
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 OR 15(d) of
The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): December 7, 2005 (December 1, 2005)

AVERY DENNISON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

1 -7685

95-1492269

(State or other jurisdiction
of incorporation)

(Commission
File Number)

(IRS Employer
Identification No.)

**150 North Orange Grove Boulevard
Pasadena, California**

91103

(Address of principal executive offices)

(Zip Code)

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

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Section 1 — Registrant's Business and Operations

Item 1.01 Entry into a Material Definitive Agreement.

On December 1, 2005, the Compensation and Executive Personnel Committee ("Committee") of the Board of Directors of Avery Dennison Corporation (the "Company") approved the following: (i) certain post-retirement benefits for retiring Chairman, Philip M. Neal; life insurance coverage of \$100,000; lifetime family medical coverage (Medicare, as primary coverage, the Company Basic Medical Plan and Executive Supplemental Medical Plan, which provides for an additional \$30,000 of annual coverage for medical services not reimbursed by Medicare or the Basic Medical Plan); transfer of ownership of Company car with imputed income; \$175,000 annually for five years for office space and clerical support, financial counseling services and business and social club dues; (ii) an additional \$165,000 in annual compensation for the position of Non-Executive Chairman; (iii) an increase in annual salary to \$825,000 for Dean A. Scarborough, President and Chief Executive Officer, effective December 1, 2005 (in May 2005 when Mr. Scarborough was promoted to his present position he requested that a promotional increase be postponed); (iv) salary increases for other executive officers, effective December 1, 2005 (which had been postponed from May 2005); and (v) equity awards on December 1, 2005 for executive officers, including stock options and restricted stock units with dividend equivalents.

Section 2 — Financial Information

Item 2.05 Costs Associated with Exit or Disposal Activities.

On December 1, 2005, following a review of the Company's operations, the Board of Directors of Avery Dennison Corporation approved management's recommendation to initiate certain company-wide cost reduction actions ("restructuring") and to exit certain businesses to improve the Company's global operating efficiencies and to reduce costs.

In connection with these actions, the Company currently anticipates restructuring costs to be in the range of \$50 million to \$65 million, an increase from the Company's previous estimate at the end of the third quarter of 2005 of \$20 million to \$30 million. More than half of these charges are expected to be recognized during the fourth quarter of 2005, and the remaining costs are expected to be recognized during the first half of 2006 when the related expenses are expected to be incurred.

The cost reduction actions include reductions in headcount of approximately 700 to 900 positions, which are expected to impact most businesses and geographic regions. The Company estimates that it will incur employee-related costs in the range of \$45 million to \$55 million, including severance and other termination benefits, and approximately \$5 million to \$10 million in non-cash charges related to write-offs of fixed assets.

Annual pretax savings associated with these and other cost reduction actions are expected to total \$80 million to \$90 million when fully implemented, an increase from the Company's previous estimate at the end of the third quarter of 2005 of \$60 million to \$70 million. A portion of the estimated savings and cash generated from these actions will be used to fund investments in ongoing Horizon initiatives and future growth opportunities, as well as actions to drive additional productivity improvements.

As previously announced on October 25, 2005, the Company is considering divesting certain non-strategic, low-margin businesses, which would reduce annual sales by approximately \$70 million to \$80 million, with minimal impact to earnings from operations. These businesses have approximately \$140 million in total assets, including goodwill and other intangible assets. Such divestitures, if completed, would result in cash and non-cash charges related to severance and other employee-related costs, as well as asset impairments and write-offs. At this time, the Company is unable to estimate costs associated with these exit-related activities. Certain of these charges could be incurred late in the fourth quarter of 2005 and the balance could be incurred in the first half of 2006.

Section 5 — Corporate Governance and Management

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

(b) As part of a planned transition of executive leadership, on December 2, 2005, Philip M. Neal resigned as a director and Chairman of the Company's Board of Directors, and on December 2, 2005 he retired from the Company after over 31 years

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of service. The Board elected Kent Kresa, an independent director, as Non-Executive Chairman of the Board of Directors, effective as of the resignation of Mr. Neal (the news release dated December 2, 2005 is attached as Exhibit 99.1). As part of this transition, Mr. Kresa relinquished his position as Chairman of the Audit Committee (he remains as a member of the Audit Committee), and John T. Cardis (a current member of the Audit Committee) was appointed as Chairman of the Audit Committee, effective December 2, 2005.

Item 5.03 Amendments to Bylaws.

On December 1, 2005, the Board of Directors amended the Company's Bylaws to decrease the size of the Board of Directors to ten; to add descriptions for the positions of non-executive chairman and chief executive officer; and to make other minor revisions to the descriptions of other officers.

The text of the Bylaws as amended is attached as Exhibit 3.2.1 hereto.

Section 9 — Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

The following are filed as Exhibits to this Report:

- 3.2.1 - Bylaws as amended
- 10.19.1 - Forms of Stock Option Agreements
- 10.19.2 - Forms of Restricted Stock Unit Agreements
- 99.1 - News Release dated December 1, 2005

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

“Safe Harbor” Statement under the Private Securities Litigation Reform Act of 1995: Certain statements contained in this report on Form 8-K are “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain risks and uncertainties. Actual results and trends may differ materially from historical or expected results depending on a variety of factors, including but not limited to fluctuations in cost and availability of raw materials; ability of the Company to achieve and sustain targeted cost reductions; foreign exchange rates; worldwide and local economic conditions; selling prices; impact of legal proceedings, including the U.S. Department of Justice (“DOJ”) criminal investigation, as well as the European Commission (“EC”), Canadian Department of Justice, and Australian Competition and Consumer Commission 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); impact of potential violations of the U.S. Foreign Corrupt Practices Act based on issues in China; impact of epidemiological events on the economy and the Company's customers and suppliers; successful integration of acquired companies, financial condition and inventory strategies of customers; development, introduction and acceptance of new products; fluctuations in demand affecting sales to customers; and other matters referred to in the Company's SEC filings.

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

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selling price increases (and previously implemented selling price increases can be sustained), 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 and sustain targeted cost reductions.

For a more detailed discussion of these and other factors, see Exhibit 99.1 "Cautionary Statement For Purposes Of The Safe Harbor Provisions Of The Private Securities Litigation Reform Act Of 1995" in the Company's Form 10-K, filed on March 17, 2005. The forward-looking statements included in this Form 8-K are made only as of the date of this Form 8-K, and the Company undertakes no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

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 hereunto duly authorized.

AVERY DENNISON CORPORATION

Date: December 7, 2005

By: /s/ Daniel R. O'Bryant

Name: Daniel R. O'Bryant

Title: Executive Vice President, Finance and
Chief Financial Officer

EXHIBIT LIST

<u>Exhibit No.</u>	<u>Description</u>
3.2.1	Bylaws as amended
10.19.1	Forms of Stock Option Agreements
10.19.2	Forms of Restricted Stock Unit Agreements
99.1	News Release dated December 1, 2005

BYLAWS
OF
AVERY DENNISON CORPORATION

ARTICLE I
OFFICES

Section 1. Registered Office.

The registered office of Avery Dennison Corporation (hereinafter called the “corporation”) in the State of Delaware shall be at 1209 Orange Street, in the City of Wilmington, County of New Castle, and the name of the registered agent at that address shall be The Corporation Trust Company.

Section 2. Principal Office.

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

Section 3. Other Offices.

