

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 28, 1996

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-7685

AVERY DENNISON CORPORATION (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) 95-1492269 (I.R.S. EMPLOYER IDENTIFICATION NO.) 150 NORTH ORANGE GROVE BOULEVARD PASADENA, CALIFORNIA 91103 (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

Registrant's telephone number, including area code: (818) 304-2000

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

Table with 2 columns: TITLE OF EACH CLASS, NAME OF EACH EXCHANGE ON WHICH REGISTERED. Rows include Common stock, \$1 par value and Preferred Share Purchase Rights.

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

Not applicable.

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 [X] No []

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

The aggregate market value of voting stock held by non-affiliates as of February 25, 1997, was approximately \$4,130,961,063.

Number of shares of common stock, \$1 par value, outstanding as of February 25, 1997: 121,126,532.

The following documents are incorporated by reference into the Parts of this report below indicated:

Table with 2 columns: DOCUMENT, INCORPORATED BY REFERENCE INTO: Rows include Annual Report to Shareholders for fiscal year ended December 28, 1996 and Definitive Proxy Statement for Annual Meeting of Stockholders to be held April 24, 1997.

PART I

ITEM 1. BUSINESS

Avery Dennison Corporation ("Registrant") was incorporated in 1977 in the state of Delaware as Avery International Corporation, the successor corporation to a California corporation of the same name which was incorporated in 1946. In 1990, Registrant merged one of its subsidiaries into Dennison Manufacturing Company ("Dennison"), as a result of which Dennison became a wholly owned subsidiary of Registrant, and in connection with which Registrant's name was changed to Avery Dennison Corporation.

The business of Registrant and its subsidiaries (Registrant and its subsidiaries are sometimes hereinafter referred to as the "Company") include the production of pressure-sensitive adhesives and materials and the production of consumer and converted products. Some pressure-sensitive adhesives and materials are "converted" into labels and other products through embossing, printing, stamping and die-cutting, and some are sold in unconverted form as base materials, tapes and reflective sheeting. The Company also manufactures and sells a variety of consumer and converted products and other items not involving pressure-sensitive components, such as notebooks, three-ring binders, organizing systems, markers, glues, fasteners, business forms, tickets, tags, and imprinting equipment.

A self-adhesive material is one that adheres to a surface by mere press-on contact. It 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 device is pressed or rolled into place.

Self-adhesive materials may initially cost more than materials using heat or moisture activated adhesives, but their use often effects substantial cost savings because of their easy and instant application, without the need for adhesive activation. They also provide consistent and versatile adhesion, minimum adhesive deterioration and are available in a large selection of materials in nearly any size, shape or color.

International operations, principally in Western Europe, constitute a significant portion of the Company's business. In addition, the Company is currently expanding its operations in Asia Pacific, Latin America and Eastern Europe. The Company is subject to certain risks referred to in Exhibit 99 hereto, including those normally attending international operations, such as changes in economic conditions, currency fluctuation, exchange control regulations and the effect of international relations and domestic affairs of international countries on the conduct of business.

The Company manufactures and sells its products from 200 manufacturing facilities and sales offices located in 36 countries, and employs a total of approximately 15,800 persons worldwide.

No material part of the Company's business is dependent upon a single customer or a few customers and the loss of a particular customer or a few customers would not have a material adverse effect on the Company's business. However, sales of the Company's U.S. office and consumer products business is increasingly concentrated in a small number of major customers, principally discount office products superstores and distributors (see Note 4 of Notes to Consolidated Financial Statements on page 49 of the 1996 Annual Report, which is incorporated by reference). United States export sales are an insignificant part of the Company's business. Backlogs are not considered material in the industries in which the Company competes.

Effective fourth quarter 1996, the Company realigned the reporting of its businesses from three sectors to two Pressure-sensitive adhesives and materials, and Consumer and converted products. The realignment reflects the broadening and related scope of the Company's consumer businesses to include products such as battery labels, postage stamps and children's school supplies. In addition, certain businesses previously in the Pressure-sensitive adhesives and materials sector that emphasize converting technology were reclassified into the

Consumer and converted products sector. This change more effectively aligns the Company's financial reporting with manufacturing processes and end markets. The Company's operations within each of the two sectors are divided organizationally into various groups, each consisting of divisions which manufacture products similar in nature or sell to similar markets.

PRESSURE-SENSITIVE ADHESIVES AND MATERIALS SECTOR

These units manufacture and sell Fasson- and Avery Dennison-brand pressure-sensitive base materials generally in unconverted form, and include Materials-Americas and Asia, Materials Europe, Specialty Tape, Marking Films, and Chemical Division. Base materials consist primarily of papers, fabrics, plastic films and metal foils which are primed and coated with Company-developed and purchased adhesives and laminated with specially coated backing papers and films for protection. They can be 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. The business of these units is not seasonal.

Materials-Americas and Asia (including units in the United States, Canada, Mexico, South America, Australia and Asia Pacific) and Materials-Europe (including units in the major European Union countries and a unit in South Africa) manufacture and sell a wide range of pressure-sensitive coated papers, films and foils, in roll and sheet form, to label printers and converters for labeling, decorating, fastening, electronic data processing and special applications, and also provide paper and film stock for use in a variety of industrial, commercial and consumer applications. Certain units also manufacture and sell proprietary film face stocks, release-coated materials and specialty insulation paper.

Specialty Tape units produce single- and double-coated tapes and transfer adhesives for use in non-mechanical fastening systems in various industries and are sold to industrial and medical converters, original equipment manufacturers and disposable-diaper producers worldwide.

Marking Films units manufacture and sell a variety of films and other products to the worldwide automotive, architectural, commercial sign, digital, printing and graphics markets. These units sell durable cast and reflective films to the construction, automotive after-market, fleet transportation, sign and industrial equipment markets, and reflective films for government and traffic applications. In addition, these units sell specialty print-receptive films to the industrial label market, metallic dispersion products to the packaging industry and proprietary woodgrain film laminates for housing exteriors and automotive applications.

During 1996, the Company acquired base materials manufacturing capabilities in Thailand, and established distribution centers in several new countries including Argentina, India, Indonesia, Poland and Thailand to market and sell a variety of pressure-sensitive materials.

The Chemical Division produces a range of solvent and emulsion-based acrylic polymer adhesives, protective coatings and binders for internal uses as well as for other companies.

The Company competes, both domestically and internationally, with a number of medium to large firms. Entry of competitors into the field of pressure-sensitive adhesives and materials is limited by high capital requirements and a need for sophisticated technical know-how.

CONSUMER AND CONVERTED PRODUCTS SECTOR

The units in this sector primarily manufacture and sell a wide range of Avery-brand office products, custom label products, specialty automotive films and labels and fastening devices. Operations include Office and Consumer Products, Converted Products--North America and Europe, VIP Converted Products North America and Fastener Worldwide, Security Printing, Automotive and Merchant Products. The business of these units is not seasonal except for certain office and consumer products sold during the back-to-school season.

Office and Consumer Products units manufacture stock products which are sold primarily through office products wholesalers and dealers, through mass market channels of distribution, and through discount office products superstores. Operations in North America and Europe manufacture and sell a wide range of Avery-brand products for home, school and office uses, including copier, laser and ink-jet printer labels, related computer software, presentation and organizing systems, laser-printer card and index products; data-processing labels; notebooks; notebook and presentation dividers; three-ring binders; sheet protectors; and various vinyl and heat-sealed products. U.S. operations also manufacture and sell a wide range of other stationery products, including children's laser and ink-jet labels, markers, adhesives and specialty products under brand names such as Avery, Marks-A-Lot and HI-LITER, and accounting products, note pads and business forms under the Avery and National brand names. Other units in the United Kingdom also manufacture and distribute office products and accessories under the Avery, Myers and Guidex brand names. Office products units in France produce a line of Doret- and Cheval-brand binder and document protection products. Other units in Latin America, Asia Pacific and Europe have been established to market and distribute the Avery-brand line of stock self-adhesive products, including copier, laser and ink-jet labels and related software; laser printed card products and other unprinted labels.

Converted Products--North America and Europe: North American operations produce custom pressure-sensitive and heat-transfer labels for automotive and durable goods industries and custom pressure-sensitive labels and specialty combination products for the electronic data-processing market. These products are sold directly to manufacturers and packagers and retailers, as well as through international subsidiaries, distributors and licensees. European operations produce custom and stock labels, labeling machinery and data printing systems, which are marketed to a wide range of industrial users.

VIP Converted Products North America and Fastener Worldwide units design, fabricate and sell a wide variety of tags and labels and an established line of machines for imprinting, dispensing and attaching preprinted roll tags and labels. The machine products are designed for use with tags as a complete system. These units also design, assemble and sell integrated shipping and receiving systems. Principal markets include apparel, retail and industrial companies for identification, tracking and control applications principally in North America, Europe and Asia Pacific. The Fastener business produces plastic tying and attaching products for retail and industrial users. Products are sold directly to end users and internationally through subsidiaries, as well as through distributors and licensees in other countries.

The Security Printing business manufactures and sells on-battery testing labels to battery manufacturers, and self-adhesive stamps to the U.S. and international postal services. The Company is an integrated supplier of adhesive coating, security printing and converting technologies for postage stamp production. Automotive operations manufacture and convert films for vehicle finishes, striping decoration and identification. Avloy Dry Paint film laminates are supplied to automotive suppliers and original equipment manufacturers. Merchant Products businesses manufacture pressure-sensitive sheeted and die-cut papers and films, which are sold through fine-paper merchants.

Office and Consumer Products units are generally leaders in most markets in which they compete even though they must compete with other large manufacturers on a global basis. Among the principal competitors in the office and consumer products business are Esselte AB, American Brands, Inc. and Minnesota Mining and Manufacturing Co. The Company believes that its ability to service its customers with an extensive product line, its distribution strength, and its ability to develop internally and to commercialize successfully new products are probably the most important factors in developing and maintaining the various units' competitive position. The Converted Products business units usually occupy a solid position in most markets in which they compete, although many face strong local competition. The Company believes that its diverse technical foundation, including a significant range of electronic imprinting and data control systems, high speed printers, automatic labeling systems and fastening devices are probably the most important factors in developing and maintaining the various units' competitive position.

RESEARCH AND DEVELOPMENT

Many of the Company's current products are the result of its own research and development efforts. The Company expended \$54.6 million, \$52.7 million, and \$49.1 million in 1996, 1995 and 1994, respectively, on research related activities by operating units and the Avery Research Center (the "Research Center"), located in Pasadena, California. A substantial amount of the Company's research and development activities are conducted at the Research Center. Much of the effort of the Research Center applies to both the Company's industry sectors.

The operating units' research efforts are directed primarily toward developing new products and processing techniques and improving product performance, often in close association with customers. The Research Center supports the units' patent and product development work, and focuses on research and development in new adhesives, materials and coating processes. Research and development generally focuses on projects affecting more than one industry sector in such areas as printing and coating technologies, and adhesive, release, coating and ink chemistries.

The loss of any of the Company's individual patents, trademarks or licenses, or any group of related patents, trademarks or licenses, would not be material to the business of the Company taken as a whole, nor to either one of the Company's industry sectors except those referred to above.

THREE-YEAR SUMMARY OF SECTOR INFORMATION

The Business Sector Information attributable to the Company's operations for the three years ended December 28, 1996, which appears in Note 10 of Notes to Consolidated Financial Statements on pages 54 through 56 of the 1996 Annual Report, is incorporated herein by reference.

OTHER MATTERS

At present, the Company produces a majority of its self-adhesive materials using non-solvent technology. However, a significant portion of the Company's manufacturing process for self-adhesive materials utilizes certain evaporative organic solvents which, unless controlled, would be emitted into the atmosphere. Emissions of these substances are regulated by instrumentalities of federal, state, local and foreign governments. During the past several years, the Company has made a substantial investment in solvent capture and control units and solvent-free systems. Installation of these units and systems has reduced atmospheric emissions and the Company's requirements for solvents.

Major research efforts have been directed toward development of new adhesives and solvent-free adhesive processing systems. Emulsion and hot-melt adhesives and solventless silicone systems have been installed at the Company's Peachtree City, Georgia; Fort Wayne and Greenfield, Indiana; Rancho Cucamonga, California; Quakertown, Pennsylvania; Rodange, Luxembourg; Turnhout, Belgium; Hazerswoude, The Netherlands; and Cramlington, England facilities, as well as other plants in the United States, Australia, Brazil, France, Germany, Korea and China.

The Company does not believe that the costs of complying with applicable laws enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material effect upon the capital expenditures, earnings or competitive position of the Company.

The Company wishes to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, and is including Exhibit 99 to this filing to incorporate this safe harbor statement.

For information regarding the Company's potential responsibility for cleanup costs at certain hazardous waste sites, see "Legal Proceedings" (Part I, Item 3) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Part II, Item 7).

ITEM 2. PROPERTIES

The Company operates 30 principal manufacturing facilities ranging in size from approximately 100,000 square feet to approximately 370,000 square feet and totaling over 5 million square feet. The following sets forth the locations of such principal facilities and the business sectors for which they are presently used:

PRESSURE-SENSITIVE ADHESIVES AND MATERIALS SECTOR

Domestic--Painesville and Fairport, Ohio; Peachtree City, Georgia; Quakertown, Pennsylvania; Rancho Cucamonga, California; Greenfield, Fort Wayne, Lowell and Schererville, Indiana.

Foreign--Hazerswoude, The Netherlands; Cramlington, England; Champ-sur-Drac, France; Turnhout, Belgium; Ajax, Canada; Rodange, Luxembourg; and Haan, Germany.

CONSUMER AND CONVERTED PRODUCTS SECTOR

Domestic--Gainesville, Georgia; Rochelle and Rolling Meadows, Illinois; Chicopee, Framingham and Springfield, Massachusetts; Meridian, Mississippi; Philadelphia, Pennsylvania; Clinton, South Carolina and Crossville, Tennessee.

Foreign--Bowmanville, Canada; and La Monnerie, Troyes, France; and Utrecht, The Netherlands.

In addition to the Company's principal manufacturing facilities described above, the Company's principal facilities include its corporate headquarters facility and Research Center in Pasadena, California, and offices located in Maidenhead, England; Leiden, The Netherlands; Concord, Ohio and Framingham, Massachusetts.

All of the Company's principal properties identified above are owned in fee except Rolling Meadows, Illinois; Springfield, Massachusetts; Ajax, Canada; Haan, Germany and small portions of the Framingham, Massachusetts; and La Monnerie, France facilities, all of which are leased.

All of the buildings comprising the facilities identified above were constructed after 1954, except parts of the Framingham, Massachusetts plant and office complex. All buildings owned or leased are well maintained and of sound construction, and are considered suitable and generally adequate for the Company's present needs. The Company intends to expand capacity and provide facilities to meet future increased demand. Owned buildings and plant equipment are insured against major losses from fire and other usual business risks. The Company knows of no material defects in title to, or encumbrances on, any of its properties except for mortgage liens against the Meridian, Mississippi; and Turnhout, Belgium plants and three other facilities not listed separately above.

ITEM 3. LEGAL PROCEEDINGS

The Company, like other U.S. corporations, has periodically received notices from the U.S. Environmental Protection Agency ("EPA") and state environmental agencies alleging that the Company is a potentially responsible party ("PRP") for past and future cleanup costs at hazardous waste sites. The Company has been designated by the EPA and/or other responsible state agencies as a PRP at 17 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 upon. Litigation has been initiated by a governmental authority with respect to four of these sites, but the Company does not believe that any such proceedings will result in the imposition of monetary sanctions. The Company is participating with other PRPs at all such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities. The Company has accrued liabilities for all sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the amount of the 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 sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Based on current site assessments, management believes the potential liability over the amounts currently accrued would not materially affect the Company.

The Registrant and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. In the opinion of the Company's management, the resolution of these matters will not materially affect the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT*

NAME	SERVED AS AGE OFFICER SINCE	FORMER POSITIONS AND OFFICES WITH REGISTRANT
Charles D. Miller..... Chairman and Chief Executive Officer (Also Director of Registrant)	69 May 1965	1964-1983 Various positions of increasing responsibility
Philip M. Neal..... President and Chief Operating Officer (Also Director of Registrant)	56 January 1974	1974-1990 Various positions of increasing responsibility
R. Gregory Jenkins..... Senior Vice President, Finance and Chief Financial Officer	60 July 1981	1974-1988 Various positions of increasing responsibility
Alan J. Gotcher..... Senior Vice President, Manufacturing and Technology	47 November 1984	1984-1990 Vice President, Corporate Research
Robert G. van Schoonenberg..... Senior Vice President, General Counsel and Secretary	50 December 1981	1981-1996 Vice President, General Counsel and Secretary
Wayne H. Smith..... Vice President and Treasurer	55 June 1979	None
Thomas E. Miller..... Vice President and Controller	49 March 1994	1973-1993 Various positions of increasing responsibility 1993-1994 V.P. and Assistant Controller
Diane B. Dixon..... Vice President, Corporate Communications	45 December 1985	1982-1985 Director of Communications
Susan B. Garelli..... Vice President, Human Resources	45 October 1994	**1991-1993 Senior V.P., Human Resources and Corporate Communications, JWP, Inc. **1993-1994 Consultant, JWP, Inc.
Paul B. Germeraad..... Vice President and Director, Corporate Research	49 May 1991	None
Johan J. Goemans..... Vice President, Management Information Systems	53 October 1992	1975-1990 Various positions of increasing responsibility 1991-1992 Director of Distribution and Logistics, Fasson Roll Division U.S.
Daniel R. O'Bryant..... Vice President, Operations Audit and Business Consulting	39 March 1996	1990-1993 Various positions of increasing responsibility 1994 Vice President, Finance, and Administrative Services, Europe 1995 Vice President, Operations Planning

NAME - - - - -	SERVED AS AGE OFFICER SINCE - - - - -	FORMER POSITIONS AND OFFICES WITH REGISTRANT - - - - -
James L. Fletcher..... Vice President, Customer Service and Logistics	55 June 1993	1988-1991 Various positions of increasing responsibility 1991-1993 V.P., Customer Logistics
Gary A. McCue..... Vice President, Strategic Value Development	60 November 1987	1987-1994 Vice President and Controller 1994 Vice President, Corporate Value Planning and Development
Kim. A. Caldwell..... Senior Group Vice President, Worldwide Materials-- Americas and Asia	49 June 1990	1974-1990 Various positions of increasing responsibility
Geoffrey T. Martin..... Senior Vice President, Worldwide Tape & Converting and Materials--Europe	42 January 1994	1986-1988 Managing Director, Label Systems 1988-1992 V.P. and General Manager, Label Systems UK and Ireland 1992-1993 1993-1994 V.P., Office Products Group Europe Group Vice President, Converting and Office Products Europe
Stephanie A. Streeter... Group Vice President, Worldwide Office Products	39 March 1996	1985-1991 Various positions of increasing responsibility 1991-1993 1993-1994 V.P. and General Manager, Avery Office Labels V.P. and General Manager, Avery Dennison Brands
James E. Shaw..... Group Vice President, Automotive and Graphic Systems	65 February 1994	1986-1991 Various positions of increasing responsibility 1991-1994 V.P. and General Manager, Automotive and Graphic System Division
Robert D. Fletcher..... Group Vice President, Asia Pacific	61 March 1976	1967-1988 Various positions of increasing responsibility 1988-1993 Group Vice President, International Converting Group
Flavio T. Lacerda..... Group Vice President, Latin America America	50 May 1996	**1991-1994 Latin America Regional Manager, **1995-1996 Loctite Corporation President for Latin America and South Africa, Loctite Corporation
Donald R. McKee..... Vice President, Label Ventures	60 December 1995	1971-1993 Various positions of increasing responsibility 1993-1995 Vice President and General Manager, Soabar Systems Division 1995 Vice President, Soabar Products and Fastener Divisions 1996 Group Vice President, Converted and Fastener Products North America

* All officers are elected to serve a one year term and until their successors are elected and qualify.

** Business experience prior to service with Registrant.

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The information called for by this item appears on page 60 of Registrant's 1996 Annual Report and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for each of Registrant's last five fiscal years appears on pages 36 and 37 of Registrant's 1996 Annual Report and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

	1996	1995	1994
	(DOLLARS IN MILLIONS)		
Net sales.....	\$3,222.5	\$3,113.9	\$2,856.7
Cost of products sold.....	2,204.2	2,156.6	1,948.9
Gross profit.....	1,018.3	957.3	907.8
Marketing, general and administrative expense....	712.4	689.8	691.9
Net gain on divestitures and restructuring charges.....	2.1	1.5	--
Earnings before interest and taxes.....	\$ 308.0	\$ 269.0	\$ 215.9

Sales increased 3.5 percent to \$3.22 billion in 1996, compared to \$3.11 billion in 1995. Excluding the impact of business divestitures and changes in foreign currency exchange rates, sales increased 6.4 percent. In 1995, sales increased 9 percent over 1994 sales of \$2.86 billion. Excluding the impact of sales from the divested operations and changes in foreign currency exchange rates for 1995, sales increased approximately 7 percent. During the fourth quarter of 1995, the Company sold a portion of its North American label converting operations. These businesses accounted for approximately 2 percent of the Company's 1995 total sales. Each of the Company's 1996, 1995 and 1994 fiscal years consisted of 52 weeks.

Gross profit margins for the years ended 1996, 1995 and 1994 were 31.6 percent, 30.7 percent and 31.8 percent, respectively. Gross profit margins during 1996 improved compared to 1995 due primarily to an improved product mix, new products, cost reduction and control programs and increased capacity utilization. There was also a \$3.2 million LIFO benefit reported during 1996. The decline in the gross profit percentage during 1995 was primarily due to a shift in product mix, plant and major production line start-ups, and \$1.6 million in expense related to LIFO inventories compared to a benefit of \$400,000 for 1994.

Marketing, general and administrative expense as a percent of sales was 22.1 percent in 1996, 22.2 percent in 1995 and 24.2 percent in 1994. The improvement in 1996 over 1995 was primarily attributable to cost control and reduction efforts throughout the Company and was achieved despite major investments in geographic expansion, business realignment and new product programs. The improvement during 1995 was primarily attributable to benefits from the Company's cost reduction programs, a shift in product mix and increased sales.

During the third quarter of 1996, restructuring actions were taken, resulting in a net pretax gain of \$2.1 million. The Company sold its equity interest in a label operation in Japan for \$28.4 million, resulting in a pretax gain of \$17.9 million. The Company also recorded \$15.8 million of restructuring charges, which included an asset impairment write-down of \$6.3 million for long-lived assets held in the Company's Consumer and converted products sector. The restructuring program also included the reorganization of certain manufacturing, distribution and administrative sites. These costs consisted of severance and related costs for approximately 200 positions worldwide (\$7.4 million) and the discontinuance of product lines and related asset write-offs (\$2.1 million). These actions are expected to be completed during 1997 and are expected to result in estimated annual savings of approximately \$9 million to \$11 million when fully implemented.

Business restructuring actions taken during the fourth quarter of 1995 resulted in a net pretax gain of \$1.5 million. Certain businesses which no longer met the Company's strategy for converting technology were sold for \$95 million. A \$40.7 million pretax gain on the sale of these businesses was offset by restructuring charges of \$39.2 million which included the closure of four plants and the reorganization of certain manufacturing, distribution and administrative sites. These costs consisted of severance and related costs for approximately 400 positions worldwide (\$16.2 million), discontinuance of product lines and related asset write-offs (\$13.1 million), and plant closure and other costs (\$9.9 million). This program is also expected to be completed during 1997 and is expected to result in estimated annual savings of \$14 million to \$17 million when fully implemented. The 1996 and 1995 programs are an integral part of the Company's ongoing effort to identify opportunities to improve its administrative and manufacturing cost structures.

Interest expense as a percent of sales was 1.2 percent in 1996, 1.4 percent in 1995 and 1.5 percent in 1994. The decrease in 1996 was primarily due to the expiration of interest rate swap agreements during the fourth quarter of 1995 and an overall lower cost of borrowing. Interest expense increased in 1995 due to higher debt levels, but was more than offset by the impact of increased sales.

Income before taxes, as a percent of sales, was 8.4 percent for 1996, 7.2 percent for 1995 and 6.1 percent for 1994. The improvement during 1996 was primarily due to higher gross profit margins and lower interest expense as a percent of sales. The improvement during 1995 was primarily due to lower operating and interest expenses as a percent of sales. The effective tax rate was 35 percent in 1996, 36 percent in 1995, and 36.7 percent in 1994.

	1996	1995	1994
	-----	-----	-----
	(IN MILLIONS, EXCEPT PER COMMON SHARE AMOUNTS)		
Net income.....	\$175.9	\$143.7	\$109.4
Net income per common share.....	1.68	1.35	.98
Net income per fully-diluted common share.....	1.62	1.31	.96
Average common shares outstanding.....	105.0	106.5	111.1
Average fully-diluted common shares outstanding.....	108.3	109.3	113.7

Net income increased to \$175.9 million in 1996 compared to \$143.7 million in 1995, reflecting a 22 percent increase over 1995. Net income in 1994 was \$109.4 million. Net income, as a percent of sales, was 5.5 percent, 4.6 percent and 3.8 percent in 1996, 1995 and 1994, respectively.

Net income per common share reached \$1.68 in 1996 compared to \$1.35 in 1995, a 24 percent increase over prior year. Net income per common share was \$.98 in 1994. Primarily due to the significant increase in the Company's stock price during 1996 and share repurchases, the Company is now required to report net income per share on a fully-diluted basis. Net income per fully-diluted common share was \$1.62 in 1996, \$1.31 in 1995 and \$.96 in 1994.

RESULTS OF OPERATIONS BY BUSINESS SECTOR

Effective fourth quarter 1996, the Company realigned the reporting of its businesses from three sectors to two--Pressure-sensitive adhesives and materials, and Consumer and converted products. The realignment reflects the broadening and related scope of the Company's consumer businesses to include products such as battery labels, postage stamps and children's school supplies. In addition, certain businesses previously in the Pressure-sensitive adhesives and materials sector that emphasize converting technology were reclassified into the Consumer and converted products sector. This change more effectively aligns the Company's financial reporting with manufacturing processes and end markets. Sector information for 1995 and 1994 has been reclassified to conform with the 1996 sector presentation.

PRESSURE-SENSITIVE ADHESIVES AND MATERIALS:

	1996	1995	1994

	(IN MILLIONS)		
Net sales.....	\$1,693.5	\$1,589.7	\$1,389.7
Income from operations before interest and taxes.	157.7	144.8	138.8

The Pressure-sensitive adhesives and materials sector reported increased sales and profits for 1996 compared to 1995. The sector's income results include restructuring charges of \$7.1 million in 1996 and \$15.1 million in 1995. The U.S. operations reported sales growth for the year primarily due to increased volume and new products. Profitability improved as a result of cost reduction actions, increased capacity utilization and improved operating efficiencies. The international businesses reported increased sales primarily due to its geographic expansion in emerging markets and increased volume. Profitability for the international businesses increased primarily due to the extent of restructuring charges taken in 1995 compared to 1996. This increase was partially offset by costs related to continued investments in geographic expansion and major equipment start-up costs.

The Pressure-sensitive adhesives and materials sector reported increased sales and profitability for 1995 compared to 1994. Profitability for the sector increased despite the \$15.1 million in restructuring charges taken in 1995. The U.S. operations reported a significant increase in sales due to unit volume growth and pricing actions. Profitability improvement was primarily due to sales growth and lower operating expenses as a percent of sales, but was partially offset by plant and major equipment start-up costs for capacity expansion, and the reorganization of certain manufacturing sites. Sales for the European operations increased significantly primarily as a result of volume growth from improved economic conditions over 1994, pricing actions and changes in foreign currency rates. Profitability increased, despite costs taken for restructuring programs, primarily as a result of sales growth, lower operating expenses as a percent of sales and a more favorable product mix.

CONSUMER AND CONVERTED PRODUCTS:

	1996	1995	1994

	(IN MILLIONS)		
Net sales.....	\$1,670.5	\$1,588.6	\$1,488.6
Income from operations before interest and taxes.	159.0	147.8	102.1

The Consumer and converted products sector reported increased sales and profitability for 1996 compared to 1995. The sector's income results include restructuring charges of \$8.7 million for 1996 compared to a \$16.6 million net gain on divestitures and restructuring charges in 1995. The U.S. operations reported increased sales primarily due to the growth of its battery label business and for its Avery-brand products. Profitability improved primarily due to increased sales volume, new products and operating improvements, including improved logistics. The international businesses reported higher sales due to geographic expansion and growth of its office label businesses; however, this sales increase was partially offset by sales declines in a portion of the French operations. Profitability in 1996 for the international businesses was comparable to 1995. Profit improvements from cost control programs and product pruning were offset by lower sales in one of the French operations and start-up costs related to geographic expansion.

The Consumer and converted products sector reported increased sales and profits for 1995 compared to 1994. Profits in 1995 included a \$40.7 million gain from the sale of certain nonstrategic North American label converting operations, which was partially offset by \$24.1 million in restructuring charges. The U.S. operations reported increased sales for 1995 primarily due to sales growth of its Avery-brand and postage stamp businesses. Profitability increased for the U.S. operations due to successful new products, an improved product mix and cost reduction actions, including the consolidations of distribution warehouses and sales forces in the United States. The international businesses reported increased sales as a result of new products, an improved European economy and changes in foreign currency rates. A more favorable product mix coupled with cost reduction actions taken in previous years and lower operating expenses as a percent of sales resulted in significantly higher profitability over 1994.

FINANCIAL CONDITION

Average working capital, excluding short-term debt, as a percent of sales was 9.1 percent in 1996, 9.6 percent in 1995 and 10 percent in 1994. The decrease in 1996 was primarily due to higher sales and an increase in current liabilities. Average inventory turnover was 9.3 in 1996, 9.0 in 1995 and 9.3 in 1994; the average number of days sales outstanding in accounts receivable was 55 days in 1996, 1995 and 1994.

Net cash flow from operating activities was \$304 million in 1996, \$187.9 million in 1995 and \$265 million in 1994. The increase in net cash flow in 1996 was due primarily to the change in working capital requirements and the Company's improved profitability. The decrease in 1995 was primarily due to a change in working capital requirements which was partially offset by the increase in net income.

Total debt increased \$17.5 million to \$466.9 million compared to year end 1995. Total debt to total capital was 35.9 percent at year end 1996 compared to 35.5 percent at year end 1995. Long-term debt as a percent of total long-term capital increased to 30.8 percent from 29 percent at year end 1995.

In October 1996, the Company established the Avery Dennison Corporation Employee Stock Benefit Trust (the "Trust") to fund a portion of the Company's obligations arising from various current and future employee benefit plans. As a result, the Company sold 18 million shares of treasury stock to the Trust at fair market value. This transaction had no impact on the Company's financial condition. The Trust has a 15-year life during which it will utilize the stock to satisfy certain Company obligations.

Shareholders' equity increased to \$832 million from \$815.8 million at year end 1995. During 1996, the Company repurchased 3.8 million shares of common stock at a cost of \$109.3 million. The cost of treasury stock held, after the sale of shares to the Trust and net of shares reissued under the Company's stock option and incentive plans, at year end 1996 decreased \$212.4 million to \$67.5 million from year end 1995. In January 1995, the Board of Directors authorized the repurchase of an additional ten million shares of the Company's outstanding common stock for an aggregate of 30.4 million shares authorized for repurchase. As of year end 1996, a cumulative 25.4 million shares of common stock had been purchased under this authorization.

