

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

FORM S-8
 REGISTRATION STATEMENT
 Under
 THE SECURITIES ACT OF 1933

AVERY DENNISON CORPORATION
 (Exact name of registrant as specified in its charter)

Delaware
 (State or other jurisdiction of
 incorporation or organization)

95-1492269
 (I.R.S. Employer
 Identification No.)

150 North Orange Grove Boulevard
 Pasadena, California 91103
 (626) 304-2000
 (Address of Principal Executive Offices)

AVERY DENNISON CORPORATION
 CAPITAL ACCUMULATION PLAN

Copy to:

ROBERT G. VAN SCHOONENBERG, ESQ.
 Senior Vice President
 and General Counsel
 Avery Dennison Corporation
 150 North Orange Grove Boulevard
 Pasadena, California 91103
 (626) 304-2000
 (Name, Address, Including Zip Code, and
 Telephone Number, Including Area Code,
 of Agent for Service)

LINDA H. EDWARDS, ESQ.
 Latham & Watkins
 633 West Fifth Street
 Suite 4000
 Los Angeles, California 90071
 (213) 485-1234

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT (1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Deferred Stock Option Gain Obligations (2).....	20,000,000	100%	\$20,000,000	\$6,061
Common Stock (3) \$1.00 par value.....	247,870	\$40.34375	\$10,000,006	\$3,031
Preferred Share (4) Purchase Rights.....	247,870	(4)	(4)	\$100

(1) Estimated solely for purposes of computing the registration fee. Pursuant to Rule 457(h), the Proposed Maximum Offering Price Per Share is based upon the average of the high and low prices for the Company's Common Stock on the composite tape for the New York Stock Exchange on October 22, 1997.

(2) The Deferred Stock Option Gain Obligations are unsecured general obligations of Avery Dennison Corporation to pay deferred compensation in accordance with the terms of the Avery Dennison Corporation Capital Accumulation Plan.

(3) Pursuant to Rule 416(c) under the Securities Act of 1933, this registration statement also covers an indeterminate amount of interests to be offered or sold pursuant to the Avery Dennison Corporation Capital Accumulation Plan.

(4) Preferred Share Purchase Rights ("Rights") are attached to and trade with Common Stock of the Company. The value attributable to such Rights, if any, is reflected in the market price of the Common Stock. Fee paid represents the minimum statutory fee pursuant to Section 6(b) of the Securities Act of 1933.

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PART I

Item 1. Plan Information

Not required to be filed with this Registration Statement.

Item 2. Registrant Information and Employee Plan Annual Information

Not required to be filed with this Registration Statement.

PART II

Item 3. Incorporation of Documents by Reference

The following documents filed with the Commission by Avery Dennison Corporation, a Delaware corporation (the "Company" or the "Registrant"), are incorporated as of their respective dates in this Registration Statement by reference:

A. The Company's Annual Report on Form 10-K for the fiscal year ended December 28, 1996; and

B. All other reports filed by the Company pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934 since December 28, 1996.

All documents filed by the Company pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, prior to the filing of a post-effective amendment which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold, are incorporated by reference in this registration statement and are a part hereof from the date of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

Item 4. Description of Securities

The Avery Dennison Corporation Capital Accumulation Plan (the "Plan") provides non-employee Directors of the Company and selected management employees (together, the "Participants") with an opportunity to defer a portion of their nonqualified stock option ("Option") gain and accumulate tax-deferred earnings (or losses) thereon. To execute this transaction, Participants can make an irrevocable election at least six months prior to exercise of the Option to defer the receipt of the stock option gain for a specified period of time. Participants then use a stock-for-stock exercise and tender "mature" shares (that is, shares held at least six months) to the Company that have a fair market value equal to the aggregate exercise price of the Options that are exercised. Participants' accounts are denominated in Company stock or other investments. The Company has established the Trust Under Avery Dennison Corporation Capital Accumulation Plan (the "Trust") as an irrevocable grantor trust to provide benefits to the Participants under the Plan. Participant rights created under the Plan and the Trust are mere unsecured contractual rights of the Participants and their beneficiaries against the Company. Trust assets remain subject to the claims of the Company's general creditors in the event of the Company's insolvency.

The amount of gain to be deferred by each Participant is based on elections by the Participant in accordance with the terms of the Plan, and the payment obligations under the Plan (the "Obligations") will become due on retirement, death or, in the case of employee Participants, other termination of employment in the form and on the date or dates determined in accordance with the provisions of the Plan. The Obligations will be indexed to one or more investment alternatives which may be elected by each Participant from a range of such alternatives (each of which currently includes a minimum election of 25% of the Obligations indexed to the Company's Common Stock, which minimum can be reduced by the committee appointed to administer the Plan), and the amount of the Obligations payable to each Participant will increase or decrease based on the investment returns of the elected alternatives. Under the Plan, there will be two deferral accounts for each Participant, a diversified account and a stock account.

Participant deferrals under the Plan are unfunded obligations. The Obligations cannot be assigned, transferred, pledged or otherwise encumbered by the Participants, except that each Participant may designate one or more beneficiaries to receive

benefits upon the Participant's death.

Stock and non-stock dividend distributions with respect to the Common Stock in a Participant's stock account will be credited to the Participant's stock account in the form of additional shares of the Company's Common Stock. When a benefits are paid under the Plan, the amount attributable to a Participant's stock account will be distributed in the form of the Company's Common Stock.

The total amount of securities being registered pursuant to this Registration Statement is \$30 million, up to \$10 million of which may be in the form of the Company's Common Stock, and the remainder of which is designated as deferred stock option gain obligations that may be indexed to investment alternatives other than the Company's Common Stock.

The Company reserves the right to amend or partially or completely terminate the Plan, provided that such amendment or termination does not result in any reduction of a Participant's account balance, including previous earnings or losses, as of the date of such amendment or termination.

Item 5. Interests of Named Experts and Counsel

Not applicable.

Item 6. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law provides that a corporation shall have the power, and in some cases is required, to indemnify an agent, including an officer or director, who was or is a party or is threatened to be made a party to any proceedings, against certain expenses, judgments, fines, settlements and other amounts under certain circumstances. Article VI of the Registrant's Bylaws requires indemnification of the Registrant's officers and directors to the maximum extent permitted by the Delaware General Corporation Law, and the Registrant maintains insurance covering certain liabilities of the directors and officers of the Registrant and its subsidiaries. The Registrant has also entered into contractual arrangements with its directors and officers pursuant to which such persons may be entitled to indemnity from the Registrant against certain liabilities arising from the discharge of their duties in such capacities.

Item 7. Exemption from Registration Claimed

Not applicable.

Item 8. Exhibits

- 4.1 Avery Dennison Corporation Capital Accumulation Plan
- 4.2 Trust Under Avery Dennison Corporation Capital Accumulation Plan
- 5.1 Opinion of Latham & Watkins.
- 23.1 Consent of Coopers & Lybrand.
- 23.2 Consent of Latham & Watkins (included in Exhibit 5.1).
- 24 Power of Attorney (included in the signature page of this Registration Statement).

Item 9. Undertakings

(a) The undersigned registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
 - (i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
 - (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement;
 - (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) shall not apply to information contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in this Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Pasadena, State of California, on this 23rd day of October, 1997.

AVERY DENNISON CORPORATION

By: /s/ THOMAS E. MILLER

 Thomas E. Miller
 Interim Chief Financial Officer
 Vice President and Controller

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated. Each person whose signature appears below hereby authorizes Charles D. Miller, Philip M. Neal and Thomas E. Miller, or any of them, as attorney-in-fact, with full power of substitution, to sign on his or her behalf, individually and in such capacity stated below, and to file any amendments, including post-effective amendments or supplements, to this Registration Statement.

SIGNATURE -----	TITLE -----	DATE -----
/s/ CHARLES D. MILLER ----- Charles D. Miller	Chairman and Chief Executive Officer; Director	October 23, 1997
/s/ PHILIP M. NEAL ----- Philip M. Neal	President and Chief Operating Officer; Director	October 23, 1997
/s/ THOMAS E. MILLER ----- Thomas E. Miller	Interim Chief Financial Officer, Vice President and Controller (Principal Financial and Accounting Officer)	October 23, 1997

SIGNATURES (CONTINUED)

SIGNATURE -----	TITLE -----	DATE ----
/s/ DWIGHT L. ALLISON, JR. ----- Dwight L. Allison, Jr.	Director	October 23, 1997
/s/ JOHN C. ARGUE ----- John C. Argue	Director	October 23, 1997
/s/ JOAN T. BOK ----- Joan T. Bok	Director	October 23, 1997
/s/ FRANK V. CAHOUET ----- Frank V. Cahouet	Director	October 23, 1997
/s/ RICHARD M. FERRY ----- Richard M. Ferry	Director	October 23, 1997
/s/ PETER W. MULLIN ----- Peter W. Mullin	Director	October 23, 1997
/s/ SIDNEY R. PETERSEN ----- Sidney R. Petersen	Director	October 23, 1997
/s/ JOHN B. SLAUGHTER ----- John B. Slaughter	Director	October 23, 1997

AVERY DENNISON CORPORATION
CAPITAL ACCUMULATION PLAN

May 1, 1997

EVERY DENNISON CORPORATION

CAPITAL ACCUMULATION PLAN

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EVERY DENNISON CORPORATION

CAPITAL ACCUMULATION PLAN

ARTICLE 1: PURPOSE

The purpose of the Avery Dennison Corporation Capital Accumulation Plan is to provide a means whereby Avery Dennison Corporation, a Delaware corporation, may provide a tax-favored capital accumulation and diversification opportunity to non-employee Directors and to a select group of key management employees of the Company and its subsidiaries who have rendered valuable services to the Company or its subsidiaries which constitute an important contribution towards the Company's continued growth and success.

