AVERY DENNISON CORPORATION
Form DEF 14A
March 20, 2006

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SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant þ

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Check the appropriate box:

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þ Definitive Proxy Statement
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AVERY DENNISON CORPORATION

(Name of Registrant as Specified In Its Charter)

AVERY DENNISON CORPORATION

(Name of Person(s) Filing Proxy Statement)

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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

Notice of Annual Meeting of Stockholders

To be held April 27, 2006

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 27, 2006, 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; and

2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company s independent auditors for the current fiscal year, which ends on December 30, 2006; and

3. 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 27, 2006, 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

Robert G. van Schoonenberg
Secretary

Pasadena, California
Dated: March 20, 2006

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.

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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 to be held on Thursday, April 27, 2006, at 1:30 P.M. and at any and all adjournments thereof. A stockholder giving a proxy pursuant to the present solicitation may revoke it at any time before it is exercised by giving a subsequent proxy or by delivering to the Secretary of the Company a written notice of revocation prior to the voting of the proxy at the Annual Meeting. If you attend the meeting and wish to vote your shares in person, your proxy will not be used. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the election inspectors appointed for the meeting and will determine whether or not a quorum is present. Under the Company s Bylaws and Delaware law: (1) 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 for purposes of determining the presence of a quorum; (2) there is no cumulative voting and the director nominees receiving the highest number of votes, up to the number of directors to be elected, are elected and, accordingly, abstentions, broker non-votes and withholding of authority to vote will not affect the election of directors; and (3) proxies that reflect abstentions as to a particular proposal will be treated as voted for purposes of determining the approval of that proposal and will have the same effect as a vote against that proposal, while proxies that reflect broker non-votes will be treated as unvoted for purposes of determining approval of that proposal and will not be counted as votes for or against that proposal. The Company has retained D. F. King & Co., Inc. to assist in soliciting proxies for this meeting at a fee estimated at $10,500 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 20, 2006.

The purpose of the meeting and the matters to be acted upon are set forth in the preceding Notice of Annual Meeting: the election of directors and ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors for the Company. As of the date of this 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 said proxies in respect of any such other business in accordance with the best judgment of the persons acting under said proxies. See GENERAL Stockholder Proposals below.

ELECTION OF DIRECTORS (Proxy Item 1)

The Bylaws of the Company presently provide for ten directors, divided into three classes. Four directors are to be elected at the 2006 Annual Meeting and will hold office until the Annual Meeting in 2009 and until their 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 of Directors, or the number of directors may be reduced accordingly.

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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.

2006 NOMINEES

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

John T. Cardis, age 64. 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 after forty-one years of service. From 1991 to 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, and Energy East Corporation, an energy services and delivery company. He has been a director of Avery Dennison Corporation since October 2004.

David E. I. Pyott, age 52. 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 Allergan; Edwards Lifesciences Corporation, a cardiovascular disease treatment company; and 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 November 1999.

Dean A. Scarborough, age 50. 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 to 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 has been a director of Avery Dennison since May 2000.

Julia A. Stewart, age 50. Since May 2002, Ms. Stewart has been President, Chief Executive Officer and Chief Operating Officer of IHOP Corporation, which owns, operates and franchises a restaurant chain. From December 2001 through May 2002, Ms. Stewart served as President and Chief Operating Officer of IHOP. Ms. Stewart was President of the Domestic Division of Applebee s International, Inc., a restaurant chain, from 1998 until August 2001. Ms. Stewart is a director of IHOP. She has been a director of Avery Dennison Corporation since January 2003.

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CONTINUING DIRECTORS

Rolf Börjesson, age 63. Since May 2004, Mr. Börjesson has been non-executive Chairman of Rexam PLC, in London, UK, a worldwide consumer packaging company. From 1996 to 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. He has been a director of Avery Dennison Corporation since January 2005. His present term expires in 2007.

Peter W. Mullin, age 65. During the past six years, Mr. Mullin has been Chairman of Mullin Consulting, Inc., an executive compensation, benefit planning and corporate insurance consulting firm; prior to July 2003, Mr. Mullin also served as Chief Executive Officer of Mullin Consulting. He is also a director of Mrs. Fields Famous Brands, LLC, a fresh-baked products company. He has been a director of Avery Dennison Corporation since January 1988. His present term expires in 2007.