The return on average shareholders' equity was 21.4 percent in 1996, 18.6 percent in 1995 and 14.8 percent in 1994. The improvements during 1996 and 1995 were primarily due to a significant increase in profitability and the impact from share repurchases. The return on average total capital for those three years was 16.4 percent, 14.4 percent and 12.1 percent, respectively. The increases during those years were primarily due to profitability improvements and more effective utilization of the Company's assets.

The Company, like other U.S. corporations, has periodically received notices from the U.S. Environmental Protection Agency and state environmental agencies alleging that the Company is a potentially responsible party (PRP) for past and future cleanup costs at hazardous waste sites. The Company has received requests for information, notices and/or claims with respect to 17 waste sites in which the Company has no ownership interest. Litigation has been initiated by a governmental authority with respect to four of these sites, but the Company does not believe that any such proceedings will result in the imposition of monetary sanctions. Environmental investigatory and remediation projects are also being undertaken on property presently owned by the Company. The Company has accrued liabilities for all sites where it is probable that a loss will be incurred and the minimum cost or amount of the loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessments and remediation activities, future expense to remediate the currently identified sites, and sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Based on current site assessments, management believes that the potential liability over the amounts currently accrued would not materially affect the Company.

LIQUIDITY AND CAPITAL RESOURCES

In addition to cash flow from operations, the Company has more than adequate financing arrangements, at competitive rates, to conduct its operations.

During the fourth quarter of 1996, the Company registered with the Securities and Exchange Commission \$150 million in principal amount of medium-term notes. As of year end 1996, no notes had been issued. Proceeds from the medium-term notes will be used to reduce debt and for other general corporate purposes. The Company's currently outstanding medium-term notes have maturities from 1997 through 2025 and have a weighted-average interest rate of 7.2 percent.

The Company's restructuring programs included the 1996 \$28.4 million sale of its equity interest in a label operation in Japan and the 1995 \$95 million sale of certain non-strategic label converting businesses. The restructuring programs had an estimated cost of \$15.8 million and \$39.2 million for 1996 and 1995, respectively. At year end 1996 and 1995, \$16 million and \$24.5 million, respectively, remained accrued for both programs and related primarily to employee severance and plant closure costs. By year end 1996 and 1995, total cash expenditures paid for both restructuring programs totalled \$14.5 million and \$1.5 million, respectively, and related primarily to employee severance and plant closure costs.

Capital expenditures were \$187.6 million in 1996 and \$190.3 million in 1995. Capital expenditures for 1997 are expected to be approximately \$190 to \$200 million.

The annual dividend rate per share increased to \$.62 in 1996 from \$.55 in 1995 and \$.50 in 1994.

The Company continues to expand its operations in Asia Pacific, Latin America and Europe. The Company's future results are subject to changes in economic conditions and the impact of fluctuations in foreign currency exchange and interest rates. To manage its exposure to these fluctuations, the Company may enter into forward exchange and interest rate contracts, where appropriate.

Effective 1997, Mexico will be treated as a hyperinflationary economy for accounting purposes due to the cumulative inflation rate over the past three years. As a result, the functional currency of subsidiaries operating in Mexico will change from the peso to the dollar and translation gains and losses will be included in net income. These operations, including those located in Brazil which also operate in a hyperinflationary economy, are not significant to the Company's consolidated financial position.

FUTURE ACCOUNTING REQUIREMENTS

In July 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". The standard revised the guidelines for recognition, measurement and disclosure of transfers and servicing of financial assets and extinguishment of debt. It will be effective for transactions occurring after December 31, 1996. The Company will implement the standard during the first quarter of 1997, if applicable; however, the impact has yet to be determined.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is contained in Registrant's Consolidated Financial Statements and the Notes thereto appearing on pages 42 through 56, and in the Report of Independent Certified Public Accountants on page 57 of Registrant's 1996 Annual Report and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning directors called for by this item is incorporated by reference from pages 2, 3 and 4 of the 1997 Proxy Statement which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report. Information concerning executive officers called for by this item appears in Part I of this report. The information concerning late filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference from page 15 of the 1996 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by items 11, 12 and 13 is incorporated by reference from pages 5 through 21 of the 1997 Proxy Statement which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the fiscal year covered by this report.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial Statements, Financial Statement Schedules and Exhibits

(1) (2) Financial statements and financial statement schedules filed as part of this report are listed in the accompanying Index to Financial Statements and Financial Statement Schedules.

(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 14(c) is identified in the Exhibit Index.

(b) Reports on Form 8-K: Registrant filed two Reports on Form 8-K for the three months ended December 28, 1996:

Form 8-K dated December 16, 1996, with respect to its execution of certain agreements in connection with Medium Term Notes, Series D (Registration No. 333-16375).

Form 8-K dated October 24, 1996, with respect to its execution of certain agreements in connection with the Employee Stock Benefit Trust.

(c) Those Exhibits, and the Index thereto, required to be filed by Item 601 of Regulation S-K are attached hereto.

(d) Those financial statement schedules required by Regulation S-X which are excluded from Registrant's 1996 Annual Report by Rule 14a-3(b)(1), and which are required to be filed as financial statement schedules to this report, are indicated in the accompanying Index to Financial Statements and Financial Statement Schedules.

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/ R. Gregory Jenkins

 R. Gregory Jenkins
 Senior Vice President, Finance and
 Chief Financial Officer

Dated: March 27, 1997

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 on the dates indicated.

SIGNATURE -----	TITLE -----	DATE -----
/s/ Charles D. Miller _____ Charles D. Miller	Chairman and Chief Executive Officer; Director	March 27, 1997
/s/ Philip M. Neal _____ Philip M. Neal	President and Chief Operating Officer; Director	March 27, 1997
/s/ R. Gregory Jenkins _____ R. Gregory Jenkins	Senior Vice President, Finance and Chief Financial Officer (Principal Financial Officer)	March 27, 1997
/s/ Thomas E. Miller _____ Thomas E. Miller	Vice President and Controller (Principal Accounting Officer)	March 27, 1997

SIGNATURE

TITLE

DATE

/s/ Dwight L. Allison, Jr.

Director

March 27, 1997

Dwight L. Allison, Jr.

/s/ John C. Argue

Director

March 27, 1997

John C. Argue

/s/ Joan T. Bok

Director

March 27, 1997

Joan T. Bok

/s/ Frank V. Cahouet

Director

March 27, 1997

Frank V. Cahouet

/s/ Richard M. Ferry

Director

March 27, 1997

Richard M. Ferry

/s/ Peter W. Mullin

Director

March 27, 1997

Peter W. Mullin

/s/ Sidney R. Petersen

Director

March 27, 1997

Sidney R. Petersen

/s/ John B. Slaughter

Director

March 27, 1997

John B. Slaughter

EVERY DENNISON CORPORATION

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL
STATEMENT SCHEDULES

REFERENCE (PAGE)	
FORM	
10-K	ANNUAL
ANNUAL	REPORT TO
REPORT	SHAREHOLDERS

Data incorporated by reference from the attached portions of the 1996 Annual Report to Shareholders of Avery Dennison Corporation:

Report of Independent Certified Public Accountants.....	--	57
Consolidated Balance Sheet at December 28, 1996 and December 30, 1995.....	--	42
Consolidated Statement of Income for 1996, 1995 and 1994.....	--	43
Consolidated Statement of Shareholders' Equity for 1996, 1995 and 1994.....	--	44
Consolidated Statement of Cash Flows for 1996, 1995 and 1994.....	--	45
Notes to Consolidated Financial Statements.....	--	46-56

Individual financial statements of 50% or less owned entities accounted for by the equity method have been omitted because, considered in the aggregate or as a single subsidiary, they do not constitute a significant subsidiary.

With the exception of the consolidated financial statements and the accountants' report thereon listed in the above index, and the information referred to in Items 1, 5 and 6, which is included in the 1996 Annual Report and incorporated herein by reference, the 1996 Annual Report is not to be deemed "filed" as part of this report.

Data submitted herewith:

Report of Independent Certified Public Accountants.....	S-2	--
Financial Statement Schedules (for 1996, 1995 and 1994):		
II--Valuation and Qualifying Accounts and Reserves....	S-3	--
Consent of Independent Accountants.....	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 CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
of Avery Dennison Corporation

Our report on the consolidated financial statements of Avery Dennison Corporation and subsidiaries has been incorporated by reference in this Form 10-K from page 57 of the 1996 Annual Report to Shareholders of Avery Dennison Corporation. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in the index on page S-1 of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Los Angeles, California
January 28, 1997

S-2

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(IN MILLIONS)

	BALANCE AT BEGINNING OF YEAR	ADDITIONS		DEDUCTIONS-- UNCOLLECTIBLE ACCOUNTS WRITTEN OFF	BALANCE AT END OF YEAR
		CHARGED TO COSTS AND EXPENSES	FROM ACQUISITIONS		
1996					
Allowance for doubtful accounts.....	\$17.6	\$4.1	\$--	\$4.2	\$17.5
	=====	=====	=====	=====	=====
1995					
Allowance for doubtful accounts.....	\$18.5	\$4.7	\$--	\$5.6	\$17.6
	=====	=====	=====	=====	=====
1994					
Allowance for doubtful accounts.....	\$16.7	\$7.5	\$--	\$5.7	\$18.5
	=====	=====	=====	=====	=====

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Avery Dennison Corporation on Form S-8 (File Nos. 2-47617, 2-60937, 2-82207, 33-1132, 33-3645, 33-3637, 33-27275, 33-35995-01, 33-41238, 33-45376, 33-54411, 33-58921 and 33-63979) of our report, which appears on page 57 of the 1996 Annual Report to Shareholders and is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the financial statement schedule listed in the index on page S-1.

COOPERS & LYBRAND L.L.P.

Los Angeles, California
March 28, 1997

AVERY DENNISON CORPORATION

EXHIBIT INDEX

FOR THE YEAR ENDED DECEMBER 28, 1996

INCORPORATED BY REFERENCE:

EXHIBIT NO. -----	ITEM -----	ORIGINALLY FILED AS EXHIBIT NO. -----	DOCUMENT -----
(3.1)	Restated Articles of Incorporation.....	B	Proxy Statement dated February 28, 1977 for Annual Meeting of Stockholders March 30, 1977; located in File No. 0-225 at Securities and Exchange Commission, 450 5th St., N.W., Washington, D.C.
(3.1.1)	Amendment to Certificate of Incorporation, filed April 10, 1984 with Office of Delaware Secretary of State.....	3.1.1	1983 Annual Report on Form 10-K
(3.1.2)	Amendment to Certificate of Incorporation, filed April 11, 1985 with Office of Delaware Secretary of State.....	3.1.2	1984 Annual Report on Form 10-K
(3.1.3)	Amendment to Certificate of Incorporation filed April 6, 1987 with Office of Delaware Secretary of State.....	3.1.3	1986 Annual Report on Form 10-K
(3.1.4)	Amendment to Certificate of Incorporation filed October 17, 1990 with Office of Delaware Secretary of State.....		Current Report on Form 8-K filed October 31, 1990
(3.2)	By-laws, as amended.....	3(ii)	First Quarterly Report for 1996 on Form 10-Q
(4.1)	Rights Agreement dated as of June 30, 1988....		Current Report on Form 8-K filed July 9, 1988
(4.1.1)	Amendment to Rights Agreement dated as of December 9, 1994.....		Current Report on Form 8-K filed December 14, 1994
(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)
(4.3)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes" under the Indenture....		Current Report on Form 8-K filed March 25, 1991
(4.4)	First Supplemental Indenture, dated as of March 16, 1993, between Registrant and BankAmerica National Trust Company, as successor Trustee (the "Supplemental Indenture").....		Registration Statement on Form S-3 (File No. 33-59642)

EXHIBIT NO. -----	ITEM -----	ORIGINALLY FILED AS EXHIBIT NO. -----	DOCUMENT -----
(4.5)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes" under the Indenture, as amended by the Supplemental Indenture.....		Current Report on Form 8-K filed April 7, 1993
(4.6)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series B" under the Indenture, as amended by the Supplemental Indenture.....		Current Report on Form 8-K filed March 29, 1994
(4.7)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series C" under the Indenture, as amended by the Supplemental Indenture.....		Current Report on Form 8-K filed May 12, 1995
(4.8)	Officers' Certificate establishing a series of Securities entitled "Medium-Term Notes, Series D" under the Indenture, as amended by the Supplemental Indenture.....		Current Report on Form 8-K filed December 16, 1996
(10.1)	*Amended 1973 Stock Option and Stock Appreciation Rights Plan for Key Employees of Avery International Corporation ("1973 Plan").....	10.1	1987 Annual Report on Form 10-K
(10.1.1)	*Form of Incentive Stock Option Agreement for use under 1973 Plan.....	10.1.3	1984 Annual Report on Form 10-K
(10.1.2)	*Form of Non-Qualified Stock Option Agreement for use under 1973 Plan.	10.1.4	1987 Annual Report on Form 10-K
(10.1.3)	*Form of coupled Stock Appreciation Right Agreement for use under 1973 Plan.....	10.1.5	1985 Annual Report on Form 10-K
(10.1.4)	1985 U.K. Stock Option Scheme.....	10.1.7	1985 Annual Report on Form 10-K
(10.1.5)	Form of Incentive Stock Option Agreement for use under U.K. Stock Option Scheme.....	10.1.8	1985 Annual Report on Form 10-K
(10.1.6)	Form of Stock Option Agreement for use under U.K. Stock Option Scheme.....	10.1.9	1985 Annual Report on Form 10-K
(10.2.2)	*Form of Incentive Stock Option Agreement for use under 1988 Plan.....	10.2.2	1991 Annual Report on Form 10-K
(10.3)	*Deferred Compensation Plan for Directors.....	10.3	1981 Annual Report on Form 10-K
(10.5)	*Executive Medical and Dental Plan (description).	10.5	1981 Annual Report on Form 10-K
(10.6)	*Executive Financial Counseling Service (description).....	10.6	1981 Annual Report on Form 10-K
(10.7.1)	*Executive Employment Security Policy dated February 1, 1983.....	10.7.1	1982 Annual Report on Form 10-K

EXHIBIT NO. -----	ITEM ----	ORIGINALLY FILED AS EXHIBIT NO. -----	DOCUMENT -----
(10.7.2)	*Executive Employment Security Policy dated February 1, 1985.....	10.13	1984 Annual Report on Form 10-K
(10.7.3)	*Executive Employment Security Policy dated November 19, 1987.....	10.7.3	1993 Annual Report on Form 10-K
(10.8.1)	*Agreement dated October 24, 1990 with Charles D. Miller.....	10.8.1	1990 Annual Report on Form 10-K
(10.8.2)	*Agreement dated October 23, 1990 with Philip M. Neal.....	10.8.2	1990 Annual Report on Form 10-K
(10.9)	*Executive Group Life Insurance Plan.....	10.9	1982 Annual Report on Form 10-K
(10.10)	*Form of Indemnity Agreements between Registrant and certain directors and officers..	10.10	1986 Annual Report on Form 10-K
(10.10.1)	*Form of Indemnity Agreement between Registrant and certain directors and officers..	10.10.1	1993 Annual Report on Form 10-K
(10.11)	*Supplemental Executive Retirement Plan.....	10.11	1983 Annual Report on Form 10-K
(10.11.1)	*Amended Letter of Grant to C.D. Miller under Supplemental Executive Retirement Plan.....	10.11.2	1992 Annual Report on Form 10-K
(10.12)	*Complete Restatement and Amendment of Avery Dennison Corporation Executive Deferred Compensation Plan.....	10.12	1994 Annual Report on Form 10-K
(10.12.1)	*Form of Enrollment Agreement for use under Executive Deferred Compensation Plan.....	10.13.2	1985 Annual Report on Form 10-K
(10.13)	*Fourth Amended Avery Dennison Retirement Plan for Directors.....	10.13.2	1992 Annual Report on Form 10-K
(10.15)	*1988 Stock Option Plan for Non-Employee Directors ("Director Plan").....	10.15	1987 Annual Report on Form 10-K
(10.15.1)	*Amendment No. 1 to 1988 Stock Option Plan for Non-Employee Directors ("Director Plan").....	10.15.1	1994 Annual Report on Form 10-K
(10.15.2)	*Form of Non-Employee Director Stock Option Agreement for use under Director Plan.....	10.15.2	1994 Annual Report on Form 10-K
(10.16)	*Complete Restatement and Amendment of Avery Dennison Corporation Executive Variable Deferred Compensation Plan.....	10.16	1994 Annual Report on Form 10-K
(10.16.1)	*Form of Enrollment Agreement for use under Executive Variable Deferred Compensation Plan.....	10.16.1	1987 Annual Report on Form 10-K
(10.17)	*Complete Restatement and Amendment of Avery Dennison Corporation Directors Deferred Compensation Plan.....	10.17	1994 Annual Report on Form 10-K

EXHIBIT NO. -----	ITEM -----	ORIGINALLY FILED AS EXHIBIT NO. -----	DOCUMENT -----
(10.17.1)	*Form of Enrollment Agreement for use under Directors Deferred Compensation Plan.....	10.17.2	1985 Annual Report on Form 10-K
(10.18)	*Complete Restatement and Amendment of Avery Dennison Corporation Directors Variable Deferred Compensation Plan.....	10.18	1994 Annual Report on Form 10-K
(10.18.1)	*Form of Enrollment Agreement for use under Directors Variable Deferred Compensation Plan.....	10.18.1	1989 Annual Report on Form 10-K
(10.19)	*1990 Stock Option and Incentive Plan for Key Employees of Avery International Corporation ("1990 Plan").....	10.19	1989 Annual Report on Form 10-K
(10.19.1)	*Amendment No. 1 to 1990 Plan.....	10.19.1	1993 Annual Report on Form 10-K
(10.19.2)	*Form of Incentive Stock Option Agreement for use under 1990 Plan.....	10.19.2	1991 Annual Report on Form 10-K
(10.19.3)	*Form of Non-Qualified Stock Option Agreement for use under 1990 Plan.	10.19.3	1994 Annual Report on Form 10-K
(10.19.4)	*Form of Non-Qualified Stock Option Agreement for use under 1990 Plan (for LTIP Participants)...	10.19.4	1994 Annual Report on Form 10-K
(10.20.1)	*1982 Incentive Stock Option Plan of Dennison Manufacturing Company...		Registration Statement on Form S-8 (File No. 33-35995-01)
(10.20.2)	*1985 Incentive Stock Option Plan of Dennison Manufacturing Company...		Registration Statement on Form S-8 (File No. 33-35995-01)
(10.20.3)	*1988 Stock Option Plan of Dennison Manufacturing Company...		Registration Statement on Form S-8 (File No. 33-35995-01)
(10.20.4)	*Amendments effective as of October 16, 1990 to the 1982 Incentive Stock Option Plan, 1985 Incentive Stock Option Plan and 1988 Stock Option Plan of Dennison Manufacturing Company...		Registration Statement on Form S-8 (File No. 33-35995-01)
(10.27.1)	*Amended and Restated Key Executive Long-Term Incentive Plan ("LTIP")...	10.27.1	1993 Annual Report on Form 10-K
(10.27.2)	*Second Amended and Restated Key Executive Long-Term Incentive Plan.....		1995 Annual Report on Form 10-K
(10.28)	*Complete Restatement and Amendment of Avery Dennison Corporation Executive Deferred Retirement Plan.....	10.28	1994 Annual Report on Form 10-K
(10.28.1)	*Form of Enrollment Agreement for use under Executive Deferred Retirement Plan.....	10.28.1	1992 Annual Report on Form 10-K

EXHIBIT NO. -----	ITEM ----	ORIGINALLY FILED AS EXHIBIT NO. -----	DOCUMENT -----
(10.29)	*Executive Incentive Compensation Plan.....	10.29	1993 Annual Report on Form 10-K
(10.30)	*Senior Executive Incentive Compensation Plan.....	10.30	1993 Annual Report on Form 10-K
(10.31)	*Executive Variable Deferred Retirement Plan.....	10.31	Registration Statement on Form S-8 (File No. 33-63979)
(10.31.1)	*Amended and Restated Executive Variable Deferred Retirement Plan.....	10.31.1	1995 Annual Report on Form 10-K
(10.32)	*Benefit Restoration Plan.....	10.32	1995 Annual Report on Form 10-K
(10.33.1)	*Trust Agreement for Employee Stock Benefit Trust.....	10.1	Current Report on Form 8-K filed October 24, 1996
(10.33.2)	*Common Stock Purchase Agreement.....	10.2	Current Report on Form 8-K filed October 24, 1996
(10.33.3)	*Promissory Note.....	10.3	Current Report on Form 8-K filed October 24, 1996

- - - - -
* Management contract or compensatory plan or arrangement required to be filed
as an Exhibit to this Form 10-K pursuant to Item 14(c).

SUBMITTED HEREWITH:

EXHIBIT

NO. ITEM

3.2 Bylaws, as amended
10.8.3 *Agreement dated March 16, 1996 with R.G. van Schoonenberg
10.19.5 *Amendment No. 2 to 1990 Plan
10.21 *1996 Stock Incentive Plan of Avery Dennison Corporation
10.27.3 *Third Amended and Restated Key Executive Long-Term Incentive Plan
11 Statement re Computation of Net Income Per Share Amounts
13 Portions of Annual Report to Shareholders for fiscal year ended
December 28, 1996
21 List of Subsidiaries
23 Consent of Independent Accountants (see page S-4)
27 Financial Data Schedule
99 Cautionary Statement for Purposes of the "Safe Harbor" Provisions of
the Private Securities Litigation Reform Act of 1995

- - - - -
* Management contract or compensatory plan or arrangement required to be filed
as an Exhibit to this Form 10-K pursuant to Item 14(c).

STATEMENT AND AGREEMENT REGARDING
LONG-TERM DEBT OF REGISTRANT

Except as indicated above, Registrant has no instrument with respect to
long-term debt under which securities authorized thereunder equal or exceed
10% of the total assets of Registrant and its subsidiaries on a consolidated
basis. Registrant agrees to furnish a copy of its long-term debt instruments
to the Commission upon request.

BYLAWS
OF
AVERY DENNISON CORPORATION

ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of Avery Dennison Corporation (hereinafter called the "corporation") in the State of Delaware shall be at 1013 Centre Road, City of Wilmington, County of New Castle, and the name of the registered agent at that address shall be United States Corporation Company.

Section 2. Principal Office. The principal executive office for the transaction of the business of the corporation is hereby fixed and located in Los Angeles County, California. The board of directors is hereby granted full power and authority to change said principal executive office from one location to another within or without the State of California.

Section 3. Other Offices. The corporation may also have offices at such other places within or without the State of Delaware as the board of directors may from time to time determine, or the business of the corporation may require.

ARTICLE II

STOCKHOLDERS

Section 1. Place of Meetings. Meetings of stockholders shall be held at any place within or outside the State of Delaware designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the corporation.

Section 2. Annual Meetings of Stockholders. The annual meeting of stockholders shall be held on the last Thursday in April of each year at 1:30 p.m. of said day, or on such other day, which shall not be a legal holiday, as shall be determined by the board of directors. Any previously scheduled annual meeting of stockholders may be postponed by resolution of the board of directors upon public notice given prior to the date previously scheduled for such annual meeting of stockholders.

Section 3. Special Meetings. A special meeting of the stockholders may be called at any time by the board of directors, or by a majority of the directors or by a committee authorized by the board to do so. Any previously scheduled special meeting of the stockholders may be postponed by resolution of the board of directors upon public notice given prior to the date previously scheduled for such special meeting of the stockholders.

Section 4. Notice of Stockholders' Meetings. All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 5 of this Article II not less than ten (10) nor more than sixty (60) days before the date of the meeting being noticed. The notice shall specify the place, date and hour of the meeting and (i) in case of a special meeting, the general nature of the business to be transacted, or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders. The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, management intends to present for election.

Section 5. Manner of Giving Notice; Affidavit of Notice. Notice of any meeting of stockholders shall be given either personally or by mail or telegraphic or other written communication, charges prepaid, addressed to the stockholder at the address of such stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. If no such address appears on the corporation's books or has been so given, notice shall be deemed to have been given if sent by mail or telegraphic or other written communication to the corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where such office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

An affidavit of the mailing or other means of giving any notice of any stockholders' meeting shall be executed by the secretary, assistant secretary or any transfer agent of the corporation giving such notice, and shall be filed and maintained in the minute book of the corporation.

Section 6. Quorum. The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting of stockholders shall constitute a quorum for the transaction of business. The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 7. Adjourned Meeting and Notice Thereof. Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the Chairman of the meeting, but in the absence of a quorum, no other business may be transacted at such meeting, except as provided in Section 6 of this Article II.

When any meeting of stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at a meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than thirty (30) days from the date set for the original meeting. Notice of any such adjourned meeting, if required, shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 4 and 5 of this Article II. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

Section 8. Voting. The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 11 of this Article II. Such vote may be by voice vote or by ballot, at the discretion of the Chairman of the meeting. Any stockholder entitled to vote on any matter (other than the election of directors) may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal; but, if the stockholder fails to specify the number of shares such stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares such stockholder is entitled to vote. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on any matter shall be the act of the stockholders, unless the vote of a greater number or voting by classes is required by the Delaware General Corporation Law or the certificate of incorporation or the certificate of determination of preferences as to any preferred stock.

At a stockholders' meeting involving the election of directors, no stockholder shall be entitled to cumulate (i.e., cast for any one or more candidates a number of votes greater than the number of the stockholder's shares). The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

Section 9. Waiver of Notice or Consent by Absent Stockholders. The transactions of any meeting of stockholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting, or an approval of the minutes thereof. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of stockholders. All such waivers, consents or approvals shall be filed with the corporate records or made part of the minutes of the meeting.

Attendance of a person at a meeting shall also constitute a waiver of notice of such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting if such objection is expressly made at the meeting.

Section 10. No Stockholder Action by Written Consent Without a Meeting. Stockholders may take action only at a regular or special meeting of stockholders.

Section 11. Record Date for Stockholder Notice and Voting. For purposes of determining the holders entitled to notice of any meeting or to vote, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days prior to the date of any such meeting, and in such case only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date fixed as aforesaid, except as otherwise provided in the Delaware General Corporation Law.

If the board of directors does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

Section 12. Proxies. Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney in fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, prior to the vote pursuant thereto, by a writing delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy, or (ii) written notice of the death or incapacity of the maker of such proxy is received by the corporation before the vote pursuant thereto is counted; provided, however, that no such proxy shall be valid after the expiration of eleven (11) months from the date of such proxy, unless otherwise provided in the proxy.

Section 13. Inspectors of Election; Opening and Closing the Polls. The board of directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by law.

The chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting.

Section 14. Nomination and Stockholder Business Bylaw..

(A) Annual Meetings of Stockholders. (1) Nominations of persons for election to the board of directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the corporation's notice of meeting, (b) by or at the direction of the board of directors or (c) by any stockholder of the corporation who was a stockholder of record at the time of giving of notice provided for in this Bylaw, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A) (1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the secretary of the corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 60th day nor earlier than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day

following the day on which public announcement of the date of such meeting is first made by the corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner and (ii) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Bylaw to the contrary, in the event that the number of directors to be elected to the board of directors of the corporation is increased and there is no public announcement by the corporation naming all of the nominees for director or specifying the size of the increased board of directors at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the corporation's notice of meeting (a) by or at the direction of the board of directors or (b) provided that the board of directors has determined that directors shall be elected at such meeting, by any stockholder of the corporation who is a stockholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw. In the event the corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the board of directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the corporation's notice of meeting, if the stockholder's notice required by paragraph (A) (2) of this Bylaw shall be delivered to the secretary at the principal executive offices of the corporation not earlier than the close of business on the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

(C) General. (1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of Preferred Stock, if any, to elect directors under certain circumstances.

ARTICLE III

DIRECTORS

Section 1. Powers. Subject to the provisions of the Delaware General Corporation Law and any limitations in the certificate of incorporation and these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the directors shall have the power and authority to:

(a) Select and remove all officers, agents and employees of the corporation, prescribe such powers and duties for them as may not be inconsistent with law, the certificate of incorporation or these bylaws, fix their compensation, and require from them security for faithful service.

(b) Change the principal executive office or the principal business office in the State of California from one location to another; cause the corporation to be qualified to do business in any other state, territory, dependency, or foreign country and conduct business within or outside the State of California; designate any place within or without the State of California for the holding of any stockholders' meeting or meetings, including annual meetings; adopt, make and use a corporate seal, and prescribe the forms of certificates of stock, and alter the form of such seal and of such certificates from time to time as in their judgment they may deem best, provided that such forms shall at all times comply with the provisions of law.

(c) Authorize the issuance of shares of stock of the corporation from time to time, upon such terms as may be lawful, in consideration of money paid, labor done or services actually rendered, debts or securities canceled or tangible or intangible property actually received.

(d) Borrow money and incur indebtedness for the purpose of the corporation, and cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, or other evidences of debt and securities therefor.

Section 2. Number and Qualification of Directors. The number of directors of the corporation shall be ten (10) until changed by a bylaw amending this Section 2, duly adopted by the board of directors or by the stockholders.

Section 3. Election and Term of Office of Directors. Subject to Section 15 below, one class of the directors shall be elected at each annual meeting of the stockholders, but if any such annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of stockholders held for that purpose. All directors shall hold office until their respective successors are elected. Irrespective of the provisions of Section 15 of this Article III and of the preceding sentence, a director shall automatically be retired on the date of the expiration of the first annual meeting following his 72nd birthday.

Section 4. Vacancies. Vacancies in the board of directors may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director. Each director elected to fill a vacancy shall hold office for the remainder of the term of the person whom he succeeds, and until a successor has been elected and qualified.

A vacancy or vacancies in the board of directors shall be deemed to exist in the case of the death, retirement, resignation or removal of any director, or if the board of directors by resolution declares vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony, or if the authorized number of directors be increased, or if the stockholders fail at any meeting of stockholders at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting.

Any director may resign or voluntarily retire upon giving written notice to the chairman of the board, the president, the secretary or the board of directors. Such retirement or resignation shall be effective upon the giving of the notice, unless the notice specifies a later time for its effectiveness. If such retirement or resignation is effective at a future time, the board of directors may elect a successor to take office when the retirement or resignation becomes effective.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office. No director may be removed during his term except for cause.

Section 5. Place of Meetings and Telephonic Meetings. Regular meetings of the board of directors may be held at any place within or without the State of Delaware that has been designated from time to time by resolution of the board. In the absence of such designation, regular meetings shall be held

at the principal executive office of the corporation. Special meetings of the board shall be held at any place within or without the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or there is no notice, at the principal executive office of the corporation. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in such meeting can hear one another, and all such directors shall be deemed to be present in person at such meeting.

Section 6. Annual Meetings. Immediately following each annual meeting of stockholders, the board of directors shall hold a regular meeting for the purpose of organization, any desired election of officers and transaction of other business. Notice of this meeting shall not be required.

Section 7. Other Regular Meetings. Other regular meetings of the board of directors shall be held at such time as shall from time to time be determined by the board of directors. Such regular meetings may be held without notice provided that notice of any change in the determination of time of such meeting shall be sent to all of the directors. Notice of a change in the determination of the time shall be given to each director in the same manner as for special meetings of the board of directors.