ARTICLE 2: DEFINITIONS

2.1. "ADMINISTRATOR" shall mean the administrator appointed by the Committee to handle the day-to-day administration of the Plan pursuant to Article 8.

2.2. "ACCOUNT" or "ACCOUNTS" shall mean a Participant's Deferral Accounts, or either of them, as appropriate.

2.3. "ALLOCATION ELECTION FORM" shall mean the form on which a Participant elects the Declared Rate(s) to be credited as earnings or losses to such Participant's Diversified Account.

2.4. "BASE SALARY" shall mean an Eligible Employee's rate of salary in effect on May 1, 1997 or any other subsequent date as determined by the Administrator in his discretion.

2.5. "BENEFICIARY" shall mean the person or entity designated as such by a Participant pursuant to Article 7.

2.6. "BENEFIT" shall mean a Retirement Benefit, Survivor Benefit or a Termination Benefit, as appropriate.

2.7. "BONUS" shall mean an Eligible Employee's bonus opportunity target in effect on May 1, 1997 or any subsequent year as determined by the Administrator in his discretion.

2.8. "CHANGE IN CONTROL" shall mean a change in ownership or control of the Company effected through either of the following transactions:

(a) any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act or as subsequently amended) of securities possessing more than thirty percent (30%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders which the Board does not recommend such stockholders to accept; or

(b) there is a change in the composition of the Board over a period of thirty-six (36) consecutive months (or less) such that a majority of the Board members (rounded up to the nearest whole number) ceases, by reason of one or more proxy contests for the election of Board members, to be comprised of individuals who either (i) have been Board members continuously since the beginning of such period or (ii) were elected or nominated for election by at least a majority of the Board members described in clause (i) who were still in office at the time such election or nomination was approved by the Board.

2.9. "CODE" shall mean the Internal Revenue Code of 1986, as amended.

2.10. "COMMITTEE" shall mean the Capital Accumulation Plan Committee appointed to administer the Plan pursuant to Article 8.

2.11. "COMPANY" shall mean Avery Dennison Corporation, a Delaware Corporation, and any of its subsidiary companies, its successors and assigns.

2.12. "DECLARED RATE" shall mean the notional rates of return (which may be positive or negative) of the individual investment options selected by a Participant or a Participant's Beneficiary for such Participant's Diversified Account as set forth in Article 5.4.

2.13. "DEFERRAL" or "DEFERRALS" shall mean, as appropriate, the amount of individual or aggregate Stock Option Gains that a Participant defers under the Plan.

2.14. "DEFERRAL ACCOUNTS" shall mean the accounts established for a Participant pursuant to Article 3, consisting of a Diversified Account and a Stock Account. Deferral Accounts shall be maintained solely as bookkeeping entries by the Company to evidence unfunded obligations of the Company.

2.15. "DEFERRAL ELECTION FORM" shall mean the form on which a Participant designates (i) the specified Options which, when exercised, shall result in the ensuing Stock Option Gains thereon deferred under the Plan, and (ii) initial elections with respect to the forms of distribution elections for Retirement Benefits under the Plan.

2.16. "DEFERRAL PERIOD" shall mean the period during which Deferrals must be completed. The initial Deferral Period shall be May 1, 1997, through December 31, 2005. The Committee, in its sole discretion, may determine future Deferral Periods, if any.

2.17. "Director" shall mean a member of the Board of Directors of the Company.

2.18. "DISABILITY" shall mean any inability on the part of an Eligible Employee, commencing before such Eligible Employee attaining the age of 64 1/2, to perform the substantial and material duties of the Employee's position due to injury or sickness of a duration greater than one hundred eighty (180) consecutive days, as such Disability is determined by the Administrator in his discretion. Disability for purposes of this Plan shall be deemed to commence as of the first day following the end of such one hundred eighty (180) day period. If an Eligible Employee makes application for disability benefits under the Social Security Act, as in effect as of the date of this Plan or as such Act may hereafter be amended, and qualifies for such Benefits, the Eligible Employee shall be presumed to suffer from a Disability. The Administrator may require the Eligible Employee to submit to an examination by a physician or medical clinic selected by the Administrator. On the basis of such medical evidence as provided by such examination and in the absence of qualification for disability benefits under the Social Security Act, the determination of the Administrator as to whether or not a condition

of Disability exists shall be conclusive.

2.19. "DISCOUNTED CASH OUT" shall mean a distribution made pursuant to Article 6.8.

2.20. "DISCOUNTED CASH OUT ELECTION" shall mean the written election by a Participant or Beneficiary to receive all or part of the Participant's Deferral Accounts pursuant to Article 6.8.

2.21. "DIVERSIFIED ACCOUNT" shall mean the Deferral Account credited with that portion of a Participant's Deferrals and earnings thereon allocated to the Diversified Account based on the performance of the Declared Rate(s) selected by a Participant or a Participant's Beneficiary as set forth in Article 5.4.

2.22. "EARLY RETIREMENT" shall mean the termination of a Participant's position as a Director or employment with the Company for reasons other than death or Disability on or after the Eligible Employee's attaining age 55 with fifteen (15) years of service with the Company and before Normal Retirement, or a non-employee Director's retirement before Normal Retirement.

2.23. "ELIGIBLE EMPLOYEE" shall mean an Employee who is a member of a select group of management or highly compensated employees and who is determined to be eligible to participate in the Plan and so designated in writing by the Chairman and Chief Executive Officer, Chief Operating Officer and/or Compensation Committee of the Board of Directors.

2.24. "EMPLOYEE" shall mean any person employed by the Company or its subsidiaries on a regular full-time salaried basis, including officers of the Company.

2.25. "ENROLLMENT PERIOD" shall mean a period designated by the Administrator for enrollment of Participants for participation in the Plan. The Plan's initial Enrollment Period shall be from May 1, 1997, to June 1, 1997. The Administrator may establish additional Enrollment Periods in his discretion. The Participant must submit a Participation Election Form during the Enrollment Period as designated by the Administrator.

2.26. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

- 2.27. "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.
- 2.28. "EXERCISE DECLARATION FORM" shall mean the form filed with the Administrator indicating (i) the date(s) on which Options previously designated on a Deferral Election Form are to be exercised, and (ii) the allocation of Deferrals of Stock Option Gains with respect to such Options between a Participant's Stock and Diversified Accounts.
- 2.29. "FIRST BENEFICIARY" shall mean the Beneficiary (whether the primary or contingent Beneficiary) who first becomes entitled to Survivor Benefits under this Plan.
- 2.30. "NORMAL RETIREMENT" shall mean the termination of a Participant's position as a Director or employment with the Company for any reason other than death or Disability on or after the Participant attains age 65.
- 2.31. "OPTION" shall mean an option to purchase Stock that is not an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.
- 2.32. "PARTICIPATION ELECTION FORM" shall mean the form on which a Participant elects the total dollar amount of Deferrals to be made during a Deferral Period under the Plan.
- 2.33. "PARTICIPANT" shall mean a non-employee Director or an Eligible Employee who has met the requirements for participation in the Plan as prescribed by Article 3.
- 2.34. "PLAN" shall mean this Avery Dennison Corporation Capital Accumulation Plan, a non-qualified elective deferred compensation plan, as the same may be amended from time to time.
- 2.35. "RETIREMENT" shall mean a termination of service as a Director or termination of employment by an Eligible Employee upon Normal Retirement or Early Retirement.
- 2.36. "RETIREMENT BENEFITS" shall mean the Benefits payable to a Participant upon the Participant's satisfaction of the requirements for Normal or Early Retirement pursuant to Article 6.1.

2.37. "SECOND BENEFICIARY" shall mean the First Beneficiary's named Beneficiary (whether primary or contingent) who becomes the Second Beneficiary entitled to Survivor Benefits under the Plan.

2.38. "SETTLEMENT DATE" shall mean the date upon which a Benefit payment is due and payable to a Participant or Beneficiary pursuant to Article 6.15.

2.39. "STOCK" shall mean shares of Avery Dennison Corporation common stock.

2.40. "STOCK ACCOUNT" shall mean the Deferral Account credited with (i) that portion of a Participant's Deferrals allocated to Stock, (ii) additional shares of Stock distributed as dividends with respect to Stock credited to the Participant's Stock Account, and (iii) additional shares of Stock purchased with the proceeds of non-Stock dividends distributed with respect to Stock credited to the Participant's Stock Account.

2.41. "STOCK OPTION GAINS" shall mean the amount of a Participant's net gain resulting from the Participant's exercise of Options.

2.42. "SURVIVOR BENEFIT" shall mean those Plan Benefits that become payable upon the death of a Participant pursuant to Article 6.6.

2.43. "TERMINATION BENEFIT" shall mean the lump sum amount payable to an Eligible Employee who ceases to be an Employee pursuant to Article 6.5.

2.44. "TERMINATION OF EMPLOYMENT" shall mean the cessation of an Eligible Employee's employment with the Company for any reason, whether voluntary or involuntary, other than Retirement, Disability or death.

2.45. "TOTAL COMPENSATION" shall mean the sum of an Eligible Employee's Base Salary and Bonus.

