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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 2, 2005.

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** **(Address of principal executive offices)**	**91103** **(Zip Code)**

Registrant's telephone number, including area code: (626) 304-2000

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Number of shares of $1 par value common stock outstanding as of April 30, 2005: 110,462,275

AVERY DENNISON CORPORATION

FISCAL FIRST QUARTER 2005 FORM 10-Q QUARTERLY REPORT

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

(Dollars in millions)	April 2, 2005	January 1, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 53.0	$ 84.8
Trade accounts receivable, less allowances of $64.7 and $62.8 for 2005 and 2004, respectively	833.4	887.4
Inventories, net	474.5	433.2
Deferred taxes	31.9	31.9
Prepaid expenses and other current assets	109.6	105.1
Total current assets	1,502.4	1,542.4
Property, plant and equipment	2,697.4	2,719.7
Accumulated depreciation	1,351.4	1,338.7
Property, plant and equipment, net	1,346.0	1,381.0
Goodwill	739.5	757.0
Other intangibles resulting from business acquisitions, net	140.4	145.8
Other assets	567.9	573.1
	$4,296.2	$4,399.3
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	$ 231.9	$ 204.5
Accounts payable	601.1	619.2
Other current liabilities	470.0	563.6
Total current liabilities	1,303.0	1,387.3
Long-term debt	995.0	1,007.2
Non-current deferred taxes and other long-term liabilities	460.7	456.1
Commitments and contingencies (see Note 14)		
Shareholders' equity:		
Common stock, $1 par value, authorized - 400,000,000 shares at April 2, 2005 and January 1, 2005; issued - 124,126,624 shares at April 2, 2005 and January 1, 2005; outstanding - 100,177,166 shares and 100,113,127 shares at April 2, 2005 and January 1, 2005, respectively	124.1	124.1
Capital in excess of par value	788.8	766.1
Retained earnings	1,903.4	1,887.6
Cost of unallocated ESOP shares	(9.7)	(9.7)
Employee stock benefit trusts, 10,279,609 shares and 10,343,648 shares at April 2, 2005 and January 1, 2005, respectively	(635.1)	(619.1)
Treasury stock at cost, 13,669,849 shares at April 2, 2005 and January 1, 2005	(597.6)	(597.6)
Accumulated other comprehensive loss	(36.4)	(2.7)
Total shareholders' equity	1,537.5	1,548.7
	$4,296.2	$4,399.3

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(In millions, except per share amounts)	Three Months Ended April 2, 2005	Three Months Ended March 27, 2004
Net sales	$ 1,346.3	$ 1,246.7
Cost of products sold	958.5	880.2
Gross profit	387.8	366.5
Marketing, general and administrative expense	292.0	257.7
Interest expense	14.5	14.9
Other expense, net	3.3	21.4
Income before taxes	78.0	72.5
Taxes on income	20.3	19.9
Net income	$ 57.7	$ 52.6
Per share amounts:		
Net income per common share	$ .58	$ .53
Net income per common share, assuming dilution	$ .57	$ .52
Dividends	$ .38	$ .37
Average shares outstanding:		
Common shares	100.1	99.7
Common shares, assuming dilution	100.7	100.3
Common shares outstanding at period end	100.2	99.8

See Notes to Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(In millions)	Three Months Ended April 2, 2005	Three Months Ended March 27, 2004
Operating Activities		
Net income	$ 57.7	$ 52.6
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	38.2	36.9
Amortization	11.6	9.3
Deferred taxes	(.6)	.8
Asset impairment and net (gain) loss on sale of assets	.3	6.1
Other non-cash items, net	(4.5)	(4.1)
Changes in assets and liabilities, net of the effect of business acquisitions and divestitures	(105.4)	(36.1)
Net cash (used in) provided by operating activities	(2.7)	65.5
Investing Activities		
Purchase of property, plant and equipment	(43.9)	(37.9)
Purchase of software and other assets	(4.9)	(6.3)
Payments for acquisitions	—	(2.3)
Proceeds from sale of assets	5.2	.9
Other	5.8	(2.5)
Net cash used in investing activities	(37.8)	(48.1)
Financing Activities		
Net increase in borrowings (maturities of 90 days or less)	103.6	63.2
Additional borrowings (maturities longer than 90 days)	.3	60.0
Payments of debt (maturities longer than 90 days)	(60.2)	(110.1)
Dividends paid	(41.9)	(40.9)
Purchase of treasury stock	—	(.3)
Proceeds from exercise of stock options, net	2.7	8.1
Other	4.0	3.9
Net cash provided by (used in) financing activities	8.5	(16.1)
Effect of foreign currency translation on cash balances	.2	.5
(Decrease) increase in cash and cash equivalents	(31.8)	1.8
Cash and cash equivalents, beginning of period	84.8	29.5
Cash and cash equivalents, end of period	$ 53.0	$ 31.3

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. General

The accompanying unaudited consolidated financial statements include normal recurring adjustments necessary for a fair presentation of Avery Dennison Corporation's (the "Company") interim results. Certain prior year amounts have been reclassified to conform with the current year presentation. The consolidated financial statements and notes in this Form 10-Q are presented as permitted by Regulation S-X, and as such, they do not contain certain information included in the Company's 2004 annual financial statements and notes. This Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes included in the Company's 2004 Annual Report on Form 10-K.

The first quarters of 2005 and 2004 consisted of thirteen-week periods ending April 2, 2005 and March 27, 2004, respectively. The interim results of operations are not necessarily indicative of future financial results.

Note 2. Accounts Receivable

For the quarter ended April 2, 2005, the Company recorded expenses of $10.8 million related to the allowances for trade accounts receivable. For the full year 2004, the Company recorded expenses of $30.7 million related to allowances for trade accounts receivable. The Company records these allowances based on estimates related to the following factors:

- Customer specific allowances
- Amounts based upon an aging schedule
- Historical experience

Note 3. Inventories

Inventories consisted of:

(In millions)	April 2, 2005	January 1, 2005
Raw materials	$ 143.2	$ 140.3
Work-in-progress	105.7	95.1
Finished goods	241.1	212.7
Inventories at lower of FIFO cost or market (approximates replacement cost)	490.0	448.1
Less LIFO adjustment	(15.5)	(14.9)
	$ 474.5	$ 433.2

Note 4. Goodwill and Other Intangibles Resulting from Business Acquisitions

Changes in the net carrying amount of goodwill for the periods shown, by reportable segment and other businesses, are as follows:

(In millions)	Pressure-sensitive Materials	Office and Consumer Products	Retail Information Services	Other specialty converting businesses	Total
Balance as of December 27, 2003	$ 360.9	$ 160.5	$ 194.9	$ .3	$716.6
Goodwill acquired during the period	—	—	13.2	—	13.2
Acquisition adjustments [(1)]	—	—	(5.3)	—	(5.3)
Translation adjustments	20.1	9.9	2.5	—	32.5
Balance as of January 1, 2005	381.0	170.4	205.3	.3	757.0
Acquisition adjustments [(2)]	—	—	(4.5)	—	(4.5)
Translation adjustments	(8.3)	(3.9)	(.8)	—	(13.0)
Balance as of April 2, 2005	$ 372.7	$ 166.5	$ 200.0	$ .3	$739.5

(1) Acquisition adjustments in 2004 consisted of changes in goodwill for tax assessments associated with RVL Packaging, Inc. ("RVL").

(2) Acquisition adjustments in 2005 consisted of purchase price allocation of the 2004 acquisition of Rinke Etiketten ("Rinke").

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The following table sets forth the Company's other intangible assets resulting from business acquisitions at April 2, 2005 and January 1, 2005, which continue to be amortized:

(In millions)	April 2, 2005 Gross Carrying Amount	April 2, 2005 Accumulated Amortization	April 2, 2005 Net Carrying Amount	January 1, 2005 Gross Carrying Amount	January 1, 2005 Accumulated Amortization	January 1, 2005 Net Carrying Amount
Amortizable other intangible assets:						
Tradenames and trademarks	$ 45.4	$ 26.3	$ 19.1	$ 45.7	$ 25.8	$ 19.9
Patented and other acquired technology	65.4	17.7	47.7	65.4	16.8	48.6
Customer relationships	89.6	17.1	72.5	92.7	16.6	76.1
Other intangibles	4.6	3.5	1.1	4.6	3.4	1.2
Total	$ 205.0	$ 64.6	$ 140.4	$ 208.4	$ 62.6	$ 145.8

Amortization expense on other intangible assets resulting from business acquisitions was $3.6 million and $3.5 million for the three months ended April 2, 2005 and March 27, 2004, respectively. The weighted-average amortization periods for intangible assets resulting from business acquisitions are eleven years for tradenames and trademarks, nineteen years for patented and other acquired technology, twenty-two years for customer relationships, seven years for other intangibles and nineteen years in total. Based on current information, estimated amortization expense for acquired intangible assets for this fiscal year, and for each of the next four fiscal years is expected to be approximately $14 million, $13 million, $9 million, $8 million and $8 million, respectively.

Note 5. Financial Instruments

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

During the three months ended April 2, 2005, the amount recognized in earnings related to cash flow hedges that were ineffective was not significant. The reclassification from other comprehensive income to earnings for settlement or ineffectiveness was a net loss of $2.3 million and $.8 million during the quarters ended April 2, 2005 and March 27, 2004, respectively. A net loss of approximately $3.3 million is expected to be reclassified from other comprehensive income to earnings within the next 12 months.

In connection with the issuance of the $250 million 10-year senior notes in January 2003, the Company settled a forward starting interest rate swap at a loss of $32.5 million. The loss is being amortized to interest expense over a 10-year period, which corresponds to the term of the related debt. The related interest expense recognized for the three-month periods ended April 2, 2005 and March 27, 2004 was $.7 million and $.6 million, respectively. The amortization of this loss is expected to be approximately $2.7 million for the next 12 months, which is part of the reclassification described above.

Note 6. Pensions and Other Postretirement Benefits

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

(In millions)	Pension Benefits April 2, 2005 U.S.	Pension Benefits April 2, 2005 Int'l	Pension Benefits March 27, 2004 U.S.	Pension Benefits March 27, 2004 Int'l	U.S. Postretirement Health Benefits April 2, 2005	U.S. Postretirement Health Benefits March 27, 2004
Components of net periodic benefit cost:						
Service cost	$ 5.2	$ 3.1	$ 4.1	$ 2.5	$ .4	$ .5
Interest cost	6.9	5.0	6.3	4.5	.6	.6
Expected return on plan assets	(10.7)	(5.6)	(10.3)	(5.2)	—	—
Recognized net actuarial loss	1.3	1.0	.7	.6	.2	.3
Amortization of prior service cost	.5	.1	—	.1	(.2)	(.2)
Amortization of transition asset	(.1)	(.3)	(.1)	(.3)	—	—
Net periodic benefit cost	$ 3.1	$ 3.3	$ .7	$ 2.2	$ 1.0	$ 1.2

The Company contributed $.4 million to its U.S. pension plans for the first quarters of both 2005 and 2004. In May 2005, the Company contributed $25 million to its U.S. pension plans. The Company expects to contribute an additional $1.4 million to its U.S pension plans for

the remainder of 2005, totaling $26.8 million for the full year 2005 compared to $26.6 million for the full year 2004. Additionally, the Company contributed $1 million to its postretirement benefit plan in the first quarter of 2005. For the remainder of 2005, the Company expects to contribute approximately $2.3 million to its postretirement plans.

The Company contributed $2.5 million to its international pension plans for the first quarter of 2005. For the remainder of 2005, the Company expects to contribute approximately $4.4 million to its international pension plans.

Note 7. Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments, adjustments to the minimum pension liability, net of tax, and the gains or losses on the effective portion of cash flow and firm commitment hedges, net of tax, that are currently presented as a component of shareholders' equity. The Company's total comprehensive income was $24 million and $59.6 million for the quarters ended April 2, 2005 and March 27, 2004, respectively.

The components of accumulated other comprehensive loss at the end of the following periods were:

(In millions)	April 2, 2005	January 1, 2005
Foreign currency translation adjustment	$ 91.6	$ 127.2
Minimum pension liability	(110.9)	(110.9)
Net loss on derivative instruments designated as cash flow and firm commitment hedges	(17.1)	(19.0)
Total accumulated other comprehensive loss	$ (36.4)	$ (2.7)

Cash flow and firm commitment hedging instrument activity in other comprehensive income (loss), net of tax, was as follows:

(In millions)	April 2, 2005
Beginning accumulated derivative loss	$ (19.0)
Net loss reclassified to earnings	2.3
Net change in the revaluation of hedging transactions	(.4)
Ending accumulated derivative loss	$ (17.1)

Note 8. Research and Development

Research and development expense for the quarters ended April 2, 2005 and March 27, 2004 was $23.2 million and $18.4 million, respectively.

Note 9. Components of Other Income and Expense

In the first quarter of 2005, the Company recorded a pretax charge of $6.7 million relating to restructuring costs and asset impairment charges, partially offset by a gain on sale of assets of $(3.4 million). The charge included severance and related costs of $4 million related to the elimination of approximately 170 positions in the Office and Consumer Products segment as a result of the Company's closure of the Gainesville, Georgia label converting plant. Severance and related costs represent cash paid or to be paid to employees terminated under these actions. At April 2, 2005, $3.5 million remained accrued for severance and related costs (included in "Other current liabilities" in the Condensed Consolidated Balance Sheet), and approximately 15 employees had left the Company. The remaining employees impacted by these actions are expected to leave the Company by mid-2006 and final payments to the terminated employees will be made during 2006. Also included in the charge was $2.7 million related to impairment of buildings and land in the Pressure-sensitive Materials segment. Asset impairments were based on the market value of the assets.