Section 8. Special Meetings. Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board or the president or any vice president or the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at his or her address as it is shown upon the records of the corporation. In case such notice is mailed, it shall be deposited in the United States mail at least four (4) days prior to the time of the holding of the meeting. In case such notice is delivered personally, or by telephone or telegram, it shall be delivered personally, or by telephone or to the telegraph company at least forty-eight (48) hours prior to the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated to either the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose of the meeting nor the place if the meeting is to be held at the principal executive office of the corporation.

Section 9. Quorum. A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as hereinafter provided. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the board of directors. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 10. Waiver of Notice. The transactions of any meeting of the board of directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. The waiver of notice or consent need not specify the purpose of the meeting. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director.

Section 11. Adjournment. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

Section 12. Notice of Adjournment. Notice of the time and place of an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case notice of such time and place shall be given prior to the time of the adjourned meeting, in the manner specified in Section 8 of this Article III, to the directors who were not present at the time of the adjournment.

Section 13. Action Without Meeting. Any action required or permitted to be taken by the board of directors may be taken without a meeting, if all members of the board shall individually or collectively consent in writing to such action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent or consents shall be filed with the minutes of the proceedings of the board.

Section 14. Fees and Compensation of Directors. Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses, as may be fixed or determined by resolution of the board of directors. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation for such services.

Section 15. Classification of Directors. The board of directors shall be and is divided into three classes, Class I, Class II and Class III. The number of directors in each class shall be the whole number contained in the quotient arrived at by dividing the authorized number of directors by three, and if a fraction is also contained in such quotient then if such fraction is one-third ($1/3$) the extra director shall be a member of Class III and if the fraction is two-thirds ($2/3$) one of the extra directors shall be a member of Class III and the other shall be a member of Class II. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected.

In the event of any increase or decrease in the authorized number of directors, (a) each director then serving as such shall nevertheless continue as a director of the class of which he is a member until the expiration of his current term, or his prior death, resignation or removal, and (b) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the board of directors to such class or classes as shall, so far as possible, bring the number of directors in the respective classes into conformity with the formula in this Section 15, as applied to the new authorized number of directors.

ARTICLE IV

COMMITTEES

Section 1. Committees of Directors. The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, including an executive committee, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

(a) the approval of any action which, under the General Corporation Law of Delaware, also requires stockholders' approval or approval of the outstanding shares;

(b) the filling of vacancies on the board of directors or in any committee;

(c) the fixing of compensation of the directors for serving on the board or on any committee;

(d) the amendment or repeal of bylaws or the adoption of new bylaws;

(e) the amendment or repeal of any resolution of the board of directors which by its express terms is not so amendable or repealable;

(f) a distribution to the stockholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the board of directors; or

(g) the appointment of any other committees of the board of directors or the members thereof.

Section 2. Meetings and Action of Committees. Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Sections 5 (place of meetings), 7 (regular meetings), 8 (special meetings and notice), 9 (quorum), 10 (waiver of notice), 11 (adjournment), 12 (notice of adjournment) and 13 (action without meetings), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members, except that the time of regular meetings of committees may be determined by resolution of the board of directors as well as the committee, special meetings of committees may also be called by resolution of the board of directors, and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V

OFFICERS

Section 1. Officers. The officers of the corporation shall be the chairman of the board, the president, a vice president, a secretary and a treasurer. The corporation may also have, at the discretion of the board of directors, one or more additional vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 3 of this Article V. Any number of offices may be held by the same person.

Section 2. Election of Officers. The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article V, shall be chosen annually by the board of directors, and each shall hold his office until he shall resign or be removed or otherwise disqualified to serve or his successor shall be elected and qualified.

Section 3. Subordinate Officers, etc. The board of directors may appoint, and may empower the chairman of the board to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the bylaws or as the board of directors may from time to time determine.

Section 4. Removal and Resignation of Officers. Any officer may be removed, either with or without cause, by the board of directors, at any regular or special meeting thereof, or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Vacancies in Office. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to such office.

Section 6. Chairman of the Board. The chairman of the board shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction and control of the business and affairs of the corporation.

Section 7. President. The president shall be the chief operating officer of the corporation and shall exercise and perform such powers and duties with respect to the administration of the business and affairs of the corporation as may from time to time be assigned to him by the chairman of the board or by the board of directors, or as may be prescribed by the bylaws.

Section 8. Vice Presidents. In the absence or disability of the president, a vice president designated by the board of directors shall perform all the duties of the president, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall

have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors or the bylaws.

Section 9. Secretary. The secretary shall keep or cause to be kept, at the principal executive office or such other place as the board of directors may order, a book of minutes of all meetings and actions of directors, committees of directors and stockholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' and committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a stock register, or a duplicate register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required by the bylaws or by law to be given, and he shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by the bylaws.

Section 10. Treasurer. The treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall be open at all reasonable times to inspection by any director.

The treasurer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the chairman of the board and directors, whenever they request it, an account of all of his transactions as treasurer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the board of directors or the bylaws.

Section 11. Assistant Secretaries and Assistant Treasurers. Any assistant secretary may perform any act within the power of the secretary, and any assistant treasurer may perform any act within the power of the treasurer, subject to any limitations which may be imposed in these bylaws or in board resolutions.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS,
EMPLOYEES AND OTHER AGENTS

Section 1. Indemnification. The corporation shall indemnify, in the manner and to the full extent permitted by law, any person (or the estate of any person) who was or is a party to, or is threatened to be made a party to, any threatened, pending or completed action, suit or proceeding, whether or not by or in the right of the corporation, and whether civil, criminal, administrative, investigative or otherwise, by reason of

the fact that such person is a director or officer of the corporation, and at the discretion of the board of directors may indemnify any person (or the estate of any person) who is such a party or threatened to be made such a party by reason of the fact that such person is or was an employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. Unless otherwise permitted by law, the indemnification provided for herein shall be made only as authorized in the specific case upon a determination, in the manner provided by law, that indemnification of the director, officer, employee or agent is proper in the circumstances. The corporation may, to the full extent permitted by law, purchase and maintain insurance on behalf of any such person against any liability which may be asserted against him. To the full extent permitted by law, the indemnification provided herein shall include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, and, in the manner provided by law, any such expenses may be paid by the corporation in advance of the final disposition of such action, suit or proceeding. The indemnification provided herein shall not be deemed to limit the right of the corporation to indemnify any other person for any such expenses to the full extent permitted by law, nor shall it be deemed exclusive of any other rights to which any person seeking indemnification from the corporation may be entitled under any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

Section 2. Fiduciaries of Corporate Employee Benefit Plan. This Article VI does not apply to any proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the corporation as defined in Section 1 of this Article VI. Nothing contained in this Article VI shall limit any right to indemnification to which such a trustee, investment manager or other fiduciary may be entitled by contract or otherwise, which shall be enforceable to the extent permitted by Section 410 of the Employee Retirement Income Security Act of 1974, as amended, other than this Article VI.

ARTICLE VII

RECORDS AND REPORTS

Section 1. Maintenance and Inspection of Stock Register. The corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed, and as determined by resolution of the board of directors, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of shares held by each stockholder.

A stockholder or stockholders of the corporation holding at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation may (i) inspect and copy the records of stockholders' names and addresses and stockholders during usual business hours upon five days prior written demand upon the corporation, and/or (ii) obtain from the transfer agent of the corporation, upon written demand and upon the tender of such transfer agent's usual charges for such list, a list of the stockholders' names and addresses, who are entitled to vote for the election of directors, and their shareholdings as of the most recent record date for which such list has been compiled or as of a date specified by the stockholder subsequent to the date of demand. Such list shall be made available to such stockholder or stockholders by the transfer agent on or before the later of five (5) days after the demand is received or the date specified therein as the date as of which the list is to be compiled.

The record of stockholders shall be open to inspection upon the written demand of any stockholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to such holder's interests as a stockholder or as the holder of a voting trust certificate. Any inspection and copying under this Section 1 may be made in person or by an agent or attorney of the stockholder or holder of a voting trust certificate making such demand.

Section 2. Maintenance and Inspection of Bylaws. The corporation shall keep at its principal executive office the original or a copy of the bylaws as amended to date, which shall be open to inspection by the stockholders at all reasonable times during office hours.

Section 3. Maintenance and Inspection of Other Corporate Records. The accounting books and records and minutes of proceedings of the stockholders and the board of directors and any committee or committees of the board of directors shall be kept at such place or places designated by the board of directors, or, in the absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form. Such minutes and accounting books and records shall be open to inspection upon the written demand of any stockholder or holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interests as a stockholder or as a holder of a voting trust certificate. Such inspection may be made in person or by an agent or attorney, and shall include the right to copy and make extracts. The foregoing rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

Section 4. Inspection by Directors. Every director shall have the absolute right at any reasonable time to inspect all books, records and documents of every kind and the physical properties of the corporation and each of its subsidiary corporations. Such inspection by a director may be made in person or by agent or attorney and the right of inspection includes the right to copy and make extracts.

Section 5. Annual Report to Stockholders. The board of directors shall cause an annual report to be sent to the stockholders not later than one hundred twenty (120) days after the close of the fiscal year adopted by the corporation. Such report shall be sent at least fifteen (15) days prior to the annual meeting of stockholders to be held during the next fiscal year and in the manner specified in Section 5 of Article II of these bylaws for giving notice to stockholders of the corporation. The annual report shall contain a balance sheet and statement of changes in financial position for such fiscal year, accompanied by any report thereon of independent accountants.

Section 6. Financial Statements. A copy of any annual financial statement and any income statement of the corporation for each quarterly period of each fiscal year, and any accompanying balance sheet for the corporation as of the end of each such period, that has been prepared by the corporation shall be kept on file in the principal executive office of the corporation for twelve (12) months and each such statement shall be exhibited at all reasonable times to any stockholder demanding an examination of any such statement or a copy shall be mailed to any such stockholder.

If a stockholder or stockholders holding at least five percent (5%) of the outstanding shares of any class of stock of the corporation make a written request to the corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the current fiscal year ended more than thirty (30) days prior to the date of the request, and a balance sheet of the corporation as of the end of such period, the treasurer shall cause such statement to be prepared, if not already prepared, and

shall deliver personally or mail such statement or statements to the person making the request within thirty (30) days after the receipt of such request. If the corporation has not sent to the stockholders its annual report for the last fiscal year, this report shall likewise be delivered or mailed to such stockholder or stockholders within thirty (30) days after such request.

The corporation also shall, upon the written request of any stockholder, mail to the stockholder a copy of the last annual, semi-annual or quarterly income statement which it has prepared and a balance sheet as of the end of such period.

The quarterly income statements and balance sheets referred to in this section shall be accompanied by the report thereon, if any, of any independent accountants engaged by the corporation, or the certificate of an authorized officer of the corporation that such financial statements were prepared without audit from the books and records of the corporation.

ARTICLE VIII

GENERAL CORPORATE MATTERS

Section 1. Record Date for Purposes Other Than Notice and Voting. For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days prior to any such action, and in such case only stockholders of record on the date so fixed are entitled to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date fixed as aforesaid, except as otherwise provided in the Delaware General Corporation Law.

If the board of directors does not so fix a record date, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such action, whichever is later.

Section 2. Checks, Drafts, Evidences of Indebtedness. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the corporation shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the board of directors.

Section 3. Corporate Contracts and Instruments; How Executed. The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances; and, unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or to any amount.

Section 4. Stock Certificates. A certificate or certificates for shares of the capital stock of the corporation shall be issued to each stockholder when any such shares are fully paid. All certificates shall be signed in the name of the corporation by the chairman of the board or the president or vice president and by the treasurer or an assistant treasurer or the secretary or any assistant secretary, certifying the number of shares and the class or series of shares owned by the stockholder. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

Section 5. Lost Certificates. Except as hereinafter in this Section 5 provided, no new stock certificate shall be issued in lieu of an old certificate unless the latter is surrendered to the corporation and canceled at the same time. The board of directors may in case any stock certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of a new certificate in lieu thereof, upon such terms and conditions as the board of directors may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate.

Section 6. Representation of Stock of Other Corporations. The chairman of the board, the president, or any vice president, or any other person authorized by resolution of the board of directors by any of the foregoing designated officers, is authorized to vote on behalf of the corporation any and all stock of any other corporation or corporations, foreign or domestic, standing in the name of the corporation. The authority herein granted to said officers to vote or represent on behalf of the corporation any and all stock by the corporation in any other corporation or corporations may be exercised by any such officer in person or by any person authorized to do so by proxy duly executed by said officer.

Section 7. Construction and Definitions. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of the bylaws. Without limiting the generality of the foregoing, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

Section 8. Fiscal Year. The fiscal year of the corporation shall commence the first day of the calendar year.

Section 9. Seal. The seal of the corporation shall be round and shall bear the name of the corporation and words and figures denoting its organization under the laws of the State of Delaware and year thereof, and otherwise shall be in such form as shall be approved from time to time by the board of directors.

ARTICLE IX

AMENDMENTS

Section 1. Amendment by Stockholders. New bylaws may be adopted or these bylaws may be amended or repealed by the vote of not less than 80% of the total voting power of all shares of stock of the corporation entitled to vote in the election of directors, considered for purposes of this Section 1 as one class.

Section 2. Amendment by Directors. Subject to the rights of the stockholders as provided in Section 1 of this Article IX, to adopt, amend or repeal bylaws, bylaws may be adopted, amended or repealed by the board of directors.

As Amended 12/05/96

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") between Avery Dennison Corporation, a Delaware corporation ("Avery" or the "Company") and Robert G. van Schoonenberg (the "Executive"), dated as of the 16th day of March, 1996.

1. Employment Period. Avery hereby agrees to continue the Executive

in its employ, and the Executive hereby agrees to remain in the employ of Avery for the period commencing on the date of this Agreement and ending on the second anniversary of such date (the "Employment Period"); provided, however, that commencing on the first day of the month next following the effective date hereof, and on the first day of each month hereafter (the most recent of such dates is hereinafter referred to as the "Renewal Date"), the Employment Period shall be automatically extended so as to terminate two years from such Renewal Date, unless at least 60 days prior to any Renewal Date Avery or the Executive shall give notice to the other that the Employment Period shall not be so extended, provided, further, however, that upon a Change of Control, if the Executive is an employee of the Company at such time, the Employment Period shall be extended until the second anniversary of the Change of Control.

2. Duties. (a) Executive's Position and Duties. During the

Employment Period, the Executive's position (including titles and reporting relationship to the Chief Executive Officer of Avery), authority and responsibilities shall be similar to those held by the Executive on the date hereof with such additions and modifications, and consistent with responsibilities generally assigned to executive officers of Avery as the Chief Executive Officer of Avery may in his discretion and acting in good faith from time to time assign to Executive. During the Employment Period, the Executive shall report directly to the Chief Executive Officer of the Company. The Executive's services shall be performed in the general area in which Executive was employed on the date of this Agreement and Executive will not be transferred outside the area without Executive's consent, other than for normal business travel and temporary assignments.

(b) Full Time. The Executive agrees to devote his full business time

to the business and affairs of Avery and to use his best efforts to perform faithfully and efficiently the responsibilities assigned to him hereunder to the extent necessary to discharge such responsibilities, except for (i) services on corporate, civic or charitable boards or committees not significantly interfering with the performance of such responsibilities; (ii) periods of vacation and sick leave to which he is entitled; and (iii) the management of his personal investments and affairs. Executive will not engage

in any outside business activity including, but not limited to, activity as a consultant, agent, partner or officer or provide services of any nature directly or indirectly to a corporation or other business enterprise.

3. Compensation. (a) Base Salary. During the Employment Period,

the Executive shall receive a base salary ("Base Salary") at a monthly rate at least equal to the monthly salary agreed to be paid to Executive by Avery on the date of this Agreement. The Base Salary shall be reviewed at least every year and may be increased at any time and from time to time by action of the Board of Directors of Avery (the "Board") or any committee thereof or any individual having authority to take such action in accordance with Avery's regular practices. Any increase in the Base Salary shall not serve to limit or reduce any other obligation of Avery hereunder, and after any such increase, the Base Salary shall not be reduced.

(b) Bonus Programs. In addition to the Base Salary, the Executive

shall continue to participate in Avery's cash and deferred bonus or incentive plans or programs ("Bonus Programs") as may be in effect from time to time with respect to executives employed by Avery at a participation level reflecting Executive's responsibilities, including but not limited to, the Executive Leadership Compensation Plan ("ELCP") and the Amended and Restated Long-Term Incentive Plan

("LTIP") as they may be modified from time to time and including any plans substituted therefore, provided, however, except as provided in Section 5(f) hereof, the determination of the amounts to be paid pursuant to such plans shall be made by the Board or a committee thereof authorized to take such action and shall be made in accordance with Avery's compensation practice and the terms and provisions of such plans or programs.

(c) Incentive and Savings Plans. In addition to the Base Salary and

participation in the Bonus Programs, during the Employment Period the Executive shall continue to be entitled to participate in all incentive and savings plans and programs, including stock option plans, as well as in all retirement plans as may be in effect from time to time with respect to executives employed by Avery at Executive's level reflecting Executive's responsibilities.

(d) Benefit Plans. The Executive and/or her family, as the case may

be, shall be entitled to receive all amounts which she or her family is or would have been entitled to receive as benefits under all medical, dental, disability, group life, accidental death and travel accident insurance plans and programs of Avery in which Executive is a participant as in effect from time to time with respect to executives employed by Avery. Eligibility for continued participation in such benefit plans shall remain in effect up through the ear-

lier of: the date Executive commences a position with a new employer where the overall content and value of the benefit plans available are either substantially similar to or more favorable to Executive than the Company's plans; or, at the conclusion of the two year life of this Agreement, which follows the tender of appropriate notice or is pursuant to an applicable termination under Sections 5(d) and 5(e).

(e) Expenses. During the Employment Period, the Executive shall be

entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies and practices of Avery as in effect from time to time with respect to executives employed by Avery.

(f) Fringe Benefits. The Executive shall be entitled to fringe

benefits, commensurate with those available to comparable level executives, to include an automobile and related expenses, and financial counseling in accordance with the policies of Avery as in effect from time to time with respect to executives employed by Avery for the full duration of the Agreement, including the two year period from date of Executive's termination as governed by the provisions of 5(d) and 5(e). Further in the event of Executive's termination under the provisions of 5(d) and 5(e), Executive shall be entitled to company-paid outplacement services commensurate with those provided to terminated executives of comparable

level and made available through and at the facilities of a reputable and experienced vendor.

(g) Vacation. During the Employment Period, the Executive shall be

entitled to paid vacation in accordance with the policies of Avery as in effect from time to time with respect to executives employed by Avery.

(h) Certain Amendments. Nothing herein shall be construed to prevent

Avery from amending, altering, eliminating or reducing any plans, benefits or programs so long as the Executive continues to have the opportunity to receive compensation and benefits consistent with Sections 3(a) through (g).

4. Termination. (a) Death or Disability. This Agreement shall

terminate automatically upon the Executive's death. Avery may terminate this Agreement, after having established the Executive's Disability, by giving to the Executive written notice of its intention to terminate his employment, and his employment with Avery shall terminate effective on the 90th day after receipt of such notice (the "Disability Effective Date"). For purposes of this Agreement, an Executive's Disability shall be deemed to have occurred when the Executive becomes entitled to receive disability benefits under the Avery Long-Term Disability Plan for exempt employees.

(b) Cause. Avery may terminate the Executive's employment for

"Cause" if a majority of the Board determines that "Cause" exists. For purposes of this Agreement, "Cause" means (i) an act or acts of dishonesty on the Executive's part which are intended to result in his substantial personal enrichment at the expense of Avery or (ii) repeated violations by the Executive of his obligations under Section 2 of this Agreement which are demonstrably willful and deliberate on the Executive's part and which resulted in material injury to Avery, (iii) conduct of a criminal nature which may or which is likely to have an adverse impact on Avery's reputation or standing in the community or on its relationship with its customers or those who purchase or use its products or (iv) fraudulent conduct in connection with the business or affairs of Avery regardless of whether said conduct is designed to defraud Avery or others.

For purposes of this provision, no act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by

the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive is guilty of the conduct described in subparagraphs (i), (ii), (iii) or (iv) above, and specifying the particulars thereof in detail.

(c) Good Reason. This Executive may terminate his employment for

Good Reason. For purposes of this Agreement, "Good Reason" means:

(i) Without the express written consent of the Executive, the assignment to the Executive of any duties inconsistent in any material respect with the Executive's position, reporting lines, authority or responsibilities as contemplated by Section 2 of this Agreement;

(ii) any failure by Avery to comply with any of the provisions of Section 3 of this Agreement, other than an insubstantial and inadvertent failure remedied by Avery

promptly after receipt of notice thereof given by the Executive;

(iii) Avery requires the Executive without his consent to be based at any office or location other than an office or location in the general area where Executive was based on the date of this Agreement, except for travel reasonably required in the performance of the Executive's responsibilities;

(iv) any proposed termination by Avery of the Executive's employment otherwise than as permitted by this Agreement; or

(v) any failure by Avery to obtain the assumption and agreement to perform this Agreement by a successor as contemplated by Section 11(b).

Anything to the contrary in this Agreement notwithstanding, any termination by the Executive for whatever reason during the 30-day period following the first anniversary of a Change of Control shall constitute a termination for Good Reason for all purposes of this Agreement.

(d) Change of Control. A "Change of Control" shall be deemed to have

occurred if:

(i) any "Person", which shall mean a "person" as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than Avery, any trustee or other fiduciary holding securities under an employee benefit plan of Avery) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, or securities of Avery representing 30% or more of the combined voting power of Avery's then outstanding voting securities;

(ii) during any period of 24 consecutive months, individuals, who at the beginning of such period constitute the Board of Avery, and any new director whose election by the Board, or whose nomination for election by Avery's stockholders, was approved by a vote of at least one-half (1/2) of the directors (other than in connection with an actual or threatened election contest) (the "Incumbent Board") cease for any reason to constitute at least a majority thereof;

(iii) the stockholders of Avery approve (I) a plan of complete liquidation of Avery or (II) the sale or disposition by Avery for all or substantially all of Avery's assets unless the acquirer of the assets or its board of directors shall meet the conditions for a merger or consolidation in subparagraphs (iv)(I) or (iv)(II) below; or

(iv) the consummation of a merger or consolidation of Avery with any other company other than:

(I) such a merger or consolidation which would result in the voting securities of Avery outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of Avery's or such surviving entity's outstanding voting securities immediately after such merger or consolidation; and

(II) such a merger or consolidation, which would result in the Incumbent Board immediately prior to the execution of the initial agreement, or other action providing for such merger or consolidation, continuing to constitute at least 50% of the directors of the surviving entity immediately after such merger or consolidation.

In this paragraph (iv), "surviving entity" shall mean only an entity in which all of Avery's stockholders immediately before such merger or consolidation become stockholders by the terms of such merger or consolidation.

(e) Notice of Termination. Any termination by Avery for Cause or

following a Change of Control or by the Executive for Good Reason shall be communicated by Notice of

Termination to the other party hereto given in accordance with Section 13(b). Any termination by Avery due to Disability shall be given in accordance with Section 4(a). For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) and except in the event of a termination as a result of a Change of Control, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the termination date is other than the date of receipt of such notice, specifies the termination date of this Agreement (which date shall be not more than 15 days after the giving of such notice).

(f) Date of Termination. "Date of Termination" means the fifth day

following the mailing (or if personally delivered, the date of delivery) of the Notice of Termination or any later date specified therein, as the case may be. Notwithstanding any contrary provision in Section 4(e), if the Executive's employment is terminated by Avery for any reason other than Cause, Death, or Disability, the Date of Termination is the date on which Avery notifies the Executive of such termination; if the Executive's employment is terminated due to Disability, the Date of Termination is the Disability Effective Date, and if the Executive's employment

is terminated due to the Executive's death, the Date of Termination shall be the date of death.

5. Obligations of Avery upon Termination.

(a) Death. If the Executive's employment is terminated by reason of

the Executive's death, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement other than those obligations accrued hereunder at the date of his death. Anything in this Agreement to the contrary notwithstanding, the Executive's family shall be entitled to receive benefits at least equal to those provided by Avery to surviving families of executives of Avery under the plan, programs and policies described in Sections 3(d) and 3(f) of this Agreement, if any, as in effect from time to time with respect to executives employed by Avery with comparable responsibilities and their families.

(b) Disability. If the Executive's employment is terminated by

reason of the Executive's Disability, the Executive shall be entitled to receive after the Disability Effective Date disability and other benefits at least equal to those provided by Avery to disabled employees and/or their families in accordance with the plans, programs and policies described in Sections 3(d) and 3(f) of this Agreement if and as in effect on the Disability Effective Date with respect to

executives with comparable responsibilities and their families.

(c) Cause. If the Executive's employment shall be terminated for

Cause or if the Executive terminates his employment without Good Reason, Avery shall pay the Executive his full Base Salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, and Avery shall have no further obligations to the Executive under this Agreement.

(d) Good Reason, Other Than for Cause or Disability.

(i) Lump Sum Payments. If during the Employment Period Avery shall

terminate the Executive's employment other than for Cause or Disability, or the Executive shall terminate his employment for Good Reason prior to a Change of Control as provided in Section 5(e):

(I) Avery shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) if not theretofore paid, the Executive's Base Salary through the Date of Termination at the rate in effect at the time of Notice of Termination was given;

(B) a current year ELCP bonus equal to the average of the greatest two out of the three most recent annual ELCP bonuses received by Executive (which two greatest ELCP bonuses need not represent consecutive years) and prorated to reflect the total number of full months Executive is employed in the year in which termination occurs;

(C) an LTIP payment reflective of the Executive's full participation in the three-year plan, so that at the time that final performance under the Plan is determinable and individual payouts calculated, Executive shall promptly receive an amount equivalent to what he would have received if he had remained employed through the date of such payouts.

(D) two times the sum of (x) the Executive's annual Base Salary at the rate in effect at the time the Notice of Termination is given and (y) the Annual Bonus defined in Section 5(d)(i)(I)(B), but without proration.

(II) Options granted to Executive under Avery's stock option plans (the "Stock Option Plan") which options have been outstanding for more than six months shall become immediately exercisable and Executive shall have for a period of not less than 2 years following such Date of Termination to exercise all options granted under the Stock

Option Plans then exercisable, but not to exceed the term of the grant, or which become exercisable pursuant to this clause (II). For options granted to Executive on and after November 30, 1995, in the event Executive is age 55 or older on the Date of Termination, he will be treated as a retiree under the Stock Option Plan, which will enable Executive to vest in and exercise stock options theretofore granted under that plan, for a period of up to five years (but in no event past the expiration of the term of the option grant).

(III) In addition, Avery shall, promptly upon submission by the Executive of supporting documentation, pay or reimburse to the Executive any costs and expenses paid or incurred by the Executive which would have been payable under Section 3(e) if his employment had not terminated; and

(IV) Until the earlier of (i) the second anniversary of the Date of Termination referred to in this Section, or (ii) the date Executive accepts other employment, Avery shall continue benefits to the Executive and/or his family at least equal to those which would have been provided to them in accordance with the plans, programs and policies described in Sections 3(d) and 3(f) of this Agreement if the Executive's employment had not been terminated, if and as in effect from time to time with respect to executives employed by Avery with comparable responsibilities and their families. The last 18 months of Executive's participation shall be

deemed to be participation under an election to continue such benefits under the Consolidated Omnibus Budget Reconciliation Act.

(V) For purposes of the Avery nonqualified deferred compensation and qualified and nonqualified retirement plans, Executive shall be credited with two years of service in addition to his years of service actually accrued through the Date of Termination and Executive shall also be credited with (i) the number of years of attained age in addition to his actual age attained upon the Date of Termination, and (ii) the number of years of service, minimally required in order to satisfy the requirements for "early retirement" benefits eligibility under both the Avery deferred compensation and qualified and nonqualified retirement plans. The crediting of age and service to the Executive shall be taken into account for all purposes of the plans. During the two-year period immediately succeeding Executive's termination date, Executive shall participate in any enhancements or improvements to Avery benefit plans available to Avery executives, including extensions to the duration of receipt of payments, increased payment amounts, or any other similar changes which may ensue during the applicable period. In the event that the benefits described above cannot be provided by the terms of the plans referred to herein, Avery shall provide the Executive with identical benefits outside of such plans. Commencement of benefits under

the foregoing plans shall be subject to the Executive's ability to defer such benefits as provided pursuant to such plans as of the date hereof.

(e) Change of Control. If during the Employment Period and within 24

months following a Change of Control, Executive shall terminate his employment for Good Reason as defined in Section 4(c) or if Avery terminates the Executive's employment other than for Cause or Disability:

(i) Avery shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) if not theretofore paid, the Executive's Base Salary through the Date of Termination at the rate in effect at the time of Notice of Termination was given; and

(B) an amount equal to the ELCP bonus that would have been payable to executives of Avery in the same bonus category as Executive pursuant to the Bonus Programs provided in Section 3(b) assuming, for purposes of calculating the amount of the bonus pool under the plan, that the "maximum" amount, as that term is used in the plan, were achieved, ("Annual Bonus") multiplied by a fraction whose numerator shall be the number of full months that have elapsed from the end of the last fiscal year with respect to which an

ELCP bonus calculation was made, and ending on the Date of Termination and the denominator shall be 12. The year on which the computation is based shall be the year in which the Date of Termination occurred;

(C) three times the sum of (x) the Executive's annual Base Salary at the rate in effect at the time the Notice of Termination is given, and (y) the Executive's Annual ELCP Bonus based upon the formula described in 5.(d)(i)(I)(B) but without proration, and assuming a maximum bonus pool and payout for the year; and

(D) the full term payment for the three-year period of the LTIP, assuming for purposes of calculating the amount earned under this plan, achievement of the three-year maximum award, less any interim payments previously received by Executive.

(ii) If it is determined that any payment or distribution by Avery to Executive, whether pursuant to this Agreement or otherwise (determined without regard to any additional payments required pursuant to this sentence) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (the "Code") or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred

to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(iii) In addition, Executive shall receive the amounts and be entitled to the benefits provided in clauses (II), (III), (IV) and (V) of Section 5(d)(i).

(f) Bonus During Cancellation Period. If Avery notifies the

Executive that the Employment Period provided in Section 1 hereof will not be automatically extended as provided therein, the compensation of Executive shall continue as provided in this Agreement for the period provided therein, except that the amount of short-term incentive compensation payable under the Bonus Programs with respect to each fiscal year during such period (including the year in which the notice was given) shall be the Annual Bonus as determined in Section 5(d)(I)(B). Amounts payable with respect to the year in which the term specified in Section 1 expires shall be prorated based on a fraction the numerator of which is the number of full months from the beginning of such year until

the date of the expiration of this Agreement and denominator is 12.

6. Non-exclusivity of Rights. Nothing in this Agreement shall

prevent or limit the Executive's continuing or future participating in any benefit, bonus, incentive or other plan or program provided by Avery and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any stock option or other agreements with Avery or any of its affiliated companies. Except as otherwise provided herein, amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of Avery at or subsequent to the Date of Termination shall be payable in accordance with such plan or program.