2.46. "UNFORESEEABLE EMERGENCY" shall mean a severe financial hardship to a Participant,

as determined by the Administrator, resulting from a sudden and unexpected illness or accident of a Participant or a dependent of a Participant, loss of a Participant's property due to a casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of an event beyond the control of a Participant. The circumstances that will constitute an Unforeseeable Emergency will depend on the facts of each case, but, in any case, payment may not be made in the event that such financial hardship is or may be relieved:

- (a) through reimbursement or compensation by insurance or otherwise,
- (b) by liquidation of a Participant's assets, to the extent that liquidation of such assets would not itself cause severe financial hardship, or
- (c) by cessation of Deferrals under the plan.

2.47. "VALUATION DATE" shall mean the date on which the Diversified Account is valued pursuant to Article 6.14 and the date on which the number of shares of Stock credited to the Stock Account is determined.

2.48. "VESTED," when used with reference to a Participant's Accounts, shall mean non-forfeitable.

ARTICLE 3: PARTICIPATION

3.1. PARTICIPATION. The Committee, through the Administrator, shall notify Participants generally not later than 30 days (or such lesser period as may be practicable in the circumstances) prior to any deadline for filing a Participation Election Form.

3.2. PARTICIPATION ELECTION. A non-employee Director or an Eligible Employee shall become a Participant in the Plan after completing a Participation Election Form and submitting it to the Administrator. Participants must submit the Participation Election Form to the Administrator during an Enrollment Period. In the Participation Election Form, the Participant shall designate (i) for Eligible Employees, the total dollar amount of Deferrals to be made under the Plan during the Deferral Period (as a whole multiple of Total Compensation to a maximum established by the Committee, which currently is four times Total Compensation, or, for non-employee Directors, the Stock Option Gains from Options to be deferred under the Plan during

the Deferral Period (as a total number of Options to purchase up to a maximum of 12,000 shares of Stock), (ii) the form of Retirement Benefit distributions, and (iii) any other information or elections required by the Administrator. Notwithstanding the foregoing, the Administrator, in his discretion, may permit a Participant who was a non-employee Director or an Eligible Employee during the initial Enrollment Period to submit a Participation Election Form in a subsequent Enrollment Period. A Participant who otherwise satisfies the requirements of this Article 3.2, but who makes no Deferrals under the Plan shall not be considered a Participant for purposes of the Plan.

3.3. CONTINUATION OF PARTICIPATION. A Participant who has elected to participate in the Plan by making a Deferral election shall continue as a Participant in the Plan until the entire balance of the Participant's Deferral Accounts has been distributed to the Participant. In the event a Participant becomes ineligible to continue participation in the Plan, but remains an Employee of the Company, the Participant's Deferral Accounts shall be held and administered in accordance with the Plan until such time as Benefits are completely distributed.

ARTICLE 4: PARTICIPANT DEFERRALS

4.1. DEFERRALS UNDER PLAN. Subject to the conditions herein, a Participant shall designate specific Stock Option Gains from the exercise of specified Stock Options to be deferred into the Plan by completing and filing with the Administrator a Deferral Election Form(s). The election(s) shall be irrevocable, except as provided or limited under Articles 4.3, 4.4, 5.3, and 6.4. Not later than five (5) days prior to exercise of an Option designated on a Deferral Election Form for deferral under the Plan, a Participant shall file with the Administrator an Exercise Declaration Form with respect to such Option. Satisfaction of Deferral can come only from Stock Option Gains. To the extent there areis no such Stock Option Gains at the time of exercise, then the Deferral election is deemed to be withdrawn.

4.2. MINIMUM DEFERRAL. An Eligible Employee's minimum cumulative Deferrals over the term of the Plan should equal or exceed an Eligible Employee's Total Compensation for 1997.

4.3. MAXIMUM DEFERRAL. The maximum cumulative or annual Deferrals under the Plan shall be determined by the Administrator in his discretion. Prior to the beginning of any Plan

year (or, for periods shorter than a full calendar year during a Deferral Period,) during the Deferral Period, the Administrator may declare the amount of Stock Option Gains, that may be deferred by Participants during such period.

4.4. **DISABILITY.** If an Eligible Employee suffers a Disability during the Deferral Period, the Deferrals previously designated on any Deferral Election Forms submitted to the Administrator prior to the date of such Disability shall be completed within two (2) years of the commencement of the Disability and before any termination of employment from the Company. Subsequent to commencement of such Disability, no new Options may be designated for Deferrals by the Eligible Employee. In the event of Disability, Benefits shall be distributed in accordance with the Plan provisions for termination, Retirement or death.

4.5. **DEFERRAL ACCOUNTS.** Solely for recordkeeping purposes, the Company shall maintain two (2) Deferral Accounts for each Participant, a Diversified Account and a Stock Account. A Participant's Diversified Account shall be credited with a Participant's Deferrals pursuant to Article 5.2, and credited with the Declared Rate(s) (which may be negative or positive) elected by the Participant or Beneficiary pursuant to Article 5.3. A Participant's Stock Account shall be credited with (i) the shares of Stock allocated to the Participant's Stock Account pursuant to Article 5.2, (ii) any additional shares of Stock distributed as a dividend with respect to Stock credited to the Participant's Stock Account, and (iii) shares of Stock purchased with cash dividends or other distributions with respect to Stock credited to the Participant's Stock Account.

The Company shall credit the amount of a Participant's Deferrals that is allocated to the Participant's Diversified Account under Article 5.2 on the settlement date (generally four business days following the exercise date of the Option to which such Deferral relates). The Company shall credit shares of Stock to a Participant's Stock Account in the amount allocated by the Participant under Article 5.2 on the settlement date (generally four business days following the exercise date of the Option to which such Deferral relates). Stock purchased with cash dividends or other distributions with respect to Stock credited to a Participant's Stock Account, or acquired as a dividend with respect to Stock so credited, shall be credited to the Participant's Stock Account on the date of such purchase, or, in the case of a dividend made in shares of Stock, on the date such dividend distribution is effected. The Diversified and Stock Accounts shall be debited by (i) the amount of any distributions made to a Participant or the

Participant's Beneficiary pursuant to the Plan, and (ii) any charges or penalties with respect to such distributions.

4.6. DEFERRAL ADJUSTMENT. Prior to any crediting of Deferrals to a Participant's Accounts, the Company shall deduct from the portion of each Deferral allocated to a Participant's Diversified Account an up-front load equal to three percent (3%) (or such lesser percentage as determined by the Administrator) of the amount so allocated.

4.7. STATEMENT OF ACCOUNT. The Administrator shall provide to each Participant a periodic statement (at least semi-annually) setting forth the deferrals, dividends, declared rate(s) (credits or debits) and balance of the Accounts maintained for such Participant.

4.8. VESTING. The Participant shall be 100% Vested at all times in the Participant's Deferral Accounts.

4.9. METHOD OF EXERCISE. A participant exercising Options, the Stock Options Gains of which are being deferred under the Plan, shall effect such exercise by constructively delivering the Stock with a fair market value on the date of exercise of the Option equal to the aggregate exercise price of the Option. Stock used for this purpose shall be Stock which the Participant has held for a period of greater than six (6) months prior to the date of exercise of the Option; provided, however, that if the Participant delivers to the Company Stock acquired through the exercise of an "incentive stock option" as defined in Section 422(b) of the Code, such Stock shall have been held by the Participant for a period of greater than twelve (12) months from the date of exercise of the Option and twenty-four (24) months from the date of grant of the Option.

ARTICLE 5: INVESTMENT OPTIONS

5.1. VALUATION OF ACCOUNTS. A Participant's Diversified Account as of each Valuation Date shall consist of the balance of the Participant's Diversified Account as of the immediately preceding Valuation Date less any payments made to

the Participant or the Participant's Beneficiary pursuant to Article 6, plus the

amount of the Participant's Deferrals and the Declared Rate(s) thereon, in each case made (debited or credited) since the immediately preceding Valuation Date.

A Participant's Stock Account as of each Valuation Date shall be measured based upon the number of shares of Stock allocated to the Participant's Stock Account as of the immediately preceding Valuation Date less any shares of Stock

distributed to the Participant or the Participant's Beneficiary plus any shares

of Stock (i) credited as a dividend with respect to Stock credited to the Participant's Stock Account, and (ii) credited with non-Stock dividends distributed with respect to Stock allocated to the Participant's Stock Account, in each case made (credited or debited) since the immediately preceding Valuation Date.

5.2. ALLOCATION OF ACCOUNTS. A Participant may elect to allocate Stock Option Gains among Deferral Accounts on the Participant's Exercise Declaration Forms filed with the Administrator. Subject to the minimum (which may be reduced by the Committee) and maximum (which may be increased by the Committee) percentage allocations set forth herein, allocations to Deferral Accounts on any Exercise Declaration Form shall be in 25% increments. Currently, a minimum of 25% of each Deferral of Stock Option Gains shall be allocated to a Participant's Stock Account and a maximum of 75% of each Deferral of Stock Option Gains may be allocated to a Participant's Diversified Account. A Participant may elect to have the allocations changed for any future Deferrals among Deferral Accounts by so designating on any Exercise Declaration Form filed with the Administrator as provided in Article 5.3. The Deferral Accounts of a Participant who does not designate any allocation among Accounts on an Exercise Declaration Form filed with the Administrator shall be allocated among the Participant's Stock and Diversified Accounts in increments of 25% and 75%, respectively.

