UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 25, 2004.

OR

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

For the transition period from ______ to ______

Commission file number: 1-7685

AVERY DENNISON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**95-1492269** **(I.R.S. Employer Identification No.)**
150 North Orange Grove Boulevard **Pasadena, California** **(Address of principal executive offices)**	**91103** **(Zip Code)**

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

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

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

Number of shares of $1 par value common stock outstanding as of October 22, 2004: 110,458,962

AVERY DENNISON CORPORATION

FISCAL THIRD QUARTER 2004 FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in millions)
(Unaudited)

	September 25, 2004	December 27, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 69.9	$ 29.5
Trade accounts receivable, less allowances of $56.8 and $54.2 for 2004 and 2003, respectively	860.6	833.2
Inventories, net	430.1	406.1
Deferred taxes	29.3	29.5
Other current assets	101.0	142.6
Total current assets	1,490.9	1,440.9
Property, plant and equipment	2,551.4	2,500.3
Accumulated depreciation	1,274.0	1,210.5
Property, plant and equipment, net	1,277.4	1,289.8
Goodwill	722.8	716.6
Other intangibles resulting from business acquisitions, net	140.3	151.3
Other assets	513.0	506.7
	$ 4,144.4	$ 4,105.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term and current portion of long-term debt	$ 197.1	$ 292.6
Accounts payable	539.8	548.5
Other current liabilities	542.6	654.9
Total current liabilities	1,279.5	1,496.0
Long-term debt	1,054.3	887.7
Non-current deferred taxes and other long-term liabilities	392.0	402.9
Commitments and contingencies (see Note 12)		
Shareholders' equity:		
Common stock, $1 par value; authorized – 400,000,000 shares at September 25, 2004 and December 27, 2003; issued – 124,126,624 shares at September 25, 2004 and December 27, 2003; outstanding – 99,946,206 shares and 99,569,383 shares at September 25, 2004 and December 27, 2003, respectively	124.1	124.1
Capital in excess of par value	802.9	703.7
Retained earnings	1,846.0	1,772.5
Cost of unallocated ESOP shares	(11.6)	(11.6)
Employee stock benefit trusts, 10,512,756 shares at September 25, 2004 and 10,897,033 shares at December 27, 2003	(663.9)	(595.4)
Treasury stock at cost, 13,667,662 shares at September 25, 2004 and 13,660,208 shares at December 27, 2003	(597.4)	(597.0)
Accumulated other comprehensive loss, net of tax	(81.5)	(77.6)
Total shareholders' equity	1,418.6	1,318.7
	$ 4,144.4	$ 4,105.3

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF INCOME
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 25, 2004	September 27, 2003	September 25, 2004	September 27, 2003
Net sales	$ 1,336.2	$ 1,204.1	$ 3,906.9	$ 3,531.5
Cost of products sold	946.8	848.6	2,760.4	2,446.2
Gross profit	389.4	355.5	1,146.5	1,085.3
Marketing, general and administrative expense	273.1	253.3	805.3	765.9
Interest expense	13.8	13.9	42.3	43.3
Other expense (income), net	—	.2	35.2	(3.8)
Income from continuing operations before taxes	102.5	88.1	263.7	279.9
Taxes on income	27.5	23.3	67.6	77.0
Income from continuing operations	75.0	64.8	196.1	202.9
Income from discontinued operations, net of tax	—	1.7	—	5.7
Net income	$ 75.0	$ 66.5	$ 196.1	$ 208.6
Per share amounts:				
Net income per common share:				
Continuing operations	$ .75	$ .65	$ 1.96	$ 2.04
Discontinued operations	—	.02	—	.06
Net income per common share	$ .75	$ .67	$ 1.96	$ 2.10
Net income per common share, assuming dilution:				
Continuing operations	$ .75	$ .65	$ 1.95	$ 2.03
Discontinued operations	—	.02	—	.05
Net income per common share, assuming dilution	$ .75	$ .67	$ 1.95	$ 2.08
Dividends	$ .37	$ .36	$ 1.11	$ 1.08
Average shares outstanding:				
Common shares	99.9	99.4	99.8	99.4
Common shares, assuming dilution	100.6	100.0	100.5	100.1
Common shares outstanding at period end	99.9	99.4	99.9	99.4