Patrick T. Siewert, age 50. Since February 2006, Mr. Siewert has been a Senior Advisor to the Coca-Cola Company, a worldwide beverage company. From May 2005 to January 2006, Mr. Siewert was President and Chief Operating Officer, East, South Asia & Pacific Rim Group of the Coca-Cola Company. From August 2001 to May 2005, Mr. Siewert was President, East and South Asia Group of the Coca-Cola Company. Prior to August 2001, Mr. Siewert held executive and management positions at Eastman Kodak Company. He has been a director of Avery Dennison Corporation since April 2005. His present term expires in 2007.

Peter K. Barker, age 57. Mr. Barker is a private investor. From November 1982 until 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 Ameron International Corporation, a manufacturer of concrete, pipe, protective coatings and construction products, and Stone Energy Corporation, an independent oil and gas exploration and development company. He has been a director of Avery Dennison Corporation since January 2003. His present term expires in 2008.

Richard M. Ferry, age 68. 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 Dole Food Company, Inc., a producer and marketer of fresh produce and packaged foods; Mrs. Fields Famous Brands, LLC, a fresh-baked products company; and 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 2008.

Kent Kresa, age 67. Mr. Kresa is a retired Chief Executive Officer. Since December 2005, Mr. Kresa has served as non-executive Chairman of Avery Dennison Corporation; and 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 to March 2003, he also 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 since February 1999. His present term expires in 2008.

RETIRED DIRECTOR

Philip M. Neal, age 65. From May through December 2005, Mr. Neal served as Chairman of Avery Dennison Corporation, a global leader in pressure-sensitive technology. From May 2000 through April 2005, he served the Company as Chairman and Chief Executive Officer. From May 1998 through April 2000, Mr. Neal served as President and Chief Executive Officer. From December 1990 through April 1998, Mr. Neal was President and Chief Operating Officer; prior to December 1990, he held various executive positions. He is a director of Edwards Lifesciences Corporation, a cardiovascular disease treatment company. He had been a director of Avery Dennison since December 1990. Mr. Neal retired from the Board and the Company on December 2, 2005.

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 in the table on page 10 (except for Mr. Neal, who retired on December 2, 2005), and the aggregate number of such shares beneficially owned by all directors and executive officers as of December 31, 2005.

Name	Amount and Nature of Beneficial Ownership[1]	Percent of Class
Dean A. Scarborough	327,976(3)	(2)
Richard M. Ferry	50,376(4)(5)	(2)
Peter W. Mullin	55,815(4)(6)	(2)
Kent Kresa	25,788(7)	(2)
David E. I. Pyott	25,769(8)	(2)
Julia A. Stewart	11,874(9)	(2)
Peter K. Barker	10,900(10)	(2)
John T. Cardis	4,277(11)	(2)
Rolf Börjesson	3,000(12)	(2)
Patrick T. Siewert	500(13)	(2)
Robert G. van Schoonenberg	171,804(14)	(2)
Daniel R. O Bryant	120,454(15)	(2)
Robert M. Malchione	109,679(16)	(2)
Christian A. Simcic	112,980(17)	(2)
All Directors and Executive Officers as a Group (20 persons, including those named)	1,356,069(18)	1.2%

(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 $34.9375 to 67.3125.

(2) Less than 1%.

(3) Includes 275,600 shares with respect to which Mr. Scarborough holds options exercisable within 60 days from December 31, 2005. Also includes 125 shares held by Mrs. Scarborough, as to which Mr. Scarborough disclaims beneficial ownership, and 2,340 shares issuable under stock units designated for Mr. Scarborough under the Company s Capital Accumulation Plan (CAP) trust.

(4) Includes 19,000 shares with respect to which each of Messrs. Ferry and Mullin holds options exercisable within 60 days from December 31, 2005.

(5) Includes 1,360 shares issuable under stock units designated for Mr. Ferry under the CAP trust.

(6) Includes 680 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.

(7) Includes 16,000 shares with respect to which Mr. Kresa holds options exercisable within 60 days from December 31, 2005. Also includes 8,088 stock units designated for Mr. Kresa under the Director Deferred Equity Compensation Program (DDECP).

(8) Includes 16,000 shares with respect to which Mr. Pyott holds options exercisable within 60 days from December 31, 2005. Also includes 8,269 stock units designated for Mr. Pyott under DDECP.

(9) Includes 8,000 shares with respect to which Ms. Stewart holds options exercisable within 60 days from December 31, 2005. Also includes 2,974 stock units designated for Ms. Stewart under DDECP.

(10) Includes 8,000 shares with respect to which Mr. Barker holds options exercisable within 60 days from December 31, 2005.

(11) Includes 3,500 shares with respect to which Mr. Cardis holds options exercisable within 60 days from December 31, 2005. Also includes 277 stock units designated for Mr. Cardis under DDECP.