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

ARTICLE II
STOCKHOLDERS

Section 1. Place of Meetings.

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

Section 2. Annual Meetings of Stockholders.

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

Section 3. Special Meetings.

A special meeting of the stockholders may be called at any time by the board of directors, or by a majority of the directors or by a committee authorized by the board to do so. Any previously scheduled special meeting of the stockholders may be postponed by resolution of the board of directors upon public notice given prior to the date previously scheduled for such special meeting of the stockholders. Business transacted at any special meeting of the stockholders shall be limited to the purpose stated in the notice of meeting.

Section 4. Notice of Stockholders' Meetings.

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

Section 5. Manner of Giving Notice; Affidavit of Notice.

Notice of any meeting of stockholders shall be given either personally or by mail or telegraphic or other written communication or by electronic transmission, charges prepaid, addressed to the stockholder at the address of such stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. Whenever notice is required to be given to any stockholder to whom (1) notice of 2 consecutive annual meetings, and all notices of meetings or of the taking of action by written consent without a meeting to such person during the period between such 2 consecutive annual meetings, or (2) all, and at least 2, payments (if sent by first-class mail) of dividends or interests or securities during a 12 month period, have been mailed addressed to such person at such person's address as shown on the records of the corporation and have been returned undeliverable, the giving of such notice shall not be required. If any such person shall deliver to the corporation a written notice setting forth such person's then current address, the requirement that notice be given to such person shall be reinstated. If mailed, notice shall be deemed to have been given at the time when delivered personally or deposited in the United States mail or sent by telegram or other means of written communication.

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

Section 6. Quorum.

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

Section 7. Adjourned Meeting and Notice Thereof.

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

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

Section 8. Voting.

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

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

Section 9. Waiver of Notice or Consent by Absent Stockholders.

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

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

Section 10. No Stockholder Action by Written Consent Without a Meeting.

Stockholders may take action only at a regular or special meeting of stockholders.

Section 11. Record Date for Stockholder Notice and Voting.

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

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

Section 12. Proxies.

Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by proxy. Without limiting the manner in which a proxy may be granted, a stockholder may grant a proxy in the following manners: (i) by executing a writing

authorizing another person or persons to act for such stockholder as proxy or (ii) by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to a person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided however that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. A written proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or electronic transmission or otherwise) by the stockholder or the stockholder's attorney in fact. A proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, prior to the vote pursuant thereto, by a writing or electronic transmission delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy, or (ii) notice of the death or incapacity of the maker of such proxy is received by the corporation before the vote pursuant thereto is counted; provided, however, that no such proxy shall be valid after the expiration of three years from the date of such proxy, unless otherwise provided in the proxy.

Section 13. Inspectors of Election; Opening and Closing the Polls.

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

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

Section 14. Nomination and Stockholder Business

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

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the secretary of the corporation and any such proposed business other than the nominations of persons for election to the board of directors must constitute a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 90th day, nor earlier than the close of business on the 120th day, prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the corporation). In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (a) as to each person whom the stockholder proposes to nominate for election as a director (i) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and (ii) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the corporation, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner, (ii) the class and number of shares of capital stock of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (iii) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (iv) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (b) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The foregoing notice requirements of this Bylaw shall be deemed satisfied by a stockholder if the stockholder has notified the corporation of his or her intention to present a proposal or nomination at an annual meeting in compliance with applicable rules and regulations promulgated under the Exchange Act and such stockholder's proposal or nomination has been

included in a proxy statement that has been prepared by the corporation to solicit proxies for such annual meeting. The corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the corporation.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Bylaw to the contrary, in the event that the number of directors to be elected to the board of directors of the corporation at an annual meeting is increased and there is no public announcement by the corporation naming the nominees for the additional directorships at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the corporation's notice of meeting (1) by or at the direction of the board of directors or (2) provided that the board of directors has determined that directors shall be elected at such meeting, by any stockholder of the corporation who is a stockholder of record at the time the notice provided for in this Bylaw is delivered to the secretary of the corporation, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Bylaw. In the event the corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the board of directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the corporation's notice of meeting, if the stockholder's notice required by paragraph (A)(2) of this Bylaw shall be delivered to the secretary at the principal executive offices of the corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(C) General. (1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to be elected at an annual or special meeting of stockholders of the corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty (a) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Bylaw (including whether

the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by clause (A)(2)(c)(iv) of this Bylaw) and (b) if any proposed nomination or business was not made or proposed in compliance with this Bylaw, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Bylaw, unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the corporation to present a nomination or proposed business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation. For purposes of this Bylaw, to be considered a qualified representative of the stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

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

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

ARTICLE III

DIRECTORS

Section 1. Powers.

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

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

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

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

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

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

Section 2. Number and Qualification of Directors.

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

Section 3. Election and Term of Office of Directors.

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

Section 4. Vacancies and Newly Created Directorships.

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

A vacancy or vacancies in the board of directors shall be deemed to exist in the case of the death, retirement, resignation, disqualification or removal of any director, or if the authorized number of directors be increased.

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

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

Section 5. Place of Meetings and Telephonic Meetings.

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

Section 6. Annual Meetings.

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

Section 7. Other Regular Meetings.

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

Section 8. Special Meetings.

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

Notice of the time and place of special meetings shall be delivered personally or by telephone or by electronic transmission to each director or sent by first-class mail or telegram, charges prepaid, addressed to

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

Section 9. Quorum.

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

Section 10. Waiver of Notice.

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

Section 11. Adjournment.

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

Section 12. Notice of Adjournment.

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

Section 13. Action Without Meeting.

Any action required or permitted to be taken by the board of directors may be taken without a meeting, if all members of the board shall individually or collectively consent to such action in compliance with applicable law.

Section 14. Fees and Compensation of Directors.

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

Section 15. Classification of Directors.

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

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

Section 16. Chairman of the Board.

The board of directors may, by resolution, select a member of the board of directors to act as chairman of the board. The chairman of the board shall preside over the meetings of the board of directors and shall have such other duties as may be delegated to the chairman by the board of directors. The chairman of the board shall not be an officer of the corporation, unless otherwise provided by resolution of the board of directors.

ARTICLE IV
COMMITTEES

Section 1. Committees of Directors.

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

- (a) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the General Corporation Law to be submitted to the stockholders for approval; or
- (b) adopting, amending or repealing any bylaw of the corporation.

Section 2. Meetings and Action of Committees.

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

ARTICLE V
OFFICERS

Section 1. Officers.

The officers of the corporation shall be the chief executive officer, the president, a vice president, a secretary and a treasurer. The corporation may also have, at the discretion of the chief executive officer or the board of directors, one or more additional vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance

with the provisions of Section 3 of this Article V. Any number of offices may be held by the same person.

Section 2. Election of Officers.

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

Section 3. Subordinate Officers, etc.

The chief executive officer or the board of directors may appoint such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the bylaws or as the chief executive officer or the board of directors may from time to time determine.

Section 4. Removal and Resignation of Officers.

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

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

Section 5. Vacancies in Office.

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

Section 6. Chief Executive Officer.

The chief executive officer shall, subject to the control of the board of directors, have general supervision, direction and control of the business and affairs of the corporation. If so determined by resolution of the board of directors, the chairman of the board shall also be the chief executive officer.

Section 7. President.