In the second quarter of 2004, the Company recorded a pretax charge of $13.8 million relating to restructuring costs, asset impairments and planned disposition of property, plant and equipment, and lease cancellation costs primarily associated with the completion of the Company's integration of the Jackstädt GmbH ("Jackstädt") acquisition in the Company's Pressure-sensitive Materials segment, as well as cost reduction actions in the Office and Consumer Products and Retail Information Services segments. The charge included severance and related costs of $7.7 million ($7 million for approximately 175 positions in the Pressure-sensitive Materials segment, $.5 million for approximately 5 positions in the Office and Consumer Products segment and $.2 million for approximately 15 positions in the Retail Information Services segment), which represent cash paid or to be paid to employees terminated under these actions. At April 2, 2005, $.4 million remained accrued for severance and related costs (included in "Other current liabilities" in the Condensed Consolidated Balance Sheet) for approximately 5 employees in the Pressure-sensitive Materials segment. The remaining employees impacted by these actions are expected to leave the Company in 2005 and final payments to the terminated employees will be made during 2005.

In the first quarter of 2004, the Company recorded a pretax charge of $21.4 million relating to restructuring costs and asset impairment charges as part of the Company's integration of the Jackstädt acquisition in the Company's Pressure-sensitive Materials segment. Asset impairments were based on the market value for similar assets. The charge included severance and related costs of $15.9 million, which

represent cash paid or to be paid to employees terminated under these actions, involving the elimination of approximately 210 positions. All employees impacted by these actions had left the Company in 2004 and final payments will be made in 2005. At April 2, 2005, $2 million remained accrued for severance and related costs (included in "Other current liabilities" in the Condensed Consolidated Balance Sheet). Also included in the charge was $2.9 million related to impairment of software and $2.6 million related to impairment and planned disposition of machinery and equipment.

In the fourth quarter of 2003, the Company recorded a pretax charge of $34.3 million relating to integration actions and productivity improvement initiatives, as well as net losses associated with several product line divestitures. The charge included severance and related costs of $22 million related to the elimination of approximately 530 positions worldwide ($10.3 million for approximately 180 positions in the Pressure-sensitive Materials segment, $8.7 million for approximately 255 positions in the Office and Consumer Products segment, $2.6 million for approximately 80 employees in the Retail Information Services segment and $.4 million for approximately 15 positions in Corporate). Severance and related costs represent cash paid or to be paid to employees terminated under these actions. At April 2, 2005, $1.2 million remained accrued for severance and related costs (included in "Other current liabilities" in the Condensed Consolidated Balance Sheet) for approximately 30 employees in the Pressure-sensitive Materials segment. The remaining employees impacted by these actions are expected to leave the Company in 2005 and final payments to the terminated employees will be made in 2006.

The Company expects to pay lease cancellation costs from previous cost reduction actions through 2011. The table below details lease cancellation cost activities:

(In millions)	Total
Balance as of December 27, 2003	$ 3.1
Additional accrual	.2
Cancellation costs paid	(1.8)
Balance as of January 1, 2005	1.5
Additional accrual	—
Cancellation costs paid	—
Balance as of April 2, 2005	$ 1.5

Note 10. Foreign Currency

Transactions in foreign currencies and translation of financial statements of subsidiaries operating in hyperinflationary economies decreased net income by $2.3 million and $1 million for the quarters ended April 2, 2005 and March 27, 2004, respectively. Operations in hyperinflationary economies consist of the Company's operations in Turkey and the Dominican Republic, for which the translation gains and losses are included in net income.

Note 11. Taxes Based on Income

The effective tax rate was 26 percent and 27.5 percent for the quarters ended April 2, 2005 and March 27, 2004, respectively. The Company's effective tax rate is lower than the U.S. federal statutory rate of 35 percent, due to the Company's growth outside the U.S. where the statutory tax rates are generally much lower. U.S. taxes are not provided for such foreign earnings as they are reinvested indefinitely outside the U.S.

The amount of income taxes the Company pays is subject to ongoing audits by federal, state and foreign tax authorities. The Company's estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Company believes that it has adequately provided for reasonably foreseeable outcomes related to these matters. However, the Company's future results may include favorable or unfavorable adjustments to its estimated tax liabilities in the period the assessments are made or resolved, which may impact the Company's effective tax rate.

The Company is assessing the implications of the various applicable provisions of the American Jobs Creation Act of 2004, and continues to consider a provision for a one-time repatriation of accumulated foreign earnings. The Company's current intention is to continue to reinvest its undistributed foreign earnings indefinitely and, therefore, no related deferred tax liability has been recorded at this time.

Note 12. Net Income Per Share

Net income per common share amounts were computed as follows:

	Three Months Ended	
(In millions, except per share amounts)	April 2, 2005	March 27, 2004
(A) Net income available to common shareholders	$ 57.7	$ 52.6
(B) Weighted-average number of common shares outstanding	100.1	99.7
Additional common shares issuable under employee stock options using the treasury stock method and contingently issuable shares under an acquisition agreement	.6	.6
(C) Weighted-average number of common shares outstanding assuming the exercise of stock options and contingently issuable shares under an acquisition agreement	100.7	100.3
Net income per common share (A) ÷ (B)	$ .58	$ .53
Net income per common share, assuming dilution (A) ÷ (C)	$ .57	$ .52

Certain employee stock options were not included in the computation of net income per common share, assuming dilution, because these options would not have had a dilutive effect. The number of stock options excluded from the computation was 1.3 million and 1.4 million for the three months ended April 2, 2005 and March 27, 2004, respectively.

Note 13. Stock-Based Compensation

The Company's policy is to price all stock option grants at fair market value on the date of grant. Under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," the Company uses the intrinsic value method of accounting for stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic value method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock.

In accordance with the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosures," the following table reflects pro forma net income and earnings per share had the Company elected to adopt the fair value approach of SFAS No. 123:

	Three Months Ended	
(In millions, except per share amounts)	**April 2, 2005**	**March 27, 2004**
Net income, as reported	$ 57.7	$ 52.6
Compensation expense, net of tax	(4.1)	(4.2)
Pro forma net income	$ 53.6	$ 48.4
Earnings per share, as reported	$ .58	$ .53
Earnings per share, assuming dilution, as reported	.57	.52
Pro forma earnings per share	$ .54	$ .49
Pro forma earnings per share, assuming dilution	.53	.48

Note 14. Commitments and Contingencies

Industry Investigations

On April 14, 2003, the Company announced that it had been advised that the U.S. Department of Justice was challenging the proposed merger of UPM-Kymmene ("UPM") and the Morgan Adhesives ("MACtac") division of Bemis Co., Inc. ("Bemis") on the basis of its belief that in certain aspects of the label stock industry "the competitors have sought to coordinate rather than compete." The Company also announced that it had been notified that the U.S. Department of Justice had initiated a criminal investigation into competitive practices in the label stock industry.

On April 15, 2003, the U.S. Department of Justice filed a complaint in the U.S. District Court for the Northern District of Illinois seeking to enjoin the proposed merger ("DOJ Merger Complaint"). The complaint, which set forth the U.S. Department of Justice's theory of its case, included references not only to the parties to the merger, but also to an unnamed "Leading Producer" of North American label stock, which is the Company. The complaint asserted that "UPM and the Leading Producer have already attempted to limit competition between themselves, as reflected in written and oral communications to each other through high level executives regarding explicit anticompetitive understandings, although the extent to which these efforts have succeeded is not entirely clear to the United States at the present time."

In connection with the U.S. Department of Justice's investigation into the proposed merger, the Company produced documents and provided testimony by Messrs. Neal, Scarborough and Simcic (then CEO, President and Group Vice President—Roll Materials Worldwide, respectively). On July 25, 2003, the United States District Court for the Northern District of Illinois entered an order enjoining the proposed merger. UPM and Bemis thereafter agreed to terminate the merger agreement. The court's decision incorporated a stipulation by the U.S. Department of Justice that the paper label industry is competitive.

On April 24, 2003, Sentry Business Products, Inc. filed a purported class action in the United States District Court for the Northern District of Illinois against the Company, UPM, Bemis and certain of their subsidiaries seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Ten similar complaints were filed in various federal district courts. In November 2003, the cases were transferred to the United States District Court for the Middle District of

Pennsylvania and consolidated for pretrial purposes. On January 21, 2004, plaintiff Pamco Tape & Label voluntarily dismissed its complaint, leaving a total of ten named plaintiffs. Plaintiffs filed a consolidated complaint on February 16, 2004, which the Company answered on March 31, 2004. On April 14, 2004, the court separated the proceedings as to class certification and merits discovery, and limited the initial phase of discovery to the issue of the appropriateness of class certification. The Company intends to defend these matters vigorously.

On May 6, 2003, Sekuk Global Enterprises filed a purported stockholder class action in the United States District Court for the Central District of California against the Company and Messrs. Neal, O'Bryant and Skovran (then CEO, CFO and Controller, respectively) seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. Subsequently, another similar action was filed in the same court. On September 24, 2003, the court appointed a lead plaintiff and approved lead and liaison counsel and ordered the two actions consolidated as the "In Re Avery Dennison Corporation Securities Litigation." Pursuant to court order and the parties' stipulation, plaintiff filed a consolidated complaint in mid-February 2004. The court approved a briefing schedule for defendants' motion to dismiss the consolidated complaint, with a contemplated hearing date in June 2004. In January 2004, the parties stipulated to stay the consolidated action, including the proposed briefing schedule, pending the outcome of the government investigation of alleged anticompetitive conduct by the Company. The court has approved the parties' stipulation to stay the consolidated actions and scheduled the next status conference for August 22, 2005. There has been no discovery and no trial date has been set. The Company intends to defend these matters vigorously.

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for San Francisco County on March 30, 2004. A further similar complaint was filed in the Superior Court for Maricopa County, Arizona on November 6, 2003. Plaintiffs voluntarily dismissed the Arizona complaint without prejudice on October 4, 2004. On January 21, 2005, American International Distribution Corporation filed a purported class action on behalf of indirect purchasers in the Superior Court for Chittenden County, Vermont. Similar actions were filed by Webtego on February 16, 2005, in the Court of Common Pleas for Cuyahoga County, Ohio; by D.R. Ward Construction Co. on February 17, 2005, in the Superior Court for Maricopa County, Arizona; by Richard Wrobel, on February 16, 2005, in the District Court of Johnson County, Kansas; and by Chad and Terry Muzzey, on February 16, 2005 in the District Court of Scotts Bluff County, Nebraska. On February 17, 2005, Judy Benson filed a purported multi-state class action on behalf of indirect purchasers in the Circuit Court for Cocke County, Tennessee. The Company intends to defend these matters vigorously.

On August 15, 2003, the U.S. Department of Justice issued a subpoena to the Company in connection with its criminal investigation into competitive practice in the label stock industry. The Company is cooperating in the investigation, and has produced documents in response to the subpoena.

On June 8, 2004, Pamco Tape & Label filed in the Superior Court for the County of San Francisco, California, a purported class action on behalf of direct purchasers in California of self-adhesive label stock, against the Company, Bemis, UPM and Raflatac, seeking actual damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. The Company intends to defend this matter vigorously.

On May 25, 2004, officials from the European Commission ("EC"), assisted by officials from national competition authorities, launched unannounced inspections of and obtained documents from the Company's pressure-sensitive materials facilities in the Netherlands and Germany. The investigation apparently seeks evidence of unlawful anticompetitive activities affecting the European paper and forestry products sector, including the label stock market. The Company is cooperating with the investigation.

Based on published press reports, certain other European producers of paper and forestry products received similar visits from European authorities. One such producer, UPM, stated that it had decided to disclose to competition authorities "any conduct that has not comported with applicable competition laws," and that it had received conditional immunity in the European Union and Canada with respect to certain conduct it has previously disclosed to them, contingent on full cooperation.

In the course of its internal examination of matters pertinent to the EC's investigation of anticompetitive activities affecting the European paper and forest products sector, the Company discovered instances of improper conduct by certain employees in its European operations. This conduct violated the Company's policies and in some cases constituted an infringement of EC competition law. As a result, the Company expects that the EC will fine the Company when its investigation is completed. The EC has wide discretion in fixing the amount of a fine, up to a maximum fine of 10 percent of a company's annual revenue. Because the Company is unable to estimate either the timing or the amount or range of any fine, the Company has made no provision for a fine in its financial statements. However, the Company believes that the fine could well be material in amount. There can be no assurance that additional adverse consequences to the Company will not result from the conduct discovered by the Company or other matters under EC or other laws. The Company is cooperating with authorities, continuing its internal examination, and taking remedial actions.

On July 9, 2004, the Competition Law Division of the Department of Justice of Canada notified the Company that it was seeking information from the Company in connection with a label stock investigation. The Company is cooperating with the investigation.

The Board of Directors has created an ad hoc committee comprised of independent directors to oversee the foregoing matters.

The Company is unable to predict the effect of these matters at this time, although the effect could well be adverse and material.

Environmental

The Company has been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at fourteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed. The Company is participating with other PRPs at 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 cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites and any sites which could be identified in the future for cleanup could be higher than the liability currently accrued. Amounts currently accrued are not significant to the consolidated financial position of the Company and, based upon current information, management believes it is unlikely that the final resolution of these matters will significantly impact the Company's consolidated financial position, results of operations or cash flows.

Product Warranty

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

Product warranty liabilities were as follows:

(In millions)	**Total**
Balance at December 27, 2003	$ 2.5
Accruals for warranties issued	2.1
Payments	(2.3)
Balance at January 1, 2005	2.3
Accruals for warranties issued	1.3
Payments	(.9)
Balance at April 2, 2005	$ 2.7

Other

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. Based upon current information, management believes that the resolution of these other matters will not materially affect the Company's financial results of operations and financial position.

The Company participates in receivable financing programs, both domestically and internationally, with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At April 2, 2005, the Company had guaranteed approximately $19 million.

The Company guaranteed up to approximately $20 million of certain foreign subsidiaries' obligations to their suppliers as of April 2, 2005.

In February 2003, the Company entered into a five-year operating lease on equipment that contains a residual value guarantee of $10.6 million. Management does not expect the residual value of the equipment to vary significantly from the amount guaranteed.