7. No Set Off, Payment of Fees. Except as provided herein, Avery's

obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including without limitation any set-off, counterclaim, recoupment, defense or other right which Avery may have against the Executive or others. Avery agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by Avery or others of the validity or enforceability of, or liability under, any

provision of this Agreement other than expenses relating to a claim by Executive that he terminated for Good Reason or that the termination for Cause was improper, in which case such fees and expenses shall be paid only if Executive prevails in whole or in part. All amounts provided herein shall include, in each case, interest, compounded quarterly, on the total unpaid amount determined to be payable under this Agreement, such interest to be calculated on the basis of the prime commercial lending rate announced by Bank of American National Trust and Savings Association in effect from time to time during the period of such nonpayment. In the event that the Executive shall in good faith give a Notice of Termination for Good Reason and it shall thereafter be determined that Good Reason did not exist, the employment of the Executive shall, unless Avery and the Executive shall otherwise mutually agree, be deemed to have terminated at the date of giving such purported Notice of Termination by mutual consent of Avery and the Executive shall be entitled to receive only those payments and benefits which he would have been entitled to receive at such date.

8. Arbitration of Disputes. (a) The parties agree that any

disputes, controversies or claims which arise out of or related to this Agreement, Executive's employment or the termination of his employment, including, but not limited to, any claim relating to the purported validity, interpretation, enforceability or breach of this Agreement, and/or any other

claim or controversy arising out of the relationship between the Executive and Avery (or the nature of the relationship) or the continuation or termination of that relationship, including, but not limited to, claims that a termination was for Cause, including the Board's determination in accordance with Section 4(b), or for Good Reason, claims for breach of covenant, breach of an implied covenant of good faith and fair dealing, wrongful termination, breach of contract, or intentional infliction of emotional distress, defamation, breach of right of privacy, interference with advantageous or contractual relations, fraud, conspiracy or other tort or property claims of any kind, which are not settled by agreement between the parties, shall be settled by arbitration before a board of three arbitrators.

One arbitrator shall be selected by the Executive, one by Avery and the third by the two persons so selected, all in accordance with the labor arbitration rules of the American Arbitration Association then in effect. In the event that the arbitrator selected by the Executive and the arbitrator selected by Avery are unable to agree upon a third arbitrator, then the third arbitrator shall be selected from a list of seven provided by the office of the American Arbitration Association nearest to the employee's residence with the parties striking names in order and the party striking first to be determined by the flip of a coin. The arbitration shall be held in a location to be mutually agreed upon by the parties. In

the absence of agreement, the Chairman of the Board of Avery shall determine the location.

(b) In consideration of the parties' agreement to submit to arbitration all disputes with regard to this Agreement and/or with regard to any alleged contract, or any other claim arising out of their conduct, the relationship existing hereunder or the continuation or termination of that relationship, and in further consideration of the anticipated expedition and the minimizing of expense of this arbitration remedy, the arbitration provisions of this Agreement shall provide the exclusive remedy, and each party expressly waives any right he or it may have to seek redress in any other forum.

(c) Any claim which either party has against the other party could be submitted for resolution pursuant to this Section must be presented in writing by the claiming party to the other within one year of the date the claiming party knew or should have known of the facts giving rise to the claim, except that claim arising out of or related to the termination of the Executive's employment must be presented by him within one year of the Date of Termination. Unless the party against whom any claim is asserted waives the time limits set forth above, any claim not brought within the time periods specified shall be waived and forever barred.

(d) Avery will pay all costs and expenses of the arbitration to the extent provided in Section 8, hereof. In the event expenses are not paid by Avery, and without diminishing the Executive's right to reimbursement as provided in this Section costs and expenses shall be paid as follows: (x) the expenses of the neutral arbitrator and of a transcript of any arbitration proceeding shall be divided equally between the Executive and Avery; and (y) each party shall bear the expenses of the arbitrator selected by it and of the witnesses it calls.

(e) Any decision and award or order of the majority of the arbitrators shall be binding upon the parties hereto and judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(f) Each of the above terms and conditions shall have separate validity and the invalidity of any part thereof shall not affect the remaining parts.

(g) Any decision and award or order of the majority of the arbitrators shall be final and binding between the parties as to all claims which were or could have been raised in connection with the dispute to the full extent permitted by law. In all other cases the parties agree that the decision of the board of arbitrators shall be a condition precedent to

the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by the employee in connection with the dispute, and that the decision and opinion of the board of arbitrators may be presented in any other forum on the merits of the dispute.

9. General Release. Executive acknowledges and agrees that this

Agreement includes the entire agreement and understanding between the parties with regard to Executive's employment or the termination thereof during the Employment Period and all amounts to which Executive shall be entitled whether during the term of employment or upon termination thereof. Accordingly, upon Avery's fulfilling its obligations to Executive hereunder, Executive, on behalf of himself and his related individuals and entities, if any, including, but not limited to, any predecessors, successors/assigns, and any and all other related individuals and entities, if any, and each of them, shall and does hereby forever relieve, release, and discharge Avery and its respective predecessors, successors, assigns, owners, attorneys representatives, affiliates, parent corporations, subsidiaries (whether or not wholly-owned), divisions, partners and their officers, directors, agents, employees, servants, executors, administrators, accountants, investigators, insurers, and any and all other related individuals and entities, if any, and each of them, in any and all capacities, from any and all claims, debts, liabilities, demands, obligations, liens,

promises, acts, agreements, costs and expenses (including, but not limited to, attorneys' fees), damages, actions and causes of action, of whatever kind or nature, including, without limitation, any statutory, civil or administrative claim, or any claim, arising out of acts or omissions occurring before the execution of this Agreement, whether known or unknown, suspected or unsuspected, fixed or contingent, apparent or concealed (collectively referred to as "claims"), including, but not limited to, any claims based on, arising out of, related to or connected with the subject matter of this Agreement, Executive's employment or the termination thereof, and any and all facts in any manner arising out of, related to or connected with Executive's employment with, or termination of employment from, Avery or any of its related entities, including, but not limited to, any claims arising from rights under federal, state, and local laws prohibiting discrimination on the basis of race, national origin, sex, religion, age, marital status, pregnancy, handicap, ancestry, sexual orientation, or any other form of discrimination, and any common law claims of any kind, including, but not limited to, contract, tort, and property rights including, but not limited to, breach of contract, breach of the implied covenant of good faith and fair dealing, tortious interference with contract or current or prospective economic advantage, fraud, deceit, misrepresentation, defamation, wrongful termination, infliction of emotional distress, breach of fiduciary duty, and any other common law claim of any kind whatever.

Upon Avery's fulfilling its obligations to Executive hereunder, Executive expressly waives any and all rights under Section 1542 of the Civil Code of the State of California, or any other federal or state statutory rights or rules, or principles of common law or equity, or those of any jurisdiction, government, or political subdivision thereof, similar to Section 1542 ("similar provision"). Thus Executive may not invoke the benefits of Section 1542 or any similar provision in order to prosecute or assert in any manner any claims released hereunder. Section 1542 provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

10. Confidential Information. The Executive shall hold in a

fiduciary capacity for the benefit of Avery all secret or confidential information, knowledge or data relating to Avery or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during his employment by Avery or any of its affiliated companies and which shall not be public knowledge and will continue to be bound by the provisions of the Patent and

Confidence Agreement previously executed by Executive. After termination of the Executive's employment with Avery, he shall not, without the prior written consent of Avery, communicate or divulge any such information, knowledge or data to anyone other than Avery and those designated by it.

11. Successors. (a) This Agreement is personal to the Executive and

without the prior written consent of Avery shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon Avery and its successors. Avery shall require any successor to all or substantially all of the business and/or assets of Avery, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as Avery would be required to perform if no such succession had taken place.

12. Amendment. This Agreement contains the entire agreement between

the parties with respect to the subject mat-

ter hereof and may be amended or modified only by a written instruction executed by Executive and Avery.

13. Miscellaneous. (a) This Agreement shall be governed by and

construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

Robert G. van Schoonenberg
524 Dartmouth Place
La Canada Flintridge, CA 91011

If to the Corporation:

Avery Dennison Corp.
150 N. Orange Grove Blvd.
Pasadena, CA 91103

or to such other address as either party shall have furnished to the other in writing in accordance herewith.

(c) The invalidity of unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) Avery may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) This Agreement supersedes all other agreements and arrangements between the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the Executive has hereunto set hand and, pursuant to the authorization from the Board of Directors, Avery has caused these presents to be executed in its name on its behalf, and its corporate seal to be hereunto affixed and attested by its Secretary, all as of the date and year first above written.

/s/ Robert G. van Schoonenberg

Robert G. van Schoonenberg

AVERY DENNISON CORPORATION

By: /s/ Charles D. Miller

Charles D. Miller
Chairman of the Board and
Chief Executive Officer

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AMENDMENT NO. 2
TO THE 1990 STOCK OPTION AND INCENTIVE PLAN
FOR KEY EMPLOYEES OF AVERY DENNISON CORPORATION

WHEREAS, Section 11.2 of the 1990 Stock Option and Incentive Plan for Key Employees of Avery Dennison Corporation (the "Plan") provides that the Plan may be amended by the Board of Directors of Avery Dennison Corporation (the "Company"), subject to shareholder approval in certain circumstances; and

WHEREAS, the Board of Directors of the Company has determined that it is advisable to amend the Plan in certain respects and to submit this amendment to the Company's shareholders for approval.

NOW, THEREFORE, the Plan is hereby amended effective as of September 28, 1995, subject to shareholder approval at the annual meeting of stockholders on April 25, 1996, in the following respects:

Section 4.5 Exercise of Option after Termination of Employment

1. The first paragraph is hereby amended and revised to read as follows:

"An Option is exercisable by an Optionee while he is an Employee. The preceding notwithstanding, an Option may be exercised subsequent to an Optionee's Termination of Employment, subject to the following limitations:"

2. Section 4.5(c) is hereby deleted in its entirety and the following is inserted in lieu thereof:

"(c) For Options granted before November 30, 1995, if the Optionee's employment is terminated due to his retirement, the Optionee may exercise his Options, to the extent exercisable as of his Termination of Employment, within twenty-four (24) months after termination, but not later than the Option's Expiration Date. For Options granted on or after November 30, 1995, if the Optionee's employment is terminated due to his retirement, the Optionee may exercise his Options, to the extent exercisable as of his Termination of Employment, as follows, (i) in the case of any Option granted to the Chief Executive Officer or the Chief Operating Officer, on any date prior to or on the Option's Expiration Date; (ii) in the case of any Option granted to a participant, other than the Chief Executive Officer or the Chief Operating Officer, in the Company's Long Term Incentive Program or any successor plan, within sixty (60) months after termination, but not later than the Option's Expiration Date; and (iii) in the case of an Option granted to any other Optionee, within thirty-six (36) months after termination, but not later than the Option's Expiration Date.

Approved: /s/ Charles D. Miller

Charles D. Miller
Chairman and Chief Executive Officer
Avery Dennison Corporation

AVERY DENNISON CORPORATION
1996 STOCK INCENTIVE PLAN

SECTION 1. Purpose; Definitions

The purpose of the Plan is to give the Company a competitive advantage in attracting, retaining and motivating officers and employees and to provide the Company and its subsidiaries with a stock plan providing incentives more directly linked to the profitability of the Company businesses and increases in shareholder value.

For purposes of the Plan, the following terms are defined as set forth below:

- a. "Affiliate" means a subsidiary of the Company.
- b. "Award" means a Stock Appreciation Right, Stock Option, Restricted Stock, Performance Unit, Stock Payment or Dividend Equivalent.
- c. "Awardee" means a person granted an Award.
- d. "Award Cycle" shall mean a period of consecutive fiscal years or portions thereof designated by the Committee over which Performance Units are to be earned.
- e. "Board" means the Board of Directors of the Company.
- f. "Cause" means (1) conviction of a participant for committing a felony under federal law or the law of the state in which such action occurred, (2) dishonesty in the course of fulfilling a participant's employment duties or (3) willful and deliberate failure on the part of a participant to perform his employment duties in any material respect, or such other events as shall be determined by the Committee. The Committee shall have the sole discretion to determine whether "Cause" exists, and its determination shall be final.
- g. "Change in Control" and "Change in Control Price" have the meanings set forth in Sections 10(b) and (c), respectively.
- h. "CEO" means the Chief Executive Officer of the Company.
- i. "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto. References to Sections of the Code shall be deemed to include any successors to such Sections.
- j. "Commission" means the Securities and Exchange Commission or any successor agency.
- k. "Committee" means the Committee referred to in Section 2.

- l. "Common Stock" means common stock, par value \$1.00 per share, of the Company, as presently constituted and any equity security of the Company issued or authorized to be issued in the future.
- m. "Company" means Avery Dennison Corporation, a Delaware corporation.
- n. "COO" means the Chief Operating Officer of the Company.
- o. "Covered Employee" means a participant designated prior to the grant of shares of Restricted Stock or Performance Units by the Committee who is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which Restricted Stock or Performance Units are expected to be taxable to such participant.
- p. "Disability" means permanent and total disability as determined under procedures established by the Committee for purposes of the Plan.
- q. "Dividend Equivalent" means an Award made pursuant to Section 9.
- r. "Early Retirement" means retirement from active employment with the Company, or an Affiliate pursuant to the early retirement provisions of the applicable pension plan of such employer or as otherwise determined by the Committee.
- s. "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.
- t. "Fair Market Value" means, as of any given date, the mean between the highest and lowest reported sales prices of the Common Stock on the New York Stock Exchange Composite Tape or, if not listed on such exchange, on any other national securities exchange on which the Common Stock is listed or on NASDAQ. If there is no regular public trading market for such Common Stock, the Fair Market Value of the Common Stock shall be determined by the Committee in good faith.
- u. "Non-Employee Director" means a member of the Board who qualifies as a Non-Employee Director as defined in Rule 16b-3(b)(3), as promulgated by the Commission under the Exchange Act, or any successor definition adopted by the Commission.
- v. "Non-qualified Stock Option" means a Stock Option, which is not an incentive stock option under Section 422 of the Code.
- w. "Normal Retirement" means retirement from active employment with the Company, or an Affiliate at or after age 65.
- x. "Optionee" means an individual granted a Stock Option under this Plan.
- y. "Qualified Performance-Based Award" means an Award of Stock Options, Stock Appreciation Rights, Restricted Stock or Performance Units designated as such by the Committee at the time of grant, based upon a determination that (i) the recipient is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which the Company would expect to be able to claim a tax deduction with respect to such Stock Options, Stock Appreciation Rights, Restricted Stock or Performance Units and (ii) the Committee wishes such Award to qualify for the Section 162(m) Exemption. Notwithstanding any other provision of the Plan, no Award shall be considered a Qualified Performance-

Based Award unless it is granted subject to or after obtaining shareholder approval satisfying the requirements of Section 162(m)(4)(C)(ii) of the Code and the Treasury Regulations thereunder.

z. "Performance Goals" means the performance goals established by the Committee in connection with the grant of Restricted Stock or Performance Units. In the case of Qualified Performance-Based Awards, (i) such goals shall be based on the attainment of specified levels of one or more of the following measures: earnings per share, sales, net income, net income after tax, gross income, operating income, cash generation, economic value added, unit volume, return on equity, change in working capital, return on capital or shareholder return, and (ii) such Performance Goals shall be set by the Committee within the time period prescribed by Section 162(m) of the Code and related regulations.

aa. "Performance Units" means an award made pursuant to Section 8.

bb. "Plan" means the Avery Dennison Corp. 1996 Stock Incentive Plan, as set forth herein and as hereinafter amended from time to time.

cc. "Restricted Stock" means an award granted under Section 7.

dd. "Retirement" means Normal or Early Retirement.

ee. "Rule 16b-3" means Rule 16b-3, as promulgated by the Commission under Section 16(b) of the Exchange Act, as amended from time to time.

ff. "Secretary" means the Secretary of the Company.

gg. "Section 162(m) Exemption" means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code.

hh. "Stock Appreciation Right" means a right granted under Section 6.

ii. "Stock Option" means an option granted under Section 5.

jj. "Stock Payments" means (a) a payment in the form of shares of Common Stock, or (b) an option or other right to purchase shares of Common Stock, as part of a deferred compensation arrangement, made in lieu of all or any portion of the compensation, including without limitation, salary, bonuses and commissions, that would otherwise become payable to an employee in cash.

kk. "Termination of Employment" means the termination of the participant's employment with the Company or an Affiliate. A participant employed by an Affiliate shall also be deemed to incur a Termination of Employment if the Affiliate ceases to be a subsidiary, as the case may be, and the participant does not immediately thereafter become an employee of the Company or an Affiliate. Temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and Affiliates shall not be considered Terminations of Employment. The Committee, in its absolute discretion, shall determine the effect of all other matters and questions relating to Termination of Employment.

In addition, certain other terms used herein have definitions given to them in the first place in which they are used.

SECTION 2. Administration

The Plan shall be administered by the Compensation and Executive Personnel Committee or such other committee of the Board as the Board may from time to time designate (the "Committee"), which shall be composed of not less than two Non-Employee Directors, each of whom shall be an "outside director" for purposes of Section 162(m)(4) of the Code, and shall be appointed by and serve at the pleasure of the Board.

The Committee shall have plenary authority to grant Awards pursuant to the terms of the Plan to officers and employees of the Company and its Affiliates.

Among other things, the Committee shall have the authority, subject to the terms of the Plan:

- (a) To select the officers and employees to whom Awards may from time to time be granted;
- (b) To determine whether and to what extent Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Units, Stock Payments or Dividend Equivalents or any combination thereof are to be granted hereunder;
- (c) To determine the number of shares of Common Stock to be covered by each Award granted hereunder;
- (d) To determine the terms and conditions of any Award granted hereunder (including, but not limited to, the option price (subject to Section 5(a)), any vesting condition, restriction or limitation (which may be related to the performance of the participant, the Company or any Affiliate) and any vesting acceleration or forfeiture waiver regarding any Award and the shares of Common Stock relating thereto, based on such factors as the Committee shall determine;
- (e) To modify, amend or adjust the terms and conditions of any Award, at any time or from time to time, including but not limited to Performance Goals; provided, however, that the Committee may not adjust upwards the amount payable with respect to a Qualified Performance-Based Award or waive or alter the Performance Goals associated therewith;
- (f) To determine to what extent and under what circumstances Common Stock and other amounts payable with respect to an Award shall be deferred; and
- (g) To determine under what circumstances an Award may be settled in cash or Common Stock under Sections 5(j), 6(b)(ii), 8(b)(v) and 9.

The Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable, to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreement relating thereto) and to otherwise supervise the administration of the Plan.

The Committee may act only by a majority of its members then in office, except that the members thereof may delegate to (i) the CEO the authority to make decisions pursuant to, and interpretations of, the Plan (provided that no such delegation may be made that would cause Awards or other transactions under the Plan to cease to be exempt from Section 16(b) of the Exchange Act or cease to be Qualified Performance-Based Awards), including, but not limited to, the authority to make grants of Stock Options

and other Awards with respect to any employee who is not an "officer" of the Company (within the meaning of Rule 16a-1(f) promulgated under the Exchange Act, as amended), subject to any limitations the Committee may impose, and (ii) the CEO or Secretary, or both, or any or all of the administrative duties and authority of the Committee under the Plan, other than the authority to make grants or awards under the Plan except as set forth above.

Any determination made by the Committee or pursuant to delegated authority pursuant to the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee or such delegate at the time of the grant of the Award or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee or any appropriately delegated officer pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and Plan participants.

Any authority granted to the Committee may also be exercised by the full Board, except to the extent that the grant or exercise of such authority would cause any Award or transaction to become subject to (or lose an exemption under) the short-swing profit recovery provisions of Section 16 of the Exchange Act or cause an award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.

SECTION 3. Common Stock Subject to Plan

The total number of shares of Common Stock reserved and available for grant under the Plan during each calendar year shall be (i) 1.75 percent of the number of outstanding shares on the date of the annual grant plus (ii) the number of shares repurchased by the Company from shareholders on or after January 1, 1996, minus the number of shares granted from the repurchased shares. Shares subject to an Award under the Plan may be treasury shares held by the Company or treasury shares that have been transferred to and that are held in a grantor trust of the Company (including without limitation, the Employee Stock Benefit Trust).

If any shares of Restricted Stock are forfeited, or if any Stock Option (and related Stock Appreciation Right, if any) terminates, expires or is canceled without being exercised, or if any Stock Appreciation Right is exercised for cash, shares subject to such Awards shall again be available for distribution in connection with Awards under the Plan.

In the event of any change in corporate capitalization, such as a stock split (whether or not effected in the form of a dividend), or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, the Committee or Board shall make such substitution or adjustments in the aggregate number and kind of shares reserved for issuance under the Plan, in the number, kind and option price of shares subject to outstanding Stock Options and Stock Appreciation Rights, in the number and kind of shares subject to other outstanding Awards granted under the Plan and/or such other equitable substitution or adjustments as it may determine to be appropriate in its discretion with the intent that, after such substitution or adjustments, the value of each Optionee's and each Awardee's interest shall be maintained as before the occurrence of such event; provided, however, that the number of shares subject to any Award shall always be a whole number. Such adjusted option price shall also be used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right associated with any Stock Option.

SECTION 4. Eligibility

Directors, officers and employees of the Company, its subsidiaries and Affiliates who are responsible for or contribute to the management, growth and profitability of the business of the Company, and its Affiliates are eligible to be granted Awards under the Plan.

SECTION 5. Stock Options

The Committee shall have the authority to grant Stock Options to any eligible individual, either alone or in addition to other Awards granted under the Plan, in such form and subject to such conditions as the Committee may determine (and which may differ for separate Stock Options). Such terms and conditions may include, without limitation, restrictions on the transferability of the shares of Common Stock received upon exercise of Stock Options. All Stock Options granted hereunder shall be Non-qualified Stock Options.

The grant of a Stock Option shall be considered to occur on the date the Committee by resolution selects an individual participant to receive such grant, determines the number of shares of Common Stock to be subject to such Stock Option, and specifies the terms and provisions of the Stock Option. Upon grant of a Stock Option, the Committee shall instruct the Secretary to issue an option agreement evidencing such option, and to deliver such option agreement to the Optionee. Such agreement shall become effective upon execution by the Company and the Optionee.

Stock Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions as the Committee shall deem desirable:

- (a) Option Price. The option price per share of Common Stock purchasable under a Stock Option shall be determined by the Committee and set forth in the option agreement.
- (b) Option Term. The term of each Stock Option shall be fixed by the Committee.
- (c) Exercisability. Except as otherwise provided herein, Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee. If the Committee provides that any Stock Option is exercisable only in installments, the Committee may at any time waive or modify such installment exercise provisions, in whole or in part, based on such factors as the Committee may determine. In addition, the Committee may at any time accelerate the exercisability of any Stock Option or extend the period during which it may be exercised (but not beyond the expiration of the term thereof).
- (d) Method of Exercise. Subject to the provisions of this Section 5, Stock Options may be exercised, in whole or in part, at any time during the option term by giving written notice of exercise to the Company specifying the number of shares of Common Stock subject to the Stock Option to be purchased.

Except as specified below, such notice shall be accompanied by payment in full of the option price by certified or bank check or such other instrument as the Company may accept. Payment, in full or in part, may also be made in the form of unrestricted Common Stock already owned by the Optionee of the same class as the Common Stock subject to the Stock Option (based on the Fair Market Value of the Common Stock on the date the Stock Option is exercised); provided, however, that such already owned shares have been held by the Optionee for at least six months at the time of exercise. The Committee may also per-

mit a delay in payment of all or a portion of the option price for up to 30 days, on such terms and conditions as it may specify.

Payment of the option price for any shares subject to a Stock Option may also be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker acceptable to the Company to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the option price, and, if requested, by the amount of any federal, state, local or foreign withholding taxes. To facilitate the foregoing, the Company may enter into agreements for coordinated procedures with one or more brokerage firms.

In addition, payment of the option price for any shares subject to a Stock Option may also be made by instructing the Company to withhold a number of such shares having a Fair Market Value on the date of exercise equal to the aggregate exercise price of such Stock Option plus any amounts required to be withheld pursuant to Section 13(d).

No shares of Common Stock shall be issued until full payment therefor has been made. On exercise of a Stock Option, delivery of Common Stock may be made by delivery of Common Stock certificates or through a book-entry system (such as a direct registration system). Except as otherwise provided in Section 5(l) below and in the terms and conditions of the relevant Stock Option as determined by the Committee, an Optionee shall have all of the rights of a shareholder of the Company holding the class or series of Common Stock that is subject to such Stock Option (including, if applicable, the right to vote the shares and the right to receive dividends), when the Optionee has given written notice of exercise, has paid in full for such shares and, if requested, has given the representation described in Section 13(a).

- (e) Nontransferability of Stock Options. No Stock Option shall be transferable by the Optionee other than (i) by will or by the laws of descent and distribution or (ii) as otherwise expressly permitted under the applicable option agreement including, if so permitted, pursuant to a gift to such Optionee's family, whether directly or indirectly or by means of a trust or partnership or otherwise. All Stock Options shall be exercisable, subject to the terms of this Plan, only by the Optionee, the guardian or legal representative of the Optionee, or any person to whom such option is transferred pursuant to the preceding sentence, it being understood that the term "holder" and "Optionee" include such guardian, legal representative and other transferee.
- (f) Termination by Death. Unless otherwise determined by the Committee, if an Optionee's employment terminates by reason of death, any Stock Option held by such Optionee may thereafter be exercised, to the extent then exercisable, or on such accelerated basis as the Committee may determine, for a period of 12 months (or such other period as the Committee may specify in the option agreement) from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.
- (g) Termination by Reason of Disability. Unless otherwise determined by the Committee, if an Optionee's employment terminates by reason of Disability, any Stock Option held by such Optionee may thereafter be exercised by the Optionee, to the extent it was exercisable at the time of termination, or on such accelerated basis as the Committee may determine, for a period of three years (or such shorter period as the Committee may specify in the option agreement) from the date of such termination of employment or until the expiration of the stated term of such Stock Option, whichever period is the shorter; provided, however, that if the Optionee dies within such period, any unexercised Stock Option held by such Optionee shall, notwithstanding the expiration of such period, continue to be exercisable to the ex-

tent to which it was exercisable at the time of death for a period of 12 months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.

- (h) Termination by Reason of Retirement. Unless otherwise determined by the Committee, if an Optionee's employment terminates by reason of Retirement, any Stock Option held by such Optionee may thereafter be exercised by the Optionee, to the extent it was exercisable at the time of such Retirement, or on such accelerated basis as the Committee may determine, as follows: (i) if the Optionee is, immediately before such Retirement, the CEO or the COO, for the period ending upon the expiration of the stated term of such Stock Option; (ii) if the Optionee is, immediately before such Retirement, a participant in the Company's Long Term Incentive Program or any successor thereto, other than the CEO or the COO, for the period ending on the earlier of the fifth anniversary of such Retirement or the expiration of the stated term of such Stock Option; and (iii) in all other cases, for a period ending on the earlier of the third anniversary of such Retirement or the expiration of the stated term of such Stock Option; provided, however, that if the Optionee dies within such period any unexercised Stock Option held by such Optionee shall, notwithstanding the expiration of such period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of 12 months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.
- (i) Other Termination. Unless otherwise determined by the Committee: (A) if an Optionee incurs a Termination of Employment for Cause, all Stock Options held by such Optionee shall thereupon terminate; and (B) if an Optionee incurs a Termination of Employment for any reason other than death, Disability or Retirement or for Cause, any Stock Option held by such Optionee, to the extent then exercisable, or on such accelerated basis as the Committee may determine, may be exercised for the lesser of 6 months from the date of such Termination of Employment or the balance of such Stock Option's term; provided, however, that if the Optionee dies within such six-month period, any unexercised Stock Option held by such Optionee shall, notwithstanding the expiration of such three-month period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of 12 months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.
- (j) Cashing Out of Stock Option. On receipt of written notice of exercise, the Committee may elect to cash out all or part of the portion of the shares of Common Stock for which a Stock Option is being exercised by paying the Optionee an amount, in cash or Common Stock, equal to the excess of the Fair Market Value of the Common Stock over the option price times the number of shares of Common Stock for which the Option is being exercised on the effective date of such cash-out.
- (k) Change in Control Cash-Out. Notwithstanding any other provision of the Plan, during the 60-day period from and after a Change in Control (the "Exercise Period"), unless the Committee shall determine otherwise at the time of grant, an Optionee shall have the right, whether or not the Stock Option is fully exercisable and in lieu of the payment of the exercise price for the shares of Common Stock being purchased under the Stock Option and by giving notice to the Company, to elect (within the Exercise Period) to surrender all or part of the Stock Option to the Company and to receive cash, within 30 days of such notice, in an amount equal to the amount by which the Change in Control Price per share of Common Stock on the date of such election shall exceed the exercise price per share of Common Stock under the Stock Option (the "Spread") multiplied by the number of shares of Common Stock granted under the Stock Option as to which the right granted under this Section 5(k) shall have been exercised. Notwithstanding the foregoing, if any right granted pursuant to this Section 5(k) would make a Change in Control transaction ineligible for pooling-of-interests accounting under APB No. 16 that but for the nature of such grant would otherwise be eligible for such accounting treatment, the Committee shall have

the ability to substitute for the cash payable pursuant to such right Common Stock with a Fair Market Value equal to the cash that would otherwise be payable hereunder.

- (1) Deferral of Option Shares. The Committee may from time to time establish procedures pursuant to which an Optionee may elect to defer, until a time or times later than the exercise of an Option, receipt of all or a portion of the Shares subject to such Option and/or to receive cash at such later time or times in lieu of such deferred Shares, all on such terms and conditions as the Committee shall determine. If any such deferrals are permitted, then notwithstanding Section 5(d) above, an Optionee who elects such deferral shall not have any rights as a stockholder with respect to such deferred Shares unless and until Shares are actually delivered to the Optionee with respect thereto, except to the extent otherwise determined by the Committee.

SECTION 6. Stock Appreciation Rights

- (a) Grant and Exercise. Stock Appreciation Rights may be granted in conjunction with all or part of any Stock Option granted under the Plan, either at or after the time of grant of such Stock Option. A Stock Appreciation Right shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option.

A Stock Appreciation Right may be exercised by an Optionee in accordance with Section 6(b) by surrendering the applicable portion of the related Stock Option in accordance with procedures established by the Committee. Upon such exercise and surrender, the Optionee shall be entitled to receive an amount determined in the manner prescribed in Section 6(b). Stock Options which have been so surrendered shall no longer be exercisable to the extent the related Stock Appreciation Rights have been exercised.

- (b) Terms and Conditions. Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined by the Committee, including the following:
 - (i) Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate are exercisable in accordance with the provisions of Section 5 and this Section 6.
 - (ii) Upon the exercise of a Stock Appreciation Right, an Optionee shall be entitled to receive an amount in cash, shares of Common Stock or both, in value equal to the excess of the Fair Market Value of one share of Common Stock over the option price per share specified in the related Stock Option multiplied by the number of shares in respect of which the Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment.
 - (iii) Stock Appreciation Rights shall be transferable only to permitted transferees of the underlying Stock Option in accordance with Section 5(e).
 - (iv) Upon the exercise of a Stock Appreciation Right, the Stock Option or part thereof to which such Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Section 3 on the number of shares of Common Stock to be issued under the Plan, but only to the extent of the number of shares covered by the Stock Appreciation Right at the time of exercise based on the value of the Stock Appreciation Right at such time.