The president shall exercise and perform such powers and duties with respect to the administration of the business and affairs of the corporation as may from time to time be assigned to him by the chief executive officer or by the board of directors, or as may be prescribed by the bylaws. If so determined by resolution of the board of directors, the president shall also be the chief executive officer and/or the chief operating officer.

Section 8. Vice Presidents.

In the absence or disability of the president, a vice president designated by the board of directors shall perform all the duties of the president, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors or the bylaws.

Section 9. Secretary.

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

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

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

Section 10. Treasurer.

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

The treasurer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the chief executive officer or the board of

directors. He shall disburse the funds of the corporation as may be ordered by the chief executive officer or the board of directors, shall render to the chief executive officer or the board of directors, whenever they request it, an account of all of his transactions as treasurer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the chief executive officer, the board of directors or the bylaws.

Section 11. Assistant Secretaries and Assistant Treasurers.

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

ARTICLE VI

***INDEMNIFICATION OF DIRECTORS, OFFICERS,
EMPLOYEES AND OTHER AGENTS***

Section 1. Indemnification and Insurance.

(A) Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit, or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans maintained or sponsored by the corporation, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the General Corporation Law as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment), against all expenses, liability and loss (including attorneys' fees, judgements, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in paragraph (C) of this Bylaw, the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors. The right to indemnification conferred in this Bylaw shall be a contract right and shall include the right to be paid by the

corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the corporation within 20 days after the receipt by the corporation of a statement or statements from the claimant requesting such advance or advances from time to time; provided, however, that if the General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the corporation of an undertaking by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Bylaw or otherwise.

(B) To obtain indemnification under this Bylaw, a claimant shall submit to the corporation a written request, including therein or therewith such documentation and information as is reasonably available to the claimant and reasonably necessary to determine whether and to what extent the claimant is entitled to indemnification. Upon written request by a claimant for indemnification pursuant to the first sentence of this paragraph (B), a determination, if required by applicable law, with respect to the claimant's entitlement thereto shall be made as follows: (1) if requested by the claimant, by Independent Counsel (as hereinafter defined), or (2) if no request is made by the claimant for a determination by Independent Counsel, (i) by the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors (as hereinafter defined), or (ii) by a committee of Disinterested Directors designated by Disinterested Directors, even though less than a quorum, or (iii) if a quorum of the Board of Directors consisting of Disinterested Directors is not obtained or even if obtainable, such quorum of Disinterested Directors so directs, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to the claimant, or (iv) if a quorum of Disinterested Directors so directs, by the stockholders of the corporation. In the event the determination of entitlement to indemnification is to be made by Independent Counsel at the request of the claimant, the Independent Counsel shall be selected by the Board of Directors unless there shall have occurred within two years prior to the date of the commencement of the action, suit or proceeding for which indemnification is claimed a "Change of Control" as defined in the 1996 Stock Incentive Plan, in which case the Independent Counsel shall be selected by the claimant unless the claimant shall request that such selection be made by the Board of Directors. If it is so determined that the claimant is entitled to indemnification, payment to the claimant shall be made within 10 days after such determination.

(C) If a claim under paragraph (A) of this Bylaw is not paid in full by the corporation within 30 days after a written claim pursuant to paragraph (B) of this Bylaw has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim, including attorney's fees. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the corporation) that the

claimant has not met the standard of conduct which makes it permissible under the General Corporation Law for the corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its Board of Directors, Independent Counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law, nor an actual determination by the corporation (including its Board of Directors, Independent Counsel or stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(D) If a determination shall have been made pursuant to paragraph (B) of this Bylaw that the claimant is entitled to indemnification, the corporation shall be bound by such determination in any judicial proceeding commenced pursuant to paragraph (C) of this Bylaw.

(E) The corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to paragraph (C) of this Bylaw that the procedures and presumptions of this Bylaw are not valid, binding and enforceable and shall stipulate in such proceeding that the corporation is bound by all the provisions of this Bylaw.

(F) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Bylaw shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or Disinterested Directors or otherwise. No repeal or modification of this Bylaw shall in any way diminish or adversely affect the rights of any director, officer, employee or agent of the corporation hereunder in respect of any occurrence or matter arising prior to any such repeal or modification.

(G) The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law. To the extent that the corporation maintains any policy or policies providing such insurance, each such director or officer, and each such agent or employee to which rights to indemnification have been granted as provided in paragraph (H) of this Bylaw, shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage thereunder for any such director, officer, employee or agent.

(H) The corporation may, to the extent authorized from time to time by the Board of Directors or the Chief Executive Officer, grant rights to indemnification, and rights to be paid by the corporation the expenses incurred in defending any proceeding in advance of its final disposition, to any employee or agent of the corporation to the fullest extent of the provisions of this Bylaw with respect to the indemnification and advancement of expenses of directors and officers of the corporation.

(I) If any provision or provisions of this Bylaw shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (1) the validity, legality and enforceability of the remaining provisions of this Bylaw (including, without limitation, each portion of any paragraph of this Bylaw containing any such provisions held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (2) to the fullest extent possible, the provisions of this Bylaw (including, without limitation, each such portion of any paragraph of this Bylaw containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

(J) For purposes of this Bylaw:

(1) "Disinterested Director" means a director of the corporation who is not and was not a party to the matter in respect of which indemnification is sought by the claimant.

(2) "Independent Counsel" means a law firm, a member of a law firm, or an independent practitioner, that is experienced in matters of corporation law and shall include any person who, under the applicable standards of professional conduct then prevailing, would not have a conflict of interest in representing either the corporation or the claimant in an action to determine the claimant's rights under this Bylaw.

(K) Any notice, request or other communication required or permitted to be given to the corporation under this Bylaw shall be in writing and either delivered in person or sent by telecopy, telex, telegram, overnight mail or courier service, or certified or registered mail, postage prepaid, return receipt requested, to the Secretary of the corporation and shall be effective only upon receipt by the Secretary.

Section 2. Fiduciaries of Corporate Employee Benefit Plan.

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

ARTICLE VII RECORDS AND REPORTS

Section 1. Maintenance and Inspection of Stock Register.

The corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed, and as determined by resolution of the board of directors, a record of its

stockholders, giving the names and addresses of all stockholders and the number and class of shares held by each stockholder.

Section 2. Maintenance and Inspection of Bylaws.

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

Section 3. Maintenance and Inspection of Other Corporate Records.

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

Section 4. Inspection by Directors.

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

ARTICLE VIII

GENERAL CORPORATE MATTERS

Section 1. Record Date for Purposes Other Than Notice and Voting.

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

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

Section 2. Checks, Drafts, Evidences of Indebtedness.

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

Section 3. Corporate Contracts and Instruments; How Executed.

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

Section 4. Stock Certificates.

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

Section 5. Lost Certificates.

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

Section 6. Representation of Stock of Other Corporations.

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

Section 7. Construction and Definitions.

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

Section 8. Fiscal Year.

The fiscal year of the corporation shall commence the first day of the calendar year.

Section 9. Seal.

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

ARTICLE IX
AMENDMENTS

Section 1. Amendment by Stockholders.

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

Section 2. Amendment by Directors.