In connection with the L&E Packaging ("L&E") acquisition, the Company issued 743,108 shares at $63.08 per share. In the event the value of the Company's common shares falls below the price of the shares that were issued to L&E (adjusted for dividends received), during the period from January 1, 2005 through December 31, 2007, the Company may be obligated to pay the difference in value, in the form of cash

or common shares, to L&E, at the Company's option. This agreement is reduced by any shares sold by L&E to third parties. As of April 2, 2005, L&E had sold 44,603 shares under this agreement.

Note 15. Segment Information

As described in the 2004 Annual Report on Form 10-K, the Company reorganized its reporting segments during the fourth quarter of 2004. Accordingly, the financial information presented below reflects restated information for 2004 for comparability.

Financial information by reportable segment and other businesses is set forth below:

	Three Months Ended	
(In millions)	April 2, 2005	March 27, 2004
Net sales to unaffiliated customers:		
Pressure-sensitive Materials	$ 788.9	$ 728.3
Office and Consumer Products	258.7	253.1
Retail Information Services	157.4	138.2
Other specialty converting businesses	141.3	127.1
Net sales to unaffiliated customers	$ 1,346.3	$ 1,246.7
Intersegment sales:		
Pressure-sensitive Materials	$ 42.0	$ 41.2
Office and Consumer Products	.5	.6
Retail Information Services	1.9	1.5
Other specialty converting businesses	3.4	3.3
Eliminations	(47.8)	(46.6)
Intersegment sales	$ —	$ —
Income from operations before taxes:		
Pressure-sensitive Materials [(1)]	$ 69.6	$ 37.7
Office and Consumer Products [(2)]	27.7	37.2
Retail Information Services	5.8	9.0
Other specialty converting businesses	3.7	13.1
Corporate administrative and research and development expenses	(14.3)	(9.6)
Interest expense	(14.5)	(14.9)
Income before taxes	$ 78.0	$ 72.5

(1) Results for 2005 include a pretax gain on sale of assets of $(3.4), partially offset by a pretax charge of $2.7 for asset impairments. Results for 2004 include a pretax charge of $21.4 for restructuring costs and asset impairment charges. See Note 9 "Components of Other Income and Expense," for further information.

(2) Results for 2005 include a pretax charge of $4 for restructuring costs related to a plant closure. See Note 9 "Components of Other Income and Expense," for further information.

Note 16. Recent Accounting Requirements

In April 2005, the Securities and Exchange Commission delayed the effective date of the Financial Accounting Standards Board ("FASB") reissued SFAS No. 123, "Share-Based Payment," to the beginning of the first annual reporting period beginning after June 15, 2005. This Statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services and requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The Company will adopt this Statement when it becomes effective. Based on current estimates, the after-tax impact of expensing stock options to diluted earnings per share for the full year 2006 is expected to be in the range of $.15 per share to $.20 per share.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143." This Interpretation clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of this Interpretation is not expected to have a significant impact on the Company's financial results of operations and financial position.

In December 2004, the FASB issued Staff Position No. FAS 109-1, "Application of FASB Statement No. 109, 'Accounting for Income Taxes,' to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." This Staff Position

provides guidance on the application of SFAS No. 109, "Accounting for Income Taxes," to the provision of the American Jobs Creation Act of 2004 (the "Act") that provides a tax deduction on qualified production activities. The FASB staff believes that the deduction should be accounted for as a special deduction in accordance with SFAS No. 109. This Staff Position was effective immediately. The Company has adopted the provisions of this guidance in 2005 and expects to benefit from a tax deduction for qualified production activities in the range of $2 million to $4 million for the full year 2005.

In December 2004, the FASB issued Staff Position No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." The Act provides for a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision). This Staff Position provides accounting and disclosure guidance for the repatriation provision and was effective immediately. The Company is currently assessing the provisions related to the one-time repatriation of accumulated foreign earnings. At this time, the Company's intention is to continue to reinvest its undistributed foreign earnings indefinitely.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criteria of "so abnormal." In addition, this Statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently reviewing the requirements of SFAS No. 151 and will adopt this Statement when it becomes effective. The adoption of this Statement is not expected to have a significant impact on the Company's financial results of operations and financial position.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ORGANIZATION OF INFORMATION

Management’s Discussion and Analysis provides a narrative concerning our financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- Overview and Outlook 15
- Analysis of Results of Operations for the First Quarter 18
- Results of Operations by Operating Segment for the First Quarter 19
- Financial Condition 20
- Recent Accounting Requirements 24
- Safe Harbor Statement 24

OVERVIEW AND OUTLOOK

Our sales increased 8 percent for the first three months of 2005 to $1.35 billion compared to 2004. The increase in sales was due to the benefit of foreign currency translation, a positive impact of changes in pricing and product mix, modest growth in core unit volume, and incremental sales from 2004 acquisitions, net of product line divestitures. The improvement in pricing and product mix was primarily due to the impact of selling price increases implemented to offset higher raw material costs.

Core unit volume grew an estimated 2 percent in the first quarter of 2005 compared to an estimated 4.5 percent in the first quarter of 2004 and an estimated 8 percent for the full year 2004. (Core unit volume growth is a measure of sales performance that excludes the estimated impact of acquisitions, divestitures, changes in product mix and pricing, and currency translation. We use this measure to evaluate underlying demand for our products and services, and to assess changes in demand over time.) Growth in core unit volume was due to market growth and geographic expansion in the Pressure-sensitive Materials and Retail Information Services segments. Following strong results in January 2005, customer demand in these segments slowed in February and weakened further in March, particularly in the last two weeks of the quarter. Partially offsetting the growth in core unit volume for the Pressure-sensitive Materials and Retail Information Services segments was a decrease in the Office and Consumer Products segment due to accelerated purchases by customers in 2004 in advance of our selling price increases effective January 1, 2005.

Net income increased $5.1 million or 10 percent in the first quarter of 2005 compared to the first quarter of 2004. In the first quarter of 2005, the impact of higher raw material costs was offset by the impact of selling price increases.
Positive factors affecting the change in net income included:

- Higher sales
- The impact of restructuring and asset impairment charges ($21.4 million pretax) taken in the first quarter of 2004, related to the Jackstädt GmbH (“Jackstädt”) integration
- Cost savings from productivity improvement initiatives, including the closure of two European plants during the first six months of 2004

Negative factors affecting the change in net income included:

- Incremental spending on growth initiatives, including the development of our radio frequency identification (“RFID”) business
- Write-off of inventory related to a product launch
- An unfavorable product mix in the Office and Consumer Products segment
- Higher pension and medical costs and higher reserves for bad debt
- Restructuring and asset impairment charges net of gain on sale of assets taken in the first quarter of 2005 ($3.3 million pretax), as well as transition costs associated with a plant closure

Summary Results by Operating Segment

Pressure-sensitive Materials (59 percent of net sales)

Our Pressure-sensitive Materials segment reported an 8 percent increase in sales in the first quarter of 2005 compared to the first quarter of 2004. Approximately 60 percent of the incremental sales was due to the positive impact of changes in pricing and product mix and an increase in core unit volume. The positive impact of pricing and product mix reflects increased selling prices implemented to offset higher raw material costs. Core unit volume grew in all regions, except North America. The remaining 40 percent of the sales increase was due to the favorable impact of foreign currency translation.

Operating income (operating income refers to income before interest and taxes) for this segment increased $32 million or 85 percent compared to the first quarter of 2004. Operating income for this segment included a pretax gain of $3.4 million in 2005 from the sale of

assets, partially offset by asset impairment charges of $2.7 million, compared to a pretax charge of approximately $21 million in 2004, related to restructuring costs and asset impairment charges associated with the Jackstädt integration. The segment benefited from the cost savings from productivity improvement initiatives, including the closure of two European plants during the first six months of 2004. The impact of higher raw material costs was offset by selling price increases.

Office and Consumer Products (19 percent of net sales)

Our Office and Consumer Products segment reported a 2 percent increase in sales in the first quarter of 2005 compared to the first quarter of 2004, reflecting the favorable impact of foreign currency translation. The positive impact of selling price increases was offset by an unfavorable product mix and a decline in core unit volume. The decline in core unit volume was due to accelerated purchases by customers in 2004 in advance of selling price increases effective January 1, 2005.

Operating income for the Office and Consumer Products segment decreased $10 million or 26 percent, due to the write-off of inventory related to a product launch, higher customer rebates reflecting rate changes that went into effect in 2004, and the negative impact of product mix, associated with the accelerated purchases of higher margin products by customers in the fourth quarter of 2004. Higher raw material costs were offset by selling price increases. Operating income for this segment also included a pretax charge of approximately $4 million in 2005 in severance costs and approximately $1 million of transition costs associated with a plant closure in the U.S.

Retail Information Services (12 percent of net sales)

Our Retail Information Services segment reported a 14 percent increase in sales in the first quarter of 2005 compared to the first quarter of 2004. Approximately 60 percent of the incremental sales was due to core unit volume growth, reflecting strong growth in Asia and geographic expansion in Latin America. The balance of the growth in this segment reflected incremental sales from small acquisitions made during 2004, and the favorable impact of foreign currency translation.

Operating income for this segment decreased $3 million or 36 percent due to higher growth-related spending and a modest negative impact from pricing, partially offset by higher unit volume.

Other specialty converting businesses (10 percent of net sales)

Our other specialty converting businesses reported an 11 percent increase in sales in the first quarter of 2005 compared to the first quarter of 2004 due to core unit volume growth, as well as the favorable impact of foreign currency translation. Operating income for these businesses decreased $9 million or 72 percent reflecting higher growth-related spending, including costs related to the development of the RFID business, and the impact of higher raw material costs partially offset by increased selling prices.

Cost Reduction Actions

During the first quarter of 2005, we announced the pending closure of our Gainesville, Georgia label converting plant. We recorded pretax charges of approximately $4 million for severance charges and approximately $1 million related to transition costs during the quarter. Over the next few quarters, we expect to recognize additional transition costs associated with this action, estimated to be in the range of $4 million to $6 million.

During the first six months of 2004, we completed the integration of the 2002 acquisition of Jackstädt into our other existing businesses. We closed a manufacturing facility in France during the first quarter of 2004 and a manufacturing facility in Italy during the second quarter of 2004, and recorded restructuring charges associated with severance and asset impairments for each of these periods, totaling $21.4 million and $13.8 million, respectively.

See also Note 9 “Components of Other Income and Expense,” to the Consolidated Financial Statements for further detail.

Operating Expenses, Interest and Taxes

Marketing, general and administrative expenses as a percent of sales increased to 21.7 percent in the first quarter of 2005 compared to 20.7 percent in the first quarter of 2004. Marketing, general and administrative expenses increased 13 percent to $292 million in the first quarter of 2005 compared to $257.7 million in the first quarter of 2004. This increase was due, in approximately equal proportions to:

- Higher spending associated with increased sales, including the impact of the 2004 acquisitions, and the impact of foreign currency translation
- Additional spending on long-term growth initiatives, including development of the RFID business
- Other costs, including higher pension and medical expenses and higher reserves for bad debt

Interest expense was $14.5 million for the first quarter of 2005, compared to $14.9 million for the same period of 2004.

The effective tax rate was 26 percent for the first quarter of 2005 compared to 27.5 percent for the first quarter of 2004. The decrease was due to changes in the geographic mix of income.

Free Cash Flow

Free cash flow for the first quarter of 2005 decreased $74 million to $(46.6 million) compared to $27.6 million in the first quarter of 2004, due to net changes in assets and liabilities and increased cash spending on capital assets in 2005. See "Liquidity" below for more information. Free cash flow refers to cash flow from operating activities less spending on property, plant and equipment. Management utilizes free cash flow as a measurement tool to assess the cash flow available for other corporate purposes, such as dividends and debt service.

	Three Months Ended	
(In millions)	April 2, 2005	March 27, 2004
Net cash (used in) provided by operating activities	$ (2.7)	$ 65.5
Purchase of property, plant and equipment	(43.9)	(37.9)
Free cash flow	$ (46.6)	$ 27.6

Industry Investigations

In April 2003, we were notified by the U.S. Department of Justice ("DOJ") that it had initiated a criminal investigation into competitive practices in the label stock industry, and on August 15, 2003, the DOJ issued a subpoena to us in connection with the investigation. In May 2004, the European Commission ("EC") initiated inspections and obtained documents from our pressure-sensitive materials facilities in the Netherlands and Germany, seeking evidence of unlawful anticompetitive activities. In July 2004, we were notified by the Competition Law Division of the Department of Justice of Canada that it was seeking information in connection with a label stock investigation. We are cooperating with these investigations. We are a named defendant in purported class actions in the U.S. seeking treble damages and other relief for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation. We are also a named defendant in purported stockholder class actions in the U.S. seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. We have discovered instances of improper conduct by certain employees in our European operations that constituted an infringement of EC competition law. Accordingly, we expect that the EC will impose a fine on us when its investigation is completed. We are unable to predict the effect of these matters at this time, although the effect could well be adverse and material. These matters are reported in Note 14 "Commitments and Contingencies," to the Consolidated Financial Statements.

Outlook

For 2005, we reduced our estimate of core unit volume growth to an estimated 1 percent growth for the full year, subject to changes in global economic and market conditions. Our reduced expectations for unit volume growth assume a continuation of the weak underlying demand experienced in the first quarter, combined with difficult year-on-year comparisons against strong results for the fourth quarter of 2004. We expect a positive impact from price and mix, as well as a benefit from foreign currency translation.

We anticipate that our selling price increases and ongoing productivity initiatives will offset higher raw material costs during the year. For the remainder of 2005, we expect to improve profitability compared to the first quarter of 2005 as a result of our ongoing productivity initiatives, including Six Sigma, and new cost reduction actions.

