially increased the sales price of two government contracts and then refunded the excess amount to a Chinese government entity as a “consulting fee” with the understanding that at least a portion of the refunded amount would be for the benefit of officials at the entity. Avery also hosted sightseeing trips for government officials and concealed expenses related to the trips.

After disclosing the potential FCPA violations to the SEC in August 2005, Avery discovered additional improper payments -- this time by companies that it had recently acquired. Avery found that an Indonesian contractor that it had acquired had routinely paid approximately \$100 per month to each of three customs officials who inspected the company’s goods; the company funded the payments by withdrawing \$10 in petty cash on a daily basis and improperly accounting for the withdrawals as “travel expenses.” In addition, Avery discovered that employees at Paxar Corporation (“Paxar”), a publicly traded company that Avery had acquired in June 2007, had routinely made illegal payments to customs and tax officials to obtain bonded zone licenses and to cause bonded zone regulatory violations to be overlooked. According to the SEC’s complaint, the former general manager of Paxar Indonesia directed employees to fabricate invoices to conceal the illegal payments. Avery also discovered alleged improper payments to Pakistani customs officials by Paxar’s Pakistani subsidiary.

After discovering the alleged improper payments to customs and tax officials, Avery conducted a 27-country compliance review. In July 2008, Avery conducted a more comprehensive FCPA review in ten high-risk countries. The review uncovered illicit payments both before and after the Paxar acquisition, including improper post-acquisition payments of \$5,000, \$30,000, and \$16,000 at Paxar Indonesia, Paxar Pakistan, and Paxar China, respectively.

The SEC charged Avery under the FCPA's books and records and internal controls provisions. As in similar FCPA cases, the SEC held Avery, as a publicly traded parent corporation, liable for the books and records and internal controls deficiencies of its subsidiaries, including its foreign subsidiaries.

Avery's settlement illustrates the difficulties that companies often experience with gifts and travel expenses, particularly in China, and the problems that companies face when dealing with customs and tax officials in countries where improper payments may be expected by government officials as a matter of routine practice in those contexts. In addition, the case demonstrates the broad array of benefits to government officials that may qualify as "things of value" for purposes of the FCPA. The benefits to foreign government officials cited by the SEC in the Avery case include cash payments, payments disguised as "commissions" or "consulting fees," sightseeing trips, employment for the spouse of an official, and even refunds to a government institute where it was understood that at least a portion of the refund would benefit officials of the institute.

The settlement also highlights the potential for liability in acquisitions of companies that operate in high-risk countries and that lack robust antibribery compliance programs. Comprehensive FCPA due diligence is critical in mergers and acquisitions; companies must quickly and effectively integrate acquired companies into existing compliance programs post-acquisition. Among other areas of investigation, due diligence for a transaction should include a review of travel expenditures, entertainment expenses, and distributor and other third-party relationships.

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