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

Amended December 1, 2005

AVERY DENNISON CORPORATION

NON-QUALIFIED STOCK OPTION 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 afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Employee Stock Option and Incentive 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 said Plan, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option 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 Option, which the Committee has determined should be a Non-Qualified Stock Option, 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

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 Beneficiary

“Beneficiary” shall mean a person properly designated by the Employee, including his/her spouse or heirs at law, to exercise such Employee’s rights under the Plan. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company, and shall be effective upon delivery to the Company.

1.2 Change of Control

“Change of Control” shall have the same meaning given in Article 10.2 of the Plan.

1.3 Option

“Option” shall mean the option to purchase common stock of the Company granted under this Agreement.

* Refer to attached Notice

1.4 Plan

The “Plan” shall mean the Employee Stock Option and Incentive Plan, as amended and restated.

1.5 Pronouns

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

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Subsidiary

“Subsidiary” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Subsidiary is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II — GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be * dollars per share without commission or other charge.

* Refer to attached Notice

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one (1) year from the date this Option is granted. Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option 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 as to which the Option, or portions thereof then unexercised, shall be exercisable. 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. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III — PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

- (a) The Option shall become exercisable in four cumulative installments as follows:
- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
 - (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
 - (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.
 - (iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of

the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment that becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

- (b) No portion of the Option, which is an unexercisable installment under Subsection (a) above at Termination of Employment, shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company or a Subsidiary, subject to the following exceptions:

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, but not later than the Option's Expiration Date.
- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within thirty-six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV — EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof

becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than one hundred (100) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised by delivery (hard copy, fax or e-mail, as appropriate) to the Secretary or to the Company's Securities Administrator of all of the following:

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the tax liability with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the tax liability; (and provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and
- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, 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

purchased upon the exercise of the Option or part thereof 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 lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment of the exercise price and all taxes related to the exercise of the Option.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V — MISCELLANEOUS

5.1 Option Subject to Plan

The Option 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.

5.2 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.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner other than by will or by the applicable laws of descent and distribution or as a result of marital dissolution involving a qualified domestic relations order (or a similar determination or settlement). The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 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 Beneficiary or personal representative if such individual has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

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

5.6 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.

AVERY DENNISON CORPORATION

By: _____ *
President & Chief Executive Officer

By: _____
Secretary

Optionee *

*

Address *

* Refer to attached Notice.

EVERY DENNISON CORPORATION

NON-QUALIFIED STOCK OPTION 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 afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Employee Stock Option and Incentive 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 said Plan, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option 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 Option, which the Committee has determined should be a Non-Qualified Stock Option, 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

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 Beneficiary

"Beneficiary" shall mean a person properly designated by the Employee, including his/her spouse or heirs at law, to exercise such Employee's rights under the Plan. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company, and shall be effective upon delivery to the Company.

1.2 Change of Control

"Change of Control" shall have the same meaning given in Article 10.2 of the Plan.

1.3 Option

"Option" shall mean the option to purchase common stock of the Company granted under this Agreement.

* Refer to attached Notice

1.4 Plan

The “Plan” shall mean the Employee Stock Option and Incentive Plan, as amended and restated.

1.5 Pronouns

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

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Subsidiary

“Subsidiary” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Subsidiary is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II — GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be * dollars per share without commission or other charge.

* Refer to attached Notice

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one (1) year from the date this Option is granted (unless the Employee retires before the end of such period and the Employee satisfies the requirements of the last paragraph of Subsection 3.1(a)). Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option 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 as to which the Option, or portions thereof then unexercised, shall be exercisable. 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. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III — PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

(a) The Option shall become exercisable in four cumulative installments as follows:

- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
- (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
- (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.

- (iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment that becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

Alternatively, Options, granted under this Agreement to employees participating in the Senior Executive or the Executive Leadership Compensation Plans (annual bonus plans), who (i) die, (ii) become disabled (as described in Subsection 3.3(b) below) or (iii) retire under the Company's retirement plan, have worked for the Company for ten (10) or more years, and have a combination of age and service with the Company of seventy five (75) or more, will vest as of the date of death, disability or Termination of Employment, as applicable.

- (b) No portion of the Option which is unexercisable under Subsection (a) above at Termination of Employment shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company or a Subsidiary, subject to the following exceptions:

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, but not later than the Option's Expiration Date.
- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within sixty (60) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated other than for Cause or the reasons set forth

in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV — EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than one hundred (100) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised by delivery (hard copy, fax or e-mail, as appropriate) to the Secretary or to the Company's Securities Administrator of all of the following:

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the tax liability with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the tax liability (and provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and

- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, 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 purchased upon the exercise of the Option or part thereof 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 lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V – MISCELLANEOUS

5.1 Option Subject to Plan

The Option 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.

5.2 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.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner other than by will or by the applicable laws of descent and distribution or as a result of marital dissolution involving a qualified domestic relations order (or a similar determination or settlement). The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 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 Beneficiary or personal representative if such individual has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

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

5.6 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.

AVERY DENNISON CORPORATION

By: _____ *

President & Chief Executive Officer

By: _____

Secretary

_____*
Optionee

_____*

_____*
Address

* Refer to attached Notice.

EVERY DENNISON CORPORATION

NON-QUALIFIED STOCK OPTION 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 afford Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Employee Stock Option and Incentive 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 said Plan, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option 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 Option, which the Committee has determined should be a Non-Qualified Stock Option, 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

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 Beneficiary

"Beneficiary" shall mean a person properly designated by the Employee, including his/her spouse or heirs at law, to exercise such Employee's rights under the Plan. Designation, revocation and redesignation of Beneficiaries must be made in writing in accordance with procedures established by the Committee or the Company, and shall be effective upon delivery to the Company.

1.2 Change of Control

"Change of Control" shall have the same meaning given in Article 10.2 of the Plan.

1.3 Option

"Option" shall mean the option to purchase common stock of the Company granted under this Agreement.

*Refer to attached Notice

1.4 Plan

The “Plan” shall mean the Employee Stock Option and Incentive Plan, as amended and restated.

1.5 Pronouns

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

1.6 Secretary

“Secretary” shall mean the Secretary of the Company.

1.7 Subsidiary

“Subsidiary” shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 33 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.8 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Subsidiary is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company or a Subsidiary, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II — GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Plan and shall also be subject to the terms and conditions set forth in the Plan.

2.2 Purchase Price

The purchase price of the shares of stock covered by the Option shall be * dollars per share without commission or other charge.

*Refer to attached Notice

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company or a Subsidiary, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least one (1) year from the date this Option is granted (unless the Employee retires before the end of such period and the Employee satisfies the requirements of the last paragraph of Subsection 3.1(a)). Nothing in this Agreement or in the Plan shall confer upon the Employee any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company or a Subsidiary.

2.4 Adjustments in Option

In the event that the outstanding shares of the stock subject to the Option 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 as to which the Option, or portions thereof then unexercised, shall be exercisable. 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. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III — PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

(a) The Option shall become exercisable in four cumulative installments as follows:

- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
- (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
- (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.
- (iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of

the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment that becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

Alternatively, Options, granted under this Agreement to employees participating in the Senior Executive Leadership Compensation Plan (annual bonus plan), who (i) die, (ii) become disabled (as described in Subsection 3.3(b) below) or (iii) retire under the Company's retirement plan, have worked for the Company for ten (10) or more years, and have a combination of age and service with the Company of seventy five (75) or more, will vest as of the date of death, disability or Termination of Employment, as applicable.