Compared to the prior year, we expect to incur higher costs associated with our growth initiatives, including RFID. We expect increases in annual pension and medical costs to be in the range of $17 million to $18 million before taxes for 2005, due in part to an estimated increase of $13 million for pension expense. Our estimate of pension expense will be impacted by changes in foreign currency translation.

We estimate that interest expense will be between $55 million to $60 million for 2005, assuming the cost of expected interest rate increases will be partially offset by the impact of projected reductions in debt.

We anticipate an annual effective tax rate in the range of 25 percent to 26 percent for 2005. However, we anticipate that the effective tax rates may potentially have wide variances from quarter to quarter.

As a result of the Securities and Exchange Commission's ("SEC") decision to delay the requirement to expense options, we plan to recognize expense for stock options beginning in the first quarter of 2006 to comply with the provisions of the reissued Statement of Financial Accounting Standards ("SFAS") No. 123 "Share-Based Payment," and in accordance with SEC Release No. 33-8568 "Amendment to Rule 4-01(a) of Regulation S-X Regarding the Compliance Date for Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment." Based on our current estimates, the after-tax impact of expensing stock options to diluted earnings per share for the full year 2006 is expected to be in the range of $.15 per share to $.20 per share.

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ANALYSIS OF RESULTS OF OPERATIONS FOR THE FIRST QUARTER

(In millions)	2005	2004
Net sales	$1,346.3	$1,246.7
Cost of products sold	958.5	880.2
Gross profit	387.8	366.5
Marketing, general and administrative expense	292.0	257.7
Interest expense	14.5	14.9
Other expense, net	3.3	21.4
Income before taxes	78.0	72.5
Taxes on income	20.3	19.9
Net income	$ 57.7	$ 52.6

Sales increased 8 percent to $1.35 billion in the first quarter of 2005, compared to $1.25 billion in 2004. The increase in sales in 2005 was a result of:

- Favorable impact of foreign currency translation (approximately $34 million)
- Positive impact of changes in pricing and product mix (estimated to be $30 million)
- Modest core unit volume growth (estimated to be $27 million)
- Incremental sales from 2004 acquisitions, net of product line divestitures (net impact of approximately $6 million)

Modest growth in core unit volume was due to market growth and geographic expansion in the Pressure-sensitive Materials and Retail Information Services segments. Following strong results in January 2005, customer demand in these segments slowed in February and weakened further in March, particularly in the last two weeks of the quarter. Partially offsetting the growth in core unit volume for the Pressure-sensitive Materials and Retail Information Services segments was a decrease in the Office and Consumer Products segment due to accelerated purchases by customers in 2004 in advance of our selling price increases effective January 1, 2005.

Gross profit margins for the first quarters of 2005 and 2004 were 28.8 percent and 29.4 percent, respectively. The decrease in 2005 was due to:

- Write-off of inventory related to a product launch (approximately $5 million)
- An unfavorable product mix in the Office and Consumer Products segment as higher margin products were purchased by customers in the fourth quarter of 2004 in advance of our January 1, 2005 selling price increases
- Spending related to our RFID business (approximately $2 million)
- Transition costs related to a plant closure (approximately $1 million)

The impact of these negative factors was partially offset by our ongoing initiatives for margin improvement, including the completion of the integration of the Jackstädt business.

Marketing, general and administrative expense as a percent of sales was 21.7 percent in the first quarter of 2005 and 20.7 percent in 2004. Expenses increased approximately $34 million due in approximately equal proportions to:

- Higher spending associated with increased sales, including the impact of the 2004 acquisitions, and the impact of foreign currency translation
- Additional spending on long-term growth initiatives, including the development of our RFID business
- Other costs, including higher pension and medical expenses and higher reserves for bad debt

We recorded pretax charges of $4 million in the first quarter of 2005 for severance related to the closure of our Gainesville, Georgia facility. We also recorded a pretax gain on sale of assets of $(3.4 million), which was partially offset by asset impairment charges of $2.7 million.

We recorded pretax charges totaling $21.4 million in the first quarter of 2004, which related to the completion of the Jackstädt integration actions. These charges consisted of approximately $15.9 million for severance and approximately $5.5 million for asset impairment charges.

Refer to Note 9 “Components of Other Income and Expense,” to the Consolidated Financial Statements for more information.

Interest expense was $14.5 million for the first quarter of 2005, compared to $14.9 million for the first quarter of 2004.

Income before taxes, as a percent of sales, was 5.8 percent in both the first quarters of 2005 and 2004.

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The effective tax rate was 26 percent in the first quarter of 2005 and 27.5 percent in the first quarter of 2004. The decrease was due to changes in the geographic mix of income.

Net Income and Earnings Per Share

(In millions, except share amounts)	2005	2004
Net income	$57.7	$52.6
Net income per common share	.58	.53
Net income per common share, assuming dilution	.57	.52

Net income for the first quarter of 2005 increased 9.7 percent compared to the first quarter of 2004. Net income, as a percent of sales, was 4.3 percent and 4.2 percent in the first quarters of 2005 and 2004, respectively.

Net income per common share for the first quarter of 2005 increased 9.4 percent compared to the first quarter of 2004. Net income per common share, assuming dilution, for the first quarter of 2005 increased 9.6 percent compared to the first quarter of 2004.

RESULTS OF OPERATIONS BY OPERATING SEGMENT FOR THE FIRST QUARTER

Pressure-sensitive Materials Segment:

(In millions)	2005	2004
Net sales including intersegment sales	$830.9	$769.5
Less intersegment sales	(42.0)	(41.2)
Net sales	$788.9	$728.3
Income before interest and taxes	69.6	37.7

Our Pressure-sensitive Materials segment reported increased sales and operating income for the first quarter of 2005 compared to the first quarter of 2004. Sales increased approximately $61 million or 8 percent to $789 million due to higher sales in our roll materials business (approximately $54 million) and graphics and reflective business (approximately $6 million). Included in these increases was the favorable impact of foreign currency translation (approximately $25 million). Operating income increased approximately
$32 million or 85 percent.

The increase in sales in our roll materials business reflected a positive contribution from pricing and product mix and core unit volume growth. Our North American roll materials business experienced sales growth of approximately 4 percent, resulting from selling price increases, partially offset by a decline in volume reflecting an estimated 2 points of market share loss in response to higher prices. In Europe, volume growth in the emerging markets of Eastern Europe and the benefit of selling price increases contributed to sales growth of approximately 4 percent in local currency for the roll materials business. Market growth and increased selling prices for the roll materials business in Asia and Latin America contributed to sales growth in local currency in these regions of approximately 26 percent and 7 percent, respectively.

Operating income reflected a pretax gain of $3.4 million from the sale of assets, partially offset by asset impairment charges of
$2.7 million, compared to pretax charges of approximately $21 million in the first quarter of 2004 related to restructuring and asset impairments associated with the Jackstädt integration. The increase in operating income also reflected higher sales and cost savings from productivity improvement initiatives, including two plant closures related to the Jackstädt integration completed during the first half of 2004. The impact of higher raw material costs was offset by selling price increases.

Office and Consumer Products Segment:

(In millions)	2005	2004
Net sales including intersegment sales	$259.2	$253.7
Less intersegment sales	(.5)	(.6)
Net sales	$258.7	$253.1
Income before interest and taxes	27.7	37.2

Our Office and Consumer Products segment reported increased sales and decreased operating income for the first quarter of 2005 compared to the first quarter of 2004. Sales increased approximately $6 million or 2 percent to approximately $259 million, due to the favorable impact of foreign currency translation (approximately $5 million). The positive impact of selling price increases was offset by negative product mix and a decline in core unit volume. The decline in core unit volume was due to accelerated purchases by customers in 2004 in advance of selling price increases effective January 1, 2005.

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Operating income decreased $10 million or 26 percent, due to the write-off of inventory related to a product launch (approximately $5 million), higher customer rebates reflecting rate changes that went into effect in 2004, and the negative impact of product mix, associated with the accelerated purchases of higher margin products by customers in the fourth quarter of 2004. Higher raw material costs were offset by selling price increases. Operating income for this segment also included a pretax charge of approximately $4 million in 2005 related to severance costs and approximately $1 million related to transition costs associated with the closure of the Gainesville, Georgia plant.

Retail Information Services Segment:

(In millions)	2005	2004
Net sales including intersegment sales	$159.3	$139.7
Less intersegment sales	(1.9)	(1.5)
Net sales	$157.4	$138.2
Income before interest and taxes	5.8	9.0

Our Retail Information Services segment reported increased sales and decreased operating income for the first quarter of 2005 compared to the first quarter of 2004. Sales increased approximately $19 million or 14 percent to approximately $157 million due to core unit volume growth and the impact of the 2004 acquisitions, partially offset by a small product line divestiture (net impact of approximately $6 million). Included in this increase was the favorable impact of foreign currency translation (approximately $2 million). Volume growth reflected strong growth in Asia and geographic expansion in Latin America.

Operating income for this segment decreased $3 million or 36 percent due to higher growth-related spending and a modest negative impact from pricing, partially offset by higher unit volume.

Other specialty converting businesses:

(In millions)	2005	2004
Net sales including intersegment sales	$144.7	$130.4
Less intersegment sales	(3.4)	(3.3)
Net sales	$141.3	$127.1
Income before interest and taxes	3.7	13.1

Other specialty converting businesses reported increased sales and decreased operating income for the first quarter of 2005 compared to the first quarter of 2004. Sales increased approximately $14 million or 11 percent to approximately $141 million, due to core unit volume growth in all businesses. Included in this increase was the favorable impact of foreign currency translation (approximately $2 million). Operating income decreased approximately $9 million or 72 percent. Operating income reflected higher growth-related spending (approximately $8 million), including costs related to the development of the RFID business, and the impact of higher raw material costs partially offset by selling price increases.

FINANCIAL CONDITION

LIQUIDITY

Cash Flow (Used in) Provided by Operating Activities for the First Quarter

(In millions)	2005	2004
Net income	$ 57.7	$ 52.6
Depreciation and amortization	49.8	46.2
Deferred taxes	(.6)	.8
Asset impairment and net (gain) loss on sale of assets	.3	6.1
Other noncash items, net	(4.5)	(4.1)
Changes in assets and liabilities, net of effect of business acquisitions and divestitures	(105.4)	(36.1)
Net cash (used in) provided by operating activities	$ (2.7)	$ 65.5

For cash flow purposes, changes in assets and liabilities exclude the impact of foreign currency translation and the impact of acquisitions and divestitures and certain non-cash transactions (discussed in the “Analysis of Selected Balance Sheet Accounts” section below).

2005

Cash flow used in operating activities for the first quarter of 2005 was negatively impacted by changes in working capital and timing of payments for taxes. The increase in inventories was a result of building inventory both for the back-to-school season in North America,

as well as for the pending closure of our Gainesville, Georgia plant. Additionally, purchases of raw materials in the roll materials business in Europe were higher during the first quarter of 2005 in comparison to the fourth quarter of 2004, due to a supply shortage in the previous quarter. We also experienced higher inventory levels at the end of the first quarter due to weaker demand in certain businesses late in the quarter. The decrease in accounts payable and accrued liabilities was due to the payment of trade rebates and bonuses in the first quarter of 2005. The decrease in accounts receivable was due to improvement in cash collections.

In May 2005, we contributed $25 million to our U.S. pension plans. We expect to contribute $26.8 million to our U.S. pension plans for the full year 2005 compared to $26.6 million for the full year 2004.

2004

Cash flow provided by operating activities for the first quarter of 2004 was negatively impacted by changes in working capital. The decrease in taxes payable was primarily a result of the timing of payments. The decrease in accounts receivable was due to improved collections and a decrease in the average number of days sales outstanding to 59.6 in the first quarter of 2004. The decrease in accounts payable and accrued liabilities was due to the payment of bonuses, rebates and interest during the first quarter of 2004. The increase in inventory was due to building inventory in Europe to mitigate potential supply chain disruptions associated with Jackstädt integration actions and building inventory for the back-to-school season in North America.

Cash Flow Used in Investing Activities

Net cash flow used in investing activities was $37.8 million in the first quarter of 2005 compared to $48.1 million in the first quarter of 2004.

Capital Spending

Cash used for capital expenditures in the first quarter of 2005 was $43.9 million compared to $37.9 million in the first quarter of 2004. We expect capital expenditures for 2005 to be approximately $200 million, funded through operating cash flows. Major projects in 2005 include investments for growth in Asia and Latin America, equipment and other investments for the RFID business, and both productivity and growth projects related to our North American roll materials operations, including additional capacity to meet the growing demand for beverage labels.

Expenditures related to capitalized software and other intangibles were $4.9 million in the first quarter of 2005 and $6.3 million in the first quarter of 2004.

Cash Flow Provided by (Used in) Financing Activities

Net cash flow provided by (used in) financing activities was $8.5 million in the first quarter of 2005 compared to $(16.1 million) in the first quarter of 2004.

Borrowings and Repayment of Debt

Net borrowings of debt for the quarter were approximately $44 million. In February 2005, we repaid $60 million of one-year callable commercial notes issued in January 2004.

Shareholders' Equity

We paid dividends of $41.9 million in the first quarter of 2005 compared to $40.9 million in the first quarter of 2004. Our quarterly dividend per share increased to $.38 in the first quarter of 2005 from $.37 in the first quarter of 2004. Additionally, net proceeds from the exercise of stock options were approximately $2.7 million in the first quarter of 2005 compared to approximately $8.1 million in the first quarter of 2004.

Effect of Foreign Currency Translation

International operations generate approximately 50 percent of our net sales, before the elimination of sales between regions. Our future results are subject to changes in political and economic conditions and the impact of fluctuations in foreign currency exchange and interest rates. Foreign currency translation represented approximately $34 million of the change in sales between the first quarters of 2005 and 2004 (approximately $.01 of the increase in our diluted earnings per share). The impact of foreign currency fluctuations on net income is smaller than the impact on net sales, because our products are generally sourced in the currencies in which they are sold. As a result, the impact of foreign exchange rates on sales is matched with a partially offsetting impact on reported expenses, thereby reducing the impact of foreign currency fluctuations on net income. To reduce our exposure to those expenses in foreign currencies that do not match the related sales, we enter into foreign exchange forward, option and swap contracts, where available and appropriate.