5.3. PARTICIPANT ELECTION OF DECLARED RATES. Participant may elect to have the Diversified Account allocated among the Declared Rate(s) in 25% increments. Notwithstanding the foregoing provision or any other provision of this Plan, if the Participant does not submit an Allocation Election Form to the Administrator, Amounts so allocated to Diversified Accounts shall be allocated 100% to the Money Market Declared Rate.

Subject to the second sentence of this paragraph, a Participant may change the Participant's Declared Rate(s) election by filing a new Allocation Election Form with the Administrator at least 30 days prior to such change becoming effective. A Participant may change the Participant's Diversified Account allocation elections under this Article 5.3 a

minimum of twice a year effective as of the earlier of the March 1, June 1, September 1 or December 1 which immediately follows the date of filing the Allocation Election Form with the Administrator, and as otherwise permitted by the Administrator.

In the event of a Change in Control, a Participant may elect to have his or her Stock Account balance treated as transferred to the Participant's Diversified Account. Such transfer shall not take place under any other circumstance.

5.4. DECLARED RATES. The Declared Rate(s) are equal to the gross performance of each of the below-listed investment funds (which list may be expanded by the Committee) reduced by (i) investment advisory fees, (ii) daily operating expenses and (iii) forty (40) basis points. The Administrator may adjust the fees in his reasonable discretion annually to reflect decreased costs or to cover increased costs. A Participant may elect from Declared Rates initially representing five (5) core investment funds, which may from time to time be established under the Plan and the number of which may be expanded by the Committee; it being the intention that at all times Participants will have at least five (5), core investment fund choices comparable in focus, type and quality to those listed below Declared Rate(s) are subject to normal investment risk. The initial Declared Rates available under the Plan are:

DECLARED RATE 1 - based on the performance of the Money Market Fund managed by Pacific Mutual in the Pacific Select Fund

DECLARED RATE 2 - based on the performance of the Managed Bond Fund managed by PIMCO in the Pacific Select Fund

DECLARED RATE 3 - based on the performance of the Growth LT Fund managed by James Capital Corporation in the Pacific Select Fund

DECLARED RATE 4 - based on the performance of the Equity Index Fund managed by Bankers Trust in the Pacific Select Fund

DECLARED RATE 5 - based on the performance of the International Fund managed by Morgan Stanley in the Pacific Select Fund

The Administrator shall have the right to invest all, part, or none of the aggregate Deferrals or any of the investment funds upon which the Declared Rates are based.

5.5. VALUATION OF STOCK. The value of a share of Stock on a Valuation Date shall be the closing price of a single share of such Stock on the New York Stock Exchange on the last

trading day immediately preceding such Valuation Date, as such valuation information is published in a nationally recognized daily business publication.

5.6. CREDITING OF DIVIDENDS WITH RESPECT TO STOCK. Stock and non-stock dividend distributions with respect to Stock allocated to a Participant's Stock Account shall be credited by the Administrator to the Participant's Stock Account in the form of additional shares or fractional shares of Stock as of the date upon which the Company makes such a distribution.

5.7. BENEFICIARY POWERS. Following a Participant's death, the allocation of unpaid balances in the Participant's Diversified Account among any Declared Rate(s) may be made as elected by the Participant's Beneficiary.

ARTICLE 6: BENEFITS

6.1 RETIREMENT BENEFIT. A Participant shall be eligible for a Retirement Benefit under this Plan upon satisfaction of all of the requirements for Normal Retirement or Early Retirement.

6.2. BENEFIT ELECTION ALTERNATIVES. A Participant may elect to receive the Participant's Retirement Benefit in (i) a lump sum; (ii) annual installments (calculated pursuant to Article 6.3) over five (5), ten (10), fifteen (15), or twenty (20) years; or (iii) a combination of an initial lump sum distribution with the remainder paid in annual installments (calculated pursuant to section 6.3) over five (5), ten (10), fifteen (15), or twenty (20) years. A Participant has the right to make separate elections for each of his Deferral Accounts. The Retirement Benefit shall be paid over the period elected by the Participant, which election shall be made no later than thirteen months prior to Retirement. After a Participant has made an initial election, he may subsequently change his election at any time provided that such election is made at least thirteen (13) months prior to Retirement. If a Participant does not file an election with the Administrator, the Participant's Deferral Accounts shall be paid in annual installments (calculated pursuant to Article (6.3)) over ten (10) years.

6.3. INSTALLMENT PAYMENTS. If a Participant elects to receive the Participant's Retirement Benefit in installment payments, the first payment shall be (i) an annualized amount pro-rated over the period commencing with the last day of the month of the Participant's date of

Retirement through the following December 31, (ii) calculated pursuant to the method prescribed in this Article, and (iii) made within the periods established pursuant to Article 6.2. Subsequently, annual payments shall be made each January, over the period elected by or for such Participant.

The amount of any installment payment distributed from a Participant's Diversified Account shall be determined annually by dividing the Participant's Diversified Account balance, less any initial lump-sum distribution, on the Valuation Date as prescribed by Article 6.14 by (i) the number of years remaining in the Participant's payment period, or (ii) some other formula approved by the Committee which is designed to provide ratable payments using a reasonable interest rate assumption. The number of shares of Stock distributed from a Participant's Stock Account, as part of any installment payment, shall be determined annually by dividing the number of shares of Stock credited to a Participant's Stock Account on the Valuation Date, as prescribed by Article 6.14, by the number of years remaining in the Participant's payment period. Solely for purposes of calculating the first installment payment provided for in the first sentence of this Article, (i) the year of a Participant's Retirement shall be counted as a pro-rated year in a Participant's payment period, and (ii) the Valuation Date shall be the last day of the month of the date of the Participant's Retirement. During any payment year, the unpaid Deferral Account balance shall be credited as provided in Article 4.5. A retired Participant may continue to change the allocation of the Participant's Diversified Account, as provided in Article 5.3, as long as such retired Participant has an undistributed Diversified Account balance.

6.4. **DISABILITY.** If an Eligible Employee suffers a Disability, any Deferral Election Forms executed and delivered to the Administrator prior to the date of such Disability shall remain in effect in all respects. An Eligible Employee suffering a Disability may defer Stock Option Gains with respect to Options previously designated on such forms during the twenty-four (24) month period following the date of occurrence of the Disability; provided, however, that this shall not operate so as to extend the period during which the Option may be exercised under the appropriate stock option plan. Except as otherwise provided in the last sentence of this Article 6.4, (i) after the expiration of such 24-month period, all uncompleted Deferral elections shall be null and void, and (ii) no new Deferral Election Forms shall be accepted by the Administrator from such Eligible Employee after the date of the Disability. During the period of the Disability, the Eligible Employee's Diversified Account shall continue to be credited with the applicable

Declared Rate(s) elected by the Eligible Employee. The Eligible Employee's Diversified Account shall be distributed at Retirement, Termination of Employment, or upon death, whichever is applicable, in accordance with the terms of the Plan or the Eligible Employee's distribution election in effect on the date Benefits commence under the Plan, whichever is applicable. If an Eligible Employee recovers from a Disability and returns to employment with the Company during the Deferral Period, the Eligible Employee shall resume making Deferrals in accordance with the Eligible Employee's elections in effect of the date of the Eligible Employee's Disability and may file additional Deferral Election Forms with the Administrator.

6.5. TERMINATION BENEFIT. If an Eligible Employee (i) incurs a Termination of Employment, or (ii) fails to return to the status of an Employee within sixty (60) days following recovery from a Disability prior to Retirement, the Company shall pay to such Eligible Employee a Termination Benefit equal to the Eligible Employee's Deferral Account balances, determined as of the last day of the month of the Eligible Employee's Termination of Employment. Such Termination Benefit shall be in the form of a lump sum distribution, with the Stock Account balance distributed in Stock and the Diversified Account Balance distributed in cash. Upon distribution of the Termination Benefit, the Eligible Employee shall be entitled to no further benefits under the Plan.

6.6. SURVIVOR BENEFITS.

(a) PRE-RETIREMENT. If a Participant dies and has not yet commenced receiving Retirement Benefits under the Plan, a Survivor Benefit shall be paid to the Participant's First Beneficiary in annual installments over ten (10) years, except as provided below. The balance in the Participant's Diversified Account shall continue to be credited with the applicable Declared Rate(s) elected by the First Beneficiary. The balance in the Participant's Stock Account shall continue to be credited as provided in Article 4.5. The first distribution to the First Beneficiary shall be an annualized amount pro-rated over the period commencing with the last day of the month in which the Participant's death occurs through the following December 31, and calculated pursuant to the manner prescribed in Article 6.3. Subsequently, ten (10) annual payments shall be paid to the First Beneficiary in January of each year in an amount determined pursuant to the manner prescribed in Article 6.3. The First Beneficiary may continue to change the Declared Rate(s) election as provided in

Article 5.3 as long as he has a remaining Diversified Account balance under the Plan.

(b) POST-RETIREMENT. If a Participant dies after payment of Benefits to such Participant has commenced, the First Beneficiary shall be entitled to receive the remainder of the annual payments not yet paid to the Participant in accordance with the election of the Participant then in effect. After the Participant's death, (i) the Participant's Diversified Account shall continue to be credited with the applicable Declared Rate(s) elected by the Beneficiary, and (ii) the Participant's Stock Account shall continue to be credited as provided in Article 4.5.