- (b) No portion of the Option which is unexercisable under Subsection (a) above at Termination of Employment shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth (10th) anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company or a Subsidiary, subject to the following exceptions:

- (a) If the Employee dies while the Option is exercisable under the terms of this Agreement, the Employee's Beneficiary may exercise such rights, subject to the limitation in Subsection 3.1(b). The Option must be exercised within twelve (12) months after the Employee's death, but not later than the Option's Expiration Date.
- (b) If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) If the Employee's employment is terminated due to his retirement, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), to the full term of the option, but not later than the Option's Expiration Date.
- (d) If the Employee's employment is terminated other than for Cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV — EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than one hundred (100) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised by delivery (hard copy, fax or e-mail, as appropriate) to the Secretary or to the Company's Securities Administrator of all of the following:

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option; and
- (b) Full payment for the shares with respect to which the option or portion thereof is exercised. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the aggregate exercise purchase price of the shares with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the option price; and
- (c) Full payment to the Company of any federal, state, local or foreign taxes required to be withheld in connection with the exercise. Payment may be made (i) in cash (or by certified or bank cashier's check), or (ii) by actual or constructive delivery to the Company, in accordance with the procedures established by the Company, of Company Common Stock then owned by the Employee with a fair market value on the date the option is exercised equal to the tax liability with respect to which the option or portion thereof is exercised, or (iii) by a combination of cash and surrender of stock in the manner herein specified, or (iv) irrevocable instructions to a broker, acceptable to the Company, to deliver promptly to the Company the amount of the sale or the loan proceeds necessary to pay the tax liability (and provided that in any event Employee is responsible for the payment of any and all applicable taxes related to this stock option grant and any exercise of stock options hereunder); and
- (d) In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, 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 purchased upon the exercise of the Option or part thereof 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 lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V — MISCELLANEOUS

5.1 Option Subject to Plan

The Option 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.

5.2 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.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred in any manner other than by will or by the applicable laws of descent and distribution or as a result of marital dissolution involving a qualified domestic relations order (or a similar determination or settlement). The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 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 Beneficiary or personal representative if such individual has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

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

5.6 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.

AVERY DENNISON CORPORATION

By: _____ *
President & Chief Executive Officer

By: _____
Secretary

Optionee

*

Address

* Refer to attached Notice.

AVERY DENNISON CORPORATION EMPLOYEE STOCK OPTION AND INCENTIVE PLAN

(as amended effective April 24, 2003) — 2003 UK APPROVED RULES

AWARD AGREEMENT (“THE 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 a Constituent Company, hereinafter referred to as “Employee.”

WHEREAS, the Company wishes to afford the Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Avery Dennison Corporation Employee Stock Option and Incentive Plan (as amended and restated effective April 24, 2003) (“the Plan”) and the 2003 UK Approved Rules (“the Sub-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 said Plan, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option provided for herein to Employee as an inducement to remain in the service of the Company or a Constituent Company 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 Option, which the Committee has determined should be a Non-Qualified Stock Option grant, granted under the Sub-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

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 Change of Control

“Change of Control” shall have the same meaning given in Article 10.2 of the Plan, as supplemented and amended by Rule 9 of the Sub-Plan.

1.2 Constituent Company

“Constituent Company” shall have the meaning given in Rule 1.1 of the Sub-Plan (as defined in Schedule 4 paragraph 3(3) of the Income Tax (Earnings and Pensions) Act 2003).

1.3 Option

“Option” shall mean the option to purchase common stock of the Company granted under the Agreement.

* Refer to attached Notice

1.4 Pronouns

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

1.5 Secretary

“Secretary” shall mean the Secretary of the Company.

1.6 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Constituent Company is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company a Constituent Company or another company in the same group as the Company, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II — GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Sub-Plan and shall also be subject to the terms and conditions set forth in the Plan and the Sub-Plan.

2.2 Option Price

The option price of the shares of stock shall be ___ and 00000/10000 dollars (US\$___) per share without commission or other charge, which was the equivalent of £___. (For informational purposes, on December 1, 2005 the exchange rate of £ to US\$, as reported by Bloomberg L.P., was £1.00 equals US\$___).

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company a Constituent Company or another group company, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least twelve months from the date this Option is granted. Nothing in this Agreement or in the Plan or Sub-Plan shall confer upon the Employee any right to continue in the employment of the Company, a Constituent Company or another group company or shall interfere with or restrict in any way the rights of the Company, Constituent Company or another

* Refer to attached Notice

group company, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company, Constituent Company or another group company.

2.4 Adjustments in Option

The Committee or the Company shall make an appropriate and equitable adjustment to the Option only in circumstances specified in Rule 6 of the Sub-Plan. 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. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III — PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

(a) The Option shall become exercisable as follows:

- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
- (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
- (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.
- (iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment which becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

(b) No portion of the Option, which is an unexercisable installment under Subsection (a) above at Termination of Employment, shall thereafter become exercisable, unless

otherwise determined by the Committee.

- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company, Constituent Company or another group company, subject to the following exceptions:

- (a) Termination by Death — if the Employee dies while the Option is exercisable under the terms of this Agreement the Option may be exercised by the Employee's personal representatives, to the extent then exercisable, for a period of 12 months from the date of death or until the expiration of the stated term of the Option, whichever period is the shorter.
- (b) Termination by Reason of Disability — If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) Termination by Reason of Retirement — If the Employee's employment is terminated due to his retirement the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within thirty-six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) Other Termination — If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV — EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than one hundred (100) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option; and
- (b) Full payment to the Company of the aggregate exercise price for the shares with respect to which the Option or portion thereof is exercised must be made in cash (or by certified or bank cashier's check or wire payment).
- (c) An exercise shall not be valid unless, in addition to receipt of a valid notice of exercise (hard copy, fax or e-mail, as appropriate) and payment of the option price, the Company is satisfied that the Employee has entered into arrangements which are satisfactory to the Company, to pay all or any part of the British Federal, State, local and foreign taxes for which the Employee is liable and which are required by law to be withheld by the Constituent Company or any other member of the same group of companies as the Constituent Company on the exercise of the Option in accordance with Rule 7.4 of the Sub-Plan.

In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option must be provided.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, 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 non-assessable and will be allotted to the Employee within 30 days from the effective date of exercise in accordance with Rule 7.2 of the Sub-Plan. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof 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 lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V — MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan as amended by the Sub-Plan, and in the event of any conflict between this Agreement, the Plan and the Sub-Plan, the Sub-Plan shall prevail.

5.2 Administration

The Committee or the Company shall have the power to interpret the Plan, the Sub-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.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred. The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 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 Beneficiary or personal representative if such individual has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

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

5.6 Construction

This Agreement and the Plan and Sub-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.

*

AVERY DENNISON CORPORATION

Employee

By:

President & Chief Executive Officer

*

By:

Secretary

*

Address

* Refer to attached Notice

EVERY DENNISON CORPORATION EMPLOYEE STOCK OPTION AND INCENTIVE PLAN

(as amended effective April 24, 2003) — 2003 UK APPROVED RULES

AWARD AGREEMENT (“THE 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 a Constituent Company, hereinafter referred to as “Employee.”