All translation gains and losses for operations in hyperinflationary economies were included in our net income. Operations are treated as being in a hyperinflationary economy for accounting purposes, based on the cumulative inflation rate over the past three years. Operations in hyperinflationary economies consist of our operations in Turkey and the Dominican Republic. These operations were not significant to our consolidated financial position or results of operations.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets

Goodwill decreased approximately $18 million during the first quarter of 2005 due to foreign currency translation (approximately $13 million) and purchase price allocation adjustments associated with the acquisition of Rinke Etiketten ("Rinke") (approximately $5 million).

Other intangibles resulting from business acquisitions, net of accumulated amortization, decreased approximately $5 million during the first quarter of 2005 due to foreign currency translation (approximately $3 million) and amortization expense (approximately $4 million), partially offset by purchase price allocation adjustments associated with the acquisition of Rinke (approximately $1 million).

Other assets decreased approximately $5 million during the first quarter of 2005 due to collection of loans receivable (approximately $9 million), amortization of software and other assets (approximately $8 million), partially offset by an increase in the cash surrender value of corporate owned life insurance contracts (approximately $8 million) and purchases of software (approximately $5 million).

Other Current Liabilities

Other current liabilities decreased approximately $94 million during the first quarter of 2005 reflecting payments of trade rebates (approximately $61 million) and bonuses (approximately $34 million).

Other Shareholders' Equity Accounts

The market value of shares held in the employee stock benefit trusts increased by $20 million during the first quarter of 2005 due to changes in stock price, partially offset by the issuance of shares from the trusts. Shares issued under our stock and incentive plans for 2005 were valued at approximately $4 million.

Analysis of Selected Financial Ratios

We utilize certain financial ratios to assess our financial condition and operating performance, as discussed in detail below.

Working Capital Ratio

Working capital (current assets minus current liabilities), as a percent of annualized sales, was 3.7 percent for the first quarter of 2005 compared to (.4) percent for 2004, due to a decrease in short-term debt and the current portion of long-term debt. Working capital from operations, as a percent of annualized sales (which is a non-GAAP measure), was 8 percent for the first quarter of 2005 compared to 7.9 percent for 2004, as shown below. We utilize the working capital from operations ratio as a measurement tool to assess our working capital requirements, because it excludes the impact of fluctuations due to our financing activities. The timing of financing activities is not necessarily related to our current operations and would tend to distort the working capital ratio from period to period. Our objective is to minimize our investment in working capital from operations by reducing this ratio, to maximize cash flow and return on investment.

Working capital from operations consists of:

	Three Months Ended	
(In millions)	**April 2, 2005**	**March 27, 2004**
(A) Working capital (current assets minus current liabilities)	$ 199.4	$ (17.6)
Reconciling items:		
Short-term and current portion of long-term debt	231.9	410.5
(B) Working capital from operations	$ 431.3	$ 392.9
(C) Annualized sales (Quarterly sales multiplied by 4)	$ 5,385.2	$ 4,968.8
Working capital, as a percent of annualized sales (A) ÷ (C)	3.7%	(.4)%
Working capital from operations as a percent of annualized sales (B) ÷ (C)	8.0%	7.9%

Accounts Receivable Ratio

The average number of days sales outstanding in accounts receivable was 56.3 days for the first quarter of 2005 compared to 59.6 days for the first quarter of 2004 due to an improvement in collections. This ratio was calculated by using the accounts receivable balance at quarter-end divided by the average daily sales for the quarter.

Inventory Ratio

Inventory turnover decreased from 8.3 in the first quarter of 2004 to 8.1 in the first quarter of 2005 as a result of weaker demand late in the first quarter of 2005. In addition, inventory balances were higher in the first quarter of 2005 due to building inventory related to the pending closure of our Gainesville, Georgia plant. Inventory turnover was calculated by using the annualized cost of sales (quarterly cost of sales multiplied by 4) divided by the inventory balance at quarter-end.

Debt Ratios

Our total debt to total capital was 44.4 percent in the first quarter of 2005 compared to 49 percent in the first quarter of 2004. This decrease was due to higher equity and lower debt balances in the first quarter of 2005 compared to the first quarter of 2004.

Shareholders' Equity Ratios

Our return on average shareholders' equity was 15 percent for the first quarter of 2005 compared to 15.8 percent in the first quarter of 2004 due to a higher equity balance. Return on average total capital was 9.9 percent in the first quarter of 2005 compared to
9.7 percent in the first quarter of 2004 due to higher net income offset by a higher equity balance.

CAPITAL RESOURCES

Capital resources include cash flows from operations and debt financing. We maintain adequate financing arrangements at competitive rates. These financing arrangements consist of our commercial paper programs in the U.S. and Europe, committed and uncommitted bank lines of credit in the countries where we operate, callable commercial notes and long-term debt, including medium-term notes.

Capital from Debt

Our total debt increased approximately $15 million in the first quarter of 2005 to $1.23 billion compared to $1.21 billion at year-end 2004 reflecting net borrowings (approximately $29 million), partially offset by the effect of foreign currency translation (approximately $14 million).

Credit ratings are a significant factor in our ability to raise short-term and long-term financing. The credit ratings assigned to us also impact the interest rates on our commercial paper and other borrowings. When determining a credit rating, the rating agencies place significant weight on our competitive position, business outlook, consistency of cash flows, debt level and liquidity, geographic dispersion and management team.

Our credit ratings as of April 2, 2005 were as follows:

	Short-term	Long-term	Outlook
Standard & Poor's Rating Service	A-2	A–	Negative
Moody's Investor Service	P2	A3	Stable

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

In April 2003, we were notified by the DOJ that it had initiated a criminal investigation into competitive practices in the label stock industry, and on August 15, 2003, the DOJ issued a subpoena to us in connection with the investigation. In May 2004, the EC initiated inspections and obtained documents from our pressure-sensitive materials facilities in the Netherlands and Germany, seeking evidence of unlawful anticompetitive activities. In July 2004, we were notified by the Competition Law Division of the Department of Justice of Canada that it was seeking information in connection with a label stock investigation. We are cooperating with these investigations. We are a named defendant in purported class actions in the U.S. seeking treble damages and other relief for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation. We are also a named defendant in purported stockholder class actions in the U.S. seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. We have discovered instances of improper conduct by certain employees in our European operations that constituted an infringement of EC competition law. We accordingly expect that the EC will impose a fine on us when its investigation is completed. We are unable to predict the effect of these matters at this time, although the effect could well be adverse and material. These matters are reported in Note 14 “Commitments and Contingencies,” to the Consolidated Financial Statements.

We have been designated by the U.S. Environmental Protection Agency (“EPA”) and/or other responsible state agencies as a potentially responsible party (“PRP”) at fourteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of our liability has been agreed upon. We are participating with other PRPs at all such sites, and anticipate that our share of cleanup costs will be determined pursuant to remedial agreements to be entered into in the normal course of negotiations with the EPA or other governmental authorities.

We have accrued liabilities for all such sites, including sites in which governmental agencies have designated us as a PRP, where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites and any sites which could be identified in the future for cleanup could be higher than the liability currently accrued. Amounts currently accrued are not significant to our consolidated financial position, and based upon current information, we believe that it is unlikely that the final resolution of these matters will significantly impact our consolidated financial position, results of operations or cash flows.

We provide for an estimate of costs that may be incurred under our basic limited warranty at the time product revenue is recognized. These costs primarily include materials and labor associated with the service or sale of products. Factors that affect our warranty liability include the number of units installed or sold, historical and anticipated rate of warranty claims on those units, cost per claim to satisfy our warranty obligation and availability of insurance coverage. As these factors are impacted by actual experience and future expectations, we assess the adequacy of the recorded warranty liability and adjust the amounts as necessary.

We and our subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. Based upon current information, we believe that the resolution of these other matters will not materially affect our financial results of operations and financial position.

We participate in receivable financing programs, both domestically and internationally, with several financial institutions whereby we may request advances from these financial institutions. At April 2, 2005, we guaranteed approximately $19 million of these advances.

In February 2003, we entered into a five-year operating lease on equipment that contains a residual value guarantee of $10.6 million. We do not expect the residual value of the equipment to vary significantly from the amount guaranteed.

We guaranteed up to approximately $20 million of certain of our foreign subsidiaries' obligations to their suppliers as of April 2, 2005.

In connection with the L&E Packaging ("L&E") acquisition, we issued 743,108 shares at $63.08 per share. In the event the value of our common shares falls below the price of the shares that were issued to L&E (adjusted for dividends received), during the period from January 1, 2005 through December 31, 2007, we may be obligated to pay the difference in value, in the form of cash or common shares, to L&E at our option. This agreement is reduced by any shares sold by L&E to third parties. As of April 2, 2005, L&E had sold 44,603 shares under this agreement.

RECENT ACCOUNTING REQUIREMENTS

During the first quarter of 2005, several accounting and financial disclosure requirements by the Financial Accounting Standards Board ("FASB") and the SEC were issued. Refer to Note 16 "Recent Accounting Requirements," to the Consolidated Financial Statements for more information.

SAFE HARBOR STATEMENT

The matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, may contain estimates, assumptions, projections and/or expectations regarding future events, which may or may not occur. Words such as "anticipate," "assume," "believe," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "will," and other expressions, which refer to future events and trends, identify forward-looking statements. Such forward-looking statements, and financial or other business targets, are subject to certain risks and uncertainties, which could cause actual results to differ materially from expected results, performance or achievements of the Company expressed or implied by such forward-looking statements.

Certain of such risks and uncertainties are discussed in more detail in Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended January 1, 2005, and include, but are not limited to, risks and uncertainties relating to investment in development activities and new production facilities, timely development and successful market acceptance of new products, fluctuations in cost and availability of raw materials, ability of the Company to achieve targeted cost reductions, impact of competitive products and pricing, business mix shift, credit risks, ability to obtain adequate financing arrangements, fluctuations in pension, insurance and employee benefit costs, successful integration of acquisitions, projections related to estimated cost savings from productivity improvement actions, successful implementation of new manufacturing technologies and installation of manufacturing equipment, customer and supplier concentrations, financial condition and inventory strategies of customers, changes in customer order patterns, increased competition, loss of significant contract(s) or customer(s), legal proceedings, including the DOJ criminal investigation, as well as the EC and Canadian Department of Justice investigations, into industry competitive practices and any related proceedings or lawsuits pertaining to these investigations or to the subject matter thereof (including purported class actions seeking treble damages for alleged unlawful competitive practices, and purported class actions related to alleged disclosure violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation, as well as a likely fine by the EC in respect of certain employee misconduct in Europe), changes in governmental regulations, fluctuations in interest rates, fluctuations in foreign currency exchange rates and other risks associated with foreign operations, changes in economic or political conditions, acts of war, terrorism, natural disasters, impact of epidemiological events on the economy, the Company's customers and suppliers, and other factors.

The Company believes that the most significant risk factors that could affect its ability to achieve its stated financial expectations in the near-term include (1) potential adverse developments in legal proceedings and/or investigations regarding competitive activities; (2) the degree to which higher raw material costs can be passed on to customers through selling price increases, without a significant loss of volume; (3) the impact of economic conditions on underlying demand for the Company's products; and (4) ability of the Company to achieve targeted cost reductions.

Any forward-looking statements should also be considered in light of the factors detailed in Exhibit 99.1 in the Company's Annual Report on Form 10-K for the year ended January 1, 2005.

The Company's forward-looking statements represent judgment only on the dates such statements were made. By making any forward-looking statements, the Company assumes no duty to update them to reflect new, changed or unanticipated events or circumstances, other than as may be required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are no material changes in the information provided in Item 7A of the Company's Form 10-K for the fiscal year ended January 1, 2005.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(f)) that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

The Company's disclosure controls system is based upon a global chain of financial and general business reporting lines that converge in the Company's headquarters in Pasadena, California. As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the quarter covered by this report.

Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding the required disclosure.

There has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company has been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a potentially responsible party ("PRP") at fourteen waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed. The Company is participating with other PRPs at 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 cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites and any sites which could be identified in the future for cleanup could be higher than the liability currently accrued. Amounts currently accrued are not significant to the consolidated financial position of the Company and, based upon current information, management believes it is unlikely that the final resolution of these matters will significantly impact the Company's consolidated financial position, results of operations or cash flows.

On April 14, 2003, the Company announced that it had been advised that the U.S. Department of Justice was challenging the proposed merger of UPM-Kymmene ("UPM") and the Morgan Adhesives ("MACtac") division of Bemis Co., Inc. ("Bemis") on the basis of its belief that in certain aspects of the label stock industry "the competitors have sought to coordinate rather than compete." The Company also announced that it had been notified that the U.S. Department of Justice had initiated a criminal investigation into competitive practices in the label stock industry.

On April 15, 2003, the U.S. Department of Justice filed a complaint in the U.S. District Court for the Northern District of Illinois seeking to enjoin the proposed merger ("DOJ Merger Complaint"). The complaint, which set forth the U.S. Department of Justice's theory of its case, included references not only to the parties to the merger, but also to an unnamed "Leading Producer" of North American label stock, which is the Company. The complaint asserted that "UPM and the Leading Producer have already attempted to limit competition between themselves, as reflected in written and oral communications to each other through high level executives regarding explicit anticompetitive understandings, although the extent to which these efforts have succeeded is not entirely clear to the United States at the present time."

In connection with the U.S. Department of Justice's investigation into the proposed merger, the Company produced documents and provided testimony by Messrs. Neal, Scarborough and Simcic (then CEO, President and Group Vice President—Roll Materials Worldwide, respectively). On July 25, 2003, the United States District Court for the Northern District of Illinois entered an order enjoining the proposed merger. UPM and Bemis thereafter agreed to terminate the merger agreement. The court's decision incorporated a stipulation by the U.S. Department of Justice that the paper label industry is competitive.