(c) SECOND BENEFICIARY. If the First Beneficiary dies before all Survivor Benefits under the Plan have been distributed to the First Beneficiary, any remaining Account balances shall be paid in a lump sum to the Second Beneficiary or to the First Beneficiary's estate if no Second Beneficiary designation is on file with the Administrator.

6.7. SCHEDULED WITHDRAWAL. At the time a Participant first enrolls in the Plan, the Participant may make a one-time irrevocable election to receive a Scheduled Withdrawal of a specified dollar amount in January of any Plan year, provided that the amount of any Scheduled Withdrawal actually distributed shall

not exceed a Participant's aggregate Account balances as of the date that is twenty-four (24) months prior to the date of such Scheduled Withdrawal. If the Participant terminates employment with the Company by reason of Retirement, the Scheduled Withdrawal shall be null and void, and the Benefit shall be paid in accordance with Article 6.2. If the Participant terminates employment with the Company for any other reason prior to the receipt of the Participant's Scheduled Withdrawal, the Participant's Scheduled Withdrawal election shall be null and void, and the Participant shall receive a Termination Benefit as provided in Article 6.5.

6.8. DISCOUNTED CASH OUT ELECTION. At any time a Participant or a Beneficiary has a remaining Account balance in the Plan, the Participant or a Beneficiary may elect to receive all or part of the Participant's Accounts in a lump sum by filing a written election to receive a Discounted Cash Out pursuant to this Article 6.8. Crediting of Declared Rates to the amount elected to be withdrawn shall cease to accrue as of the date the Discounted Cash Out Election is made. The requirements for a Discounted Cash Out Election and the manner of determining the amount to be paid to a Participant who makes a pre-retirement Discounted Cash Out

Election are set forth in Articles 6.9 through 6.12.

6.9. MINIMUM AMOUNT. Unless otherwise determined by the Committee, the Discounted Cash Out must be in an amount of at least \$200,000, unless the Participant's Accounts have an aggregate balance of less than \$200,000 as of the date of the Discounted Cash Out Election, in which case the amount of the Discounted Cash Out shall be equal to 100% of the aggregate balance of the Participant's Accounts.

6.10. ACCOUNT VALUE. The amount available for the Discounted Cash Out shall be determined no later than the last day of the month during which the Participant delivers to the Administrator a written Discounted Cash Out Election, provided, however, that the Administrator shall have at least fifteen (15) business days to make such determination.

6.11. ADJUSTMENT OF ACCOUNTS; PENALTY. If a Participant or Beneficiary elects to receive a Discounted Cash Out, the total amount of such Discounted Cash Out shall be deducted ratably from the Diversified Account and Stock Account in the proportion which the balance of each such Account bears to the aggregate balance of such Participant's Accounts. The amount of the Discounted Cash Out actually distributed to the Participant shall be the amount of the requested Discounted Cash Out Election less a penalty as established by the Committee which is six percent (6%) (unless otherwise required by law or regulation) of the amount of the requested Discounted Cash-Out Election. The forfeited amount shall be deducted from the portion of the Discounted Cash Out withdrawn from the Participant's Diversified Account and shall be returned to the Trust. To the extent that the Participant's Diversified Account balance is insufficient to satisfy the penalty, the remainder of the penalty amount shall be deducted from the Participant's Stock Account.

6.12. NUMBER OF DISTRIBUTIONS. During the course of any calendar year and prior to retirement, a Participant may make one Discounted Cash Out Election per year; following retirement, a Participant or a Beneficiary in a payout status, may make two Discounted Cash Out Elections per year.

6.13. DE MINIMIS BENEFIT. Notwithstanding anything in the Plan to the contrary, after a Participant ceases to be an employee then in the event the aggregate balance of such

Participant's Accounts is \$50,000 or less, the Administrator may distribute any such amount in a single lump sum. The Administrator shall provide the Participant at least 30 days advance notice of its intention to make such distribution.

6.14. VALUATION DATE. Unless otherwise provided by the Administrator, the Valuation Date for determining Deferral Account balances shall be the last day of the month. Except as otherwise provided in the Plan, the Valuation Date for purposes of determining Annual Retirement or Survivor Benefit distributions shall be the November 30 preceding the date of such distribution.

6.15. SETTLEMENT DATE. Unless otherwise provided in the Plan, the Settlement Date for Benefit payments shall be as soon as administratively feasible following the Valuation Date.

6.16. DISTRIBUTION DUE TO UNFORESEEABLE EMERGENCY. A Participant may request a Distribution Due to Unforeseeable Emergency by submitting a written request to the Administrator accompanied by evidence to demonstrate that the circumstances being experienced qualify as an Unforeseeable Emergency. The Administrator shall have the authority to require such evidence as the Administrator deems, in its sole discretion, necessary to determine if such a distribution is warranted. If the Administrator approves the Participant's application for a Distribution Due to and Unforeseeable Emergency, the distribution is limited to an amount sufficient to meet the Unforeseeable Emergency. The allowed distribution shall be payable in a manner determined solely by the Administrator, as soon as possible after approval of such distribution.

The need to send a Participant's child to college or the desire to purchase a home shall not be an Unforeseeable Emergency.

ARTICLE 7: BENEFICIARY DESIGNATION

Each Participant and First Beneficiary shall have the right, at any time, to designate any person or persons as Beneficiary or Beneficiaries to whom payment under this Plan shall be made in the event of death of the Participant or First Beneficiary, as the case may be, prior to complete distribution of Benefits due under the Plan. Each Beneficiary designation shall become effective only when filed in writing with the Administrator during the Participant's or First Beneficiary's

lifetime, as the case may be, on a form prescribed by the Administrator.

The filing of a new Beneficiary designation with the Administrator shall cancel and revoke all Beneficiary designations previously filed. Any finalized divorce or marriage (other than a common law marriage) of a Participant or First Beneficiary, as the case may be, subsequent to the date of filing of a Beneficiary designation form shall revoke such designation unless (i) in the case of divorce, the previous spouse or a trust for said previous spouse was not designated as Beneficiary, or (ii) In the case of marriage, the Participant's new spouse or a trust for said new spouse had previously been designated as Beneficiary.

If a Participant or First Beneficiary, as the case may be, fails to designate a Beneficiary as provided above, or if the Participant's Beneficiary designation is revoked by marriage, divorce, or otherwise without execution of a new Beneficiary designation, or if all designated Beneficiaries predecease the Participant or First Beneficiary, as the case may be, then such Benefits shall be distributed to the estate of the Participant or First Beneficiary, as the case may be.

ARTICLE 8: ADMINISTRATION OF PLAN

The Committee shall consist of at least three members who shall be appointed by the Company's Chairman and Chief Executive Officer.

The Committee shall have the sole authority and discretion to administer the Plan and to make determinations, interpret, construe and apply its provisions in accordance with its terms. The Committee shall further establish, adopt or revise such determinations, rules, regulations, and procedures as it may deem necessary or advisable for the administration of the Plan. All decisions of the Committee shall be by vote of at least a majority of its members and shall be final and binding. Members of the Committee shall be eligible to participate in the Plan while serving as members of the Committee, but a member of the Committee shall not vote or act upon any matter which relates solely to such member's interest in the Plan as a Participant. The initial members of the Committee shall be the Chairman and Chief Executive Officer, the Chief Financial Officer, the Senior Vice President, General Counsel and Secretary, the Vice President, Human Resources, the Vice President, Treasurer, the Vice President, Compensation

& Benefits, the Vice President, Treasury Operations, the Assistant General Counsel and Assistant Secretary, and the Controller, Corporate Center. The Committee designated the Vice President, Compensation & Benefits as the Administrator to carry out the day-to-day administration of the Plan. He shall exercise his discretion on a constant and objective basis.

The Committee, and each member thereof, shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or other employee of the Company or any subsidiary, the Company's independent certified public accountants, or any executive compensation consultant, legal counsel, or other professional retained by the Company to assist in the administration of the Plan. To the maximum extent permitted by law, no member of the Committee or the Administrator, nor any person to whom ministerial duties have been delegated, shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of the Plan. To the maximum extent permitted by law, the Company shall defend and indemnify the members of the Committee against any and all claims, losses, damages, expenses, including any counsel fees and costs, incurred by them, and any liability, including any amounts paid in settlement with their approval, arising from their action or failure to act, unless and to the extent such liability arises from a member's own fraud, gross negligence or willful misconduct.

ARTICLE 9: AMENDMENT AND TERMINATION OF PLAN

9.1. The Chairman and Chief Executive Officer of the Company may amend or terminate the Plan provided, however, that (i) no such amendment or termination shall be effective to decrease the Benefits accrued to any Participant or Beneficiary of a deceased Participant (including, but not limited to, the rate of return credited to the Deferral Account(s) prior to the effective date of such amendment or termination); (ii) Article 6.1 may not be amended; (iii) the definition of Declared Rate may not be amended; and (iv) the other substantive provisions of the Plan related to the calculation of Benefits or other elections, manner or timing of payments to be made under the Plan shall not be amended so as to prejudice the rights of any Participant or Beneficiary of a deceased Participant. The Committee may, in its discretion, adjust future Deferrals (as set forth in Article 4.3) and may allow an Eligible Employees to make Deferrals into the Plan. In the event of termination of the Plan, Participants' account balances shall be distributed to the Participants within 60 (sixty) days following termination of the Plan.