SECTION 7. Restricted Stock

- (a) Administration. Shares of Restricted Stock may be awarded either alone or in addition to other Awards granted under the Plan. The Committee shall determine the officers and employees to whom and the time or times at which grants of Restricted Stock will be awarded, the number of shares to be awarded to any participant (subject to the aggregate limit on grants to individual participants set forth in Section 3), the conditions for vesting, the time or times within which such Awards may be subject to forfeiture and any other terms and conditions of the Awards, in addition to those contained in Section 7(c).
- (b) Awards and Certificates. Shares of Restricted Stock shall be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of one or more stock certificates. Any certificate issued in respect of shares of Restricted Stock shall be registered in the name of such participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award, substantially in the following form:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Avery Dennison Corporation 1996 Stock Incentive Plan and a Restricted Stock Agreement. Copies of such Plan and Agreement are on file at the offices of Avery Dennison Corporation, 150 North Orange Grove Boulevard, Pasadena, CA 91103."

The Committee may require that the certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed and that, as a condition of any Award of Restricted Stock, the participant shall have delivered a stock power, endorsed in blank, relating to the Common Stock covered by such Award.

- (c) Terms and Conditions. Shares of Restricted Stock shall be subject to the following terms and conditions:
- (i) The Committee may, prior to or at the time of grant, designate an Award of Restricted Stock as a Qualified Performance-Based Award, in which event it shall condition the grant or vesting, as applicable, of such Restricted Stock upon the attainment of Performance Goals. If the Committee does not designate an Award of Restricted Stock as a Qualified Performance-Based Award, it may also condition the grant or vesting thereof upon the attainment of Performance Goals. Regardless of whether an Award of Restricted Stock is a Qualified Performance-Based Award, the Committee may also condition the grant or vesting thereof upon the continued service of the participant. The conditions for grant or vesting and the other provisions of Restricted Stock Awards (including without limitation any applicable Performance Goals) need not be the same with respect to each recipient. The Committee may at any time, in its sole discretion, accelerate or waive, in whole or in part, any of the foregoing restrictions; provided, however, that in the case of Restricted Stock that is a Qualified Performance-Based Award, the applicable Performance Goals have been satisfied.
- (ii) Subject to the provisions of the Plan and the Restricted Stock Agreement referred to in Section 7(c)(vi), during the period, if any, set by the Committee, commencing with the date of such Award for which such participant's continued service is required (the "Restriction Period"), and until the later of (i) the expiration of the Restriction Period and (ii) the date the applicable Performance Goals (if any) are satisfied, the participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber shares of Restricted Stock; provided that the foregoing shall

not prevent a participant from pledging Restricted Stock as security for a loan, the sole purpose of which is to provide funds to pay the option price for Stock Options.

(iii) Except as provided in this paragraph (iii) and Sections 7(c)(i) and 7(c)(ii) and the Restricted Stock Agreement, the participant shall have, with respect to the shares of Restricted Stock, all of the rights of a stockholder of the Company holding the class or series of Common Stock that is the subject of the Restricted Stock, including, if applicable, the right to vote the shares and the right to receive any cash dividends. If so determined by the Committee in the applicable Restricted Stock Agreement and subject to Section 13(e) of the Plan, (A) cash dividends on the class or series of Common Stock that is the subject of the Restricted Stock Award shall be automatically deferred and reinvested in additional Restricted Stock, held subject to the vesting of the underlying Restricted Stock, or held subject to meeting Performance Goals applicable only to dividends, and (B) dividends payable in Common Stock shall be paid in the form of Restricted Stock of the same class as the Common Stock with which such dividend was paid, held subject to the vesting of the underlying Restricted Stock, or held subject to meeting Performance Goals applicable only to dividends.

(iv) Except to the extent otherwise provided in the applicable Restricted Stock Agreement and Sections 7(c)(i), 7(c)(ii), 7(c)(v) and 10(a)(ii), upon a participant's Termination of Employment for any reason during the Restriction Period or before the applicable Performance Goals are satisfied, all shares still subject to restriction shall be forfeited by the participant.

(v) Except to the extent otherwise provided in Section 10(a)(ii), in the event that a participant retires or such participant's employment is involuntarily terminated (other than for Cause), the Committee shall have the discretion to waive, in whole or in part, any or all remaining restrictions (other than, in the case of Restricted Stock with respect to which a participant is a Covered Employee, satisfaction of the applicable Performance Goals unless the participant's employment is terminated by reason of death or Disability) with respect to any or all of such participant's shares of Restricted Stock.

(vi) If and when any applicable Performance Goals are satisfied and the Restriction Period expires without a prior forfeiture of the Restricted Stock, unlegended certificates for such shares shall be delivered to the participant upon surrender of the legended certificates.

(vii) Each Award shall be confirmed by, and be subject to, the terms of a Restricted Stock Agreement.

SECTION 8. Performance Units

- (a) Administration. Performance Units may be awarded either alone or in addition to other Awards granted under the Plan. The Committee shall determine the officers and employees to whom and the time or times at which Performance Units shall be awarded, the number of Performance Units to be awarded to any participant (subject to the aggregate limit on grants to individual participants set forth in Section 3), the duration of the Award Cycle and any other terms and conditions of the Award, in addition to those contained in Section 8(b).
- (b) Terms and Conditions. Performance Units Awards shall be subject to the following terms and conditions:

(i) The Committee may, prior to or at the time of the grant, designate Performance Units as Qualified Performance-Based Awards, in which event it shall condition the settlement thereof upon the attainment of Performance Goals. If the Committee does not designate Performance Units as Performance Based Awards, it may also condition the settlement thereof upon the attainment of Performance Goals. Regardless of whether Performance Units are Qualified Performance-Based Awards, the Committee may also condition the settlement thereof upon the continued service of the participant. The provisions of such Awards (including without limitation any applicable Performance Goals) need not be the same with respect to each recipient. Subject to the provisions of the Plan and the Performance Units Agreement referred to in Section 8(b)(vi), Performance Units may not be sold, assigned, transferred, pledged or otherwise encumbered during the Award Cycle.

(ii) Except to the extent otherwise provided in the applicable Performance Unit Agreement and Sections 8(b)(iii) and 10(a)(iii), upon a participant's Termination of Employment for any reason during the Award Cycle or before any applicable Performance Goals are satisfied, all rights to receive cash or stock in settlement of the Performance Units shall be forfeited by the participant.

(iii) Except to the extent otherwise provided in Section 10(a)(iii), in the event that a participant's employment is terminated (other than for Cause), or in the event a participant retires, the Committee shall have the discretion to waive, in whole or in part, any or all remaining payment limitations (other than, in the case of Performance Units that are Qualified Performance-Based Awards, satisfaction of the applicable Performance Goals unless the participant's employment is terminated by reason of death or Disability) with respect to any or all of such participant's Performance Units.

(iv) A participant may elect to further defer receipt of cash or shares in settlement of Performance Units for a specified period or until a specified event, subject in each case to the Committee's approval and to such terms as are determined by the Committee (the "Elective Deferral Period"). Subject to any exceptions adopted by the Committee, such election must generally be made prior to commencement of the Award Cycle for the Performance Units in question.

(v) At the expiration of the Award Cycle, the Committee shall evaluate the Company's performance in light of any Performance Goals for such Award, and shall determine the number of Performance Units granted to the participant which have been earned, and the Committee shall then cause to be delivered (A) a number of shares of Common Stock equal to the number of Performance Units determined by the Committee to have been earned, or (B) cash equal to the Fair Market Value of such number of shares of Common Stock to the participant, as the Committee shall elect (subject to any deferral pursuant to Section 8(b)(iv)).

(vi) Each Award shall be confirmed by, and be subject to, the terms of a Performance Unit Agreement.

SECTION 9. Stock Payments; Dividend Equivalents

(a) Stock Payments may be granted under this Plan either alone or in conjunction with any other Award. The number of shares shall be determined by the Committee and may be based upon the Fair Market Value, book value or other measure of the value of Common Stock on the date such Stock Payment is made or on any date thereafter, and subject to such other terms and conditions as the Committee may determine.

Dividend Equivalents may be granted under this Plan either alone or in conjunction with any other Award. Dividend Equivalents shall represent the right to receive cash payments, shares of Common Stock, or a combination thereof, having a value equal to the dividends declared on Common Stock during a specified period, and subject to such other terms and conditions as the Committee shall determine.

SECTION 10. Change in Control Provisions

- (a) Impact of Event. Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control:
- (i) Any Stock Options and Stock Appreciation Rights outstanding as of the date such Change in Control is determined to have occurred, and which are not then exercisable and vested, shall become fully exercisable and vested to the full extent of the original grant.
 - (ii) The restrictions and deferral limitations applicable to any Restricted Stock shall lapse, and such Restricted Stock shall become free of all restrictions and become fully vested and transferable to the full extent of the original grant.
 - (iii) All Performance Units shall be considered to be earned and payable in full, and any deferral or other restriction shall lapse and such Performance Units shall be settled in cash as promptly as is practicable.
 - (iv) Any restrictions or deferral or forfeiture limitations applicable to any Dividend Equivalents shall lapse.
- (b) Definition of Change in Control. For purposes of the Plan, a "Change in Control" shall mean the happening of any of the following events:
- (i) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (1) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (1) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (1), (2) and (3) of subsection (iii) of this Section 9(b); or
 - (ii) A change in the composition of the Board such that the individuals who, as of the effective date of the Plan, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section 9(b), that any individual who becomes a member of the Board subsequent to the effective date of the Plan, whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals

who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or

(iii) The approval by the shareholders of the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company ("Corporate Transaction") or, if consummation of such Corporate Transaction is subject, at the time of such approval by shareholders, to the consent of any government or governmental agency, obtaining of such consent (either explicitly or implicitly by consummation); excluding however, such a Corporate Transaction pursuant to which (1) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such Corporate Transaction) will beneficially own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors except to the extent that such ownership existed prior to the Corporate Transaction, and (3) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

(iv) The approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(c) Change in Control Price. For purposes of the Plan, "Change in Control Price" means the higher of (i) the highest reported sales price, regular way, of a share of Common Stock in any transaction reported on the New York Stock Exchange Composite Tape or other national exchange on which such shares are listed or on NASDAQ during the 60-day period prior to and including the date of a Change in Control or (ii) if the Change in Control is the result of a tender or exchange offer or a Corporate Transaction, the highest price per share of Common Stock paid in such tender or exchange offer or Corporate Transaction. To the extent that the consideration paid in any such transaction described above consists all or in part of securities or other noncash consideration, the value of such securities or other noncash consideration shall be determined in the sole discretion of the Board.

SECTION 11. Term, Amendment and Termination

The Plan will continue in existence until it is terminated by the Board. Under the Plan, Awards outstanding as of such date shall not be affected or impaired by the termination of the Plan.

The Board may amend, alter, or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would impair the rights of an Optionee under a Stock Option or a recipient of a Stock Appreciation Right, Restricted Stock Award or Performance Unit Award theretofore granted without the Optionee's or recipient's consent, except such an amendment made to cause the Plan to qualify for any exemption provided by Rule 16b-3. In addition, no such amendment shall be made without the approval of the Company's shareholders to the extent such approval is required by law, rule or agreement.

The Committee may amend the terms of any Stock Option or other Award theretofore granted, prospectively or retroactively, but no such amendment shall cause a Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption or impair the rights of any holder without the holder's consent except such an amendment made to cause the Plan or Award to qualify for any exemption provided by Rule 16b-3.

Subject to the above provisions, the Board shall have authority to amend the Plan to take into account changes in law and tax and accounting rules as well as other developments, and to grant Awards which qualify for beneficial treatment under such rules without stockholder approval.

SECTION 12. Unfunded Status of Plan

It is presently intended that the Plan constitute an "unfunded" plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or make payments; provided, however, that unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

SECTION 13. General Provisions

- (a) The Committee may require each person purchasing or receiving shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

Notwithstanding any other provision of the Plan or agreements made pursuant thereto, the Company shall not be required to issue or deliver any certificate or certificates for shares of Common Stock under the Plan prior to fulfillment of all of the following conditions:

- (1) Listing or approval for listing upon notice of issuance, of such shares on the New York Stock Exchange, Inc., or such other securities exchange as may at the time be the principal market for the Common Stock;
- (2) Any registration or other qualification of such shares of the Company under any state or federal law or regulation, or the maintaining in effect of any such registration or other qualification which the Committee shall, in its absolute discretion upon the advice of counsel, deem necessary or advisable; and

- (3) Obtaining any other consent, approval, or permit from any state or federal governmental agency which the Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.
- (b) Nothing contained in the Plan shall prevent the Company or any subsidiary or Affiliate from adopting other or additional compensation arrangements for its employees.
- (c) Adoption of the Plan shall not confer upon any employee any right to continued employment, nor shall it interfere in any way with the right of the Company or any Affiliate to terminate the employment of any employee at any time.
- (d) No later than the date as of which an amount first becomes includible in the gross income of the participant for federal income tax purposes with respect to any Award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Company, withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the participant. The Committee may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with Common Stock.
- (e) Reinvestment of dividends in additional Restricted Stock at the time of any dividend payment shall only be permissible if sufficient shares of Common Stock are available under Section 3 for such reinvestment (taking into account then outstanding Stock Options and other Awards).
- (f) The Committee shall establish such procedures as it deems appropriate for a participant to designate a beneficiary to whom any amounts payable in the event of the participant's death are to be paid or by whom any rights of the participant, after the participant's death, may be exercised.
- (g) In the case of a grant of an Award to any employee of a an Affiliate of the Company, the Company may, if the Committee so directs, issue or transfer the shares of Common Stock, if any, covered by the Award to the Affiliate, for such lawful consideration as the Committee may specify, upon the condition or understanding that the Affiliate will transfer the shares of Common Stock to the employee in accordance with the terms of the Award specified by the Committee pursuant to the provisions of the Plan.
- (h) The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.
- (i) At the time an Award is made hereunder or at any time thereafter, the Committee may grant to the participant receiving such Award the right to receive a cash payment in an amount specified by the Committee, to be paid at such time or times (if ever) as the Award results in compensation income to the participant, for the purpose of assisting the participant to pay the resulting taxes, all as determined by the Committee and on such other terms and conditions as the Committee shall determine.

- (j) The Committee may, in its discretion, extend one or more loans to participants in connection with the exercise or vesting of, or receipt of payments or other property pursuant to, Awards under this Plan, on such terms and conditions as the Committee shall determine.

SECTION 14. Director Stock Options

- (a) After all of the available shares in the Company's 1988 Stock Option Plan for Non-Employee Directors have been exhausted, each director of the Company who is not otherwise an employee of the Company or an Affiliate, shall, on the first Tuesday following his or her first election as a director of the Company, be granted a Stock Option for 5,000 shares, and thereafter on the day of the regular meeting of the Board when employee directors and other Company employees receive annual stock option grants, each non-employee director shall automatically receive a Stock Option for 2,000 shares. Each such Stock Option shall have an exercise price equal to Fair Market Value of the Common Stock at the date of grant of such Stock Option.
- (b) An automatic director Stock Option shall be granted hereunder only if as of each date of grant the director (i) is not otherwise an employee of the Company or an Affiliate, and (ii) has served on the Board continuously since the commencement of his term.
- (c) Each holder of a Stock Option granted pursuant to this Section 14 shall also have the rights specified in Section 5(k).
- (d) In the event that the number of shares of Common Stock available for future grant under the Plan is insufficient to make all automatic grants required to be made on such date, then all non-employee directors entitled to a grant on such date shall share ratably in the number of options on shares available for grant under the Plan.
- (e) Except as expressly provided in this Section 14, any Stock Option granted hereunder shall be subject to the terms and conditions of the Plan as if the grant were made pursuant to Section 5 hereof.

SECTION 15. Effective Date of Plan

The Plan shall be effective as of December 5, 1996.

AVERY DENNISON

THIRD AMENDED AND RESTATED

KEY EXECUTIVE LONG-TERM INCENTIVE PLAN

1. PURPOSE

The purpose of the Third Amended and Restated Key Executive Long-Term Incentive Plan (the "Plan") is to focus key executives of Avery Dennison Corporation (the "Company") on factors that influence the Company's long-term growth and success. The Plan provides a means whereby Participants are given an opportunity to share financially in the future value they help to create for the Company and its stockholders.

2. PARTICIPATION

Participation in the Plan is limited to key executives of the Company who, in the opinion of the Compensation Committee of the Board of Directors, have the responsibility to influence the Company's long-range performance materially, and who have been recommended for participation by the Chief Executive Officer of the Company and designated as Participants by the Compensation Committee.

3. DEFINITIONS

"ACHIEVEMENT FACTOR" means the percentage to be used in determining a Participant's deferred cash incentive Award for achieving a specified percentage of the pre-established Performance Objectives.

"AFTER-TAX INTEREST EXPENSE" means total interest expense as disclosed in the Company's annual reports to shareholders and Peer Group companies' annual reports to shareholders and quarterly reports on Form 10-Q, if applicable, multiplied by one (1) minus the Tax Rate.

"AVERAGE CAPITAL" means the numerical average for a given year of ending Capital for the five most recently completed fiscal quarters, including the last quarter of that year.

"AVERAGE SHAREHOLDERS' EQUITY" means the numerical average for a given year of ending Shareholders' Equity for the five most recently completed fiscal quarters, including the last quarter of that year.

"AWARD" refers to either (a) a Stock Option granted under the Stock Plans evidenced by an Option Agreement which generally incorporates the terms and provisions of the Plan relating to Stock Options, or (b) a deferred cash incentive earned by a Participant based on the achievement of Company and, in some cases, Business Unit financial objectives.

"BASE SALARY" means the annual base salary rate in effect for a Participant as of the end of a Performance Cycle.

"BUSINESS UNIT" or "UNIT" refers to a group, division or subsidiary of the Company.

"BUSINESS UNIT CUMULATIVE ECONOMIC VALUE ADDED" or "BUSINESS UNIT CEVA" means the Cumulative Economic Value Added of a Business Unit as reported in the Company's internally prepared Summary of Operations, or other similar report.

"BUSINESS UNIT NET INCOME" means net income of a Business Unit as reported in the Company's internally prepared Summary of Operations.

"BUSINESS UNIT ROTC" means the return on total capital of a Business Unit as reported in the Company's internally prepared Summary of Operations, or other similar report.

"CAPITAL" refers to the sum of Shareholders' Equity and Long-Term Debt.

"CASH FLOW FROM OPERATIONS" means net cash provided by operating activities as disclosed in the Company's annual reports to shareholders and quarterly reports on Form 10-Q.

"CAUSE" means (i) continued failure by a Participant to perform his or her duties (except as a direct result of the Participant's incapacity due to physical or mental illness) after receiving notification by the Chief Executive Officer or an individual designated by the Chief Executive Officer (or the Board of Directors in the case of the Chief Executive Officer) identifying the manner in which the Participant has failed to perform his or her duties, (ii) engaging in conduct, which, in the opinion of a majority of the Board of Directors, is materially injurious to the Company, or (iii) conviction of the Participant of any felony involving moral turpitude.

"CHANGE OF CONTROL" shall mean a change in control of the Company of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A, Regulation 240.14a-101, promulgated under the Securities Exchange Act of 1934 as now in effect or, if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 which serve similar purposes; provided that, without limitation, a Change of Control shall be deemed to have occurred if and when (a) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) is or becomes a beneficial owner, directly or indirectly, of securities of the Company representing thirty-three percent (33%) or more of the combined voting power of the Company's then outstanding securities, or (b) individuals who were members of the Board of Directors of the Company immediately prior to a meeting of the stockholders of the Company involving a contest for the election of directors shall not constitute a majority of the Board of Directors following such election.

"CODE" means the Internal Revenue Code of 1986, as amended.

"COMPANY CUMULATIVE ECONOMIC VALUE ADDED" or "COMPANY CEVA" means the Cumulative Economic Value Added of the Company as reported in the Company's internally prepared Summary of Operations, or other similar report.

"COMPANY ROTC" means the return on total capital of the Company as reported in the Company's internally prepared Summary of Operations, or other similar report.

"COMPENSATION COMMITTEE" or "COMMITTEE" refers to the Compensation Committee of the Board of Directors of the Company.

"CUMULATIVE ECONOMIC VALUE ADDED" or "CEVA" means the Economic Value Added over a defined period of time (for example: over 12 months or over the Performance Cycle, as the context requires).

"DISABILITY" refers to a physical or mental condition that prevents a Participant from performing his or her normal duties of employment. If a Participant makes application for disability benefits under the Company's long-term disability program and qualifies for such benefits, the Participant shall be presumed to qualify as totally and permanently disabled under the Plan.

"DISCRETIONARY POOL" or "POOL" refers to the sum of cash payments made available by the Compensation Committee to Participants who have achieved exceptional performance and to other Company employees who have made significant contributions to the achievement of Performance Objectives.

"EARNINGS PER SHARE" or "EPS" means earnings per share, including extraordinary gains and losses, divested operations and changes in accounting principles as disclosed in the Company's annual reports to shareholders.

"ECONOMIC VALUE ADDED" means operating profit after taxes on income minus a capital charge based upon the Company's weighted average cost of capital.

"EFFECTIVE DATE" means January 1, 1996, which is the first day of the initial Performance Cycle.

"FAIR MARKET VALUE" means the average of the high and low trading price of the Company's common stock on a given day, as reported on the New York Stock Exchange Composite Tape.

"GAAP" means generally accepted accounting principles.

"LONG-TERM DEBT" means long-term debt as disclosed in the Company's annual reports to shareholders and Peer Group companies' annual reports to shareholders and quarterly reports on Form 10-Q, if applicable.

"NET INCOME" refers to after-tax net income, including extraordinary items, discontinued operations and changes in accounting principles, as disclosed in the Company's annual reports to shareholders and Peer Group companies' annual reports to shareholders and quarterly reports on Form 10-Q, if applicable.

"NET SALES" means net sales as disclosed in the Company's annual reports to shareholders and quarterly reports on Form 10-Q.

"1990 PLAN" refers to the 1990 Stock Option and Incentive Plan for Key Employees of Avery Dennison Corporation (formerly named Avery International Corporation), or any successor plan.

"1996 PLAN" refers to the 1996 Stock Option and Incentive Plan for Key Employees of Avery Dennison Corporation, or any successor plan.

"OPTION AGREEMENT" means a written stock option agreement evidencing options granted under the 1990 Plan which generally incorporates the terms and provisions of the Plan relating to Stock Options.

"PARTICIPANT" means an executive of the Company designated by the Compensation Committee to participate in the Plan.

"PEER GROUP" refers to a specified group of companies approved by the Compensation Committee against which the financial performance of the Company will be compared for purposes of the Plan.

"PERFORMANCE CYCLE" or "CYCLE" refers to the three-year period over which performance is measured for purposes of determining cash Awards under the Plan. The initial Performance Cycle will cover the Company's 1996 through 1998 fiscal years.

"PERFORMANCE OBJECTIVE" means one of the pre-established performance objectives for the Company and its Business Units for a Performance Cycle including, without limitation, ROTC, EPS, ROS, ROE, Net Income, Net Sales, Cash Flow from Operations and Economic Value Added.

"RETIREMENT" means a termination of service in accordance with the retirement provisions of either (a) the Company sponsored tax qualified defined benefit retirement plan in which a Participant is participating immediately prior to the date of such termination of service, or (b) the Company-sponsored Supplemental Retirement Plan (SERP) in which the Participant is participating immediately prior to the date of such termination of service. If the Participant does not participate in either of the above retirement plans, then Retirement means a termination of service in accordance with the retirement provisions of the Company's tax-qualified defined contribution retirement plan in which the Participant then participates.

"ROE" means the percentage determined by dividing "Net Income" by "Average Shareholders' Equity."

"ROS" means the percentage determined by dividing Net Income by Net Sales.

"ROTC" means the percentage determined by dividing (a) the sum of Net Income plus After-Tax Interest Expense by (b) Average Capital.

"SERVICE" means continuous and substantially full-time employment with the Company.

"SHAREHOLDERS' EQUITY" means total shareholders' equity, as disclosed in the Company's annual reports to shareholders and Peer Group companies' annual reports to shareholders and quarterly reports on Form 10-Q, if applicable.

"STOCK OPTION" or "OPTION" refers to an option to purchase common stock of the Company at a fixed price for a specified period granted pursuant to the Stock Plans and evidenced by an Option Agreement which generally incorporates the terms and provisions of the Plan relating to Stock Options.

"STOCK PLANS" refers to the 1990 Plan and the 1996 Plan.

"SUCCESS FACTOR AWARD" refers to the additional deferred cash incentive Award earned for achieving greater than the Target Performance Objectives established for a Performance Cycle.

"SUCCESS FACTOR PERFORMANCE OBJECTIVE" means one of the pre-established Company Performance Objectives used to determine the Success Factor Award.

"TARGET AWARD" refers to the deferred cash incentive Award earned for achieving the Target Performance Objectives established for a Performance Cycle.

"TARGET PERFORMANCE OBJECTIVE" means one of the pre-established Performance Objectives used to determine the Target Award.

"TAX RATE" refers to taxes on income divided by income before taxes on income, each as disclosed in the Company's annual reports to shareholders and Peer Group companies' annual reports to shareholders and quarterly reports on Form 10-Q, if applicable, subject to adjustments to exclude the effect of unusual, non-recurring items, as described in the Company's annual reports to shareholders and Peer Group companies' annual reports to shareholders and quarterly reports on Form 10-Q, if applicable.

"TERMINATION OF SERVICE" means a termination of Service from the Company for any reason, whether voluntary or involuntary, including death, Retirement and Disability.

"TRANSFER" means the appointment of a Participant to a new position within the Company which may either be within the same position classification under the Plan or in a different position classification under the Plan.

"WEIGHTING FACTOR" means the percentage of a Participant's Target Award or Success Factor Award which will be calculated based on the achievement of a particular Performance Objective.

4. GENERAL PLAN DESCRIPTION

A. OVERVIEW

Commencing as of the Effective Date, the Plan provides for each Participant (a) the opportunity to receive an annual grant of Stock Options, and (b) the opportunity to earn a deferred cash incentive Award based on the financial performance of the Company and, in some cases, its Business Units.

B. STOCK OPTIONS

(1) SIZE OF GRANT

Annual Stock Option grants will be determined by the Committee.

(2) EXERCISE PRICE AND EXERCISE PERIOD

The exercise price for Options will equal 100% of the Fair Market Value of the Company's common stock as of the date of grant. Options will have a maximum exercise period ("Term") of ten (10) years from the date of grant.

(3) VESTING PROVISIONS

Options will vest (become available for exercise) nine years and nine months from their date of grant.

However, if certain conditions are met, Options will become eligible for accelerated or early vesting three years from their date of grant. Such early vesting will occur provided that the Company ROTC for the Company's most recently completed fiscal year equals or exceeds the ROTC of the median company among the Peer Group for that year (e.g., the performance test for accelerated vesting for Options granted in 1996 will be based on ROTC for the 1999 fiscal year).

If the Company meets the performance test described above, all prior non-vested Options eligible for early vesting will become available for exercise as soon as possible following certification of the Company's performance and the performance of the median company among the Peer Group by the Committee.

If the Company fails to meet the performance test described above, all prior non-vested Options eligible for early vesting will be subject to a similar performance test following the end of the next fiscal year. The test for early vesting of Options will continue to "roll" in the manner described above until the Company passes the performance test or nine years and nine months have elapsed from the date of grant.

(4) OTHER PROVISIONS

All Options granted as contemplated by the Plan will be granted under the Stock Plans. Each Option granted under the Stock Plans will be evidenced by an Option Agreement specifying the terms and conditions of the Option. In the event of any inconsistency between the Plan and an Option Agreement, the terms and conditions of the Option Agreement shall control.

C. DEFERRED CASH INCENTIVE AWARDS

In addition to the opportunity for annual Option grants described in Section IV.B. above, each Participant will be provided with the opportunity to earn a deferred cash incentive Award after the end of a three-year Performance Cycle equal to the Target Award plus the Success Factor Award.

(1) PERFORMANCE CYCLE

The initial Performance Cycle will cover the period beginning with the Company's 1996 fiscal year and ending with the Company's 1998 fiscal year. Subsequent three-year Performance Cycles will begin every two years, starting with the Company's 1998 fiscal year.

(2) RANGE OF TARGET AND SUCCESS FACTOR AWARD OPPORTUNITIES

The deferred cash incentive Target Award opportunity for each Participant during each Performance Cycle ranges from 30% to 80% of Base Salary depending upon position classification as illustrated in Table 1 below. The deferred cash incentive Success Factor Award opportunity for each Participant during each Performance Cycle also ranges from 30% to 80%. Classification of Participants into the categories listed in Table 1 will be recommended by the Chief Executive Officer of the Company and approved by the Compensation Committee.

TABLE 1
DEFERRED CASH INCENTIVE AWARD RANGE
BY POSITION CLASSIFICATION

CATEGORY	POSITION CLASSIFICATION	TOTAL AWARD RANGE AS % OF BASE SALARY	TARGET AWARD AS % OF BASE SALARY	SUCCESS FACTOR AWARD AS % OF BASE SALARY
1	Senior Executive Officers	0% - 160%	80%	80%
1	Corporate & Staff Officers	0% - 60%	30%	30%
2	Division VP/GM's and Officers	0% - 90%	30% - 45%	30% - 45%
2	Group and Sub-Group VP's	0% - 120%	45% - 60%	45% - 60%

The actual Total Award earned within the above range will depend upon the level of achievement versus specific Performance Objectives established under the Plan for each Performance Cycle.

(3) PERFORMANCE MEASUREMENT AND CALCULATION OF TARGET AWARDS

(a) CALCULATION FORMULA

Target Awards will be determined based upon the Company's, or in some cases, Business Unit's achievement versus pre-established Target Performance Objectives. The total Target Award will equal the sum of the Awards for each Target Performance Objective. The Target Award for each Target Performance Objective will equal the product of the Base Salary times the Target Award as a percent of Base Salary times the Weighting Factor (set forth in (b) and (c) below) times the Achievement Factor (set forth in (d) below) for that Target Performance Objective.

The foregoing formula can be expressed as the following mathematical equation:

Total Target Award = [Target Award (Base Salary x Target Award as % of Base Salary) x Weighting Factor x Achievement Factor for first Target Performance Objective] + [Target Award (Base Salary x Target Award as % of Base Salary) x Weighting Factor x Achievement Factor for second Target Performance Objective] + [Target Award (Base Salary x Target Award as % of Base Salary) x Weighting Factor x Achievement Factor for third Target Performance Objective, if any] + [Target Award (Base Salary x Target Award as % of Base Salary) x Weighting Factor x Achievement Factor for fourth Target Performance Objective, if any].

(b) WEIGHTING FACTORS - CATEGORY 1

For Participants classified in Category 1, Target Awards will be determined based upon the Company's achievement versus pre-established Company Target Performance Objectives.

For the initial Performance Cycle, the Company Target Performance Objectives will be weighted as follows in determining the Target Award:

[TARGET] PERFORMANCE OBJECTIVE WEIGHTING FACTOR

Company ROTC	33.3%
EPS	33.3%
Company CEVA	33.3%

In subsequent Performance Cycles, the Compensation Committee may select different measures (including, without limitation, ROS, ROE, Net Income, Net Sales, Cash Flow from Operations and Economic Value Added) and weightings to determine such Target Awards.

(c) WEIGHTING FACTORS - CATEGORY 2

For Participants classified in Category 2, deferred cash incentive Target Awards will be determined based upon the performance of the Participant's Business Unit against pre-established Business Unit Target Performance Objectives.

For the initial Performance Cycle, the Business Unit Target Performance Objectives will have the following Weighting Factors:

TARGET PERFORMANCE OBJECTIVE WEIGHTING FACTOR

Business Unit ROTC	33.3%
Business Unit Net Income	33.3%
Business Unit CEVA	33.3%

In subsequent Performance Cycles, the Compensation Committee may select different measures (including, without limitation, ROS, ROE, Net Income, Net Sales, Cash Flow from Operations and Economic Value Added) and weightings to determine such Target Awards.