On April 24, 2003, Sentry Business Products, Inc. filed a purported class action in the United States District Court for the Northern District of Illinois against the Company, UPM, Bemis and certain of their subsidiaries seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Ten similar complaints were filed in various federal district courts. In November 2003, the cases were transferred to the United States District Court for the Middle District of Pennsylvania and consolidated for pretrial purposes. On January 21, 2004, plaintiff Pamco Tape & Label voluntarily dismissed its complaint, leaving a total of ten named plaintiffs. Plaintiffs filed a consolidated complaint on February 16, 2004, which the Company answered on March 31, 2004. On April 14, 2004, the court separated the proceedings as to class certification and merits discovery, and limited the initial phase of discovery to the issue of the appropriateness of class certification. The Company intends to defend these matters vigorously.

On May 6, 2003, Sekuk Global Enterprises filed a purported stockholder class action in the United States District Court for the Central District of California against the Company and Messrs. Neal, O'Bryant and Skovran (then CEO, CFO and Controller, respectively) seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. Subsequently, another similar action was filed in the same court. On September 24, 2003, the court appointed a lead plaintiff and approved lead and liaison counsel and ordered the two actions consolidated as the "In Re Avery Dennison Corporation Securities Litigation." Pursuant to court order and the parties' stipulation, plaintiff filed a consolidated complaint in mid-February 2004. The court approved a briefing schedule for defendants' motion to dismiss the consolidated complaint, with a contemplated hearing date in June 2004. In January 2004, the parties stipulated to stay the consolidated action, including the proposed briefing schedule, pending the outcome of the government investigation of alleged anticompetitive conduct by the Company. The court has approved the parties' stipulation to stay the consolidated actions and scheduled the next status conference for August 22, 2005. There has been no discovery and no trial date has been set. The Company intends to defend these matters vigorously.

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for San Francisco County on March 30, 2004. A further similar complaint was filed in the Superior Court for Maricopa County, Arizona on November 6, 2003. Plaintiffs voluntarily dismissed the Arizona complaint without prejudice on October 4, 2004. On January 21, 2005, American International Distribution Corporation filed a purported class action on behalf of indirect purchasers in the Superior Court for Chittenden County, Vermont. Similar actions were filed by Webtego on February 16, 2005, in the Court of Common Pleas for Cuyahoga County, Ohio; by D.R. Ward Construction Co. on February 17, 2005, in the Superior Court for Maricopa County, Arizona by Richard Wrobel, on February 16, 2005, in the District Court of Johnson County, Kansas; and by Chad and Terry Muzzey, on February 16, 2005 in the District Court of Scotts Bluff County, Nebraska. On February 17, 2005, Judy Benson filed a purported multi-state class action on behalf of indirect purchasers in the Circuit Court for Cocke County, Tennessee. The Company intends to defend these matters vigorously.

On August 15, 2003, the U.S. Department of Justice issued a subpoena to the Company in connection with its criminal investigation into competitive practice in the label stock industry. The Company is cooperating in the investigation, and has produced documents in response to the subpoena.

On June 8, 2004, Pamco Tape & Label filed in the Superior Court for the County of San Francisco, California, a purported class action on behalf of direct purchasers in California of self-adhesive label stock, against the Company, Bemis, UPM and Raflatac, seeking actual damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. The Company intends to defend this matter vigorously.

On May 25, 2004, officials from the European Commission ("EC"), assisted by officials from national competition authorities, launched unannounced inspections of and obtained documents from the Company's pressure-sensitive materials facilities in The Netherlands and Germany. The investigation apparently seeks evidence of unlawful anticompetitive activities affecting the European paper and forestry products sector, including the label stock market. The Company is cooperating with the investigation.

Based on published press reports, certain other European producers of paper and forestry products received similar visits from European authorities. One such producer, UPM, stated that it had decided to disclose to competition authorities "any conduct that has not comported with applicable competition laws," and that it had received conditional immunity in the European Union and Canada with respect to certain conduct it has previously disclosed to them, contingent on full cooperation.

In the course of its internal examination of matters pertinent to the EC's investigation of anticompetitive activities affecting the European paper and forest products sector, the Company discovered instances of improper conduct by certain employees in its European operations. This conduct violated the Company's policies and in some cases constituted an infringement of EC competition law. As a result, the Company expects that the EC will fine the Company when its investigation is completed. The EC has wide discretion in fixing the amount of a fine, up to a maximum fine of 10 percent of a company's annual revenue. Because the Company is unable to estimate either the timing or the amount or range of any fine, the Company has made no provision for a fine in its financial statements. However, the Company believes that the fine could well be material in amount. There can be no assurance that additional adverse consequences to the Company will not result from the conduct discovered by the Company or other matters under EC or other laws. The Company is cooperating with authorities, continuing its internal examination, and taking remedial actions.

On July 9, 2004, the Competition Law Division of the Department of Justice of Canada notified the Company that it was seeking information from the Company in connection with a label stock investigation. The Company is cooperating with the investigation.

The Board of Directors has created an ad hoc committee comprised of independent directors to oversee the foregoing matters.

The Company is unable to predict the effect of these matters at this time, although the effect could well be adverse and material.

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. Based upon current information, management believes that the resolution of these other matters will not materially affect the Company's financial results of operations and financial position.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not Applicable

(b) Not Applicable

(c) During the period from 1990 through 1999, the Board of Directors authorized the repurchase of an aggregate 40.4 million shares of the Company's outstanding common stock (the "Program"). The last Board of Directors' authorization of 5 million shares occurred in October 1999 and has no expiration. The acquired shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. There were no shares repurchased by the Company during the three months ended April 2, 2005. A total of 3.15 million shares remain available for purchase under the Program. No shares were delivered (actually or constructively) to the Company by participants exercising stock options during the first quarter of 2005 under the Company' stock option plans, in payment of the option exercise price and/or to satisfy withholding tax obligations.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

The Company held its annual stockholders' meeting on April 28, 2005. The stockholders voted to elect three directors to the Board of Directors as follows:

	Number of Shares Votes[1]	
	For	**Withheld**
Richard M. Ferry	90,799,851	11,860,259
Kent Kresa	98,115,427	4,544,683
Peter K. Barker	98,118,980	4,541,130

(1) There were no abstentions or broker non-votes.

Additional information concerning continuing directors called for by this Item is incorporated by reference from pages 3 and 4 of the Company's 2005 proxy statement.

The results of the voting on the following additional items were as follows:

	For	**Against**	**Abstained**	**Broker Non-Votes**
Ratification of appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm	98,537,549	3,342,613	779,948	—
Approval of the Amended and Restated Employee Stock Option and Incentive Plan	72,756,038	16,758,682	1,180,080	11,965,310

ITEM 5. OTHER INFORMATION

Not Applicable

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ITEM 6. EXHIBITS

Exhibit 10.8.2.1:	Amendment 1 to Employment Agreement with P. M. Neal
Exhibit 10.8.5:	Employment Agreement with D. A. Scarborough
Exhibit 10.8.6:	Retention Agreement with D. R. O’Bryant
Exhibit 10.19.8:	Form of Restricted Stock Agreement under Stock Option Plan
Exhibit 12:	Computation of Ratio of Earnings to Fixed Charges
Exhibit 31.1:	D. A. Scarborough Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2:	D. R. O’Bryant Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1:	D. A. Scarborough Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2:	D. R. O’Bryant Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements 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
(Registrant)

/s/ Daniel R. O'Bryant

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

/s/ Michael A. Skovran

Michael A. Skovran
Vice President and Controller
(Chief Accounting Officer)

May 12, 2005

Exhibit 10.8.2.1

AMENDMENT 1 TO
EMPLOYMENT AGREEMENT

This AMENDMENT 1 to that certain Employment Agreement dated May 1, 2000, is entered into by and between Avery Dennison Corporation, a Delaware corporation (the “Company”) and Philip M. Neal (the “Executive”), effective as of May 1, 2005.

Whereas, the parties to the Employment Agreement (“Agreement”) desire to amend the Agreement;

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. The date of the Agreement is amended to read “May 1, 2005.”
2. Subparagraph 4(a)(i) is amended to reflect Executive’s new title as Chairman of the Board of Directors.
3. All other terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, the Executive has executed this Amendment and, pursuant to the authorization from the Compensation and Executive Personnel Committee of the Board of Directors, the Company has caused this Amendment to be executed, all as of the day and year first above written.

AVERY DENNISON CORPORATION	**EXECUTIVE**
By: ______________________	______________________
Robert G. van Schoonenberg Executive Vice President, General Counsel and Secretary	Philip M. Neal

Exhibit 10.8.5

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT is entered into by and between Avery Dennison Corporation, a Delaware corporation (the "Company") and Dean A. Scarborough (the "Executive"), effective as of May 1, 2005.

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to enter into an Employment Agreement with Executive to assure that the Company will have the continued dedication of the Executive. The Board further believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control (as defined below) and to encourage the Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and has therefore determined to extend the term of the employment period upon a Change of Control to provide the Executive with compensation and benefits arrangements upon a Change of Control which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Employment Agreement.

This Agreement contains the entire agreement between the parties with respect to the matters specified herein and supersedes all prior oral and written employment agreements, understandings and commitments between the Company and Executive and any Executive Employment Security Policy of the Company covering the Executive.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Certain Definitions.

(a) The "Effective Date" shall mean the date hereof, which is set forth in the first paragraph of this Agreement.

(b) The "Employment Period" shall mean the period commencing on the Effective Date and ending on the first anniversary of the Effective Date; provided, however, that commencing on the first day of the month next following the Effective Date and on the first day of each month thereafter prior to a Change of Control (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 on the first anniversary of such Renewal Date (but not later than the date when the Executive attains age 65), unless the Company or Executive shall give notice to the other that the Employment Period shall not be further extended prior to any such Renewal Date. Notwithstanding the foregoing or any of the provisions of this Agreement to the contrary, if a Change of Control (as defined in Section 2) occurs, the Employment Period shall be automatically extended so as to terminate three years from the date on which the Change of Control occurs (but not later than the date when the Executive attains age 65).

If the Executive's employment with the Company is terminated prior to the date on which a Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change of Control or (ii) otherwise arose in connection with or anticipation of a Change of Control, then for all purposes of this Agreement the "Employment Period" for such Executive shall be three years from

the date of such termination of employment (but not later than the date when the Executive attains age 65).

2. Change of Control.

For the purpose of this Agreement, a "Change of Control" shall mean:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (i) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) 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"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2; or

(b) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then-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 Business Combination (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 Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the

Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

3. Employment Period.

The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company subject to the terms and conditions of this Agreement, for the period commencing on the "Effective Date" and continuing during the "Employment Period," as defined in Sections 1(a) and (b) above.

4. Terms of Employment.

(a) Position and Duties.

(i) Executive is currently employed as President and Chief Executive Officer. During the Employment Period, the Executive's position (including titles), authority, duties and responsibilities shall be at least commensurate with the most significant of those held, exercised and assigned to the Executive as of the Effective Date.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation

(i) Base Salary.

During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary") which shall be paid at a monthly rate at least equal to twelve times the highest monthly base salary paid or payable, including any base salary which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed no more than 12 months after the last salary increase awarded to the Executive prior to the Effective Date and thereafter at least annually. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not

be reduced after any such increase, and the term "Annual Base Salary" as utilized in this Agreement shall refer to Annual Base Salary as so increased; provided, however, that Executive's Annual Base Salary may be reduced prior to a Change of Control as part of any general, across the board salary reduction which applies in a comparable manner to other officers or senior executives of the Company, but not by more than ten percent (10%) (unless Executive agrees to accept a larger reduction) during any calendar year. As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus.

In addition to Annual Base Salary, the Executive shall be eligible to receive, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") under the Company's Executive Leadership Compensation Plan or Senior Executive Incentive (Leadership) Compensation Plan, or any comparable bonus under any successor plan (such plans, collectively, the "Annual Bonus Plans"), including any Annual Bonus which has been earned but deferred. After a Change of Control, the Executive shall be awarded for each fiscal year ending during the Employment Period an Annual Bonus in cash at least equal to the Executive's average Annual Bonus for the last three full fiscal years prior to the Change of Control (annualized in the event that the Executive was not employed by the Company for the whole of such fiscal year) (the "Recent Annual Bonus"). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus.

(iii) Incentive, Savings and Retirement Plans.

During the Employment Period, the Executive shall be entitled to participate in all incentive, savings, retirement, deferral (including the plans described in Section 6(a)(v) below), and nonqualified supplemental pension (including the Benefit Restoration Plan) plans, practices, policies and programs applicable generally to other peer executives of the Company and its affiliated companies. In no event shall such plans, practices, policies and programs provide the Executive after a Change of Control with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, which are less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other peer executives of the Company and its affiliated companies.

(iv) Welfare Benefit Plans.

During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated companies. In no event shall such plans, practices, policies and programs provide the Executive after a Change of Control with benefits which are less favorable, in

the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other peer executives of the Company and its affiliated companies.

(v) 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, practices and procedures of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, such reimbursement shall be made in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vi) Fringe Benefits.

During the Employment Period, the Executive shall be entitled to fringe benefits, including, without limitation, if applicable, tax and financial planning services, payment of club dues, and automobile lease and payment of related expenses, in accordance with the plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, such fringe benefits shall be provided in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vii) Office and Support Staff.

During the Employment Period, the Executive shall be entitled to an office and support staff in accordance with the practices and policies of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(viii) Vacation.

During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, the Executive shall be entitled to vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies as in effect for the Executive at any time during the 120-day period immediately preceding the Change or Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

5. Termination of Employment.

(a) Death or Disability.

The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 12(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for a period of (i) ninety (90) consecutive calendar days or (ii) an aggregate of one hundred fifty (150) calendar days in any fiscal year of the Company as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

(b) Cause.