WHEREAS, the Company wishes to afford the Employee the opportunity to purchase shares of its \$1.00 par value common stock under the terms of the Avery Dennison Corporation Employee Stock Option and Incentive Plan (as amended and restated effective April 24, 2003) (“the Plan”) and the 2003 UK Approved Rules (“the Sub-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 said Plan, has determined that it would be to the advantage and best interest of Company and its shareholders to grant the Option provided for herein to Employee as an inducement to remain in the service of the Company or a Constituent Company 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 Option, which the Committee has determined should be a Non-Qualified Stock Option grant, granted under the Sub-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

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 Change of Control

“Change of Control” shall have the same meaning given in Article 10.2 of the Plan, as supplemented and amended by Rule 9 of the Sub-Plan.

1.2 Constituent Company

“Constituent Company” shall have the meaning given in Rule 1.1 of the Sub-Plan (as defined in Schedule 4 paragraph 3(3) of the Income Tax (Earnings and Pensions) Act 2003).

1.3 Option

“Option” shall mean the option to purchase common stock of the Company granted under the Agreement.

* Refer to attached Notice

1.4 Pronouns

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

1.5 Secretary

“Secretary” shall mean the Secretary of the Company.

1.6 Termination of Employment

“Termination of Employment” shall mean the time when the employee-employer relationship between the Employee and the Company or a Constituent Company is terminated for any reason, including, but not limited to, a termination by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment or continuing employment by the Company a Constituent Company or another company in the same group as the Company, and, at the discretion of the Committee or the Company, terminations which result in the severance of the employee-employer relationship that do not exceed one year. The Committee or the Company shall determine the effect of all other matters and questions relating to Termination of Employment.

ARTICLE II — GRANT OF OPTION

2.1 Grant of Option

In consideration of Employee’s agreement to remain in the employ of Company or its subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to Employee the option to purchase any part or all of an aggregate of * shares of its \$1.00 par value common stock upon the terms and conditions set forth in this Agreement. Such Option is granted pursuant to the Sub-Plan and shall also be subject to the terms and conditions set forth in the Plan and the Sub-Plan.

2.2 Option Price

The option price of the shares of stock shall be _____ and 0000/10000 dollars (US\$_____) per share without commission or other charge, which was the equivalent of £_____. (For informational purposes, on December 1, 2005 the exchange rate of £ to US\$, as reported by Bloomberg L.P., was £1.00 equals US\$_____).

2.3 Consideration to Company

In consideration of the granting of this Option by the Company, the Employee agrees to render faithful and efficient service to the Company, a Constituent Company or another group company, with such duties and responsibilities as the Company shall from time to time prescribe, for a period of at least twelve months from the date this Option is granted. Nothing in this Agreement or in the Plan or Sub-Plan shall confer upon the Employee any right to continue in the employment of the Company, a Constituent Company or another group company or shall interfere with or restrict in any way the rights of the Company, Constituent Company or another

* Refer to attached Notice

group company, which are hereby expressly reserved, to discharge the Employee at any time for any reason whatsoever, with or without good cause. Nor shall it interfere with or restrict in any way, other than the forfeiture of all rights under this Agreement, the right of the Employee voluntarily to terminate his employment with the Company, Constituent Company or another group company.

2.4 Adjustments in Option

The Committee or the Company shall make an appropriate and equitable adjustment to the Option only in circumstances specified in Rule 6 of the Sub-Plan. 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. Such adjustment in the Option may include a necessary corresponding adjustment in the option price per share, but shall be made without change in the total price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices).

ARTICLE III — PERIOD OF EXERCISABILITY

3.1 Commencement of Exercisability

- (a) The Option shall become exercisable in four cumulative installments as follows:
- (i) The first installment shall consist of twenty-five percent (25%) of the shares covered by the Option and shall become exercisable on the first anniversary of the date the Option was granted.
 - (ii) The second installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the second anniversary of the date the Option was granted.
 - (iii) The third installment shall consist of an additional twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the third anniversary of the date the Option was granted.
 - (iv) The fourth installment shall consist of twenty five percent (25%) of the shares covered by the Option and shall become exercisable on the fourth anniversary of the date the Option was granted.

The installments provided for in this Subsection (a) are cumulative. Each installment that becomes exercisable shall remain exercisable during the term of the Option, except as otherwise provided in this Agreement.

Alternatively, Options, granted to employees participating in the Executive Leadership Compensation Plan (annual bonus plan), who (i) die, (ii) become disabled (as described in Subsection 3.3(b) below) or (iii) retire under the Company's retirement plan within

sixty (60) days of the date of Termination of Employment, have worked for the Company for ten (10) or more years, and have a combination of age and service with the Company of seventy five (75) or more, will vest as of the date of death, disability or Termination of Employment, as applicable.

- (b) No portion of the Option, which is an unexercisable installment under Subsection (a) above at Termination of Employment shall thereafter become exercisable, unless otherwise determined by the Committee.
- (c) Notwithstanding Subsections 3.1(a) and 3.1(b) above, upon a Change of Control, all Option installments not yet exercisable shall become immediately exercisable.

3.2 Term of Option

The Option will expire and will not, under any condition, be exercisable after the tenth anniversary of the date the Option was granted. Such date shall be the Option's Expiration Date.

3.3 Exercise of Option after Termination of Employment

This Option is exercisable by the Employee only while he is employed by the Company, Constituent Company or another group company, subject to the following exceptions:

- (a) Termination by Death — if the Employee dies while the Option is exercisable under the terms of this Agreement the Option may be exercised by the Employee's personal representatives, to the extent then exercisable, for a period of 12 months from the date of death or until the expiration of the stated term of the Option, whichever period is the shorter.
- (b) Termination by Reason of Disability — If the Employee's employment is terminated due to his permanent and total disability, as defined in Section 22(c)(3) of the Code, the Employee may exercise the Option, subject to the limitation in Subsection 3.1(b), within thirty six (36) months after Termination of Employment, but not later than the Option's Expiration Date.
- (c) Termination by Reason of Retirement — If the Employee's employment is terminated due to his retirement the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within sixty (60) months after Termination of Employment, but not later than the Option's Expiration Date.
- (d) Other Termination — If the Employee's employment is terminated other than for good cause or the reasons set forth in Subsections (a) through (c) above, the Employee may exercise the Option, subject to the limitations of Subsection 3.1(b), within six (6) months after Termination of Employment, but not later than the Option's Expiration Date.

ARTICLE IV — EXERCISE OF OPTIONS

4.1 Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.2. Each partial exercise shall be for not less than one hundred (100) shares (or a smaller number, if it is the maximum number which may be exercised under Section 3.1), and shall be for whole shares only.

4.2 Manner of Exercise

- (a) A written notice, complying with the applicable procedures established by the Committee or the Company, stating that the Option or portion is thereby exercised; the notice shall be signed by the Employee or the other person then entitled to exercise the Option; and
- (b) Full payment to the Company of the aggregate exercise price for the shares with respect to which the Option or portion thereof is exercised must be made in cash (or by certified or bank cashier's check or wire payment).
- (c) An exercise shall not be valid unless, in addition to receipt of a valid notice of exercise (hard copy, fax or e-mail, as appropriate) and payment of the option price, the Company is satisfied that the Employee has entered into arrangements which are satisfactory to the Company, to pay all or any part of the British Federal, State, local and foreign taxes for which the Employee is liable and which are required by law to be withheld by the Constituent Company or any other member of the same group of companies as the Constituent Company on the exercise of the Option in accordance with Rule 7.4 of the Sub-Plan.

In the event the Option or portion thereof shall be exercised by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option must be provided.