9.2. DISTRIBUTION UPON CONSTRUCTIVE RECEIPT. Notwithstanding anything to the contrary in the Plan, the Administrator may authorize payments before they would otherwise be due if, based on a change in the federal tax or revenue laws, a published ruling or similar announcement issued by the Internal Revenue Service, a regulation issued by the Secretary of the Treasury, a decision by a court of competent jurisdiction involving a Participant or a Beneficiary, or a closing agreement made under Section 7121 of the Internal Revenue Service Code that is approved by the Internal Revenue Service and involves the Participant, if he determines that a Participant has or will recognize income for federal income tax purposes with respect to amounts that are or will be payable under the Plan before they are otherwise would be paid.

9.3. CHANGE IN CONTROL. Upon a Change in Control, a Participant may elect to have all or part of the Participant's Stock Account balance allocated to the Diversified Account.

ARTICLE 10: MAINTENANCE OF ACCOUNTS

The Company shall keep, or cause to be kept, all such books of account, records and other data as may be necessary or advisable in its judgment for the administration of this Plan, and properly to reflect the affairs thereof, and to determine the nature and amount of the interests of the respective Participants in each Account.

The Company is not required to segregate physically any assets with respect to the Accounts under this Plan from any other assets of the Company and may commingle any such assets with any other moneys, securities and properties of any kind of the Company. Separate Accounts or records for the respective Participants' interest shall be maintained for operational and accounting purposes, but no such Account or record shall be considered as creating a lien of any nature whatsoever on or as segregating any of the assets with respect to the Accounts under this Plan from any other funds or property of the Company.

ARTICLE 11: CLAIMS AND REVIEW PROCEDURES

11.1. CLAIMS PROCEDURE. The Administrator or his designee shall notify a Participant or

Beneficiary (each, for purposes of this Article, a "Claimant") of the denial of a claim made by or on behalf of such Claimant for the payment, commencement or continuation of benefits under the Plan, in writing, within ninety (90) days after submission of such claim. The notice of such denial shall be delivered to the last known address of the Claimant, and shall set forth (1) the specific reasons for such denial, (2) a specific reference to the provisions of the Plan on which the denial is based, (3) a description of any additional information or material necessary for the Claimant to perfect the Claimant's claim, and a description of why such information is needed, and (4) an explanation of the Plan's claims review procedure and other appropriate information as to the steps to be taken if the Claimant wishes to have the claim reviewed. If the Administrator or his designee determines that there are special circumstances requiring additional time to make a decision, the Administrator or its designee shall notify the Claimant of the special circumstances and the date by which a decision is expected to be made, and may extend the time within which to make such decision for up to an additional ninety-day (90) period.

11.2. REVIEW PROCEDURE. If a Claimant is determined by the Administrator not to be eligible for benefits, or if the Claimant believes that the Claimant is entitled to greater or different benefits under the Plan, the Claimant or duly authorized representative shall have the opportunity to have such claim reviewed by the Committee by filing a petition for review with the Committee within sixty (60) days after receipt of the notice issued by the Administrator pursuant to Article 11.1. Said petition shall state the specific reasons that the Claimant believes entitle the Claimant to Benefits or to greater or different benefits. The Claimant or representative may review pertinent documents relating to the claim and its denial, and may submit issues and comments in writing to the Committee. The Committee shall notify the Claimant of its decision with respect to such petition in writing within sixty (60) days of receipt of such petition, stating specifically the basis of its decision, written in a manner calculated to be understood by the Claimant, and the specific provisions of the Plan on which the decision is based. If, because of the need for additional information, the sixty-day period is not sufficient, the decision may be deferred for up to another sixty-day period at the election of the Committee, but notice of this deferral shall be given to the Claimant. In the event of the death of the Claimant, the same procedures shall apply to the Claimant's beneficiaries.

ARTICLE 12: MISCELLANEOUS

12.1. APPLICABLE LAW. Except to the extent preempted by ERISA, this Plan shall be governed and construed in accordance with the laws of the State of California applicable to agreements made and to be performed entirely therein, and applicable substantive provisions of federal law.

12.2. CAPTIONS. The captions of the articles, sections, and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

12.3. EMPLOYMENT NOT GUARANTEED. Nothing contained in this Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any Employee any right to be retained in the employ of the Company.

12.4. PROVISIONS RELATING TO SECTION 16 OF THE EXCHANGE ACT AND SECTION 162(M) OF THE CODE.

With respect to a Participant who is then subject to the reporting requirements of Section 16(a) of the Exchange Act:

Any function of the Administrator under the Plan relating to such Participant shall be performed solely by the Administrator or a subcommittee thereof consisting solely of 2 or more members who constitute "non-employee directors" under Rule 16b-3, if and to the extent required to ensure the availability of an exemption under Rule 16b-3 or exclusion under Rule 16a for such Participant with respect to the Plan.

To the extent necessary so that transactions by and rights of such a Participant under the Plan are excluded from reporting under Rule 16a, if any provision of this Plan or any rule, election form or other form, or instruction does not comply with the requirements of such Rule as then applicable to such transaction or right under the Plan, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements.

It is the intent of the Company that any compensation (including any award) deferred under the Plan by a person who is, with respect to the year of payment, deemed by the Administrator to be a "covered employee" within the meaning of Code Section 162(m) and regulations thereunder, which compensation constitutes either "qualified performance-based compensation" within the meaning of Code Section 162(m) and regulations thereunder or compensation not otherwise subject to the limitation on deductibility under Section 162(m) and regulations thereunder, shall not, as a result of deferral hereunder, become compensation with respect to which the Company in fact would not be entitled to a tax deduction under Code Section 162(m). Accordingly, unless otherwise determined by the Administrator, if any compensation would become so disqualified under Section 162(m) as a result of deferral hereunder, the terms of such deferral shall be automatically modified to the extent necessary to ensure that the compensation would not, at the time of payout, be so disqualified.

12.5. SOURCES OF STOCK. If Stock is deposited under the Plan in a trust pursuant to Articles 12.13 or 12.18 in connection with a deferral of Stock Option Gains with respect to an Option award under another plan, program, employment agreement or other arrangement that provides for the issuance of shares, the shares of Stock so deposited shall be deemed to have originated, and shall be counted against the number of shares reserved, under such other plan, program or arrangement. The number of shares of Stock credited to such Stock Account shall in no event exceed the number of shares subject to the Stock Option Gains deferred under the Plan plus any additional shares of Stock dividends or Stock purchased with cash dividends on shares allocated to such Stock Account. The number of shares of Stock otherwise credited to Stock Accounts of Participants who are subject to Section 16(a) of the Exchange Act shall not exceed 10% of the Stock outstanding at any time. Stock actually delivered in settlement of Deferral Accounts shall be originally issued shares, treasury shares or shares from an employee stock trust, in the discretion of the Administrator.

12.6. EXEMPT ERISA PLAN. The Plan consists of two plans under a single plan document. The first plan is intended to be an unfunded plan maintained primarily to provide deferred compensation Bbenefits for a select group of management or highly compensated employees within the meaning of Sections 201, 301 and 401 of ERISA and therefore to be exempt from Parts 2, 3 and 4 of 201, 301 and Title I of ERISA.401 of ERISA, and therefor to be exempt from parts 2, 3 and 4 of Title 1 of ERISA. The second plan is a separate plan not subject to ERISA, and is maintained to provide deferred compensation benefit for non-employee directors

12.7. GENDER; SINGULAR & PLURAL. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, or neuter, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.

12.8. LIMITATION. A Participant and the Participant's Beneficiary shall assume all risk in connection with the performance of any Declared Rate and any decrease in value of the Deferral Accounts, including any decrease in the value of Stock, and the Company, Committee and the Administrator shall not be liable or responsible therefor.

12.9. NOTICE. Any notice or filing required or permitted to be given to the Administrator under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Company, directed to the attention of the Senior Vice President, General Counsel and Secretary of the Company. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

12.10. OBLIGATIONS TO COMPANY. If a Participant becomes entitled to a distribution of Benefits under the Plan, and if at such time the Participant has outstanding any debt, obligation, or other liability representing an amount owing to the Company, then the Company may offset such amount owed to it against the amount of Benefits otherwise distributable. Such determination shall be made by the Administrator.

12.11. LIMITS ON TRANSFER. Other than by will or the laws of descent and distribution, no right, title or interest of any kind in the Plan shall be transferable or assignable by a Participant or the Participant's Beneficiary or be subject to alienation, anticipation, encumbrance, garnishment, attachment, levy, execution or other legal or equitable process, nor subject to the debts, contracts, alimony, liabilities or engagements, or torts of any Participant or Participant's Beneficiary. Any attempt to alienate, sell, transfer, assign, pledge, garnish, attach or take any other action subject to legal or equitable process or encumber or dispose of any interest in the Plan shall be void.

12.12. **SATISFACTION OF CLAIMS.** Payments to any Participant or Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full or partial satisfaction of claims against the Company for the compensation or other amounts deferred and relating to the Deferral Account to which the payments relate.

12.13. **UNFUNDED STATUS OF PLAN; CREATION OF TRUSTS.** The Plan is intended to constitute an "unfunded" plan for deferred compensation and Participants shall rely solely on the unsecured promise of the Company for payment hereunder. With respect to any payment not yet made to a Participant under the Plan, nothing contained in the Plan shall give a Participant any rights that are greater than those of a general unsecured creditor of the Company; provided, however, that the Administrator may authorize the creation of trusts, including but not limited to the Trust referred to in this Article or Article 12.18, or make other arrangements to meet the Company's obligations under the Plan, which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan.