(12) Includes 2,500 shares with respect to which Mr. Börjesson holds options exercisable within 60 days from December 31, 2005.

(13) Mr. Siewert joined the Board of Directors in April 2005.

(14) Includes 146,300 shares with respect to which Mr. van Schoonenberg holds options exercisable within 60 days from December 31, 2005.

(15) Includes 77,800 shares with respect to which Mr. O Bryant holds options exercisable within 60 days from December 31, 2005. Also includes 30,000 shares of restricted stock that are scheduled to vest in two equal installments on April 1, 2009 and August 14, 2012.

(16) Includes 103,300 shares with respect to which Mr. Malchione holds options exercisable within 60 days from December 31, 2005.

(17) Includes 106,500 shares with respect to which Mr. Simcic holds options exercisable within 60 days from December 31, 2005.

(18) Includes 1,096,773 shares with respect to which all executive officers and directors as a group hold options exercisable within 60 days from December 31, 2005.

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BOARD OF DIRECTORS AND COMMITTEE MEETINGS

During 2005, there were seven meetings of the full Board of Directors and twenty-six meetings of committees of the Board. All of the Avery Dennison directors attended at least seventy-five percent 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 Committee. The Company has a policy of encouraging directors to attend the Annual Meeting of Stockholders, and at the 2005 Annual Meeting all of the directors attended.

After review and discussion of the relevant facts and circumstances for each director, including any relationships with Avery Dennison, the Board of Directors 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 New York Stock Exchange (NYSE) listing standards: Peter K. Barker, Rolf Börjesson, John T. Cardis, Richard M. Ferry, Kent Kresa, David E.I. Pyott, Patrick T. Siewert and Julia A. Stewart. These eight directors constitute a majority of the Board.

Corporate Governance

The Board of Directors 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 our corporate governance. You can access this information by going to www.averydennison.com, selecting the Investors/Corporate Governance section to find our 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.*

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

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, and Kent Kresa met three times during 2005. 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 auditor s 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. Barker and Mr. Cardis as audit committee financial experts (as that term is defined in Item 401(h) of Regulation S-K of the Securities and Exchange Commission). The Board has determined that each of the members of the Audit Committee is independent, as that term is used in Schedule 14A, Item 7(d)(3)(iv) under the Securities Exchange Act of 1934, as amended.

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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 six times during 2005. 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 senior executive officers (Senior Executives). 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 Senior Executives. In addition, the Compensation Committee reviews plans and candidates for succession to CEO. The Compensation Committee is also responsible for producing an annual report on executive compensation for inclusion in the Company s 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 once during 2005. 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, Richard M. Ferry, Kent Kresa, Peter W. Mullin, and Patrick T. Siewert, met once during 2005. The functions of the Finance Committee are to assist the Board in consideration of matters relating to the financial affairs and 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, David E.I. Pyott and Julia A. Stewart, met three times during 2005. 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 26.

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The Strategic Planning Committee, which is composed of all of the directors with Dean A. Scarborough as Chairman, met once during 2005. The functions of the Strategic Planning Committee are to review the Company s long-term strategic plan, objectives, programs, and proposed acquisition candidates and divestitures; review steps being taken to improve stockholder value; and make recommendations to the Board on any of these matters.

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 twice during 2005. 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 the pending Department of Justice and other competitive practices investigations, as well as any related litigation.

As an employee 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 and Executive Personnel Committees are each also paid an annual retainer fee of $10,000, and 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 attached Exhibit B for a summary). Under the director deferred compensation plans, fees, which are deferred, either accrue interest at a fixed rate based on the 120-month rolling average of ten-year U.S. Treasury Notes (plus, if the director ceases to be a director by reason of death, disability or normal retirement, twenty-five percent of such rate per annum), or accrue at the actual rate of return (less an administrative fee) of certain investment funds managed by an insurance company. Benefits payable by the Company under this plan are funded with assets placed in a trust. Under the directors deferred equity compensation program, directors have been able to defer fees into stock units, which will be paid out in shares of Company stock at retirement. Following Mr. Neal s retirement as Chairman in December 2005, the Company provides life and medical insurance coverage, and funds for office space, administrative assistance, financial counseling services, and business and social club dues. The Company also provides Charles D. Miller, as retired Chairman, office space, administrative assistance, financial counseling services, life and medical insurance coverage, and fees for two local clubs. The Company has a matching gift program under which the Company will match an amount of up to $5,000 that a director gives to the United Way, and the Company will also match an amount of up to $5,000 given to educational institutions. Each non-employee director received a stock payment of 500 shares of the Company s common stock on April 28, 2005, as a portion of their director compensation.