(d) ACHIEVEMENT FACTOR

The Achievement Factor for each Target Performance Objective will be between a threshold Achievement Factor of 70% (for achieving 80% of the Target Performance Objective) and a maximum Achievement Factor of 100% (for achieving the Target Performance Objective) as illustrated in the table below. The Achievement Factors for performance between the threshold and 100% Achievement Factors will be linearly interpolated.

% ACHIEVEMENT OF TARGET

PERFORMANCE OBJECTIVE ACHIEVEMENT FACTOR

Less than 80%	0
80%	70%
85%	77.5%
90%	85.0%
95%	92.5%
100%	100%

(e) MEASUREMENT PROCESS

For the initial Performance Cycle, the measurement of Company and Business Unit Target Performance Objectives will be based upon performance during the final year of the Cycle, except for CEVA which will be measured at the end of each year of the Cycle and totaled at the end of the Cycle. For subsequent Performance Cycles, performance measurement may be based upon different criteria (e.g., average performance over the Cycle) at the discretion of the Compensation Committee.

(4) PERFORMANCE MEASUREMENT AND CALCULATION OF SUCCESS FACTOR AWARDS

(a) CALCULATION FORMULA

Participants in Category 2 are eligible for a Success Factor Award only if the percentage of achievement of each of their Business Unit Target Performance Objectives equals or exceeds 80% and only if the average of the percentages of achievement of their Business Unit Target Performance Objectives equals or exceeds 100%.

Success Factor Awards will be determined based on the Company's achievement versus pre-established Success Factor Performance Objectives which exceed the Target Performance Objectives. The total Success Factor Award will equal the sum of the Success Factor Awards for each Success Factor Performance Objective. The Success Factor Award for each Success Factor Performance Objective will equal the product of the Base Salary times the Success Factor Award as a percent of Base Salary times the Weighting Factor (set forth in (b) below) times the Achievement Factor (set forth in (c) below) for that Success Factor Performance Objective.

The foregoing formula can be expressed as the following mathematical equation:

Total Success Factor Award = [Success Factor Award (Base Salary x Success Factor Award as % of Base Salary) x Weighting Factor x Achievement Factor for first Success Factor Performance Objective] + [Success Factor Award (Base Salary x Success Factor Award as % of Base Salary) x Weighting Factor x Achievement Factor for second Success Factor Performance Objective] + [Success Factor Award (Base Salary x Success Factor Award as % of Base Salary) x Weighting Factor x Achievement Factor for third Success Factor Performance Objective, if any] + [Success Factor Award

(Base Salary x Success Factor Award as % of Base Salary) x Weighting Factor x Achievement Factor for fourth Success Factor Performance Objective, if any].

(b) WEIGHTING FACTORS

For Participants in both Category 1 and Category 2, Success Factor Awards will be determined based upon the Company's achievement versus pre-established Company ROTC, EPS and Company CEVA Success Factor Performance Objectives which exceed the Target Performance Objectives.

For the initial Performance Cycle, the Success Factor Performance Objectives will be weighted as follows in determining the Success Factor Award:

SUCCESS FACTOR PERFORMANCE OBJECTIVE -----	WEIGHTING FACTOR -----
Company ROTC	33.3%
EPS	33.3%
Company CEVA	33.3%

In subsequent Performance Cycles, the Compensation Committee may select different measures (including, without limitation, ROS, ROE, Net Income, Net Sales, Cash Flow from Operations and Economic Value Added) and weighting to determine such Success Factor Awards.

(c) ACHIEVEMENT FACTOR

At the beginning of each Performance Cycle, the Compensation Committee will establish two levels of Success Factor Performance Objectives which are in excess of the Target Performance Objectives.

If the Company's performance is between the Target Performance Objective and the first level Success Factor Performance Objective, then the Achievement Factor for that Success Factor Performance Objective will be between 0% and 50%. The Achievement Factor for performance between the Target Performance Objective and the first level Success Factor Performance Objective will be linearly interpolated.

If the Company's performance is between the first level Success Factor Performance Objective and the second level Success Factor Performance Objective then the Achievement Factor for that Success Factor Performance Objective will be between 50% and 100%. The Achievement Factor for performance between the first level Success Factor Performance Objective and the second level Success Factor Performance Objective will be linearly interpolated.

(d) MEASUREMENT PROCESS

The measurement of Company Success Factor Performance Objectives will be based upon performance during the final year of the Performance Cycle, except for Company CEVA which will be measured at the end of each year of the Cycle and totaled at the end of the Cycle. For subsequent Performance Cycles, performance measurement may be based upon different criteria (e.g., average performance over the Cycle) at the discretion of the Compensation Committee.

(5) DISCRETIONARY POOL PARTICIPATION

A Discretionary Pool will be available for each Performance Cycle to provide the opportunity for Participants (other than those Participants whose Target Award is 80%) who have achieved exceptional performance to earn more than the Target Award plus the Success Factor Award, or for individuals who are not selected to be Participants in the Plan but who have made significant contributions to the achievement of Performance Objectives to earn cash payments. A "target" Discretionary Pool will be determined by the Compensation Committee prior to the beginning of each Performance Cycle. The actual Discretionary Pool made available will be determined by the Committee at the end of the Performance Cycle and may exceed or fall below the "target" Pool based upon the Committee's assessment of (i) overall Company performance during the Cycle and (ii) the performance of the individual Business Units.

The actual Discretionary Pool approved by the Compensation Committee will be allocated among individuals recommended by the Chief Executive Officer and approved by the Compensation Committee; provided, however, that Participants whose Target Award is 80% will not be eligible for participation in the Discretionary Pool. No payments will be made from the Discretionary Pool unless at least one of the Company ROTC, EPS, or Company CEVA threshold Target Performance Objectives (i.e., 80% of the Target Performance Objective) for the Performance Cycle has been met.

5. PEER GROUP PERFORMANCE MEASUREMENT

In order to facilitate the Peer Group performance comparison needed to determine the accelerated Option vesting, the Peer Group ROTC figures for the individual years used to determine accelerated Option vesting will be based upon the twelve months performance for each company in the Peer Group closest to the Company's fiscal year end, based on the most recent publicly available financial information for such company.

6. NEW PARTICIPANTS

New Participants may be added to the Plan at any time at the discretion of the Compensation Committee. The timing and performance test for determining accelerated vesting for the grant will be identical to the test and timing associated with the regular Option grant made to other Participants for that fiscal year. If an executive becomes a Participant, he or she will be eligible to receive an Option grant at the time of the next regular Option grant.

For the deferred cash incentive portion of the Plan, the Award opportunity of a new Participant will be prorated for each Performance Cycle based on the number of months of participation in the Plan divided by 36. Notwithstanding the above, an individual must participate in the Plan for at least 12 months during any Performance Cycle to be eligible to receive a deferred cash incentive Award for that Cycle.

7. TERMINATION OF SERVICE

A. STOCK OPTIONS

Options may be exercised following a Termination of Service in the manner and to the extent provided for in the Option Agreement which governs the grant.

B. DEFERRED CASH INCENTIVE AWARDS

If a Participant terminates Service with the Company prior to the end of a Performance Cycle due to voluntary termination or termination for Cause, the Participant will not receive any deferred cash incentive Award for that Performance Cycle.

Upon a Termination of Service during a Performance Cycle due to death or Disability, a Participant's deferred cash incentive Award opportunity for that Cycle will be prorated by dividing the number of full months of participation in the Cycle by thirty-six (36).

If a Participant's Service is terminated involuntarily without Cause prior to the completion of a Performance Cycle, the Participant will be entitled to receive the following percentage of his or her earned deferred cash incentive Award for the Cycle:

IF TERMINATION OCCURS BETWEEN X MONTHS FROM START OF CYCLE	% OF EARNED AWARD TO BE PAID
0 - 27 Months	0%
27 - 36 Months	33 1/3%

Upon a Termination of Service due to Retirement prior to the completion of a Performance Cycle, the Participant will be entitled to receive the following percentage of his or her earned deferred cash incentive Award for the Cycle:

IF TERMINATION OCCURS BETWEEN X MONTHS FROM START OF CYCLE	% OF EARNED AWARD TO BE PAID

0 - 3 Months	0%
3 - 12 Months	33 1/3%
12 - 15 Months	50%
15 - 24 Months	66 2/3%
24 - 27 Months	Prorate to 100%
27 - 36 Months	100%

8. PAYMENT OF EARNED DEFERRED CASH INCENTIVE

Earned Awards under the deferred cash incentive portion of the Plan (net of any applicable taxes) will be paid in cash as soon as possible following the determination of Company and Business Unit performance for the Performance Cycle. Upon the death of a Participant, the Compensation Committee may elect to provide early payment in order to facilitate the settlement of the Participant's estate.

9. TRANSFERS

Upon a Transfer prior to the completion of a Performance Cycle, the Participant will earn his or her deferred cash incentive Award for the Cycle based on his or her old and/or new positions, as follows:

IF TRANSFER OCCURS BETWEEN X MONTHS FROM START OF CYCLE	AWARD EARNED IN OLD/NEW POSITION

0 - 6 Months	100% in new position
6 - 30 Months	Prorated between old and new positions
30 - 36 Months	100% in old position

10. PLAN ADMINISTRATION

A. GENERAL ADMINISTRATION

The Compensation Committee will administer the Plan, and will interpret the provisions of the Plan. The interpretation and application of these terms by the Compensation Committee shall be binding and conclusive. The Committee's authority will include, but is not limited to:

- . The selection of Participants;
- . The establishment and modification of performance measures, Performance Objectives and weighting of objectives;
- . The determination of performance results and Awards;

- . Exceptions to the provisions of the Plan made in good faith and for the benefit of the Company.

B. ADJUSTMENTS FOR EXTRAORDINARY EVENTS

If an event occurs during a Performance Cycle that materially influences Company or Business Unit financial performance and is deemed by the Compensation Committee to be extraordinary and out of the control of management, the Committee may, in its sole discretion, increase or decrease the Performance Objectives used to determine deferred cash incentive Awards or Option vesting. Events warranting such action may include, but are not limited to, changes in accounting, tax or regulatory rulings and significant changes in economic conditions resulting in "windfall" gains or losses.

C. AMENDMENT, SUSPENSION OR TERMINATION OF THE PLAN

The Committee may amend, suspend or terminate the Plan, whole or in part, at any time, if, in the sole judgment of the Committee, such action is in the best interests of the Company. Notwithstanding the above, any such amendment, suspension or termination must be prospective in that it may not deprive Participants of that which they otherwise would have received under the Plan for the current Performance Cycle had the Plan not been amended, suspended or terminated.

D. DESIGNATION OF BENEFICIARIES

Each Participant shall have the right at any time to designate any person or persons as beneficiary(ies) to whom any cash payments earned under the Plan shall be made in the event of the Participant's death prior to the distribution of all benefits due the Participant under the Plan. Each beneficiary designation shall be effective only when filed in writing with the Company during the Participant's lifetime, on a Beneficiary Designation Form approved by the Compensation Committee.

The filing of a new Beneficiary Designation Form will cancel all designations previously filed. Any finalized divorce or marriage (other than a common law marriage) of a Participant subsequent to the date of filing of a Beneficiary Designation Form shall revoke such designation unless:

- . In the case of divorce, the previous spouse was not designated as beneficiary, and
- . In the case of marriage, the Participant's new spouse had previously been designated as beneficiary.

The spouse of a married Participant shall join in any designation of a beneficiary other than the spouse on a form prescribed by the Compensation Committee.

If a Participant fails to designate a beneficiary as provided for above, or if the beneficiary designation is revoked by marriage, divorce or otherwise without execution of a new designation, then the Compensation Committee shall direct the distribution of Plan benefits to the Participant's estate.

11. CHANGE OF CONTROL

A. Upon a Change of Control: (i) each Participant shall receive a cash payment equal to his or her Target Award under the deferred cash incentive portion of the Plan for each Performance Cycle that begins on or before the date of the Change of Control and ends after the date of the Change of Control, based on the Participant's annual base salary rate in effect at the time of the Change of Control; and (ii) treatment of Options upon a Change of Control will be governed by the provisions of the relevant Option Agreement.

B. Following a Change of Control, each Participant shall continue to be entitled to receive payments under the deferred cash incentive portion of the Plan for each Performance Cycle that begins on or before the date of the Change of Control and ends after the date of the Change of Control, as earned in accordance with the terms of the Plan, to the extent such Participant has not already received such payment for that Performance Cycle pursuant to paragraph (A) of this Section 11.

12. PRIOR PLANS

The Company's Key Executive Long-Term Incentive Plan, effective as of January 1, 1991, the Company's Amended and Restated Key Executive Long-Term Incentive Plan effective as of January 3, 1993, and the Company's Second Amended and Restated Key Executive Long-Term Incentive Plan effective as of January 1, 1995 (the "Prior Plans") shall remain in effect as to all Participants therein for the balance of the initial Performance Cycles thereunder (1991 to 1993, 1993 to 1995, and 1995 to 1996, respectively) and for Options granted thereunder. Nothing contained in this Plan shall affect the calculation or payment of benefits under the Prior Plans as to such initial Performance Cycles, or the vesting of Options granted under the Prior Plans.

13. MISCELLANEOUS PROVISIONS

A. UNSECURED STATUS OF CLAIM

Participants and their beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any specific property or assets of the Company. No assets of the Company shall be held under any trust for the benefit of Participants, their beneficiaries, heirs, successors or assigns, or held in any way as collateral security for the fulfillment of the Company's obligations under the Plan.

Any and all of the Company's assets shall be, and shall remain, the general unpledged and unrestricted assets of the Company. The Company's obligations under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay benefits in the future.

B. EMPLOYMENT NOT GUARANTEED

Nothing contained in the Plan nor any action taken in the administration of the Plan shall be construed as a contract of employment or as giving a Participant any right to be retained in the Service of the Company.

C. RIGHT OF OFFSET

If a Participant becomes entitled to a payment under the deferred cash incentive portion of the Plan, and if at such time the Participant has outstanding any debt, obligation or other liability representing any amount owing to the Company, then the Company may offset such amount against the amount of the payment otherwise due the Participant under the Plan.

D. NONASSIGNABILITY

No person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, hypothecate or convey, in advance of actual receipt, the benefits, if any, payable under the Plan, or any part thereof, or any interest therein, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No portion of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, lien or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of the Participant's or any other person's bankruptcy or insolvency. Any such transfer or attempted transfer in violation of the preceding provisions shall be null and void.

E. VALIDITY

In the event that any provision of the Plan is held to be invalid, void or unenforceable, the same shall not effect, in any respect whatsoever, the validity of any other provision of the Plan.

F. WITHHOLDING-TAX

The Company shall withhold from all benefits due under the Plan an amount sufficient to satisfy any federal, state and local tax withholding requirements.

G. APPLICABLE LAW

The Plan shall be governed in accordance with the laws of the State of Delaware.

H. INUREMENT OF RIGHTS AND OBLIGATIONS

The rights and obligations under the Plan shall inure to the benefit of, and shall be binding upon the Company, its successors and assigns, and the Participants and their beneficiaries.

AVERY DENNISON CORPORATION AND SUBSIDIARIES

COMPUTATION OF NET INCOME PER SHARE AMOUNTS

	1996	1995	1994

(A) Weighted average number of common shares outstanding.....	104,966,213	106,502,916	111,118,636
Additional common shares issuable under employee stock options using the treasury stock method.....	3,352,450	2,788,528	2,581,212

(B) Weighted average number of common shares outstanding assuming the exercise of stock options.....	108,318,663	109,291,444	113,699,848
	=====	=====	=====
(C) Net income applicable to common stock.....	\$175,890,000	\$143,702,000	\$109,400,000
	=====	=====	=====
Net income per share as reported (C / A).....	\$ 1.68	\$ 1.35	\$.98
	=====	=====	=====
Net income per share giving effect to the exercise of outstanding stock options (C / B).....	\$ 1.62	\$ 1.31	\$.96
	=====	=====	=====

Avery Dennison Corporation

ELEVEN-YEAR SUMMARY

(Dollars and shares in millions)	Compound Growth Rate		1996	1995
	5 Year	10 Year		
FOR THE YEAR				
Net sales	4.8%	5.8%	\$3,222.5	\$3,113.9
Gross profit	5.0	5.1	1,018.3	957.3
Marketing, general and administrative expense (2),(3)	1.7	4.5	712.4	689.8
Interest expense	(.1)	3.5	37.4	44.3
Income before taxes	20.9	7.4	270.6	224.7
Taxes on income	17.8	4.5	94.7	81.0
Net income	22.8	9.4	175.9	143.7
Research and development expense	2.3	3.9	54.6	52.7
Depreciation	3.8	7.2	100.2	95.3
Average common shares outstanding(1)	(3.3)	(.9)	105.0	106.5
PER COMMON SHARE INFORMATION(1)				
Net income per common share	26.9%	10.3%	\$ 1.68	\$ 1.35
Dividends per common share	10.3	13.8	.62	.55
Book value at fiscal year end	3.6	4.6	8.03	7.69
Market price at fiscal year end	23.1	14.4	35.88	25.07
Market price range			23.88 to 35.88	16.63 to 25.07
AT YEAR END				
Working capital			\$ 110.6	\$ 127.6
Property, plant and equipment, net			962.7	907.4
Total assets			2,036.7	1,963.6
Long-term debt			370.7	334.0
Total debt			466.9	449.4
Shareholders' equity			832.0	815.8
Number of employees			15,800	15,500
STATISTICS				
Gross profit margin			31.6%	30.7%
Marketing, general and administrative expense as a percent of sales			22.1	22.2
Income before taxes as a percent of sales			8.4	7.2
Net income as a percent of sales			5.5	4.6
Effective tax rate			35.0	36.0
Research and development expense as a percent of sales			1.7	1.7
Long-term debt as a percent of total long-term capital			30.8	29.0
Total debt as a percent of total capital			35.9	35.5
Return on average shareholders' equity			21.4	18.6
Return on average total capital			16.4	14.4

(1) Per common share amounts and average common shares outstanding for years prior to 1996 have been restated to reflect the December 1996 two-for-one common stock split.

(2) In 1990, the Company incurred \$85.2 million in pretax charges related to the merger of Avery International Corporation and Dennison Manufacturing Company and \$13.8 million of merger-related costs. After adjusting for these charges, 1990 net income was \$71.7 million, or \$.58 per common share.

(3) In 1987, a restructuring resulted in pretax charges of \$25.2 million, which decreased net income by \$25 million, or \$.21 per common share.

Avery Dennison Corporation

1994	1993	1992	1991	1990(2)	1989	1988	1987(3)	1986
\$2,856.7	\$2,608.7	\$2,622.9	\$2,545.1	\$2,590.2	\$2,490.9	\$2,291.4	\$2,165.1	\$1,828.4
907.8	818.1	838.2	796.2	808.3	806.7	780.2	734.6	620.1
691.9	642.7	665.7	653.9	752.7	591.0	554.7	571.2	460.6
43.0	43.2	42.3	37.5	40.0	35.1	35.5	32.4	26.6
172.9	132.2	130.2	104.8	15.6	180.6	190.0	131.0	132.9
63.5	48.9	50.1	41.8	9.7	66.4	73.0	60.8	61.0
109.4	84.4	80.1	63.0	5.9	114.2	117.0	70.2	71.9
49.1	45.5	46.7	48.7	53.7	51.0	47.4	41.5	37.3
87.9	84.1	83.8	83.1	80.8	71.5	63.8	58.8	49.9
111.1	115.9	120.8	123.9	123.9	124.2	123.4	120.6	114.6
\$.98	\$.73	\$.66	\$.51	\$.05	\$.92	\$.95	\$.58	\$.63
.50	.45	.41	.38	.32	.27	.23	.21	.17
6.81	6.40	6.82	6.73	6.83	6.55	6.25	5.75	5.13
17.75	14.69	14.38	12.69	10.75	15.94	11.00	9.32	9.35
13.32 to	12.75 to	11.63 to	9.69 to	7.82 to	10.50 to	8.57 to	8.00 to	8.63 to
17.88	15.57	14.44	12.75	16.50	15.94	13.00	14.57	11.88
\$ 122.8	\$ 141.6	\$ 222.6	\$ 226.0	\$ 298.8	\$ 323.9	\$ 314.3	\$ 325.8	\$ 319.8
831.6	758.5	779.9	814.2	821.7	714.1	667.3	574.2	512.8
1,763.1	1,639.0	1,684.0	1,740.4	1,890.3	1,715.9	1,652.2	1,558.5	1,352.4
347.3	311.0	334.8	329.5	376.0	317.8	298.8	301.0	320.3
420.7	397.5	427.5	424.0	510.4	418.9	411.3	393.2	384.3
729.0	719.1	802.6	825.0	846.3	811.3	769.6	705.9	585.8
15,400	15,750	16,550	17,095	18,816	19,215	19,114	19,360	19,156
31.8%	31.4%	32.0%	31.3%	31.2%	32.4%	34.0%	33.9%	33.9%
24.2	24.6	25.4	25.7	25.2	23.7	24.2	26.4	25.2
6.1	5.1	5.0	4.1	.6	7.3	8.3	6.1	7.3
3.8	3.2	3.1	2.5	.2	4.6	5.1	3.2	3.9
36.7	37.0	38.5	39.9	62.2	36.8	38.4	46.4	45.9
1.7	1.7	1.8	1.9	2.1	2.0	2.1	1.9	2.0
32.3	30.2	29.4	28.5	30.8	28.1	28.0	29.9	35.3
36.6	35.6	34.8	33.9	37.6	34.1	34.8	35.8	39.6
14.8	11.0	9.7	7.7	.7	14.7	16.0	10.5	12.8
12.1	9.3	8.3	6.7	1.5	12.0	12.7	8.3	10.6

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

(In millions)	1996	1995	1994
Net sales	\$3,222.5	\$3,113.9	\$2,856.7
Cost of products sold	2,204.2	2,156.6	1,948.9
Gross profit	1,018.3	957.3	907.8
Marketing, general and administrative expense	712.4	689.8	691.9
Net gain on divestitures and restructuring charges	2.1	1.5	--
Earnings before interest and taxes	\$ 308.0	\$ 269.0	\$ 215.9

Sales increased 3.5 percent to \$3.22 billion in 1996, compared to \$3.11 billion in 1995. Excluding the impact of business divestitures and changes in foreign currency exchange rates, sales increased 6.4 percent. In 1995, sales increased 9 percent over 1994 sales of \$2.86 billion. Excluding the impact of sales from the divested operations and changes in foreign currency exchange rates for 1995, sales increased approximately 7 percent. During the fourth quarter of 1995, the Company sold a portion of its North American label converting operations. These businesses accounted for approximately 2 percent of the Company's 1995 total sales. Each of the Company's 1996, 1995 and 1994 fiscal years consisted of 52 weeks.

Gross profit margins for the years ended 1996, 1995 and 1994 were 31.6 percent, 30.7 percent and 31.8 percent, respectively. Gross profit margins during 1996 improved compared to 1995 due primarily to an improved product mix, new products, cost reduction and control programs and increased capacity utilization. There was also a \$3.2 million LIFO benefit reported during 1996. The decline in the gross profit percentage during 1995 was primarily due to a shift in product mix, plant and major production line start-ups, and \$1.6 million in expense related to LIFO inventories compared to a benefit of \$400,000 for 1994.

Marketing, general and administrative expense as a percent of sales was 22.1 percent in 1996, 22.2 percent in 1995 and 24.2 percent in 1994. The improvement in 1996 over 1995 was primarily attributable to cost control and reduction efforts throughout the Company and was achieved despite major investments in geographic expansion, business realignment and new product programs. The improvement during 1995 was primarily attributable to benefits from the Company's cost reduction programs, a shift in product mix and increased sales.

During the third quarter of 1996, restructuring actions were taken, resulting in a net pretax gain of \$2.1 million. The Company sold its equity interest in a label operation in Japan for \$28.4 million, resulting in a pretax gain of \$17.9 million. The Company also recorded \$15.8 million of restructuring charges, which included an asset impairment write-down of \$6.3 million for long-lived assets held in the Company's Consumer and converted products sector. The restructuring program also included the reorganization of certain manufacturing, distribution and administrative sites. These costs consisted of severance and related costs for approximately 200 positions worldwide (\$7.4 million) and the discontinuance of product lines and related asset write-offs (\$2.1 million). These actions are expected to be completed during 1997 and are expected to result in estimated annual savings of approximately \$9 million to \$11 million when fully implemented.

Business restructuring actions taken during the fourth quarter of 1995 resulted in a net pretax gain of \$1.5 million. Certain businesses which no longer met the Company's strategy for converting technology were sold for \$95 million. A \$40.7 million pretax gain on the sale of these businesses was offset by restructuring charges of \$39.2 million which included the closure of four plants and the reorganization of certain manufacturing, distribution and administrative sites. These costs consisted of severance and related costs for approximately 400 positions worldwide (\$16.2 million), discontinuance of product lines and related asset write-offs (\$13.1 million), and plant closure and other costs (\$9.9 million). This program is also expected to be completed during 1997 and is expected to result in estimated annual savings of \$14 million to \$17 million when fully implemented. The 1996 and 1995 programs are an integral part of the Company's ongoing effort to identify opportunities to improve its administrative and manufacturing cost structures.

Interest expense as a percent of sales was 1.2 percent in 1996, 1.4 percent in 1995 and 1.5 percent in 1994. The decrease in 1996 was primarily due to the expiration of interest rate swap agreements during the fourth quarter of 1995 and an overall lower cost of borrowing. Interest expense increased in 1995 due to higher debt levels, but was more than offset by the impact of increased sales.

Income before taxes, as a percent of sales, was 8.4 percent for 1996, 7.2 percent for 1995 and 6.1 percent for 1994. The improvement during 1996 was primarily due to higher gross profit margins and lower interest expense as a

percent of sales. The improvement during 1995 was primarily due to lower operating and interest expenses as a percent of sales. The effective tax rate was 35 percent in 1996, 36 percent in 1995, and 36.7 percent in 1994.

Avery Dennison Corporation

(In millions, except per common share amounts)	1996	1995	1994
Net income	\$175.9	\$143.7	\$109.4
Net income per common share	1.68	1.35	.98
Net income per fully-diluted common share	1.62	1.31	.96
Average common shares outstanding	105.0	106.5	111.1
Average fully-diluted common shares outstanding	108.3	109.3	113.7

Net income increased to \$175.9 million in 1996 compared to \$143.7 million in 1995, reflecting a 22 percent increase over 1995. Net income in 1994 was \$109.4 million. Net income, as a percent of sales, was 5.5 percent, 4.6 percent and 3.8 percent in 1996, 1995 and 1994, respectively.

Net income per common share reached \$1.68 in 1996 compared to \$1.35 in 1995, a 24 percent increase over prior year. Net income per common share was \$.98 in 1994. Primarily due to the significant increase in the Company's stock price during 1996 and share repurchases, the Company is now required to report net income per share on a fully-diluted basis. Net income per fully-diluted common share was \$1.62 in 1996, \$1.31 in 1995 and \$.96 in 1994.

RESULTS OF OPERATIONS
BY BUSINESS SECTOR

Effective fourth quarter 1996, the Company realigned the reporting of its businesses from three sectors to two -- Pressure-sensitive adhesives and materials, and Consumer and converted products. The realignment reflects the broadening and related scope of the Company's consumer businesses to include products such as battery labels, postage stamps and children's school supplies. In addition, certain businesses previously in the Pressure-sensitive adhesives and materials sector that emphasize converting technology were reclassified into the Consumer and converted products sector. This change more effectively aligns the Company's financial reporting with manufacturing processes and end markets. Sector information for 1995 and 1994 has been reclassified to conform with the 1996 sector presentation.

Pressure-sensitive adhesives and materials: (In millions)	1996	1995	1994
Net sales	\$1,693.5	\$1,589.7	\$1,389.7
Income from operations before interest and taxes	157.7	144.8	138.8

The Pressure-sensitive adhesives and materials sector reported increased sales and profits for 1996 compared to 1995. The sector's income results include restructuring charges of \$7.1 million in 1996 and \$15.1 million in 1995. The U.S. operations reported sales growth for the year primarily due to increased volume and new products. Profitability improved as a result of cost reduction actions, increased capacity utilization and improved operating efficiencies. The international businesses reported increased sales primarily due to its geographic expansion in emerging markets and increased volume. Profitability for the international businesses increased primarily due to the extent of restructuring charges taken in 1995 compared to 1996. This increase was partially offset by costs related to continued investments in geographic expansion and major equipment start-up costs.

The Pressure-sensitive adhesives and materials sector reported increased sales and profitability for 1995 compared to 1994. Profitability for the sector increased despite the \$15.1 million in restructuring charges taken in 1995. The U.S. operations reported a significant increase in sales due to unit volume growth and pricing actions. Profitability improvement was primarily due to sales growth and lower operating expenses as a percent of sales, but was partially offset by plant and major equipment start-up costs for capacity expansion, and the reorganization of certain manufacturing sites. Sales for the European operations increased significantly primarily as a result of volume growth from improved economic conditions over 1994, pricing actions and changes in foreign currency rates. Profitability increased, despite costs taken for restructuring programs, primarily as a result of sales growth, lower operating expenses as a percent of sales and a more favorable product mix.

Consumer and converted products: (In millions)	1996	1995	1994
Net sales	\$1,670.5	\$1,588.6	\$1,488.6
Income from operations before interest and taxes	159.0	147.8	102.1

The Consumer and converted products sector reported increased sales and profitability for 1996 compared to 1995. The sector's income results include restructuring charges of \$8.7 million for 1996 compared to a \$16.6 million net gain on divestitures and restructuring charges in 1995. The U.S. operations reported increased sales primarily due to the growth of its battery label business and for its Avery-brand products. Profitability improved primarily due to increased sales volume, new products and operating improvements, including improved logistics. The international businesses reported higher sales due to geographic expansion and growth of its office label businesses; however, this sales increase was partially offset by sales declines in a portion of the French operations. Profitability in 1996 for the international businesses was comparable to 1995. Profit improvements from cost control programs and product pruning were offset by lower sales in one of the French operations and start-up costs related to geographic expansion.

The Consumer and converted products sector reported increased sales and profits for 1995 compared to 1994. Profits in 1995 included a \$40.7 million gain from the sale of certain nonstrategic North American label converting operations, which was partially offset by \$24.1 million in restructuring charges. The U.S. operations reported increased sales for 1995 primarily due to sales growth of its Avery-brand and postage stamp

businesses. Profitability increased for the U.S. operations due to successful new products, an improved product mix and cost reduction actions, including the consolidations of distribution warehouses and sales forces in the United States. The international businesses reported increased sales as a result of new products, an improved European economy and changes in foreign currency rates. A more favorable product mix coupled with cost reduction actions taken in previous years and lower operating expenses as a percent of sales resulted in significantly higher profitability over 1994.

FINANCIAL CONDITION

Average working capital, excluding short-term debt, as a percent of sales was 9.1 percent in 1996, 9.6 percent in 1995 and 10 percent in 1994. The decrease in 1996 was primarily due to higher sales and an increase in current liabilities. Average inventory turnover was 9.3 in 1996, 9.0 in 1995 and 9.3 in 1994; the average number of days sales outstanding in accounts receivable was 55 days in 1996, 1995 and 1994.