4.3 Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, 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 non-assessable and will be allotted to the Employee within 30 days from the effective date of exercise in accordance with Rule 7.2 of the Sub-Plan. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or part thereof 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 lapse of such reasonable period of time following the exercise of the Option as the Committee or the Company may from time to time establish for reasons of administrative convenience; and
- (e) The receipt by the Company of full payment for such shares.

4.4 Rights as Shareholders

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates or book entries representing such shares shall have been issued or made by the Company, or the Company's transfer agent, to or for such holder.

ARTICLE V — MISCELLANEOUS

5.1 Option Subject to Plan

The Option is subject to the terms of the Plan as amended by the Sub-Plan, and in the event of any conflict between this Agreement, the Plan and the Sub-Plan, the Sub-Plan shall prevail.

5.2 Administration

The Committee or the Company shall have the power to interpret the Plan, the Sub-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.

5.3 Option Not Transferable

Neither the Option nor any interest or right therein or part thereof may be sold, pledged, assigned or transferred. The Option shall be exercised during the Employee's lifetime only by the Employee, or his guardian or legal representative.

5.4 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 Beneficiary or personal representative if such individual has previously informed the Company of his status and address by written notice under this Section.

5.5 Titles

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

5.6 Construction

This Agreement and the Plan and Sub-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.

AVERY DENNISON CORPORATION

By: _____ *

President & Chief Executive Officer

By: _____

Secretary

_____*
Employee

_____*

_____*
Address

* Refer to attached Notice

AVERY DENNISON CORPORATION
RESTRICTED STOCK UNIT 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 units (“RSUs”) with Dividend Equivalents (“DEs”) 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 RSUs with DEs (the “RSU Award”) 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 RSU Award, 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.

1.2 Dividend Equivalents

Whenever dividends are paid or distributions made with respect to the Common Stock, Employee shall be entitled to dividend equivalents (“Dividend Equivalents”) (in an amount equal in value to the amount of the dividend paid or property distributed on a single share of Common Stock multiplied by the number of Restricted Stock Units in Employee’s RSU account), which Dividend Equivalents shall be credited as additional Restricted Stock Units (including any fractional share) to the Employee’s RSU account as of the record date for such dividend or distribution.

ARTICLE II — TERMS OF AWARD

2.1 RSU Award

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

* Refer to attached Award Notice

hereof the Company grants to Employee a RSU Award representing * shares of the Company's Common Stock, subject to the terms and conditions set forth in this Agreement and the Plan. Each RSU shall represent one hypothetical share of Common Stock of the Company. The RSU Award granted hereunder shall be held in [book-entry form in the books and records] of the Company (or its designee) for the Employee's RSU account. The RSU Award shall be subject to the restrictions described herein and shall vest as set forth in the Award Notice or as set forth in this Agreement.

2.2 Restriction Period

- (a) No portion of the RSU Award granted hereunder may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of by the Employee until the RSU Award becomes vested. The period of time between the date hereof and the date the RSU Award becomes vested is referred to herein as the "Restriction Period." At the time the RSU Award vests, the RSUs and the DEs vest.
- (b) Subject to the provisions of this Agreement, if the Employee's employment with the Company is terminated for Cause or voluntary termination, the balance of the RSU Award, which has not vested by 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 Restriction Period

The Restriction Period shall lapse when the RSU Award is vested as set forth in the Award Notice (* years from the date of this Agreement) or as otherwise set forth in this Agreement.

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 RSU Award granted to Employee pursuant to this Agreement will vest as of the date of such Change in Control or termination for Good Reason.

2.5 Death; Disability

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

2.6 Retirement

RSU Awards, granted to employees participating in the Senior Executive or the Executive Leadership Compensation Plans (annual bonus plans), who (i) retire under the Company's retirement plan, (ii) have worked for the Company for ten (10) or more years, and (iii) have a combination of age and service with the Company of seventy five (75) or more, will vest as of the date of Termination of Employment.

2.7 Adjustments in RSU Award

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 the RSU Award granted 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.

ARTICLE III — RSU CERTIFICATES; SHAREHOLDER RIGHTS

3.1 Conditions to and Issuance of Common Stock

The shares of Common Stock deliverable for the RSU Award, or any part thereof, may be either previously authorized but unissued shares or issued shares that 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 RSU Award or the vesting of the RSU Award hereunder. The Employee may elect to satisfy such withholding tax obligation by having the Company retain RSUs having a fair market value equal to the Company's minimum withholding obligations.
- (e) Subject to the conditions in this Section, the Company shall issue to the Employee the number of shares of Common Stock represented by the number of vested RSU as soon as practical following the vesting of same, but in no event later than two and one-half (2-1/2) months after the calendar year in which the RSU vests. Such issuance of shares of Common Stock constitutes payment of the vested RSU and shall satisfy the Company's obligations under this Agreement.

3.2 Shareholder Rights

During the Restriction Period, the Employee shall not have the rights of a shareholder with respect to the RSU Award granted hereunder except for the right to Dividend Equivalents on the RSU, provided, however, that dividends paid, if any, with respect to RSUs that have not vested at the time of the dividend payment, shall be reflected in the books and records of the Company (or its designee), and shall be subject to the same restrictions that apply to the corresponding RSUs.

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 Beneficiary or personal representative if such individual 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 Code Section 409A

The RSUs are not intended to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (“Section 409A”) and this Agreement shall be interpreted accordingly. However, if at any time the Committee determines that the RSUs may be subject to Section 409A, the Committee shall have the right, in its sole discretion, to amend this Agreement as it may determine is necessary or desirable either for the RSUs to be exempt from the application of Section 409A or to satisfy the requirements of Section 409A.

4.6 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.

AVERY DENNISON CORPORATION
RESTRICTED STOCK UNIT 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 units (“RSUs”) with Dividend Equivalents (“DEs”) 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 RSUs with DEs (the “RSU Award”) 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 RSU Award, 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.

1.2 Dividend Equivalents

Whenever dividends are paid or distributions made with respect to the Common Stock, Employee shall be entitled to dividend equivalents (“Dividend Equivalents”) (in an amount equal in value to the amount of the dividend paid or property distributed on a single share of Common Stock multiplied by the number of Restricted Stock Units in Employee’s RSU account), which Dividend Equivalents shall be credited as additional Restricted Stock Units (including any fractional share) to the Employee’s RSU account as of the record date for such dividend or distribution.

ARTICLE II — TERMS OF AWARD

2.1 RSU Award

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 grants to Employee a RSU Award representing * shares of the Company’s Common Stock, subject to the terms and conditions set forth in this Agreement and the Plan. Each RSU shall

* Refer to attached Award Notice

represent one hypothetical share of Common Stock of the Company. The RSU Award granted hereunder shall be held in [book-entry form in the books and records] of the Company (or its designee) for the Employee's RSU account. The RSU Award shall be subject to the restrictions described herein and shall vest as set forth in this Agreement.

2.2 Restriction Period

- (a) No portion of the RSU Award granted hereunder may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of by the Employee until the RSU Award becomes vested. The period of time between the date hereof and the date the RSU Award becomes vested is referred to herein as the "Restriction Period." At the time the RSU Award vests, the RSUs and the DEs vest.
- (b) After three fiscal years following the date the RSU Award was granted, the RSU Award will vest on the date of the Committee's certification (as described below), provided that the Company's return on total capital ("ROTC") [as reported in the annual report to shareholders (or other report)] for the most recently completed fiscal year equals or exceeds the sixty-seventh (67%) percentile of the return on total capital for the peer group companies (as listed in the Company's proxy statement) for such third fiscal year (the "performance test"). (For example, the initial performance test for vesting for the RSU Award granted in December 2005 will be based on the return on total capital for 2008.)