Non-employee directors participate in the Director Equity Plan, which provides for each non-employee director to receive a stock option grant with respect to 5,000 shares upon joining the Board of Directors, and automatic annual grants of 2,000 stock options thereafter to each non-employee director. In December 2005, options to purchase a total of 18,000 shares (2,000 options for each non-employee director) of Company common stock were granted to the non-employee directors eligible to receive grants under such plan. The option price for each such option granted is one hundred percent of the fair market value of Company common stock on the date of grant. All options granted have a term of ten years, and become exercisable in two cumulative installments of fifty percent of the number of shares with respect to which the option was initially granted on each of the first and second anniversaries of the grant date, except that all options held by a director, which are unexercisable on the date the director retires at or after age 72, will become fully exercisable on the date of such retirement.

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EXECUTIVE COMPENSATION AND OTHER INFORMATION

Executive Compensation

The following table and accompanying notes show, for the Chairman, the President and Chief Executive Officer and the other four most highly compensated executive officers of the Company for 2005, the compensation paid by the Company to such persons for services in all capacities during 2005 and the preceding two fiscal years.

SUMMARY COMPENSATION TABLE

					Long-Term Compensation			
		Annual Compensation			Awards		Payouts	
Name and Principal Position	Year	Salary ($)[2]	Bonus ($)[2]	Other Annual Compensation ($)[3]	Restricted Stock Award(s) ($)[4]	Securities Underlying Options (#)	LTIP Payouts ($)[5]	All Other Compensation ($)[6]
Philip M. Neal[1]	2005	$ 994,091	$ 1,100,000	$ 67,290			$ 1,261,000	$ 24,482
Chairman	2004	1,061,667	1,500,000	74,155		190,000		88,821
	2003	993,125	500,000	52,446		150,000	656,000	44,789
Dean A. Scarborough[1]	2005	$ 671,000	$ 1,300,000	$ 52,558	$ 356,520	150,000	$ 767,000	$ 16,130
President and Chief	2004	646,333	775,000	64,731		90,000		51,133
Executive Officer	2003	603,125	270,000	57,491		55,000	395,000	22,836
Robert G. van Schoonenberg	2005	$ 512,683	$ 560,000		$ 147,005	39,560	$ 596,000	$ 12,585
Executive Vice President,	2004	501,833	490,000			57,000		56,360
General Counsel and Secretary	2003	473,621	230,000			38,950	318,000	19,851
Daniel R. O Bryant	2005	$ 501,667	$ 523,400		$ 1,755,028	48,862	$ 537,000	$ 1,010,188
Executive Vice President,	2004	448,333	450,000			51,400		30,884
Finance and Chief Financial Officer	2003	408,458	160,000			33,250	265,000	14,852
Robert M. Malchione	2005	$ 431,792	$ 426,200		$ 112,898	30,377	$ 502,000	$ 9,700
Senior Vice President,	2004	424,333	390,000			48,000		30,818
Corporate Strategy and	2003	402,892	152,300			33,250	270,000	15,441

Technology								
Christian A. Simcic	2005	$ 444,675	$ 375,000		$ 139,994	37,677	$ 420,000	$ 6,260
Group Vice President,	2004	434,000	372,500			45,500		6,123
Roll Materials Worldwide	2003	409,833	98,800			23,250	284,000	490

(1) Mr. Neal served as Chief Executive Officer from January through April 2005, and Mr. Scarborough served as Chief Executive Officer from May through December 2005. Mr. Neal retired from the Company on December 2, 2005.

(2) Amounts shown include amounts earned, but deferred at the election of these officers under the Company s deferred compensation plans and Employee Savings Plan, a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code (Code).

(3) Amount for Mr. Neal in 2005 includes the incremental (variable) cost to the Company of $35,911 for his personal use of the Company aircraft and $18,809 for financial counseling. Amount for Mr. Scarborough in 2005 includes $34,764 for car lease.

(4) Mr. O Bryant received 30,000 shares of restricted stock and the value is based upon the closing price of the Company s common stock on May 31, 2005 ($52.45); subject to the terms of his retention agreement, the restricted stock is scheduled to vest in two equal installments on April 1, 2009 and August 14, 2012. Amounts shown include awards of restricted stock units (RSUs), which may vest after 3, 4 or 5 years if the Company meets certain performance objectives; the value is based upon the closing price of the Company s common stock on December 1, 2005 ($59.42). Dividend equivalents are credited on these shares of restricted stock and RSUs in the form of additional restricted stock or RSUs, provided that they are also restricted until the underlying shares and/or RSUs vest. The named executives (Named Executives) were awarded RSUs as follows: 6,000 for Mr. Scarborough; 2,474 for Mr. van Schoonenberg; 3,055 for Mr. O Bryant; 1,900 for Mr. Malchione; and 2,356 for Mr. Simcic.