12.14. **COMPLIANCE.** A Participant in the Plan shall have no right to receive payment with respect to the Participant's Deferral Account until legal and contractual obligations of the Company relating to establishment of the Plan and the making of such payments shall have been complied with in full. In addition, the Company shall impose such restrictions on Stock delivered to a Participant hereunder and any other interest constituting a security as it may deem advisable in order to comply with the Securities Act of 1933, as amended, the requirements of the New York Stock Exchange or any other stock exchange or automated quotation system upon which the Stock is then listed or quoted, any state securities laws applicable to such a transfer, any provision of the Company's Certificate of Incorporation or Bylaws, or any other applicable law or applicable regulation.

12.15. **OTHER PARTICIPANT RIGHTS.** No Participant shall have any of the rights or privileges of a stockholder of the Company under the Plan, including as a result of the crediting of Stock equivalents or other amounts to a Deferral Account, or the creation of any trust and deposit of such Stock therein, except at such time as Stock may be actually delivered in settlement of a Deferral Account. Subject to the limitations set forth in Article 12.11 hereof, the Plan shall inure to the benefit of, and be binding upon, the parties hereto and their successors and assigns. Stock allocated in the trust will be voted by the trustee thereof in the same manner as the

Company stock held in the Company's Employee Stock Benefit Trust.

12.16. TAX WITHHOLDING. The Participant or Beneficiary shall make appropriate arrangements with the Company for satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employee tax requirements applicable to the crediting and payment of Benefits under the Plan. If no other arrangements are made, the Company shall have the right to deduct from amounts otherwise credited or payable in settlement of a Deferral Account any sums that federal, state, local or foreign tax law requires to be withheld with respect to such credit or payment. Shares of Stock may be withheld to satisfy such obligations in any case where taxation would be imposed upon the delivery of shares, except that shares issued or delivered under any plan, program, employment agreement or other arrangement may be withheld only in accordance with the terms of such plan, program, employment agreement or other arrangement and any applicable rules, regulations, or resolutions thereunder.

12.17. PROTECTIVE PROVISIONS. Each Participant shall cooperate with the Company by furnishing any and all information requested by the Company in order to facilitate the payment of Benefits hereunder, taking such physical examinations when and as the Company may deem necessary and taking such other relevant action as may be requested by the Company. If a Participant refuses so to cooperate, the Company shall have no further obligation to the Participant under the Plan, other than payment to such Participant of the cumulative Deferrals theretofore made pursuant to this Plan.

12.18. UNSECURED GENERAL CREDITOR. The Company intends to establish and fund a trust (the "Trust") under the Avery Dennison Corporation Capital Accumulation Plan. The assets of the Trust shall be subject to the claims of the Company's creditors. Benefits shall be paid directly by the Trustee, or its designated agent, from Trust assets to the Participant or Beneficiary. To the extent any Benefits provided under the Plan are actually paid from the Trust, the Company shall have no further obligation with respect thereto, but to the extent not so paid, such Benefits shall remain the obligation of, and shall be paid by, the Company. Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interest, or claims in any specific property or assets of the Company, nor shall they be beneficiaries of, or have any rights, claims, or interests in any life insurance policies,

annuity contracts, mutual funds, shares of Company stock or the proceeds therefrom owned or which may be acquired by the Company. Apart from the Trust, such policies or other assets of the Company shall not be held under any trust for the benefit of Participants, their Beneficiaries, heirs, successors, or assigns, or held in any way as collateral security for the fulfilling of the obligations of Company under this Plan. Any and all of the Company's assets and policies shall be, and remain, the general, unpledged, unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay money or property in the future.

12.19. WAIVER OF STAY, EXTENSION AND USURY LAWS. The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law that would prohibit or forgive the Company from paying all or any portion of the benefits due hereunder, wherever such laws may be enacted, now or at any time hereafter in force, or which may affect the administration or performance of this Plan; and (to the extent that it may lawfully do so) the Company hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the realization of any benefits to which the Participants hereunder are entitled, but will suffer and permit the realization of all such benefits as though no such law had been enacted.

12.20. STATUS. The establishment and maintenance of, or allocations and credits to, the Deferral Accounts of any Participant shall not vest in any Participant any right, title or interest in and to any Plan assets or Benefits except at the time or times and upon the terms and conditions and to the extent expressly set forth in the Plan and in accordance with the terms of the Trust.

12.21. VALIDITY. In the event any provision of this Plan is held invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

12.22. WAIVER OF BREACH. The waiver by any party of any breach of any provision of the

Plan by any other party shall not operate or be construed as a waiver of any subsequent breach.

ARTICLE 13: EFFECTIVE DATE

The effective date of this Plan is May 1, 1997.

TRUST UNDER AVERY DENNISON CORPORATION
CAPITAL ACCUMULATION PLAN

This Agreement is made as of the 1st day of October, 1997, by and between Avery Dennison Corporation, a Delaware corporation (the "Company") and Wachovia Bank, N.A. ("Trustee");

WHEREAS, Company has adopted the Avery Dennison Corporation Capital Accumulation Plan (the "Plan").

WHEREAS, Company has incurred or expects to incur liability under the terms of the Plan with respect to the individuals participating in the Plan;

WHEREAS, Company wishes to establish a trust (the "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of Company's creditors in the event of Company's Insolvency, as herein defined, until paid to Plan participants and their beneficiaries in such manner and at such times as specified in the Plan;

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974;

WHEREAS, it is the intention of Company to make contributions to the Trust to provide itself with a source of funds to assist it in the meeting of its liabilities under the Plan;

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

1. ESTABLISHMENT OF TRUST

(a) Company hereby deposits with Trustee in trust \$_____, which shall become the principal of the Trust to be held, administered and disposed of by Trustee as provided in this Trust Agreement.

(b) The Trust hereby established shall be irrevocable.

(c) The Trust is intended to be a grantor trust, of which Company is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of Company and shall be used exclusively for the uses and purposes of Plan participants and general creditors as herein set forth. Plan participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and this Trust Agreement shall be mere unsecured contractual

rights of Plan participants and their beneficiaries against Company. Any assets held by the Trust will be subject to the claims of Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a).

(e) Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property in trust with Trustee to augment the principal to be held, administered and disposed of by Trustee as provided in this Trust Agreement. Neither Trustee nor any Plan participant or beneficiary shall have any right to compel such additional deposits.

(f) Property deposited pursuant to subsection (e) may consist of shares of Company Common Stock, par value \$1.00 ("Shares"). If any Shares are contributed to the Trust, Company shall, by virtue of such contribution, represent that such Shares are validly issued, fully paid, nonassessable and transferrable, subject to the requirements of applicable federal and state securities laws. Company shall further represent that such Shares have been registered on a Form S-8 (or another appropriate registration form) filed with the Securities and Exchange Commission or such contribution to the Trust is otherwise exempt from registration under the Securities Act of 1933, as amended. Company shall advise Trustee of any limitations on the resale of such Shares. Company shall also use its reasonable efforts to register or qualify resales of such Shares under the applicable "blue sky" or state securities laws.

(g) Company represents that it shall restrict participation in the Plan to directors and to a "select group of management or highly compensated employees," as that phrase is used in and defined under Sections 201, 301, and 401 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

2. PAYMENTS TO PLAN PARTICIPANTS AND THEIR BENEFICIARIES.

(a) The administrator (the "Administrator") appointed for purposes of the Plan and this Trust by the Committee (as defined in the Plan) shall deliver to Trustee a schedule (the "Election Schedule") that indicates the deferral elections attributable to each Plan participant (and his or her beneficiaries), and that further provides a formula or other instructions acceptable to Trustee for determining the amounts payable to each Plan participant, the form in which such amounts are to be paid (as provided for or available under the Plan), and the time of commencement for payment of such amounts. Except as otherwise provided herein, Trustee shall make payments to Plan participants and their beneficiaries in accordance with such Election Schedule. Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plan and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by Company. Trustee may delegate to Company the responsibility for the reporting and withholding as described above.

(b) The entitlement of a Plan participant or his or her beneficiaries to benefits under the Plan shall be determined by Company or such party as it shall designate under the Plan, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plan.

(c) Unless otherwise provided in this subsection, all payments from the Trust shall be in cash except that Trustee may, at the direction of the Administrator, distribute assets held in the Trust other than in the form of Shares (except as provided below) to Plan participants or their beneficiaries; provided that in the event of a distribution in kind, the Administrator shall

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advise Trustee of the value of the assets distributed and Trustee may conclusively rely upon such information without further inquiry. The foregoing notwithstanding, no such in-kind distribution shall be authorized if and to the extent that such authorization would cause any right of payment to the Plan participants or their beneficiaries from Company to be deemed a "derivative security" within the meaning of Rule 16a-1(c)(3) (including paragraph (i) thereunder) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Shares contributed to fund a stock-denominated obligation or award may be distributed to a Plan participant or his or her beneficiaries pursuant to the Election Schedules unless such Plan participant is or has been subject to Section 16 of the Exchange Act, in which case no payments from the Trust shall be in Shares until such time as the Plan participant has not been subject to a transaction which would create a "short swing transaction" as defined under Section 16 of the Exchange Act.

(d) If the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plan or any Election Schedule, Company shall make the balance of each such payment as it falls due. Trustee shall notify Company where principal and earnings are not sufficient.