Net cash flow from operating activities was \$304 million in 1996, \$187.9 million in 1995 and \$265 million in 1994. The increase in net cash flow in 1996 was due primarily to the change in working capital requirements and the Company's improved profitability. The decrease in 1995 was primarily due to a change in working capital requirements which was partially offset by the increase in net income.

Total debt increased \$17.5 million to \$466.9 million compared to year end 1995. Total debt to total capital was 35.9 percent at year end 1996 compared to 35.5 percent at year end 1995. Long-term debt as a percent of total long-term capital increased to 30.8 percent from 29 percent at year end 1995.

In October 1996, the Company established the Avery Dennison Corporation Employee Stock Benefit Trust (the "Trust") to fund a portion of the Company's obligations arising from various current and future employee benefit plans. As a result, the Company sold 18 million shares of treasury stock to the Trust at fair market value. This transaction had no impact on the Company's financial condition. The Trust has a 15-year life during which it will utilize the stock to satisfy certain Company obligations.

Shareholders' equity increased to \$832 million from \$815.8 million at year end 1995. During 1996, the Company repurchased 3.8 million shares of common stock at a cost of \$109.3 million. The cost of treasury stock held, after the sale of shares to the Trust and net of shares reissued under the Company's stock option and incentive plans, at year end 1996 decreased \$212.4 million to \$67.5 million from year end 1995. In January 1995, the Board of Directors authorized the repurchase of an additional ten million shares of the Company's outstanding common stock for an aggregate of 30.4 million shares authorized for repurchase. As of year end 1996, a cumulative 25.4 million shares of common stock had been purchased under this authorization.

The return on average shareholders' equity was 21.4 percent in 1996, 18.6 percent in 1995 and 14.8 percent in 1994. The improvements during 1996 and 1995 were primarily due to a significant increase in profitability and the impact from share repurchases. The return on average total capital for those three years was 16.4 percent, 14.4 percent and 12.1 percent, respectively. The increases during those years were primarily due to profitability improvements and more effective utilization of the Company's assets.

The Company, like other U.S. corporations, has periodically received notices from the U.S. Environmental Protection Agency and state environmental agencies alleging that the Company is a potentially responsible party (PRP) for past and future cleanup costs at hazardous waste sites. The Company has received requests for information, notices and/or claims with respect to 17 waste sites in which the Company has no ownership

AVERAGE WORKING
CAPITAL, EXCLUDING
SHORT-TERM DEBT, AS A
PERCENT OF SALES

COMMON SHARES
OUTSTANDING AT YEAR END
(IN MILLIONS)

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15.2%	12.3%	10.0%	9.6%	9.1%	117.7	112.4	107.1	106.1	103.6
1992	1993	1994	1995	1996	1992	1993	1994	1995	1996

interest. Litigation has been initiated by a governmental authority with respect to four of these sites, but the Company does not believe that any such proceedings will result in the imposition of monetary sanctions. Environmental investigatory and remediation projects are also being undertaken on property presently owned by the Company. The Company has accrued liabilities for all sites where it is probable that a loss will be incurred and the minimum cost or amount of the loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessments and remediation activities, future expense to remediate the currently identified sites, and sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Based on current site assessments, management believes that the potential liability over the amounts currently accrued would not materially affect the Company.

LIQUIDITY AND CAPITAL RESOURCES

In addition to cash flow from operations, the Company has more than adequate financing arrangements, at competitive rates, to conduct its operations.

During the fourth quarter of 1996, the Company registered with the Securities and Exchange Commission \$150 million in principal amount of medium-term notes. As of year end 1996, no notes had been issued. Proceeds from the medium-term notes will be used to reduce debt and for other general corporate purposes. The Company's currently outstanding medium-term notes have maturities from 1997 through 2025 and have a weighted-average interest rate of 7.2 percent.

The Company's restructuring programs included the 1996 \$28.4 million sale of its equity interest in a label operation in Japan and the 1995 \$95 million sale of certain non-strategic label converting businesses. The restructuring programs had an estimated cost of \$15.8 million and \$39.2 million for 1996 and 1995, respectively. At year end 1996 and 1995, \$16 million and \$24.5 million, respectively, remained accrued for both programs and related primarily to employee severance and plant closure costs. By year end 1996 and 1995, total cash expenditures paid for both restructuring programs totalled \$14.5 million and \$1.5 million, respectively, and related primarily to employee severance and plant closure costs.

Capital expenditures were \$187.6 million in 1996 and \$190.3 million in 1995. Capital expenditures for 1997 are expected to be approximately \$190 to \$200 million.

The annual dividend rate per share increased to \$.62 in 1996 from \$.55 in 1995 and \$.50 in 1994.

The Company continues to expand its operations in Asia Pacific, Latin America and Europe. The Company's future results are subject to changes in economic conditions and the impact of fluctuations in foreign currency exchange and interest rates. To manage its exposure to these fluctuations, the Company may enter into forward exchange and interest rate contracts, where appropriate.

Effective 1997, Mexico will be treated as a hyperinflationary economy for accounting purposes due to the cumulative inflation rate over the past three years. As a result, the functional currency of subsidiaries operating in Mexico will change from the peso to the dollar and translation gains and losses will be included in net income. These operations, including those located in Brazil which also operate in a hyperinflationary economy, are not significant to the Company's consolidated financial position.

FUTURE ACCOUNTING REQUIREMENTS

In July 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". The standard revised the guidelines for recognition, measurement and disclosure of transfers and servicing of financial assets and extinguishment of debt. It will be effective for transactions occurring after December 31, 1996. The Company will implement the standard during the first quarter of 1997, if applicable; however, the impact has yet to be determined.

RETURN ON AVERAGE
SHAREHOLDERS' EQUITY

RETURN ON AVERAGE
TOTAL CAPITAL

[BAR GRAPH APPEARS HERE]

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9.7% 11.0% 14.8% 18.6% 21.4%
1992 1993 1994 1995 1996

8.3% 9.3% 12.1% 14.4% 16.4%
1992 1993 1994 1995 1996

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	1996	1995
<hr/>		
A S S E T S		
Current assets:		
Cash and cash equivalents	\$ 3.8	\$ 27.0
Trade accounts receivable, less allowance for doubtful accounts of \$17.5 and \$17.6 for 1996 and 1995, respectively	448.5	444.1
Inventories, net	244.4	223.2
Other receivables	25.7	24.8
Prepaid expenses	17.8	21.9
Deferred taxes	64.3	59.1
<hr/>		
Total current assets	804.5	800.1
Property, plant and equipment, at cost:		
Land	37.7	37.8
Buildings	405.3	388.9
Machinery and equipment	1,180.3	1,089.1
Construction-in-progress	144.6	136.3
<hr/>		
Accumulated depreciation	1,767.9	1,652.1
<hr/>		
Intangibles resulting from business acquisitions, net	962.7	907.4
Non-current deferred taxes	135.9	124.3
Other assets	7.1	5.8
<hr/>		
	126.5	126.0
<hr/>		
	\$2,036.7	\$1,963.6
<hr/>		
L I A B I L I T I E S A N D S H A R E H O L D E R S ' E Q U I T Y		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 96.2	\$ 115.4
Accounts payable	230.7	169.9
Accrued payroll and employee benefits	134.3	132.2
Other accrued liabilities	208.2	215.1
Income taxes payable	23.0	39.0
Deferred taxes	1.5	.9
<hr/>		
Total current liabilities	693.9	672.5
Long-term debt	370.7	334.0
Long-term retirement benefits and other accrued liabilities	96.6	99.8
Non-current deferred taxes	43.5	41.5
Shareholders' equity		
Common stock, \$1 par value, authorized - 200,000,000 shares; issued - 124,126,624 shares at year end 1996 and 1995	124.1	124.1
Capital in excess of par value	475.4	129.6
Retained earnings	945.6	837.8
Cumulative foreign currency translation adjustment	28.3	33.8
Cost of unallocated ESOP shares	(29.4)	(27.0)
Minimum pension liability	(.2)	(2.6)
Employee stock benefit trust, 17,959,358 shares	(644.3)	--
Treasury stock at cost, 2,551,808 shares and 18,007,526 shares at year end 1996 and 1995, respectively	(67.5)	(279.9)
<hr/>		
Total shareholders' equity	832.0	815.8
<hr/>		
	\$2,036.7	\$1,963.6
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See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(In millions, except per share amounts)	1996	1995	1994
Net sales	\$3,222.5	\$3,113.9	\$2,856.7
Cost of products sold	2,204.2	2,156.6	1,948.9
Gross profit	1,018.3	957.3	907.8
Marketing, general and administrative expense	712.4	689.8	691.9
Net gain on divestitures and restructuring charges	2.1	1.5	--
Interest expense	37.4	44.3	43.0
Income before taxes	270.6	224.7	172.9
Taxes on income	94.7	81.0	63.5
Net income	\$ 175.9	\$ 143.7	\$ 109.4
Net income per common share	\$ 1.68	\$ 1.35	\$.98
Net income per fully-diluted common share	1.62	1.31	.96
Average shares outstanding:			
Common shares	105.0	106.5	111.1
Fully-diluted common shares	108.3	109.3	113.7
Common shares outstanding at year end	103.6	106.1	107.1

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollars in millions)	Common stock, \$1 par value	Capital in excess of par value	Retained earnings	Cumulative foreign currency translation adjustment	Cost of unallocated ESOP shares	Minimum pension liability	Employee stock benefit trust	Treasury stock
Fiscal year ended 1993	\$ 124.1	\$ 132.4	\$ 698.9	\$ (10.1)	\$(53.2)	\$(8.9)	--	\$(164.1)
Repurchase of 6.4 million shares for treasury								(105.7)
Stock issued under option plans, net of tax and dividends paid on stock held by leveraged ESOPs		(1.4)						16.4
Net income			109.4					
Dividends: \$.50 per share			(55.1)					
Translation adjustments, net of tax				26.8				
ESOP transactions, net					15.6			
Minimum pension liability						3.9		
Fiscal year ended 1994	124.1	131.0	753.2	16.7	(37.6)	(5.0)	--	(253.4)
Repurchase of 1.7 million shares for treasury								(35.1)
Stock issued under option plans, net of tax and dividends paid on stock held by leveraged ESOPs		(1.4)						8.6
Net income			143.7					
Dividends: \$.55 per share			(59.1)					
Translation adjustments, net of tax				17.1				
ESOP transactions, net					10.6			
Minimum pension liability						2.4		
Fiscal year ended 1995	124.1	129.6	837.8	33.8	(27.0)	(2.6)	--	(279.9)
Repurchase of 3.8 million shares for treasury								(109.3)
Stock issued under option plans, net of tax and dividends paid on stock held by leveraged ESOPs		9.0						11.2
Net income			175.9					
Dividends: \$.62 per share			(68.1)					
Translation adjustments, net of tax				(5.5)				
Employee stock benefit trust transactions, net		336.8					(644.3)	310.5
ESOP transactions, net					(2.4)			
Minimum pension liability						2.4		
Fiscal year ended 1996	\$ 124.1	\$ 475.4	\$ 945.6	\$ 28.3	\$(29.4)	\$ (.2)	\$(644.3)	\$ (67.5)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)	1996	1995	1994
<hr/>			
Operating Activities			
Net income	\$ 175.9	\$ 143.7	\$ 109.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	100.2	95.3	87.9
Amortization	13.2	12.6	14.6
Net gain on divestitures and restructuring charges	(2.1)	(1.5)	--
Deferred taxes	.8	(17.6)	(6.7)
Changes in assets and liabilities, net of the effect of foreign currency translation, business acquisitions and divestitures, and restructuring charges:			
Trade accounts receivable, net	(.9)	(52.5)	(24.6)
Inventories, net	(18.1)	(18.5)	(19.2)
Other receivables	1.2	1.8	2.8
Prepaid expenses	3.7	(5.3)	(2.6)
Accounts payable and accrued liabilities	45.7	18.6	96.4
Taxes on income	(12.4)	11.4	(.8)
Long-term retirement benefits and other accrued liabilities	(3.2)	(.1)	7.8
<hr/>			
Net cash provided by operating activities	304.0	187.9	265.0
<hr/>			
I N V E S T I N G A C T I V I T I E S			
Purchase of property, plant and equipment	(187.6)	(190.3)	(163.3)
Acquisitions, sale of assets and business divestitures	12.1	96.7	16.2
Other	(2.1)	(19.1)	(10.2)
<hr/>			
Net cash used in investing activities	(177.6)	(112.7)	(157.3)
<hr/>			
F I N A N C I N G A C T I V I T I E S			
Increase in long-term debt	51.0	100.0	100.5
Decrease in long-term debt	(14.3)	(107.9)	(49.3)
Net (decrease) increase in short-term debt	(18.8)	40.5	(16.0)
Dividends paid	(68.1)	(59.1)	(55.1)
Purchase of treasury stock	(109.3)	(35.1)	(105.7)
Other	9.9	10.2	15.0
<hr/>			
Net cash used in financing activities	(149.6)	(51.4)	(110.6)
<hr/>			
Effect of foreign currency translation on cash balances	--	.1	.2
<hr/>			
(Decrease) increase in cash and cash equivalents	(23.2)	23.9	(2.7)
<hr/>			
Cash and cash equivalents, beginning of year	27.0	3.1	5.8
<hr/>			
Cash and cash equivalents, end of year	\$ 3.8	\$ 27.0	\$ 3.1
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See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company is a worldwide manufacturer of pressure-sensitive adhesives and materials, and consumer and converted products. The Company's major markets are in office products, data processing, health care, retail, transportation, industrial and durable goods, food and apparel. The Pressure-sensitive adhesives and materials sector and the Consumer and converted products sector each contribute approximately 50 percent of the Company's total sales. Sales are generated primarily in the United States, continental Europe and the United Kingdom.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries. Investments in certain affiliates (20 percent to 50 percent ownership) are accounted for by the equity method of accounting. Certain prior year amounts have been reclassified to conform with current year presentation. In addition, all per common share amounts and average common shares outstanding have been restated to reflect the December 1996 two-for-one common stock split effected in the form of a stock dividend.

Fiscal Year

The Company's financial reporting calendar for fiscal years 1996, 1995 and 1994 reflected 52-week periods ending December 28, 1996, December 30, 1995 and December 31, 1994, respectively. Generally each fiscal year consists of 52 weeks, but every fifth or sixth fiscal year consists of 53 weeks.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers cash on hand, deposits in banks and short-term investments, with maturities of three months or less when purchased, as cash and cash equivalents. The carrying amounts of these assets approximate fair value due to the short maturity of the instruments. At year end 1995, \$23.6 million was held in short-term investments. Cash paid for interest and taxes was as follows:

(In millions)	1996	1995	1994
Interest, net of capitalized amounts	\$ 40.0	\$46.7	\$42.7
Income taxes, net of refunds	115.9	87.2	70.6

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using both the first-in, first-out (FIFO) and last-in, first-out (LIFO) methods. Inventories valued using the LIFO method comprised 37 percent, 40 percent and 41 percent of inventories before LIFO adjustment at year end 1996, 1995 and 1994, respectively.

During 1996, certain inventories were reduced resulting in the liquidation of LIFO inventory carried at lower costs prevailing in prior years as compared with current costs. The effect was to reduce 1996 cost of products sold by \$3.2 million. Inventories at year end were as follows:

(In millions)	1996	1995
Raw materials	\$ 82.7	\$ 78.5
Work-in-process	72.4	72.4
Finished goods	123.4	109.6
LIFO adjustment	(34.1)	(37.3)
	\$244.4	\$223.2

Property, Plant and Equipment

Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repair costs are expensed as incurred; renewals and betterments are capitalized. Upon the sale or

retirement of properties, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting profit or loss included in income.

Intangibles Resulting From Business Acquisitions

Intangibles resulting from business acquisitions consist primarily of the excess of the acquisition cost over the fair value of net assets acquired and are amortized over a 25-to-40 year period using the straight-line method.

Avery Dennison Corporation

The Company evaluates the carrying value of its goodwill on an ongoing basis and recognizes an impairment when the estimated future undiscounted cash flows from operations are less than the carrying value of the goodwill. Accumulated amortization at year end 1996 and 1995 was \$46.6 million and \$40.3 million, respectively.

Foreign Currency Translation

Financial statements of international operations are translated into U.S. dollars at current rates, except for revenue, costs and expenses which are translated at average current rates during each reporting period. Gains and losses resulting from foreign currency transactions, other than those transactions described below, are included in income currently. Gains and losses resulting from hedging the value of investments in certain international operations and from translation of financial statements are excluded from the statement of income and are recorded directly to a separate component of shareholders' equity. Translation gains and losses of subsidiaries operating in hyperinflationary economies are included in net income currently.

Transaction and translation losses decreased net income in 1996, 1995 and 1994, by \$1.6 million, \$1.8 million, and \$1.5 million, respectively.

Financial Instruments

The Company enters into forward exchange and interest rate contracts to manage exposure to fluctuations in foreign currency exchange and interest rates. Gains and losses on contracts that hedge specific foreign currency commitments are deferred and subsequently recognized in net income in the period in which the underlying transaction is consummated. The net amounts paid or received on interest rate agreements are recognized as adjustments to interest expense over the terms of the agreements. Contract premiums paid, if any, are amortized to interest expense over the terms of the underlying instruments.

Revenue Recognition

Sales, provisions for estimated sales returns, and the cost of products sold are recorded at the time of shipment.

Research and Development

Research and development costs are expensed as incurred. Research and development expense for 1996, 1995 and 1994 was \$54.6 million, \$52.7 million and \$49.1 million, respectively.

Stock-Based Compensation

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation". The Company has adopted the disclosure-only provisions of SFAS No. 123. As a result, the Company has disclosed the pro forma amounts of net income and net income per common share as if the compensation cost for the stock option plans had been determined based on the fair value of the outstanding options (see Note 7).

Environmental Expenditures

Environmental expenditures that do not contribute to current or future revenue generation are expensed. 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. The Company reviews, on a quarterly basis, its estimates of costs of compliance with environmental laws and the 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 minimum cost or a reasonable estimate of the cost of compliance or remediation can be determined, the applicable amount is accrued. For other potential liabilities, the timing of accruals coincides with the related ongoing site assessments. Potential insurance reimbursements are not recorded or offset against the liabilities until received, and liabilities are not discounted.

Net Income Per Share

Net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding. Common share equivalents outstanding were excluded from the computation as they were not dilutive. Net income per fully-diluted common share is computed by dividing net income by the weighted-average number of common and common share equivalents outstanding. Common share equivalents include shares issuable upon the assumed exercise of outstanding stock options and stock warrants.

Future Accounting Requirements

In June 1996, the Financial Accounting Standards Board issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". The standard revised the guidelines for recognition, measurement and disclosure of transfers and servicing of financial assets and extinguishment of debt. It will be effective for transactions occurring after December 31, 1996.

NOTE 2. DIVESTITURES AND RESTRUCTURING

During the third quarter of 1996, business restructuring actions resulted in a net pretax gain of \$2.1 million. The Company sold its equity interest in a label operation in Japan for \$28.4 million, resulting in a net gain of \$17.9 million. The Company also recorded charges for certain restructuring actions which had an estimated cost of \$15.8 million.

The 1996 restructuring actions included the reorganization of certain manufacturing, distribution and administrative sites. These costs consisted of severance and related costs for approximately 200 positions worldwide (\$7.4 million) and the discontinuance of product lines and related asset disposals (\$2.1 million). In addition, an asset impairment write-down of \$6.3 million was recognized for long-lived assets held in the Company's Consumer and converted products sector.

Total cash expenditures for the 1996 restructuring program are estimated at \$7.4 million of which \$5.5 million had been paid by year end 1996; \$1.9 million in employee severance costs remained accrued. The Company's 1996 restructuring program is expected to be completed during 1997 and result in estimated annual savings of \$9 million to \$11 million when fully implemented.

During 1995, the Company took specific actions to restructure certain businesses to improve future profitability. These actions, which included the sale of non-strategic businesses and restructuring programs, resulted in a net pretax gain of \$1.5 million.

The portion of the North American label converting operations which no longer met the Company's strategy for converting technology was sold during the fourth quarter of 1995 for \$95 million. These businesses accounted for approximately 2 percent of the Company's 1995 total sales. The \$40.7 million pretax gain on the sale of these businesses was offset by charges related to the Company's 1995 restructuring program.

The Company's 1995 restructuring program resulted in a one-time pretax charge of \$39.2 million and included the closure of four plants and the reorganization of certain manufacturing, distribution and administrative sites. The costs consisted primarily of employee severance and related costs (\$16.2 million) for approximately 400 positions worldwide, discontinuance of product lines and related asset write-offs (\$13.1 million) and plant closure and other costs (\$9.9 million). At year end 1996, \$14.1 million remained accrued which related mainly to employee severance and plant closure costs. During 1996, cash expenditures and non-cash charges totaled \$9 million and \$1.4 million, respectively. The Company's 1995 restructuring program is expected to result in annual savings of \$14 million to \$17 million when fully implemented.

NOTE 3. DEBT

Long-term debt at year end was as follows:

(In millions)	1996	1995
-----	-----	-----
Medium-term notes (6.1% to 8.0% at year end)	\$300.0	\$365.0
Domestic variable-rate short-term borrowings refinanced on a long-term basis	51.0	--
Industrial Revenue Bonds (3.7% to 9.9% at year end)	22.0	22.0
Other long-term debt (7.0% to 8.5% at year end)	20.2	25.9
-----	-----	-----
	393.2	412.9
Less: Amount classified as current	(22.5)	(78.9)
-----	-----	-----
	\$370.7	\$334.0
=====	=====	=====

The Company has a revolving credit agreement with four domestic banks to provide up to \$250 million in borrowings through July 1, 2001, with all amounts borrowed under this agreement due on the same date. The Company may annually extend the revolving period and due date under certain conditions with approval of the banks. The financing available under this revolving credit agreement will be used, as needed, to repay short-term and currently maturing long-term debt, and to finance other corporate requirements.

In addition to the above revolving credit agreement, the Company had short-term lines of credit available aggregating \$305.7 million at the end of 1996, of which \$73.7 million was utilized at variable interest rates ranging from 4 to 14 percent.

During the fourth quarter of 1996, the Company registered with the

Securities and Exchange Commission \$150 million in principal amount of medium-term notes. At year end 1996, no notes had been issued. Proceeds from the medium-term notes will be used to reduce debt and for other general corporate purposes.

The Company's currently outstanding medium-term notes have maturities from 1997 through 2025 and have a weighted-average interest rate of 7.2 percent.

The amount of long-term debt outstanding at the end of 1996, which matures during 1997 through 2001, is \$22.5 million, \$6.2 million, \$1 million, \$2.1 million and \$4.7 million, respectively.

The fair value of the Company's debt is estimated based on the discounted amount of future cash flows using the current rates offered to the Company for debt of the same remaining maturities. At year end 1996 and 1995, the fair value of the Company's total debt was \$408.3 million and \$456.1 million, respectively.

The terms of the various loan agreements in effect at year end require maintenance of specified amounts of consolidated tangible net worth and consolidated net income before interest and taxes to consolidated interest. Under the most restrictive provisions, \$163.5 million of retained earnings was not restricted at year end 1996.

The Company's total interest expense in 1996, 1995 and 1994 was \$40.9 million, \$47.5 million and \$45.7 million, respectively, of which \$3.5 million, \$3.2 million and \$2.7 million, respectively, was capitalized as part of the cost of assets constructed for the Company's use. Included in interest expense was \$4.4 million for 1996, \$3.3 million for 1995 and \$5.6 million for 1994 relating to the Company's operations in Brazil. The 1994 amount reflects extraordinarily high nominal rates of interest resulting from hyperinflationary conditions in that country, prior to July, 1994.

NOTE 4. FINANCIAL INSTRUMENTS

The Company enters into forward exchange contracts to reduce risk from exchange rate fluctuations associated with receivables, payables, loans and commitments denominated in foreign currencies that arise primarily as a result of its operations outside the United States. At the end of 1996 and 1995, the Company had forward exchange contracts with a notional value of \$166.7 million and \$221.2 million, respectively, substantially all of which were denominated in European currencies. In general, the maturities of the contracts coincide with the underlying exposure positions they are intended to hedge. All contracts outstanding have maturities within 12 months. The carrying value approximates the fair value, which, based on quoted market prices of comparable instruments, was a net liability of approximately \$4.5 million and \$.2 million at the end of 1996 and 1995, respectively.

The counterparties to forward exchange contracts and interest rate agreements consist of a large number of major international financial institutions. The Company centrally monitors its positions and the financial strength of its counterparties. Therefore, while the Company may be exposed to losses in the event of nonperformance by these counterparties, it does not anticipate losses.

At the end of 1996, the Company had letters of credit outstanding totaling \$22.6 million which guaranteed various trade activities. The aggregate contract amount of all outstanding letters of credit approximates fair value.

As of year end 1996 and 1995, approximately 26 percent and 20 percent of trade accounts receivables, respectively, were from 7 domestic customers. While the Company does not require its customers to provide collateral, the financial position and operations of these customers are monitored on an ongoing basis. Although the Company may be exposed to losses in the event of nonpayment, it does not anticipate such losses.

The Company has an agreement with a bank whereby it has the right to sell certain accounts receivable. The available commitment of this agreement at the end of 1996 was \$70 million, subject to limited recourse provisions. At the end of 1996 and 1995, no trade receivables had been sold. Should the agreement be utilized during 1997, the contract will be modified to comply with the future requirements of SFAS No. 125.

NOTE 5. COMMITMENTS

Minimum annual rentals on operating leases for the years 1997 to 2001 are \$28.1 million, \$24.6 million, \$20.8 million, \$19.3 million and \$18 million, respectively. Operating leases relate primarily to office and warehouse space, EDP and transportation equipment.

The Company has an agreement to purchase certain information technology services through June 30, 2002; however, the agreement may be terminated at the Company's option on June 30, 2000. Total commitments remaining under the agreement approximated \$17.4 million as of December 28, 1996.

Rent expense for 1996, 1995 and 1994 was \$39 million, \$39.4 million and \$39.7 million, respectively.

NOTE 6. TAXES BASED ON INCOME

Taxes based on income were as follows:

(In millions)	1996	1995	1994

Current:			
U.S. Federal tax	\$ 55.9	\$ 51.8	\$34.9
State taxes	12.3	10.2	6.8
International taxes	28.1	34.6	28.0
	-----	-----	-----
	96.3	96.6	69.7
Deferred:			
U.S. taxes	(4.7)	(4.4)	(2.1)
International taxes	3.1	(11.2)	(4.1)
	-----	-----	-----
	(1.6)	(15.6)	(6.2)
	-----	-----	-----
Taxes on income	\$ 94.7	\$ 81.0	\$63.5
	=====	=====	=====

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)	1996	1995	1994

Computed tax at 35% of income before taxes	\$ 94.7	\$ 78.7	\$60.5
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefits	8.0	6.6	4.4
Other items, net	(8.0)	(4.3)	(1.4)
	-----	-----	-----
Taxes on income	\$ 94.7	\$ 81.0	\$63.5
	=====	=====	=====

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

(In millions)	1996	1995	1994

U.S.	\$176.4	\$145.3	\$97.6
International	94.2	79.4	75.3
	-----	-----	-----
	\$270.6	\$224.7	\$172.9
	=====	=====	=====

U.S. income taxes have not been provided on undistributed earnings of international subsidiaries (\$350.5 million at year end 1996) because such earnings are considered to be reinvested indefinitely or because U.S. income taxes on dividends would be substantially offset by foreign tax credits.

Operating loss carryforwards for international subsidiaries aggregating \$48.6 million are available to reduce income taxes payable, of which \$19.8 million will expire over the period from 1997 through 2002, while \$28.8 million can be carried forward indefinitely.

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 which give rise to the Company's deferred tax assets and liabilities were as follows:

(In millions)	1996	1995

Accrued expenses not currently deductible	\$ 76.7	\$ 71.2
Net operating losses and foreign tax credit carryforwards	23.2	17.7
Postretirement and postemployment benefits	11.1	10.6
Pension costs	(3.9)	3.3
Valuation allowance	(6.5)	(8.9)
Depreciation	(74.2)	(68.6)
Other items, net	--	(2.8)
	-----	-----

NOTE 7. SHAREHOLDERS' EQUITY

Common Stock and Common Stock
Repurchase Program

The Company's Certificate of Incorporation authorizes five million shares of \$1 par value preferred stock, with respect to which the Board of Directors may fix the series and terms of issuance, and 200 million shares of \$1 par value voting common stock.

On October 24, 1996, the Company's Board of Directors authorized a two-for-one stock split of the Company's common stock effected in the form of a 100 percent stock dividend to shareholders of record as of December 6, 1996. Par value of \$1 per share remained unchanged. An amount equal to the \$1 par value of the additional common shares was transferred from capital in excess of par value to common stock. Accordingly, all weighted-average share and per common share amounts, as well as stock plan data, have been restated to reflect the stock split.

During 1988, the Company issued preferred stock purchase rights, declaring a dividend of one such right on each outstanding share of common stock and since such time the Company has issued such rights with each share of common stock that has been subsequently issued. When exercisable, each new right will entitle its holder to buy one one-hundredth of a share of Series A Junior Participating Preferred Stock at a price of \$47.50 per one one-hundredth of a share until July 1998. The rights will become exercisable if a person acquires 20 percent or more of the Company's common stock or makes an offer, the consummation of which will result

in the person's owning 20 percent or more of the Company's common stock. In the event the Company is acquired in a merger, each right entitles the holder to purchase common stock of the acquiring company having a market value of twice the exercise price of the right. If a person or group acquires 20 percent or more of the Company's common stock, each right entitles the holder to purchase the Company common stock with a market value equal to twice the exercise price of the right. The rights may be redeemed by the Company at a price of half a cent per right at any time prior to a person's or group's acquiring 20 percent of the Company's common stock. The 20 percent threshold may be reduced by the Company to as low as 10 percent at any time prior to a person's acquiring a percent of Company stock equal to the lowered threshold.

The Board of Directors has authorized the repurchase of an aggregate 30.4 million shares of the Company's outstanding common stock. The acquired shares may be reissued under the Company's stock option and incentive plans. At year end 1996, approximately 25.4 million shares had been repurchased pursuant to this authorization.

Stock Option and Incentive Plans

In October 1996, the Company established the Avery Dennison Corporation Employee Stock Benefit Trust (the "Trust") to fund a portion of the Company's obligations arising from various employee benefit plans. The Company sold 18 million shares of treasury stock to the Trust in exchange for a promissory note of \$564.8 million that bears an interest rate of 8 percent per annum. The Trust has a 15-year life during which it will utilize the common stock to satisfy certain Company obligations. The common stock in the Trust 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 Company maintains various stock option and incentive plans which are fixed employee stock-based compensation plans. Under the plans, incentive stock options and stock options granted to directors may be granted at not less than 100 percent of the fair market value of the Company's common stock on the date of the grant, whereas nonqualified options granted to executives may be issued at prices no less than par value. Options granted generally vest ratably over a four year period. Unexercised options expire ten years from the date of grant.