The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board, which specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties, or

(ii) the willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

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 notice that the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) Good Reason.

The Executive's employment may be terminated by the Executive during the Employment Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) without the express written consent of the Executive, the assignment to the Executive of any duties or any other action by the Company which results in a material diminution in the Executive's

position (including titles), authority, duties or responsibilities from those contemplated by Section 4(a)(i) of this Agreement, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 4(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(iv) any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

(d) Notice of Termination.

Any termination during the Employment Period by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 12(b) of this Agreement. 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) to the extent applicable, 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 Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the

Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination.

"Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies the Executive of such termination, and (iii) if the Executive's employment is terminated by reason of death or Disability, the date of death of the Executive or the Disability Effective Date, as the case may be.

6. Obligations of the Company upon Termination.

(a) Good Reason; Other Than for Cause, Death or Disability.

If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination an amount equal to the present value, determined in accordance with Section 280G(d)(4) of the Internal Revenue Code of 1986, as amended (the "Code"), of the aggregate of the following amounts under A, B and C below; provided however, that prior to a Change of Control, the Company, in its discretion, may determine to pay any such amount when it otherwise would have been paid if the Executive's employment had not been terminated until the end of the Employment Period:

A. the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid and (2) the excess of (A) the product of (x) (i) if a Change of Control does not occur during the fiscal year which includes the Date of Termination, the Annual Bonus which would have been payable to the Executive for such entire fiscal year or (ii) if a Change of Control does occur during the fiscal year which includes the Date of Termination, the higher of (I) the Recent Annual Bonus and (II) the Annual Bonus paid or payable, including any bonus or portion thereof which has been earned but deferred (and annualized for any fiscal year consisting of less than twelve full months or during which the Executive was employed for less than twelve full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the "Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365, over (B) any amounts previously paid to the Executive pursuant to the terms of the Annual Bonus Plans as bonuses with respect to the year that includes the Date of Termination (the sum of the amounts described in clauses (1) and (2) shall be hereinafter referred to as the "Accrued Obligations"); and

B. (a) if the Date of Termination occurs prior to a Change of Control, the amount equal to the product of (1) one and (2) the Executive's highest combined Annual Base Salary and Annual Bonus during any of the last three full fiscal years prior to the Date of Termination, or (b) if the Date of Termination occurs after a Change of Control (or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b)), the amount equal to the product of (1) three (or the

number of years, including partial years, until the end of the Employment Period, if less) and (2) the Executive's highest combined Annual Base Salary and Annual Bonus during any of the last three full fiscal years prior to the Date of Termination; and

C. an amount equal to the difference between (a) the aggregate benefit under the Company's qualified defined benefit retirement plans (collectively, the "Retirement Plan") and any excess or supplemental defined benefit retirement plans (including the Benefit Restoration Plan) in which the Executive participates (collectively, the "SRP") which the Executive would have accrued (whether or not vested) if the Executive's employment had continued for one year (or three years if the Date of Termination occurs after a Change of Control or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b)) after the Date of Termination, but not after the date on which the Executive attains age 65, and (b) the actual vested benefit, if any, of the Executive under the Retirement Plan and the SRP, determined as of the Date of Termination (with the foregoing amounts to be computed on an actuarial present value basis, based on the assumption that the Executive's compensation in the year (or, if applicable, each of the three years) following such termination would have been that required by Section 4(b)(i) and Section 4(b)(ii), and using the actuarial assumptions in effect for purposes of computing benefit entitlements under the Retirement Plan and the SRP at the Date of Termination or, following a Change of Control, using actuarial assumptions no less favorable to the Executive than the most favorable assumptions which were in effect for such purposes at any time from the day before the Change of Control through the Date of Termination;

(ii) for one year (or three years if the Date of Termination occurs after a Change of Control or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b)) after the Executive's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 4(b)(iv) of this Agreement if the Executive's employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies and their families; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility, and for purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits pursuant to such plans, programs, practices and policies, the Executive shall be considered to have remained employed until one year (or three years if the Date of Termination occurs after a Change of Control or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b)) after the Date of Termination and to have retired on the last day of such period;

(iii) if the Date of Termination occurs after a Change of Control or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b), the Company shall, at its sole expense as incurred (but in no event to exceed $50,000), provide the Executive with outplacement services the scope and provider of which shall be selected by the Executive in the Executive's sole discretion;

(iv) the Executive shall be entitled to purchase at depreciated book value the automobile (if any) which the Company was providing for the use of such Executive, and to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program,

practice or policy or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"); and

(v) the Executive shall be treated, for purposes of the Company's Executive Variable Deferred Compensation Plan, Executive Deferred Retirement Plan, Executive Variable Deferred Retirement Plan, and any successor or similar plans, as if he had one more year of service, and attained an age one year older, than his actual years of service and age as of the Date of Termination; provided, however, that Executive shall be credited with the number of years of service and attained age (in addition to his actual years of service and attained age on the Date of Termination) which are required in order to satisfy the eligibility requirements for "early retirement" benefits and to receive the retirement interest rate under such plans, if the Date of Termination occurs after a Change of Control or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b).

If the Executive should die while receiving payments pursuant to this Section 6(a), the remaining payments which would have been made to the Executive if he had lived shall be paid to the beneficiary designated in writing by the Executive; or if there is no effective written designation, then to his spouse; or if there is neither an effective written designation nor a surviving spouse, then to his estate. Designation of a beneficiary or beneficiaries to receive the balance of any such payments shall be made by written notice to the Company, and the Executive may revoke or change any such designation of beneficiary at any time by a later written notice to the Company.

(b) Death.

If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, after a Change of Control the term "Other Benefits" as utilized in this Section 6(b) shall include, without limitation, and the Executive's estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, as were in

effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive's estate and/or the Executive's beneficiaries, as in effect on the date of the Executive's death with respect to other peer executives of the Company and its affiliated companies and their beneficiaries.

(c) Disability.

If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period in accordance with Section 5(a), this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, after a Change of Control the term "Other Benefits" as utilized in this Section 6(c) shall include, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Company and its affiliated companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as were in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Company and its affiliated companies and their families.

(d) Cause; Other than for Good Reason.

If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive (x) the Annual Base Salary through the Date of Termination, (y) the amount of any compensation previously deferred by the Executive, and (z) Other Benefits, in each case to the extent theretofore unpaid. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, or retires at age 65 or thereafter, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

7. Non-exclusivity of Rights.

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement (other than this Agreement) with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. The Executive shall no longer be covered by any prior officer employment agreement after the Effective Date of this Agreement.

8. Full Settlement; Offsets.

Except as provided in this Section 8, the Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others.

Executive shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement. However, the amount of any payments and benefits provided for in this Agreement shall be reduced by one hundred percent (100%) of any benefits and earned income (within the meaning of Section 911(d)(2)(A) of the Code) which is earned by the Executive for services rendered to persons or entities other than the Company or its affiliates during or with respect to the Employment Period or, after a Change of Control, during the 36-month period after the Date of Termination. Medical and welfare benefits shall be offset as provided in Section 6(a)(ii).

Not less frequently than annually (by December 31 of each year), the Executive shall account to the Company with respect to all benefits and earned income earned by the Executive which are required hereunder to be offset against payments or benefits received by the Executive from the Company. If the Company has paid amounts in excess of those to which the Executive is entitled (after giving effect to the offsets provided above), the Executive shall reimburse the Company for such excess by December 31 of such year. The requirements imposed under this paragraph shall terminate on December 31 of the calendar year in which the Employment Period ends or, after a Change of Control, December 31 of the calendar year which includes the third anniversary of the Date of Termination.

9. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the 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 the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the 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, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the certified public accounting firm which serves as the Company's auditor immediately prior to the Change of Control (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company or the Executive. In the event that such Accounting Firm declines to act, the Company shall appoint another nationally recognized accounting firm (which is acceptable to the Executive) to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as

determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than fifteen days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection

with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. Confidential Information.

The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential business information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted or alleged violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company 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 the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

12. 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:	**If to the Company:**
[to the last address provided by the Executive]	Avery Dennison Corporation 150 North Orange Grove Boulevard Pasadena, California 91103 Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

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

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

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 5(c)(i)-(iv) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

13. Arbitration; Attorneys Fees.

(a) The parties agree that any disputes, controversies or claims which arise out of or are 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 Company (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 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 in accordance with the then-current Rules of Practice and Procedure for Employment Arbitration ("Rules") of the Judicial Arbitration and Mediation Services, Inc. ("JAMS").

The arbitration shall be before a single arbitrator selected in accordance with the JAMS Rules or otherwise by mutual agreement of the parties. The arbitration shall take place in Los Angeles County, California, unless the parties agree to hold the arbitration at another location. Depositions and other discovery shall be allowed in accordance with the JAMS Rules. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of California or federal law, or both, as applicable to the claim(s) asserted.

(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. The arbitrator, and not any federal, state, or local court or agency, shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement, including but not limited to any claim that all or any part of this Agreement is void or voidable. The arbitration shall be final and binding upon the parties.

Either party may bring an action in any court of competent jurisdiction to compel arbitration under this Agreement and to enforce an arbitration award. Except as otherwise provided in this Agreement, both the Company and the Executive agree that neither of them shall initiate or prosecute any lawsuit or administrative action in any way related to any claim covered by this Agreement.

(c) Any claim which either party has against the other party that could be submitted for resolution pursuant to this Section must be presented in writing by the claiming party to the other party within one year of the date the claiming party knew or should have known of the

facts giving rise to the claim, except that claims 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, even if there is a federal or state statute of limitations which would have given more time to pursue the claim.

(d) The Company shall advance the costs and expenses of the arbitrator. In any arbitration to enforce any of the provisions or rights under this Agreement, the unsuccessful party in such arbitration, as determined by the arbitrator, shall pay to the successful party or parties all costs, expenses and reasonable attorneys' fees incurred therein by such party or parties (including without limitation such costs, expenses and fees on any appeals), and if such successful party or parties shall recover an award in any such arbitration proceeding, such costs, expenses and attorneys' fees shall be included as part of such award. Notwithstanding the foregoing provision, in no event shall the successful party or parties be entitled to recover an amount from the unsuccessful party for costs, expenses and attorneys' fees that exceeds the unsuccessful party's costs, expenses and attorneys' fees in connection with the action or proceeding.

(e) Any decision and award or order of the arbitrator shall be final and 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 arbitrator 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 arbitrator 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 arbitrator may be presented in any other forum on the merits of the dispute.

IN WITNESS WHEREOF, the Executive has executed this Agreement and, pursuant to the authorization from the Compensation and Executive Personnel Committee of the Board of Directors, the Company has caused this Agreement to be executed, all as of the day and year first above written.

AVERY DENNISON CORPORATION	**EXECUTIVE**
By: ____________________	____________________
Robert G. van Schoonenberg Executive Vice President, General Counsel and Secretary	Dean A. Scarborough

Exhibit 10.8.6

RETENTION AGREEMENT

This RETENTION AGREEMENT, dated March 31, 2005, is entered into by and between Avery Dennison Corporation, a Delaware corporation (the "Company") and Daniel R. O'Bryant (the "Executive").

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company to enter into a Retention Agreement ("Agreement") with Executive to assure that the Company will have the continued services and dedication of the Executive. Therefore, in order to accomplish these objectives, the Compensation and Executive Personnel Committee of the Board has caused the Company to enter into this Agreement.

This Agreement contains the entire agreement between the parties with respect to the matters specified herein.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Definitions. Terms not defined in the Agreement shall have the meaning as set forth in Executive's Employment Agreement with the Company dated January 2, 2001 ("Employment Agreement"), which agreement will remain in full effect with respect to the matters set forth therein.

2. Position. The Company hereby promotes Mr. O'Bryant from Senior Vice President, Finance and Chief Financial Officer to Executive Vice President, Finance and Chief Financial Officer, effective as of April 1, 2005.

3. In order to provide the Executive with additional incentive to remain in the employ of the Company in this position until age 55 (August 14, 2012) and to devote appropriate attention and time to the business and affairs of the Company and to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities, the Company agrees to grant the Executive the following benefits and rights:

(i) The Company will contribute $1 million to Executive's deferred compensation account by April 1, 2005, which contribution (and any earnings thereon) will vest at age 55 and be subject to the terms and conditions of the 2005 Executive Variable Deferred Retirement Plan. (ii) The Company will grant 30,000 shares of restricted stock to the Executive, which will vest in two equal installments on April 1, 2009 and August 14, 2012, respectively. This stock will be granted with an effective date of April 1, 2005 and the Executive will be entitled to receive the benefit of all dividends accrued or paid and any recapitalizations effective subsequent to that date regardless of the actual date of grant. (iii) The Company will grant to Mr. O'Bryant additional NQSO stock options each year during 2005 – 2011 equal to $180,000 divided by the Black-Scholes value of the Company's stock options used at the time of the annual grant, but no later than December 31st of each calendar year through 2011 with such options to vest under the same terms as other annual options granted to senior executives generally and on terms no less favorable than those currently applicable to the Executive's most recent NQSO grant. These options are an addition to annual grants to which the Executive is otherwise entitled. The forgoing benefits, once vested, shall not be forfeitable on account of the termination of Executive's employment regardless of the reason for such termination.

4. Termination of Employment.

(a) Death or Disability.

The Executive's employment shall terminate automatically in the event of Executive's death during the Term of Employment. If the Company determines in good faith that the Disability of the Executive has occurred during the Term of Employment (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with paragraph 10(b) of this Agreement of the Company's intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for a period of (i) ninety (90) consecutive calendar days or (ii) an aggregate of one hundred fifty (150) calendar days in any fiscal year of the Company as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

(b) Cause.

The Company may terminate the Executive's employment for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed the Executive's duties, or

(ii) The willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

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 upon the instructions of the Chief Executive Officer or a senior officer of the Company 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 notice that the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) Good Reason.