3. TRUSTEE RESPONSIBILITY REGARDING PAYMENTS TO TRUST BENEFICIARY WHEN COMPANY IS INSOLVENT.

(a) Trustee shall cease payment of benefits to Plan participants and their beneficiaries if the Company is Insolvent. Company shall be considered "Insolvent" for purposes of this Trust Agreement if (i) Company is unable to pay its debts as they become due, or (ii) Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) the principal and income of the Trust shall be subject to claims of general creditors of Company under federal and state law as set forth below.

1. The Board of Directors and the Chief Executive Officer of Company shall have the duty to inform Trustee in writing of Company's Insolvency. If a person claiming to be a creditor of Company alleges in writing to Trustee that Company has become Insolvent, Trustee shall determine whether Company is Insolvent and, pending such determination, Trustee shall discontinue payment of benefits to Plan participants or their beneficiaries.
2. Unless Trustee has actual knowledge of Company's Insolvency, or has received notice from Company or a person claiming to be a creditor alleging that Company is Insolvent, Trustee shall have no duty to inquire whether Company is Insolvent. Trustee may in all events rely on such evidence concerning Company's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning Company's solvency.

3. If at any time Trustee has determined that Company is Insolvent, Trustee shall discontinue payments to Plan participants or their beneficiaries and shall hold the assets of the Trust for the benefit of Company's general creditors. Nothing in this Agreement shall in any way diminish any rights of Plan participants or their beneficiaries to pursue their rights as general creditors of Company with respect to benefits due under the Plan or otherwise.
4. Trustee shall resume the payment of benefits to Plan participants or their beneficiaries in accordance with Section 2 only after Trustee has determined that Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Plan participants or their beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made to Plan participants or their beneficiaries by Company in lieu of the payments provided for hereunder during any such period of discontinuance.

4. PAYMENTS TO COMPANY.

Except as provided in Section 3, Company shall have no right or power to direct Trustee to return to Company or to divert to others any of the Trust assets before all payment of benefits have been made to Plan participants and their beneficiaries pursuant to the terms of the Plan.

5. INVESTMENT AUTHORITY.

(a) Trustee shall have the authority, as directed by the Administrator, to borrow funds, and to invest in government securities, common stocks, preferred stocks, bonds, notes, commercial paper, fixed time deposits, money market instruments, and mutual funds, including any investment offered by the Trustee's affiliates. Trustee may invest in securities (including stock or rights to acquire stock) or obligations issued by Company, provided, however, that if Trustee makes any sale or other disposition of securities issued by the Company, such sale or other disposition must be effected through an open-market transaction. All rights associated with assets of the Trust shall be exercised by Trustee or the person designated by Trustee, and shall in no event be exercisable by or rest with Plan participants. The Administrator may delegate to each Plan participant the right to express his or her preference as to the appropriate allocation range within the authorized investments selected by the Administrator. Trustee retains the authority to select the actual investment allocation for each Plan participant.

(b) Notwithstanding the foregoing, assets of the Trust may be invested in Shares only if such Shares have been deposited in the Trust pursuant to Sections 1(a) or (f), or to the extent a Plan participant elects to allocate all or a portion of his or her Deferral Account (as defined in the Plan) into Shares.

6. DISPOSITION OF INCOME.

During the term of this Trust, all income received by the Trust, net of expense and taxes, shall be accumulated and reinvested.

7. ACCOUNTING BY TRUSTEE.

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between Company and Trustee. Within thirty (30) days following the close of each fiscal year and within ninety (90) days after the removal or resignation of Trustee, Trustee shall deliver to Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other Property held in the Trust at the end of such year or as of the date of such removal or resignation as the case may be.

8. RESPONSIBILITY OF TRUSTEE.

(a) Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Trustee further agrees that it is a fiduciary with respect to its duties hereunder and with respect to any assets acquired, held or disposed of in connection with this Trust.

(b) Company shall indemnify Trustee from and against any and all claims, demands, losses, damages, expenses (including, by way of illustration and not limitation, reasonable attorneys' fees and litigation costs), judgments and liabilities (collectively "Losses") arising from, out of, or in connection with the performance of Trustee's obligations in accordance with the provisions of this Agreement, except where such Losses are determined to be due to Trustee's proven fraud, gross negligence or willful misconduct.

(c) Trustee may consult with legal counsel (who may also be counsel for Company generally) with respect to any of its duties or obligations hereunder.

(d) Trustee may hire agents, accountants, actuaries, investment Advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder.

(e) Trustee shall have, without exclusion, all powers conferred on Trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(f) Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of Section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

9. COMPENSATION AND EXPENSES OF TRUSTEE.

Company shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust.

10. RESIGNATION OR REMOVAL OF TRUSTEE.

(a) Trustee may resign at any time by written notice to Company, which shall be effective sixty (60) days after Company's receipt of such notice unless Company and Trustee agree otherwise.

(b) Trustee may be removed by Company on sixty (60) days notice or upon shorter notice accepted by Trustee; provided, however, that such removal shall be subject to the prior approval of Plan participants (or their beneficiaries) who represent, in the aggregate, greater than fifty percent of Plan participants as of the date of Company's appointment of the successor Trustee.

(c) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within ninety (90) days after Company's receipt of notice of such resignation, removal or transfer, unless Company extends the time limit.

(d) If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11, by the effective date of resignation or removal under subsections (a) or (b) of this Section. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

11. APPOINTMENT OF SUCCESSOR.

(a) If Trustee resigns or is removed in accordance with Section 10(a) or (b), Company may appoint any third party, such as a bank trust department or other party that may be granted corporate trust powers under state law, as a successor to replace Trustee upon resignation or removal; provided, however, that such appointment shall be subject to the prior approval of Plan participants (or their beneficiaries) who represent, in the aggregate, greater than fifty percent of Plan participants as of the date of Company's appointment of the successor Trustee. Subject to the approval required by the immediately preceding sentence, the appointment shall be effective when accepted in writing by the successor Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by Company or the successor Trustee to evidence the transfer.

(b) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 7 and 8. The successor Trustee shall not be responsible for and Company shall indemnify, and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event or any condition existing at the time it becomes successor Trustee.

12. AMENDMENT OR TERMINATION.

(a) This Trust Agreement may be amended by a written instrument executed by Trustee and Company. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plan or shall make the Trust revocable.

(b) The Trust shall not terminate until the date on which Plan participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plan. Upon termination of the Trust, Company may designate any organization described in Section 501(c)(3) of the Code to receive any assets remaining in the Trust.

(c) Upon written approval of Plan participants or beneficiaries entitled to payment of benefits pursuant to the terms of the Plan, Company may terminate this Trust prior to the time all benefit payments under the Plan have been made.

13. MISCELLANEOUS.

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to Plan participants and their beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to agreements entered into and to be performed entirely therein.

14. EFFECTIVE DATE.

The effective date of this Agreement shall be October 1, 1997.

IN WITNESS WHEREOF, the parties hereto have caused this Trust Agreement to be executed as of the day and year first above written.

The "COMPANY"
AVERY DENNISON CORPORATION,

a Delaware corporation

By: _____
Name:
Title:

The "TRUSTEE"

WACHOVIA BANK, N.A.

By: _____
Name:
Title:

[LETTERHEAD OF LATHAM & WATKINS]

October 24, 1997

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

Re: Avery Dennison Corporation
Capital Accumulation Plan

Ladies and Gentlemen:

At your request, we have examined the Registration Statement on Form S-8 (the "Registration Statement"), which you intend to file with the Securities and Exchange Commission in connection with the registration under the Securities Act of 1933, as amended, of \$20,000,000 in deferred stock option gain obligations (the "Obligations") and 247,870 shares of common stock, \$1.00 par value (the "Shares") of Avery Dennison Corporation (the "Company") under the Avery Dennison Corporation Capital Accumulation Plan (the "Plan"). We are familiar with the proceedings undertaken in connection with the authorization of the Plan, the Obligations and the Shares. Additionally, we have examined such questions of law and fact as we have considered necessary or appropriate for purposes of this opinion.

We are opining herein as to the effect on the subject transaction only of the federal securities laws of the United States, the internal laws of the State of California and the General Corporation Law of the State of Delaware, and we express no opinion with respect to the applicability thereto, or the effect thereon, of any other laws.

Based upon the foregoing, we are of the opinion that, as of the date hereof:

1. The Obligations have been duly authorized and upon the issuance of the Obligations under the terms of the Plan, such Obligations will be legally valid and binding obligations of the Company, except as may be limited by the effect of bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting the rights or remedies of creditors; the effect of general principles of

equity, whether enforcement is considered in a proceeding in equity or at law, and the discretion of the court before which any proceeding therefor may be brought; and the effect of the laws of usury or other laws or equitable principles relating to or limiting the interest rate payable on indebtedness.

2. The Shares have been duly authorized, and upon the sale of the Shares under the terms of the Plan, such Shares will have been validly issued, fully paid and nonassessable.

We consent to your filing this opinion as an exhibit to the Registration Statement.

Very truly yours,

Latham & Watkins

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in this Registration Statement on Form S-8 of our report, dated January 28, 1997, appearing on page 57 of the Avery Dennison 1996 Annual Report to Shareholders and incorporated by reference in the Annual Report on Form 10-K of Avery Dennison Corporation for the year ended December 28, 1996, on our audits of the consolidated financial statements of Avery Dennison Corporation; and of our report dated January 28, 1997, appearing in the Annual Report on Form 10-K of Avery Dennison Corporation for the year ended December 28, 1996, on our audits of the financial statement schedules listed in the index on page S-1 of the Form 10-K.

Coopers & Lybrand L.L.P.

Los Angeles, California
October 24, 1997