(5) Amounts for 2005 and 2003 consist of cash payments under the Company s Executive Long-Term Incentive Plan (LTIP) for the cycles completed on December 31, 2004 and December 31, 2002, respectively.

(6) Amounts consist of (i) Company contributions to deferred compensation plans and (ii) Company contributions to the Company s Employee Savings Plan, a 401(k) plan (Savings Plan). These amounts for 2005 were $21,032 and $3,450, respectively, for Mr. Neal; $9,560 and $6,570, respectively, for Mr. Scarborough; $6,354 and $6,231, respectively, for Mr. van Schoonenberg; $1,004,212 (part of his retention agreement described on page 15) and $5,975, respectively, for Mr. O Bryant; and $3,156 and $6,544, respectively, for Mr. Malchione; and $6,260 for Mr. Simcic s Savings Plan account.

In addition, Mr. O Bryant received dividends on his restricted stock ($34,749 during 2005) in the form of additional restricted stock. On each dividend payment date, additional shares (or fractional shares) of restricted stock were credited to Mr. O Bryant s account. The number of shares of restricted stock credited is determined by dividing the dividend that would have been paid on the shares represented by the restricted stock in his account by the average price of the Company s common stock on the NYSE on the dividend payment date. During 2005, 642 shares of restricted stock were credited to his account as a result of these dividends.

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Option Grants

The following table shows information regarding stock options granted in 2005 to each of the named executive officers under the Employee Stock Option and Incentive Plan (the Employee Plan).

OPTION GRANTS IN LAST FISCAL YEAR

	Individual Grants				
Name	**Number of Securities Underlying Options Granted (#)(1)(2)**	**% of Total Options Granted to Employees in Fiscal Year**	**Exercise or Base Price ($/Share)**	**Expiration Date**	**Grant Date Present Value ($)(3)**
Dean A. Scarborough	50,000	2.7%	52.08	5/2/2015	$ 506,750
	100,000	5.5	59.465	12/1/2015	1,107,400
Robert G. van Schoonenberg	39,560	2.2	59.465	12/1/2015	438,087
Daniel R. O Bryant	48,862	2.7	59.465	12/1/2015	541,098
Robert M. Malchione	30,377	1.7	59.465	12/1/2015	336,395
Christian A. Simcic	37,677	2.1	59.465	12/1/2015	417,235

(1) Non-qualified stock options were granted at fair market value for a term of ten years under the Employee Plan. The options vest twenty-five percent per year; alternatively, options, granted to participants in the executive annual bonus plan retiring under the Company s retirement plan who have at least ten years service and have a combination of age and service with the Company of seventy-five or more, will vest as of the date of termination of employment. Mr. Scarborough received a special grant of 50,000 options on May 2, 2005, as a result of his promotion to President and Chief Executive Officer.

(2) The Compensation and Executive Personnel Committee may accelerate the time at which an option becomes exercisable, and in the event of a change of control of the Company (as defined in the option agreement) options become immediately exercisable.

(3) Option grant date values were determined using a Black-Scholes option-pricing model adapted for use in valuing executive stock options. In determining the Black-Scholes value, the following underlying assumptions were used: (i) stock price volatility is measured as the standard deviation of the Company s stock price over the three years prior to grant (0.2058 for all, except Mr. Scarborough s first grant, which was 0.21); (ii) dividend yield is measured as the cumulative dividends paid the last twelve months as a percentage of the twelve-month average of the month- end closing prices (for the month in which the dividend was declared) prior to grant of the option (2.689% for all, except Mr. Scarborough s first grant, which was 2.479%); (iii) the risk-free rate of return represents the weekly average of the seven-year Treasury bond rates for the 52 weeks immediately preceding the grant date of the options (4.11% for all, except Mr. Scarborough s first grant, which was 4.04%); (iv) expected period from date of grant to exercise of options (7 years); and (v) vesting restrictions are reflected by reducing the value of the option

determined by the Black-Scholes model by 5% for each full year of vesting restrictions (12.5%). The Black-Scholes option pricing model calculates a cash equivalent value for an option on the date of grant. The Company s use of such model is not intended to forecast any future appreciation in the price of the Company s stock. In addition, no gain to the optionees is possible without appreciation in the price of the Company s common stock, which will benefit all stockholders. If the market price of the stock does not exceed the exercise