The following table sets forth stock option information relative to all plans:

(Options in thousands)	1996		1995	1994
	Weighted-average exercise price	Number of options	Number of options	Number of options
Outstanding at beginning of year	\$15.03	10,224.6	9,650.2	8,796.7
Granted	34.67	1,623.0	1,792.1	2,783.0
Exercised	11.96	(1,778.9)	(955.3)	(1,565.1)
Forfeited or expired	18.23	(293.0)	(262.4)	(364.4)
Outstanding at end of year	18.76	9,775.7	10,224.6	9,650.2
Options exercisable at year end		4,670.4	5,309.7	4,964.7

The following table summarizes information on fixed stock options outstanding at December 28, 1996 (options in thousands):

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$ 7.54 - \$14.00	4,101.6	4.1 years	\$12.24	3,972.5	\$12.22
\$15.28 - \$16.25	2,382.2	7.6 years	15.79	470.8	15.81
\$23.63 - \$34.94	3,291.9	9.4 years	29.03	227.1	23.77
	9,775.7			4,670.4	

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Pursuant to SFAS No. 123, no compensation cost was recognized in the Consolidated Statement of Income for the Company's stock option and incentive plans. Had compensation cost for the Company's stock-based compensation plans been recognized, the Company's pro forma net income and net income per common share would have been \$165.8 million and \$1.58, respectively for 1996 and \$137 million and \$1.29 for 1995, respectively. Net income per fully-diluted common share would have been \$1.53 and \$1.25 for 1996 and 1995, respectively.

The weighted-average fair value of options granted during 1996 and 1995 were \$9.51 and \$5.87, respectively. Option grant date fair values were determined using a Black-Scholes option pricing value. The underlying assumptions used were:

	1996	1995
Risk-free interest rate	6.40%	6.75%
Expected stock price volatility	18.57	17.99
Expected dividend yield	2.09	2.67
Expected option term	10 years	10 years

NOTE 8. CONTINGENCIES

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 17 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 upon. Litigation has been initiated by a governmental authority with respect to four of these sites, but the Company does not believe that any such proceedings will result in the imposition of monetary sanctions. The Company is participating with other PRPs at all such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

The Company has accrued liabilities for all sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the minimum 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 sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Based on current site assessments, management believes the potential liability over the amounts currently accrued would not materially affect the Company.

The Company and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. In the opinion of management, the resolution of these matters will not materially affect the Company.

NOTE 9. EMPLOYEE RETIREMENT PLANS

Defined Benefit Plans

The Company sponsors a number of defined benefit plans covering substantially all U.S. employees, employees in certain other countries and non-employee directors. It is the Company's policy to make contributions to these plans sufficient to meet the minimum funding requirements of applicable laws and regulations, plus such additional amounts, if any, as the Company's actuarial consultants advise to be appropriate. Plan assets are invested in a diversified portfolio that consists primarily of equity securities. Benefits payable to employees are based primarily on years of service and employees' pay during their employment with the Company. Certain benefits provided by the Company's U.S. defined benefit plan are paid, in part, from an employee stock ownership plan.

The net pension cost and the funded status of the defined benefit plans are summarized as follows:

NET PENSION COST (In millions)	1996	1995	1994
Service cost	\$ 9.1	\$ 8.7	\$ 9.5
Interest cost	27.0	26.4	24.5
Return on plan assets	(67.3)	(69.9)	(14.0)
Net amortization and deferral	28.8	34.6	(20.1)
Net pension income	\$ (2.4)	\$ (.2)	\$ (.1)
Assumptions used:			
Weighted-average discount rate	7.4%	7.4%	8.0%
Weighted-average rate of increase in future compensation levels	5.0	5.3	5.4
Weighted-average expected long-term rate of return on assets	9.7	9.7	9.7

F U N D E D S T A T U S O F P E N S I O N P L A N S

(In millions)	Fully-funded plans		Underfunded plans	
	1996	1995	1996	1995
Actuarial present value of:				
Vested benefits	\$207.2	\$196.0	\$150.5	\$132.3
Non-vested benefits	.4	.1	.2	.2
Accumulated benefit obligation	207.6	196.1	150.7	132.5
Effect of projected future salary increases	27.8	29.2	15.0	14.9
Projected benefit obligation	235.4	225.3	165.7	147.4
Plan assets at fair value	339.2	304.6	132.3	109.3
Plan assets in excess of (less than) projected benefit obligation	103.8	79.3	(33.4)	(38.1)
Unrecognized net (gain) loss	(16.4)	.7	16.5	19.3
Unrecognized prior service cost	(13.6)	(14.6)	7.7	8.0
Unrecognized net asset at year end	(22.6)	(24.8)	(1.4)	(1.6)
Adjustment to recognize minimum liability	--	--	(7.8)	(10.8)
Prepaid (accrued) pension cost	\$ 51.2	\$ 40.6	\$(18.4)	\$(23.2)

As a result of changes in assumptions used during 1996 and 1995, an additional liability of \$7.8 million and \$10.8 million, respectively, is reflected in the Company's balance sheet. These amounts are offset in 1996 and 1995 by a charge to equity of \$.2 million and \$2.6 million, respectively, and the recording of an intangible pension asset of \$7.6 million and \$8.2 million, respectively. Consolidated pension expense for 1996, 1995 and 1994 was \$1.5 million, \$2 million and \$2.4 million, respectively.

Defined Contribution Plans

The Company sponsors various defined contribution plans covering its U.S. employees, including a 401(k) savings plan. The Company matches participant contributions to the 401(k) savings plan based on a formula within the plan. The Avery Dennison Corporation Employee Savings Plan (Savings Plan) has a leveraged employee stock ownership plan (ESOP) feature which allows the plan to borrow funds to purchase shares of the Company's common stock at market prices. Savings Plan expense consists primarily of stock contributions from the ESOP feature to participant accounts.

The Company also maintains another leveraged ESOP for employees not covered by a collective bargaining agreement. This ESOP also borrowed funds to purchase shares of the Company's common stock at market prices.

ESOP expense is accounted for under three different methodologies: the cost of shares allocated method, the cash flow method and the fair value method. The following table sets forth certain information relating to the Company's ESOPs on a combined basis.

(In millions)	1996	1995	1994
Interest expense	\$ 2.7	\$ 3.4	\$ 2.3
Dividends on unallocated ESOP shares used for debt service	1.7	1.9	2.3
Total ESOP expense	8.9	7.5	10.5
Contributions to pay interest and principal on ESOP borrowings	8.8	7.4	10.1

Consolidated expense for all defined contribution plans, including total ESOP expense, for 1996, 1995 and 1994 was \$9.3 million, \$8.2 million and \$11.2 million, respectively. The ESOP shares for 1996 and 1995 were as follows:

(In millions)	1996	1995
Allocated shares	6.7	6.8
Unallocated shares	2.5	2.9
Total ESOP shares held	9.2	9.7

Avery Dennison Corporation

Of the total ESOP shares held, shares accounted for under the fair value method comprised of 167,800 allocated shares and 169,600 unallocated shares at year end 1996. Under the fair value method, unallocated shares were valued at \$6.1 million at year end 1996.

Other Postretirement Benefits

The Company provides postretirement health benefits to its retired employees up to the age of 65 under a cost-sharing arrangement, and 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. The following table sets forth the Company's unfunded obligation and amount recognized in the Consolidated Balance Sheet:

(In millions)	1996	1995
Actuarial present value of benefit obligation:		
Retirees	\$10.0	\$ 5.8
Fully eligible participants	4.9	7.8
Other active participants	13.5	19.9
Accumulated postretirement benefit obligation	28.4	33.5
Plan assets	--	--
Accumulated postretirement benefit obligation in excess of plan assets	28.4	33.5
Unrecognized net gain (loss)	3.0	(3.3)
Unrecognized prior service cost	(1.2)	(1.3)
Accrued postretirement benefit obligation	\$30.2	\$28.9

Net periodic postretirement benefit costs included the following components:

(In millions)	1996	1995	1994
Service cost	\$ 0.9	\$ 1.1	\$ 1.2
Interest cost	1.8	2.2	2.1
Net amortization and deferral	--	.1	.1
Net periodic postretirement expense	\$ 2.7	\$ 3.4	\$ 3.4

A health care cost trend rate of 11 percent was assumed for 1996 and will decline 1 percent annually to 6 percent by 2001 and remain at that level. The discount rates assumed for 1996 and 1995 was 7.25 percent. A 1 percent increase in the health care cost trend rate would cause the accumulated postretirement benefit obligation to increase by \$3.7 million and service and interest cost to increase by \$.4 million for 1996.

Other Retirement Plans

The Company has deferred compensation plans which permit eligible employees and directors to defer a specific portion of their compensation. The deferred compensation, together with certain Company contributions, earn a specified rate of return. As of year end 1996 and 1995, the Company had accrued \$57.9 million and \$48.2 million, respectively, for its obligations under these plans. The Company's expense, which includes Company contributions and interest expense, was \$6 million, \$5.6 million and \$4 million for 1996, 1995 and 1994, respectively. A portion of the interest may be forfeited by participants in the event employment is terminated before age 55 other than by reason of death, disability or retirement.

To assist in the funding of these plans, the Company purchases corporate-owned life insurance contracts. Proceeds from the insurance policies are payable to the Company upon the death of the participant. The cash surrender value of these policies, net of outstanding loans, included in "Other assets" was \$21.6 million and \$16.4 million as of year end 1996 and 1995, respectively.

NOTE 10. SECTORS OF BUSINESS OPERATIONS

Effective in the fourth quarter of 1996, the Company realigned the reporting of its businesses from three sectors to two in an effort to better align its reporting with manufacturing processes and end markets. Accordingly, all prior year data has been reclassified to conform with the current realignment of the businesses.

The Company reports its operations as the production of pressure-sensitive adhesives and materials and the production of consumer and converted products. Operations in the Pressure-sensitive adhesives and materials sector sell primarily to converters and label printers, and includes the Fasson-brand papers, films and foils, specialty tape and specialty chemical businesses. Operations in the Consumer and converted products sector sell primarily to the

retail industry and original equipment manufacturers, and includes the Avery-brand labels and other office products, customer label converters, high-performance specialty films and labels, merchant distributors, automotive and fastener businesses.

Avery Dennison Corporation

During the third quarter of 1996, the Company sold its equity interest in a label operation in Japan. A \$17.9 million gain was recorded in Corporate administrative and research and development expenses during 1996. In addition, the Company recorded an impairment for long-lived assets and restructuring actions, which combined, had an estimated pretax cost of \$15.8 million.

During the fourth quarter of 1995, the Company sold a portion of its North American label converting operations. These businesses accounted for approximately 4 percent, or \$63 million, of the 1995 Consumer and converted products' sector sales. A \$40.7 million gain from restructuring activities was recorded in the Consumer and converted products sector's income from operations before interest and taxes during 1995. The businesses sold, excluding the gain on sale and restructuring charges, accounted for \$2.6 million of the Consumer and converted products sector's profitability for 1995.

Intersector sales are recorded at or near market prices and are eliminated in determining consolidated sales. Income from operations represents total revenue less operating expenses. General corporate expenses, interest expense and taxes on income are excluded from the computation of income from operations. Beginning in 1996, the Company adopted a revised allocation methodology which more appropriately allocates corporate administrative expenses to each sector. The effect of this revised methodology increased expenses allocated to the two sectors by \$7.8 million and \$6.6 million for 1995 and 1994, respectively.

Financial information by industry and geographic sectors is set forth below:

(In millions)	1996(1)	1995(2)	1994

Sales by industry sector:			
Pressure-sensitive adhesives and materials	\$1,693.5	\$1,589.7	\$1,389.7
Consumer and converted products	1,670.5	1,588.6	1,488.6
Intersector	(141.5)	(128.1)	(106.8)
Divested operations	--	63.7	85.2

Net sales	\$3,222.5	\$3,113.9	\$2,856.7
=====			
Income (loss) from operations before interest and taxes:			
Pressure-sensitive adhesives and materials	\$ 157.7	\$ 144.8	\$ 138.8
Consumer and converted products	159.0	147.8	102.1
Divested operations	--	.1	(3.0)

	316.7	292.7	237.9
Corporate administrative and research and development expenses	(8.7)	(23.7)	(22.0)
Interest expense	(37.4)	(44.3)	(43.0)

Income before taxes	\$ 270.6	\$ 224.7	\$ 172.9
=====			
Identifiable assets by industry sector:			
Pressure-sensitive adhesives and materials	\$ 970.4	\$ 886.5	\$ 789.8
Consumer and converted products	883.0	857.3	796.9
Intersector	(30.0)	(26.6)	(24.5)
Corporate and divested operations	213.3	246.4	200.9

Total assets	\$2,036.7	\$1,963.6	\$1,763.1
=====			

(1) Fiscal 1996 results include a pretax gain of \$17.9 million from the sale of its equity interest in a label operation in Japan which was included in Corporate's administrative expense. Fiscal 1996 results also include pretax restructuring charges of \$15.8 million. The restructuring charges were allocated as follows: \$7.1 million to the Pressure-sensitive adhesives and materials sector and \$8.7 million to the Consumer and converted products sector.

(2) Fiscal 1995 results include a pretax gain of \$40.7 million from the sale of a portion of its North American label converting operations and was included in the Consumer and converted products 1995 operating results. Fiscal 1995 results also include pretax restructuring charges of \$39.2 million. The restructuring charges were allocated as follows: \$15.1 million to the Pressure-sensitive adhesives and materials sector and \$24.1 million to the Consumer and converted products sector.

The 1996 and 1995 restructuring charges, along with the gains on divestiture, were reported in the "Net gain on divestitures and restructuring charges" line of the Consolidated Statement of Income.

Avery Dennison Corporation

(In millions)	1996(1)	1995(2)	1994
Sales by geographic sector:			
U.S.	\$2,056.1	\$1,946.4	\$1,800.1
International	1,206.7	1,143.1	997.2
Intersector	(40.3)	(39.3)	(25.8)
Divested operations	--	63.7	85.2
Net sales	\$3,222.5	\$3,113.9	\$2,856.7
Income (loss) from operations before interest and taxes:			
U.S.	\$ 232.3	\$ 214.1	\$ 182.7
International	84.4	78.5	58.2
Divested operations	--	.1	(3.0)
Corporate administrative and research and development expenses	(8.7)	(23.7)	(22.0)
Interest expense	(37.4)	(44.3)	(43.0)
Income before taxes	\$ 270.6	\$ 224.7	\$ 172.9
Identifiable assets by geographic sector:			
U.S.	\$1,051.9	\$1,009.5	\$ 906.1
International	792.6	723.1	666.0
Intersector	(21.1)	(15.4)	(9.9)
Corporate and divested operations	213.3	246.4	200.9
Total assets	\$2,036.7	\$1,963.6	\$1,763.1

(1) The 1996 restructuring charges were allocated as follows: \$13.8 million to the U.S. sector and \$2 million to the International sector. In addition, the 1996 pretax gain of \$17.9 million from the sale of its equity interest in a label operation in Japan, was included in Corporate's administrative expense.

(2) The 1995 restructuring charges were allocated as follows: \$18.8 million to the U.S. sector and \$20.4 million to the International sector. In addition, the 1995 pretax gain from the sale of its North American label converting operations was allocated as follows: \$38.4 million to the U.S. sector and \$2.3 million to the International sector.

The Company's international operations, conducted primarily in continental Europe and the United Kingdom, are on the FIFO basis of inventory cost accounting. U.S. operations use both FIFO and LIFO. Export sales from the United States to unaffiliated customers are not a material factor in the Company's business.

Identifiable assets are those assets of the Company which are identifiable with the operations in each industry or geographic sector. Corporate assets consist principally of Corporate property, plant and equipment, tax related asset accounts and other non-operating assets. Intersector receivables are eliminated in determining consolidated identifiable assets.

Capital expenditures and depreciation expense by industry sector are set forth below:

(In millions)	1996	1995	1994
Capital expenditures:			
Pressure-sensitive adhesives and materials	\$100.8	\$100.5	\$104.3
Consumer and converted products	79.8	78.7	45.1
Corporate and divested operations	7.0	11.1	13.9
	\$187.6	\$190.3	\$163.3
Depreciation expense:			
Pressure-sensitive adhesives and materials	\$ 49.4	\$ 40.9	\$ 36.7
Consumer and converted products	41.2	42.5	39.8
Corporate and divested operations	9.6	11.9	11.4
	\$100.2	\$ 95.3	\$ 87.9

NOTE 11. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In millions, except per common share data)	First Quarter	Second Quarter	Third Quarter(1)	Fourth Quarter(2), (3)

1996(1), (3)				
Net sales	\$796.6	\$797.7	\$819.3	\$808.9
Gross profit	246.7	248.4	260.5	262.7
Net income	40.0	41.6	46.6	47.7
Net income per common share	.38	.39	.45	.46

1995(2)				
Net sales	\$773.2	\$780.5	\$783.5	\$776.7
Gross profit	244.8	239.0	235.0	238.5
Net income	34.5	35.7	35.8	37.7
Net income per common share	.32	.34	.34	.35

1994				
Net sales	\$667.7	\$718.6	\$733.7	\$736.7
Gross profit	212.5	227.7	232.6	235.0
Net income	25.2	27.9	27.8	28.5
Net income per common share	.22	.25	.25	.26
=====				

Per common share amounts for all periods shown have been restated to reflect the December 1996 two-for-one common stock split.

- (1) Net income for the third quarter of 1996 includes income of \$1.4 million, or \$.01 per common share, related to the net gain on divestiture and restructuring charges.
- (2) Net income for the fourth quarter of 1995 includes income of \$1 million, or \$.01 per common share, related to the net gain on divestitures and restructuring charges.
- (3) During the fourth quarter of 1996, certain inventories were reduced, resulting in the liquidation of LIFO inventory. The effect was to reduce cost of products sold by \$1.7 million.

Avery Dennison Corporation

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Avery Dennison:

We have audited the accompanying consolidated balance sheet of Avery Dennison Corporation and subsidiaries as of December 28, 1996 and December 30, 1995, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 28, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above, which appear on pages 42 through 56 of this Annual Report, present fairly, in all material respects, the consolidated financial position of Avery Dennison Corporation and subsidiaries as of December 28, 1996 and December 30, 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 28, 1996, in conformity with generally accepted accounting principles.

/s/ COOPERS & LYBRAND L.L.P.

Coopers & Lybrand L.L.P.
Los Angeles, California
January 28, 1997

Avery Dennison Corporation

CORPORATE INFORMATION

C O U N S E L

Latham & Watkins
Los Angeles

I N D E P E N D E N T A C C O U N T A N T S

Coopers & Lybrand L.L.P.
Los Angeles

T R A N S F E R A G E N T - R E G I S T R A R

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, NJ 07303-2500
(800) 756-8200

A N N U A L M E E T I N G

The Annual Meeting of Shareholders will be held at 1:30 pm, Thursday, April 24, 1997, in the Conference Center of the Avery Dennison Corporate Center, 150 North Orange Grove Boulevard, Pasadena, California.

D I V I D E N D R E I N V E S T M E N T P L A N

Shareholders of record may reinvest their cash dividends in additional shares of Avery Dennison common stock at market price.

Shareholders can also invest optional cash payments of up to \$3,000 per month in Avery Dennison common stock at market price.

Avery Dennison investors not yet participating in the plan, as well as brokers and custodians who hold Avery Dennison common stock for clients, may obtain a copy of the plan by writing to First Chicago Trust Company of New York, Attn. Avery Dennison Corporation Dividend Reinvestment Plan, P.O. Box 2598, Jersey City, NJ 07303-2598, (800) 756-8200.

F O R M 1 0 - K

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished to shareholders and interested investors free of charge upon written request to the Secretary of the Corporation.

C O R P O R A T E H E A D Q U A R T E R S

150 North Orange Grove Boulevard
Pasadena, California 91103
(818) 304-2000

M A I L I N G A D D R E S S

P.O. Box 7090
Pasadena, California 91109-7090
Fax: (818) 792-7312

I N V E S T O R R E L A T I O N S C O N T A C T

Wayne H. Smith, Vice President and Treasurer
(818) 304-2000
investorcom@averydennison.com

Worldwide Web Sites

http://www.averydennison.com
http://www.avery.com (direct address for Avery-brand office and consumer products)
http://www.fasson.com (direct address for Fasson-brand products)

S T O C K A N D D I V I D E N D D A T A (1)

Common shares of Avery Dennison are listed on the New York and Pacific stock exchanges. Ticker symbol: AVY.

	1996		1995	
	High	Low	High	Low
Market Price				
First Quarter	28 1/2	23 7/8	20 3/16	16 5/8
Second Quarter	29 1/16	27	21 7/8	19 1/2
Third Quarter	27 3/4	25	21	19 5/8
Fourth Quarter	35 7/8	27 11/16	25 1/16	20 7/16

Prices shown represent closing prices on the NYSE.

1996

1995

Dividends Per Common Share

First Quarter	.15	.135
Second Quarter	.15	.135
Third Quarter	.15	.135
Fourth Quarter	.17	.150

Number of shareholders of record as of year end 1996: 10,949

(1) Market price and dividend per common share amounts were restated to reflect the December 1996 two-for-one common stock split.

The following products mentioned in this Annual Report are trademarks of Avery Dennison Corporation: Avery, Avcoat, Avery Computer Central, Avery Dennison, BinderPack, Direct Print, Avery Kids, Avery Wizard, Avloy, ClearADvantage, Dry Paint, DualSharp, EXACT, FasClear, Fasson, Mirage, NotePack, PencilPack, PRIMAX, SmartFolio, and StaySharp.

All other brands and product names are trademarks of their respective companies.

SUBSIDIARIES OF REGISTRANT

SUBSIDIARY -----	JURISDICTION ----- IN WHICH ----- ORGANIZED -----
1. A.V. Chemie A.G.....	Switzerland
2. A-D Holdings Argentina S.A.....	Argentina
3. AEAC, Inc.....	Delaware
4. Avery Automotive Limited.....	United Kingdom
5. Avery China Company Limited.....	China
6. Avery Coordination Center N.V.....	Belgium
7. Avery Corp.....	Delaware
8. Avery de Mexico S.A. de C.V.....	Mexico
9. Avery Dennison (Fiji) Limited.....	Fiji
10. Avery Dennison (Hong Kong) Limited.....	Hong Kong
11. Avery Dennison (India) Private Limited.....	India
12. Avery Dennison (Ireland) Limited.....	Ireland
13. Avery Dennison (Retail) Limited.....	Australia
14. Avery Dennison (Thailand) Ltd.....	Thailand
15. Avery Dennison Argentina S.A.....	Argentina
16. Avery Dennison Australia Limited.....	Australia
17. Avery Dennison C.A.....	Venezuela
18. Avery Dennison Canada Inc.....	Canada
19. Avery Dennison Chile S.A.....	Chile
20. Avery Dennison Columbia S.A.....	Columbia
21. Avery Dennison Danmark A/S.....	Denmark
22. Avery Dennison Deutschland GmbH.....	Germany
23. Avery Dennison do Brasil Ltda.....	Brazil
24. Avery Dennison Foreign Sales Corporation.....	Barbados
25. Avery Dennison France S.A.....	France
26. Avery Dennison Holding GmbH.....	Germany
27. Avery Dennison Holdings Limited.....	Australia
28. Avery Dennison Italia S.p.A.....	Italy
29. Avery Dennison Korea Limited.....	Korea
30. Avery Dennison Luxembourg S.A.....	Luxembourg
31. Avery Dennison Mexico S.A. de C.V.....	Mexico
32. Avery Dennison Office Products (Pty.) Ltd.....	South Africa
33. Avery Dennison Office Products Company.....	Nevada

SUBSIDIARY

JURISDICTION

IN WHICH

ORGANIZED

34.	Avery Dennison Office Products U.K. Ltd.....	United Kingdom
35.	Avery Dennison Osterreich GmbH.....	Austria
36.	Avery Dennison Overseas Corporation.....	Massachusetts
37.	Avery Dennison Singapore (Pte) Ltd.....	Singapore
38.	Avery Dennison Materials U.K. Limited.....	United Kingdom
39.	Avery Dennison U.K. Limited.....	United Kingdom
40.	Avery Etiketsystemer A/S.....	Denmark
41.	Avery Etiketten B.V.....	Netherlands
42.	Avery Etiketten N.V.....	Belgium
43.	Avery Etikettssystem Svenska AB.....	Sweden
44.	Avery Foreign Sales Corporation B.V.....	Netherlands
45.	Avery Graphic Systems, Inc.....	Delaware
46.	Avery Guidex Limited.....	United Kingdom
47.	Avery Holding AG.....	Switzerland
48.	Avery Holding B.V.....	Netherlands
49.	Avery Holding Limited.....	United Kingdom
50.	Avery Holding S.A.....	France
51.	Avery International France S.A.....	France
52.	Avery Label (Northern Ireland) Limited.....	United Kingdom
53.	Avery Maschinen GmbH.....	Germany
54.	Avery Pacific Corporation.....	California
55.	Avery Properties Pty. Limited.....	Australia
56.	Avery Specialty Tape Division N.V.....	Belgium
57.	Avery, Inc.....	California
58.	Cardinal Insurance Limited.....	Bermuda
59.	Dennison do Brasil Industria e Comercio Ltda...	Brazil
60.	Dennison International Company.....	Massachusetts
61.	Dennison International Holding B.V.....	Netherlands
62.	Dennison Ireland Limited.....	Ireland
63.	Dennison Manufacturing (Trading) Ltd.....	United Kingdom
64.	Dennison Manufacturing Company.....	Nevada
65.	Dennison Monarch Systems, Inc.....	Delaware
66.	Dennison Office Products Limited.....	Ireland
67.	DMC Development Corporation.....	Nevada
68.	Dover S.A.....	Argentina
69.	Etikettrykkeriet A/S.....	Denmark
70.	Fasson (Schweiz) A.G.....	Switzerland

SUBSIDIARY

JURISDICTION

IN WHICH

ORGANIZED

71.	Fasson Belgie N.V.....	Belgium
72.	Fasson Canada Inc.....	Canada
73.	Fasson de Mexico S.A.....	Mexico
74.	Fasson Deutschland GmbH.....	Germany
75.	Fasson Espana S.A.....	Spain
76.	Fasson France S.a.r.L.....	France
77.	Fasson Ireland Limited.....	Ireland
78.	Fasson Nederland B.V.....	Netherlands
79.	Fasson Norge A/S.....	Norway
80.	Fasson Polska Sp. Zo.o.....	Poland
81.	Fasson Portugal Produtos Auto-Adesivos Lda.....	Portugal
82.	Fasson Products (Proprietary) Limited.....	South Africa
83.	Fasson Pty. Limited.....	Australia
84.	Fasson Scandinavia A/S.....	Denmark
85.	Fasson Suomi OY.....	Finland
86.	Fasson Sverige AB.....	Sweden
87.	LAC Retail Systems Limited.....	United Kingdom
88.	LDNA Corporation.....	California
89.	Metallised Films & Papers Ltd.....	United Kingdom
90.	Monarch Industries, Inc.....	New Jersey
91.	Novexx Modul Vertriebs GmbH.....	Germany
92.	Plastimpres S.A.....	Argentina
93.	Presto SarL.....	France
94.	Retail Products Limited.....	Ireland
95.	Security Printing Division, Inc.....	Delaware
96.	Self Adhering Products & Associates (Pty.) Ltd.	South Africa
97.	Soabar Systems (Hong Kong) Limited.....	Hong Kong
98.	Soabar Systems (Philippines) Inc.....	Philippines
99.	Soabar Systems Hong Kong B.V.....	Netherlands
100.	Societe Civile Immobiliere Sarrail.....	France
101.	TIADECO Participacoes, Ltda.....	Brazil

All of the preceding subsidiaries have been consolidated in the Registrant's financial statements and no separate financial statements have been filed.

Registrant also owns 51% of Avery--Petofi KFT (Hungary), which company may be deemed to be a subsidiary. Registrant's share of the profits and losses is included on an equity basis in the Consolidated Statement of Income.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR		
	DEC-28-1996	
	DEC-31-1995	
	DEC-28-1996	3,800
		0
		466,000
		(17,500)
		244,400
		804,500
		1,767,900
		(805,200)
		2,036,700
693,900		
		370,700
		0
		0
		124,100
		707,900
2,036,700		
		3,222,500
		3,222,500
		2,204,200
		2,204,200
		710,300
		0
		37,400
		270,600
		94,700
175,900		
		0
		0
		0
		175,900
		1.68
		1.62

CAUTIONARY STATEMENT FOR PURPOSES OF THE
"SAFE HARBOR" PROVISIONS OF THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Information provided by the Company may contain certain forward-looking information, as defined by the Private Securities Litigation Reform Act of 1995 (the "Act"). This may relate to such matters as sales, income, margins, earnings per share, return on equity, return on total capital, economic value added, capital expenditures, dividends, cash flow, debt to capital ratios, growth rates, future economic performance and trends, short and long term plans (including financing, operating and strategic plans) and objectives for future operations as well as assumptions relating to any of the forward-looking information. This Statement is being made pursuant to the Act and with the intention of obtaining the benefits of the so-called "safe harbor" provisions of the Act. The Company cautions that forward-looking statements are not guarantees because there are inherent and obvious difficulties in predicting the outcome of future events. Therefore, actual results may differ materially from those expressed or implied.

The ability of the Company to attain management's goals and objectives are materially dependent on numerous factors, including those set forth herein.

Operating results are importantly influenced by general economic conditions and growth (or contraction) of the principal economies in which the Company operates, including the United States, Canada, Western Europe, Latin America and the Asia-Pacific region. All economies in which the Company operates are cyclical and the rates of growth (or contraction) can vary substantially. More than one-third of the Company's sales and one-quarter of the income from operations (before interest and taxes) are in foreign currencies, which fluctuate in relation to one another and to the United States dollar. Fluctuations in currencies can cause translation and other losses to the Company. The Company's international operations are strongly influenced by the political and regulatory environment (including tariffs) in the countries in which the Company conducts its operations.

As a manufacturer, the Company's profitability is also dependent upon its ability to control or pass on costs of raw materials and labor. Inflationary increases in the costs of raw materials and labor have occurred in the past and are expected to recur, and the Company's ability to reflect these costs in increased selling prices for its products, increasing its productivity, and focusing on higher profit businesses, has allowed the Company generally to maintain its margins. Past performance may or may not be replicable in the future.

The Company's customers are widely diversified, but in certain portions of its business, industry concentration has increased the importance and decreased the number of significant customers. In particular, sales of the Company's office and consumer products in the United States are increasingly concentrated in a few major customers, principally discount office product superstores and distributors. These developments, including increased credit risks, may increase pressures on the Company's margins.

A significant portion of the revenues in each of its recent fiscal years has been represented by sales of products introduced by the Company within five years prior to the period in question. The Company's ability to develop and successfully market new products and to develop, acquire and retain necessary intellectual property rights is therefore essential to maintaining the Company's growth, which ability cannot be assured.

Other factors include costs and other effects of legal and administrative cases and proceedings (whether civil, such as environment and product related, or criminal), settlements and investigations, claims, and changes in those items; developments or assertions by or against the Company relating to intellectual property rights and intellectual property licenses; adoption of new, or change in, accounting policies and practices and the application of such policies and practices; changes in business mix, rates of growth and profitability may be influenced by business reorganizations or combinations; general or specific economic conditions and the ability and willingness of purchasers to substitute other products for the products that the Company distributes; and pricing, purchasing, financing and promotional decisions by intermediaries in the distribution channel, which could affect orders, or end-user demand, for the Company's products.

The factors identified in this statement are believed to be important factors (but not necessarily all of the important factors) that could cause actual results to be materially different from those that may be expressed or implied in any forward-looking statement made by, or on behalf, of the Company. Other factors not discussed in this statement could also have material adverse effects concerning forward-looking objectives or estimates. The Company assumes no obligation to update the information included in this statement.