The Executive's employment may be terminated by the Executive during the Employment Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) without the express written consent of the Executive, the assignment to the Executive of any duties or any other action by the Company which results in a material diminution in the Executive's position (including titles), authority, duties or responsibilities from those of his present position, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 4(b) of his Employment Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(iv) any failure by the Company to comply with and satisfy Section 11(c) of his Employment Agreement.

(v) relocation by the Company of the Executive's office more than 20 miles from its present location in Pasadena, CA, and when such relocation is not part of a general Corporate Center relocation on the part of the Company.

(d) Notice of Termination.

Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Paragraph 10(b) of this Agreement. 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) to the extent applicable, 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 Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination.

"Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies the Executive of such termination, and (iii) if the Executive's employment is terminated by reason of death or Disability, the date of death of the Executive or the Disability Effective Date, as the case may be.

5. Obligations of the Company upon Termination.

(a) Good Reason; Other than for Cause, Death or Disability, Change in Control

If, the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate his employment for Good Reason or, if there should be a Change in Control, the benefits provided to the Executive under paragraph 3(i) and (ii) shall vest as of the date of such termination, or Change in Control, and the Company will pay to the Executive the remaining value of the benefit under paragraph 3 (iii) (such payment to be calculated as $180,000 times the number of years remaining for which Executive had not received incremental annual stock options under said paragraph).

(b) Death.

If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, the benefits under paragraph 3 (i) to (iii) will automatically vest as of the date prior to the date of Executive's death will be part of Executive's estate, and the Company also will pay to Executive's estate the remaining value of the benefit under paragraph 3 (iii) (such payment to be calculated as $180,000 times the number of years remaining for which Executive had not received incremental annual stock options).

(c) Disability.

If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period in accordance with paragraph 4(a), the benefits under paragraph 3 (i) to (iii) will vest as of the date of termination of the Agreement, and the Company also will pay to Executive the remaining value of the benefit under paragraph 3 (iii) (such payment to be calculated as $180,000 times the number of years remaining for which Executive had not received incremental annual stock options).

(d) Voluntary Termination/Cause; Other than for Good Reason.

If the Executive's employment shall be terminated because of voluntary termination by the Executive or for Cause by the Company prior to the applicable vesting dates, no further benefits will vest under this Agreement.

6. Non-exclusivity of Rights.

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement (other than this Agreement) with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

7. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive

(whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the 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 the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the 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, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of this Section, all determinations required to be made under this Section, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the certified public accounting firm which serves as the Company's auditor immediately prior to the Change of Control (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company or the Executive. In the event that such Accounting Firm declines to act, the Company shall appoint another nationally recognized accounting firm (which is acceptable to the Executive) to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to paragraph 7(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than fifteen days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this paragraph 7(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company’s control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to paragraph 7(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company’s complying with the requirements of paragraph 7(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to paragraph 7(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

8. Confidential Information.

The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential business information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive’s employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the

Executive’s employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted or alleged violation of the provisions of this Section constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

9. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company 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 the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, “Company” shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

10. 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:

[to the last address provided
by the Executive]

If to the Company:

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

Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

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

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

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to paragraph 4(c)(i)-(v) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

11. Arbitration; Attorneys Fees.

(a) The parties agree that any disputes, controversies or claims which arise out of or are 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 Company (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 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 in accordance with the then-current Rules of Practice and Procedure for Employment Arbitration ("Rules") of the Judicial Arbitration and Mediation Services, Inc. ("JAMS").

The arbitration shall be before a single arbitrator selected in accordance with the JAMS Rules or otherwise by mutual agreement of the parties. The arbitration shall take place in Los Angeles County, California, unless the parties agree to hold the arbitration at another location. Depositions and other discovery shall be allowed in accordance with the JAMS Rules. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of California or federal law, or both, as applicable to the claim(s) asserted.

(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. The arbitrator, and not any federal, state, or local court or agency, shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement, including but not limited to any claim that all or any part of this Agreement is void or voidable. The arbitration shall be final and binding upon the parties.

Either party may bring an action in any court of competent jurisdiction to compel arbitration under this Agreement and to enforce an arbitration award. Except as otherwise provided in this

Agreement, both the Company and the Executive agree that neither of them shall initiate or prosecute any lawsuit or administrative action in any way related to any claim covered by this Agreement.

(c) Any claim which either party has against the other party that could be submitted for resolution pursuant to this Section must be presented in writing by the claiming party to the other party within one year of the date the claiming party knew or should have known of the facts giving rise to the claim, except that claims 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, even if there is a federal or state statute of limitations which would have given more time to pursue the claim.

(d) The Company shall advance the costs and expenses of the arbitrator. In any arbitration to enforce any of the provisions or rights under this Agreement, the unsuccessful party in such arbitration, as determined by the arbitrator, shall pay to the successful party or parties all costs, expenses and reasonable attorneys' fees incurred therein by such party or parties (including without limitation such costs, expenses and fees on any appeals), and if such successful party or parties shall recover an award in any such arbitration proceeding, such costs, expenses and attorneys' fees shall be included as part of such award. Notwithstanding the foregoing provision, in no event shall the successful party or parties be entitled to recover an amount from the unsuccessful party for costs, expenses and attorneys' fees that exceeds the unsuccessful party's costs, expenses and attorneys' fees in connection with the action or proceeding.

(e) Any decision and award or order of the arbitrator shall be final and 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 arbitrator 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 arbitrator 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 arbitrator may be presented in any other forum on the merits of the dispute.

IN WITNESS WHEREOF, the Executive has executed this Agreement and, pursuant to the authorization from the Compensation and Executive Personnel Committee of the Board of Directors, the Company has caused this Agreement to be executed, all as of the day and year first above written.

AVERY DENNISON CORPORATION	**EXECUTIVE**
By: ______________________________	______________________________
Philip M. Neal Chairman and Chief Executive Officer	Daniel R. O'Bryant

Exhibit 10.19.8

AVERY DENNISON CORPORATION
RESTRICTED STOCK AGREEMENT

THIS AGREEMENT, dated _____________, is made by and between Avery Dennison Corporation, a Delaware corporation, hereinafter referred to as the "Company," and *, an employee of Company or a Subsidiary of Company, hereinafter referred to as "Employee."

WHEREAS, Company wishes to grant to Employee an Award of restricted stock ("RS") under the terms of the Employee Stock Option and Incentive Plan, as amended and restated ("Plan); and

WHEREAS, the Compensation and Executive Personnel Committee of the Company's Board of Directors (hereinafter referred to as the "Committee"), appointed to administer the Plan, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the RS provided for herein to Employee as an inducement to remain in the service of Company or its Subsidiaries and as an incentive for increased efforts during such service;

WHEREAS, the Committee has advised the Company of its determination and instructed the undersigned officers to issue said RS, as authorized under the Plan;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, Company and Employee do hereby agree as follows:

ARTICLE I – DEFINITIONS

Terms not defined herein shall have the meaning given in the Plan. Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary.

1.1 Pronouns

The masculine pronoun shall include the feminine and neuter, and the singular and plural, where the context so indicates.

ARTICLE II – TERMS OF RS

2.1 Award of RS

In consideration of Employee's agreement to remain in the employment of Company or its Subsidiaries during the Restriction Period (defined below) and for other good and valuable consideration, on the date hereof the Company awards to Employee RS of * shares of the Company's $1.00 par value Common Stock subject to the terms and conditions set forth in this Agreement and the Plan. The RS awarded hereunder shall be held in book-entry registration in the custody of the Company or its designee (stock transfer agent) for the Employee's RS account. The RS shall be subject to the restrictions described herein and shall vest as set forth in the attached Award Notice.

2.2 Restrictions

(a) No portion of the RS granted hereunder may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of by the Employee until such portion of the Restricted Stock becomes vested. The period of time between the date hereof and the date the RS (or a portion thereof) becomes vested is referred to herein as the "Restriction Period." In the event any RS is issued during the Restriction Period, the RS will be subject to the restrictions described herein, shall bear appropriate restrictive legends and shall be held by the Company or its designee for the account of the Executive.

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* Refer to attached Award Notice

(b) If the Employee's employment with the Company is terminated for Cause or voluntary termination, the balance of the RS subject to the provisions of this Agreement, which has not vested at the time of the Employee's termination of employment, shall be forfeited by the Employee, and ownership transferred back to the Company.

2.3 Lapse of Restrictions

Subject to Employee's continued employment, the restrictions shall lapse after the vesting period(s) set forth in the Award Notice.

2.4 Change of Control; Good Reason

In the event of a Change of Control or a termination of Employee's employment for Good Reason (as defined in any employment agreement or related agreement with the Company), the restrictions in this Agreement will lapse and be removed, and the RS granted to Employee pursuant to this Agreement will become fully vested as of the date of such Change in Control.

2.5 Death; Disability

If Employee's employment with the Company and its Subsidiaries terminates by reason of Employee's death or Disability (as defined in any employment agreement or related agreement with the Company) the restrictions imposed upon the RS granted to Employee pursuant to this Agreement will lapse and be removed, and the RS will become fully vested as of the last date of Employee's employment.

2.6 Adjustments in RS

In the event that the outstanding shares of the Common Stock are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, or combination of shares, the Committee or the Company shall make an appropriate and equitable adjustment in the number and kind of shares of RS awarded hereunder. Such adjustment shall be made with the intent that after the change or exchange of shares, the Employee's proportionate interest shall be maintained as before the occurrence of such event.

2.7 IRS Section 83(b) Election

Employee shall be entitled to make any election pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended (or any successor thereto), or comparable provisions of any state tax law, to include any amount in Employee's gross income in connection with Employee's acquisition of the RS, only if Employee shall first have (i) notified the Company of Employee's intention to make such election and (ii) paid to the Company or its Subsidiaries, in the form of cash or a certified or bank cashier's check, an amount sufficient to satisfy any taxes or other amounts required by any other governmental authority to be withheld or paid over to such authority for Employee's account; and provided that such election, if made, must be made within 30 days of the date specified in the Award Notice (grant date) and that Employee is advised to consult with Employee's tax advisor before making any such election.

ARTICLE III – RS CERTIFICATES; SHAREHOLDER RIGHTS

3.1 Conditions to Issuance of RS Certificates

The shares of Common Stock deliverable for the RS, or any part thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;

(b) The completion of any registration or other qualification of such shares under any state or federal law, or under rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee or the Company shall, in its absolute discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee or the Company shall, in its absolute discretion, determine to be necessary or advisable;

(d) The receipt by the Company of full payment for all related taxes. The Employee shall be liable for any and all taxes, including withholding taxes, arising out of this Award or the vesting of RS hereunder. In the event that the Employee does not make a Section 83(b) election, the Employee may elect to satisfy such withholding tax obligation by having the Company retain RS having a fair market value equal to the Company's minimum withholding obligations.

3.2 Shareholder Rights

During the Restriction Period, the Employee shall have all the rights of a shareholder with respect to the RS awarded hereunder except for the right to transfer, encumber or dispose of the RS. Accordingly, the Employee shall have the right to vote the RS and to receive any cash or stock dividends paid to or made with respect to the RS, provided, however, that dividends paid, if any, with respect to that RS which has not vested at the time of the dividend payment shall be held in the custody of the Company or its designee, and shall be subject to the same restrictions that apply to the corresponding RS.

ARTICLE IV – MISCELLANEOUS

4.1 Agreement Subject to Plan

The Agreement is subject to the terms of the Plan, and in the event of any conflict between this Agreement and the Plan, the Plan shall control.

4.2 Administration

The Committee or the Company shall have the power to interpret the Plan and this Agreement and to adopt such procedures for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such procedures. Nothing in this Agreement or the Plan shall be construed to create or imply any contract or right of continued employment between the Employee and the Company (or any of its Subsidiaries).

4.3 Notices

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary and any notice to be given to the Employee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section, either party may hereafter designate a different address for notices to be given to him. Any notice that is required to be given to Employee shall, if Employee is then deceased, be given to Employee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section.

4.4 Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

4.5 Construction

This Agreement and the Plan and all 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.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

EMPLOYEE	AVERY DENNISON CORPORATION
*	By: *
	President and Chief Executive Officer
Address*:	By: *
	Secretary

* Refer to attached Award Notice.

Exhibit 12

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

	Three Months Ended	
	April 2, 2005	March 27, 2004
Earnings:		
Income before taxes	$ 78.0	$ 72.5
Add: Fixed Charges*	21.9	21.6
Amortization of capitalized interest	.6	.6
Less: Capitalized interest	(1.1)	(.7)
	$ 99.4	$ 94.0

* Fixed Charges:

	April 2, 2005	March 27, 2004
Interest expense	$ 14.5	$ 14.9
Capitalized interest	1.1	.7
Interest portion of leases	6.3	6.0
	$ 21.9	$ 21.6
Ratio of Earnings to Fixed Charges	4.5	4.4

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

Certain prior year amounts have been reclassified to conform with the 2005 presentation.

Exhibit 31.1

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

CERTIFICATION

I, Dean A. Scarborough, certify that:

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

/S/ DEAN A. SCARBOROUGH

Dean A. Scarborough
President and Chief Executive Officer

May 12, 2005

Exhibit 31.2

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

CERTIFICATION

I, Daniel R. O'Bryant, certify that:

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

/S/ DANIEL R. O'BRYANT

Daniel R. O'Bryant
Executive Vice President, Finance, and Chief Financial Officer

May 12, 2005

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER*
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended April 2, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 2005

/S/ DEAN A. SCARBOROUGH
Dean A. Scarborough
President and Chief Executive Officer

* The above certification accompanies the issuer's Quarterly Report on Form 10-Q and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER*
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended April 2, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 2005

/S/ DANIEL R. O'BRYANT

Daniel R. O'Bryant
Executive Vice President, Finance, and
Chief Financial Officer

* The above certification accompanies the issuer's Quarterly Report on Form 10-Q and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.