See Notes to Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended	
	September 25, 2004	September 27, 2003
Operating Activities:		
Net income	$ 196.1	$ 208.6
Less: income from discontinued operations, net of tax	—	5.7
Income from continuing operations	196.1	202.9
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation	109.3	104.8
Amortization	29.8	26.0
Deferred taxes	8.8	5.8
Asset impairment and net loss on sale of assets	9.7	3.8
Other noncash items, net	(2.4)	(1.9)
Changes in assets and liabilities, net of the effect of business acquisitions and divestitures	(18.6)	(75.0)
Net cash provided by operating activities	332.7	266.4
Investing Activities:		
Purchase of property, plant and equipment	(115.6)	(148.3)
Purchase of software and other assets	(17.4)	(15.2)
Payments for acquisitions	(14.3)	(9.5)
Proceeds from sale of assets	8.2	7.0
Other	(6.9)	(4.4)
Net cash used in investing activities	(146.0)	(170.4)
Financing Activities:		
Additional borrowings	154.6	414.5
Payments of debt	(205.0)	(398.3)
Dividends paid	(122.6)	(119.3)
Purchase of treasury stock	(.5)	(.1)
Proceeds from exercise of stock options, net	14.9	2.3
Other	12.0	12.0
Net cash used in financing activities	(146.6)	(88.9)
Effect of foreign currency translation on cash balances	.3	1.7
Increase in cash and cash equivalents	40.4	8.8
Cash and cash equivalents, beginning of period	29.5	22.8
Cash and cash equivalents, end of period	$ 69.9	$ 31.6

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

The accompanying unaudited consolidated financial statements include normal recurring adjustments necessary for a fair presentation of Avery Dennison Corporation's (the "Company") interim results. Certain prior year amounts have been reclassified to conform to the current year presentation. The consolidated financial statements and notes in this Form 10-Q are presented as permitted by Regulation S-X, and as such, they do not contain certain information included in the Company's 2003 annual financial statements and notes. This Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes included in the Company's 2003 Annual Report on Form 10-K.

The third quarters of 2004 and 2003 consisted of thirteen-week periods ending September 25, 2004 and September 27, 2003, respectively. The interim results of operations are not necessarily indicative of future financial results.

2. Discontinued Operations

In October 2003, the Company completed the sale of its package label converting business in Europe, which consisted of two package label converting facilities in Denmark, as well as a package label converting facility in France. Accordingly, the results for this business were accounted for as discontinued operations for all periods presented prior to October 2003. This business was previously reported in the Company's Consumer and Converted Products segment.

A summarized combined statement of income for discontinued operations is as follows:

(In millions)	Three Months Ended September 27, 2003	Nine Months Ended September 27, 2003
Net sales	$ 14.0	$ 43.9
Income before taxes	$ 2.4	$ 7.9
Taxes on income	.7	2.2
Income from discontinued operations, net of tax	$ 1.7	$ 5.7

3. Goodwill and Other Intangibles Resulting from Business Acquisitions

Changes in the net carrying amount of goodwill from continuing operations for the periods shown, by reportable segment, are as follows:

(In millions)	Consumer and Converted Products	Pressure-sensitive Adhesives and Materials	Total
Balance as of December 28, 2002	$ 325.9	$ 292.3	$618.2
Goodwill acquired during the period	.7	6.3	7.0
Acquisition adjustments[(1)]	12.1	20.4	32.5
Divestiture	(.9)	—	(.9)
Translation adjustments	17.9	41.9	59.8
Balance as of December 27, 2003	$ 355.7	$ 360.9	$716.6
Goodwill acquired during the period	14.3	—	14.3
Acquisition adjustments[(2)]	(5.0)	—	(5.0)
Translation adjustments	(.6)	(2.5)	(3.1)
Balance as of September 25, 2004	$ 364.4	$ 358.4	$722.8

(1) Acquisition adjustments consist of changes in goodwill from purchase price allocations associated with the RVL Packaging, Inc. ("RVL"), L&E Packaging ("L&E") and Jackstädt GmbH ("Jackstädt") acquisitions in 2002.

(2) Acquisition adjustments consist of changes in goodwill for tax assessments associated with RVL.

3. Goodwill and Other Intangibles Resulting from Business Acquisitions (continued)

The Company completed the acquisitions of several small private companies during 2004, including Rinke Etiketten in Germany. Rinke Etiketten had annual sales of approximately $25 million in 2003. The impact of this acquisition on the Company's net sales was approximately $2 million during the third quarter of 2004. These acquisitions support the Company's growth in its retail information services business.

As part of the Jackstädt purchase price allocations in 2003 and 2002, the Company recognized certain costs related to exit activities and integration costs. These costs totaling approximately $25 million were recognized as part of the assumed liabilities and included in "Other current liabilities" in the Condensed Consolidated Balance Sheet. The costs were primarily related to severance costs for involuntary terminations of approximately 560 employees of Jackstädt, to be paid through the end of 2005. At September 25, 2004, approximately $.5 million remained accrued. All of the employees affected by these actions had left the Company by the end of 2003. Also included were lease exit costs and costs to terminate contracts with sales agents.