To facilitate the peer group performance comparison needed to determine whether the RSU Award vests, the figures for peer group companies return on total capital will be based upon the twelve-month performance for each company in the peer group closest to the Company's fiscal year end, using the most recent publicly available financial information for such companies.

If the Company meets the performance test described above, all prior non-vested RSU Awards eligible for vesting will vest on the date of the Committee's certification that the Company has met the performance test.

If the Company fails to meet the initial performance test described above, all prior non-vested RSU Awards eligible for vesting will be subject to the same performance test following the end of the next two fiscal years. If the Company fails to meet the performance test by the end of the fifth fiscal year following the date of the grant, then the RSU Award will be forfeited.

- (c) Subject to the provisions of this Agreement, if the Employee's employment with the Company is terminated for Cause or voluntary termination, the balance of the RSU Award, which has not vested by the time of the Employee's Termination of Employment, shall be forfeited by the Employee, and ownership transferred back to the Company.

2.4 Lapse of Restriction Period

The Restriction Period shall lapse when the RSU Award is vested as set forth in this Agreement.

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 RSU Award granted to Employee pursuant to this Agreement will vest as of the date of such Change in Control or termination for Good Reason.

2.5 Death; Disability

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

2.6 Retirement

RSU Awards, granted to employees participating in the Long Term Incentive Plan, who (i) retire under the Company's retirement plan within sixty (60) days of the date of Termination of Employment, (ii) have worked for the Company for ten (10) or more years, and (iii) have a combination of age and service with the Company of seventy five (75) or more, will vest as of the date of Termination of Employment, provided that the Company has achieved the ROTC performance test (described in Section 2.2 (b)) herein in at least 3 of the last 5 years before the year of retirement.

2.7 Adjustments in RSU Award

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 the RSU Award granted 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.

ARTICLE III — ISSUANCE OF COMMON STOCK; SHAREHOLDER RIGHTS

3.1 Conditions to and Issuance of Common Stock

The shares of Common Stock deliverable for the RSU Award, or any part thereof, may be either previously authorized but unissued shares or issued shares that 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 RSU Award or the vesting of the RSU Award hereunder. The Employee may elect to satisfy such withholding tax obligation by having the Company retain RSUs having a fair market value equal to the

Company's minimum withholding obligations.

- (e) Subject to the conditions in this Section and Section 4.5 below, the Company shall issue to the Employee the number of shares of Common Stock represented by the number of vested RSU as soon as practical following the vesting of same, but in no event later than two and one-half (2-1/2) months after the calendar year in which the RSU vests. Such issuance of shares of Common Stock constitutes payment of the vested RSU and shall satisfy the Company's obligations under this Agreement.

3.2 Shareholder Rights

During the Restriction Period, the Employee shall not have the rights of a shareholder with respect to the RSU Award granted hereunder except for the right to Dividend Equivalents on the RSUs, provided, however, that dividends paid, if any, with respect to RSUs that have not vested at the time of the dividend payment, shall be reflected in the books and records of the Company (or its designee), and shall be subject to the same restrictions that apply to the corresponding RSUs.

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 Beneficiary or personal representative if such individual 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 Code Section 409A

The RSUs and DEs are not intended to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, ("Section 409A") and this Agreement shall be interpreted accordingly. However, if at any time the Committee determines that the RSUs and DEs may be subject to Section 409A, the Committee shall have the right, in its sole discretion, to amend this

Agreement as it may determine is necessary or desirable either for the RSUs and/or and DEs to be exempt from the application of Section 409A or to satisfy the requirements of Section 409A. In order to comply with the requirements of Section 409A, the Committee or the Company may in its sole discretion delay the issuance and delivery of Common Stock to the Employee (as described in Section 3.1(e) herein), if the Employee is a “key employee” (as defined in Section 409A or in associated regulations), for a period of six (6) months from the date of separation from service (for example, in the event of a termination of employment for Good Reason or Retirement (as defined in the Plan and referred to in Section 2.6 herein)).

4.6 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.

**KENT KRESA ELECTED NON-EXECUTIVE CHAIRMAN
OF AVERY DENNISON AS
PHILIP M. NEAL RETIRES**

PASADENA, Calif. — December 2, 2005 — Avery Dennison Corporation (NYSE:AVY) announced that its board of directors has elected Kent Kresa as non-executive chairman, effective today. As part of this planned transition of executive leadership, Philip M. Neal, chairman and former chief executive officer of Avery Dennison, is retiring from the Company and its board of directors, also effective today. Dean A. Scarborough continues in the position of president and chief executive officer, which he assumed on May 1, 2005.

Kresa has served on the Avery Dennison board of directors since February 1, 1999, and has been a member of the audit, finance, strategic planning and ethics and conflict of interest committees. Kresa is chairman emeritus of Northrop Grumman Corporation, where he served as chairman and chief executive officer from 1990 until his retirement in 2003, after 28 years with the company. He also serves on the board of directors of Fluor Corporation, General Motors Corporation and MannKind Corporation.

“Kent brings unique capabilities to his role as chairman of the Avery Dennison board of directors,” said Scarborough. “His insight and expertise as a former chairman and chief executive officer of a highly successful Fortune 100 manufacturing company and his years of experience on several prominent corporate boards, as well as his deep knowledge of Avery Dennison as a board member for nearly seven years, provide an ideal background for leading the Company’s board as chairman. I appreciate being able to draw upon his extraordinary capabilities as a business executive and board leader.”

“I am pleased to succeed Phil Neal, who has long stated his intention to retire from the Company when he reached the age of 65,” said Kresa. “I look forward to continuing to work with the board of directors and Dean Scarborough.”

“As chairman and chief executive officer, Phil has led efforts to focus the Company’s culture on sales growth and productivity improvement. He leaves behind a strong Company with great prospects for the future,” said Kresa. “On behalf of the board and everyone at Avery Dennison, we thank him for his valuable contributions over the course of nearly 32 years with the Company.”

Neal was elected president and chief operating officer in 1990, became chief executive officer in 1998, and two years later, was elected to the additional position of chairman. Under Neal’s direction, the Company significantly expanded its presence in emerging markets, particularly Asia. He was responsible for the successful execution and integration of several strategic acquisitions, as well as the launch of Avery Dennison’s newly formed RFID (radio frequency identification) business.

Avery Dennison is a global leader in pressure-sensitive labeling materials, office products and retail tag, ticketing and branding systems. Based in Pasadena, Calif., Avery Dennison is a Fortune 500 company with 2004 sales of \$5.3 billion. Avery Dennison employs more than 21,000 individuals in 47 countries worldwide who apply the Company's technologies to develop, manufacture and market a wide range of products for both consumer and industrial markets.

Products offered by Avery Dennison include Avery-brand office products and graphics imaging media, Fasson-brand self-adhesive materials, peel-and-stick postage stamps, reflective highway safety products, labels for a wide variety of automotive, industrial and durable goods applications, brand identification and supply chain management products for the retail and apparel industries, and specialty tapes and polymers.