The following table sets forth the Company's other intangible assets resulting from business acquisitions, at September 25, 2004 and December 27, 2003, which continue to be amortized:

	September 25, 2004			December 27, 2003		
(In millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortizable other intangible assets:						
Tradenames and trademarks	$ 42.5	$ 22.5	$ 20.0	$ 42.7	$ 18.5	$ 24.2
Patented and other acquired technology	65.4	15.8	49.6	65.4	13.0	52.4
Customer relationships	83.4	14.1	69.3	84.1	11.3	72.8
Other intangibles	4.4	3.0	1.4	4.4	2.5	1.9
Total	$ 195.7	$ 55.4	$ 140.3	$ 196.6	$ 45.3	$ 151.3

Amortization expense on other intangible assets resulting from business acquisitions was $3.3 million and $10.3 million for the three and nine months ended September 25, 2004, respectively, and $3.4 million and $9.9 million for the three and nine months ended September 27, 2003, respectively. The weighted-average amortization periods for intangible assets resulting from business acquisitions are twelve years for tradenames and trademarks, nineteen years for patented and other acquired technology, twenty-three years for customer relationships, seven years for other intangibles and nineteen years in total. Based on current information, estimated amortization expense for acquired intangible assets for this fiscal year, and for each of the next four succeeding fiscal years, is expected to be approximately $14 million, $13 million, $12 million, $9 million and $8 million, respectively.

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4. Net Income Per Share

Net income per common share amounts were computed as follows:

(In millions, except per share amounts)	Three Months Ended September 25, 2004	Three Months Ended September 27, 2003	Nine Months Ended September 25, 2004	Nine Months Ended September 27, 2003
(A) Income from continuing operations	$ 75.0	$ 64.8	$ 196.1	$ 202.9
(B) Income from discontinued operations	—	1.7	—	5.7
(C) Net income available to common shareholders	$ 75.0	$ 66.5	$ 196.1	$ 208.6
(D) Weighted average number of common shares outstanding	99.9	99.4	99.8	99.4
Additional common shares issuable under employee stock options using the treasury stock method and contingently issuable shares under an acquisition agreement	.7	.6	.7	.7
(E) Weighted average number of common shares outstanding assuming the exercise of stock options and contingently issuable shares under an acquisition agreement	100.6	100.0	100.5	100.1
Income from continuing operations per common share (A) ÷ (D)	$ .75	$ .65	$ 1.96	$ 2.04
Income from discontinued operations per common share (B) ÷ (D)	—	.02	—	.06
Net income per common share (C) ÷ (D)	$ .75	$ .67	$ 1.96	$ 2.10
Income from continuing operations per common share, assuming dilution (A) ÷ (E)	$ .75	$ .65	$ 1.95	$ 2.03
Income from discontinued operations per common share, assuming dilution (B) ÷ (E)	—	.02	—	.05
Net income per common share, assuming dilution (C) ÷ (E)	$ .75	$ .67	$ 1.95	$ 2.08

Certain employee stock options were not included in the computation of net income per common share, assuming dilution, because these options would not have had a dilutive effect. The number of stock options excluded from the computation was 1.3 million and 1.4 million for the three and nine months ended September 25, 2004 , respectively, and 4.2 million and 3.7 million for the three and nine months ended September 27, 2003, respectively.

5. Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments, adjustments to the minimum pension liability, net of tax, and the gains or losses on the effective portion of cash flow and firm commitment hedges, net of tax, that are currently presented as a component of shareholders' equity. The Company's total comprehensive income was $76.9 million and $192.2 million for the three and nine months ended September 25, 2004, respectively, and $52.6 million and $308.3 million for the three and nine months ended September 27, 2003, respectively.

5. Comprehensive Income (continued)

The components of accumulated other comprehensive loss, net of tax, at the end of the periods presented were as follows:

(In millions)	September 25, 2004	December 27, 2003
Foreign currency translation adjustment	$ 34.8	$ 39.3
Minimum pension liability	(96.0)	(96.0)
Net loss on derivative instruments designated as cash flow and firm commitment instruments	(20.3)	(20.9)
Total accumulated other comprehensive loss	$ (81.5)	$ (77.6)

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

(In millions)	September 25, 2004
Beginning accumulated derivative loss	$ (20.9)
Net loss reclassified to earnings	5.1
Net change in the revaluation of hedging transactions	(4.5)
Ending accumulated derivative loss	$ (20.3)

6. Stock-Based Compensation

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

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

	Three Months Ended		Nine Months Ended	
(In millions, except per share amounts)	September 25, 2004	September 27, 2003	September 25, 2004	September 27, 2003
Net income, as reported	$ 75.0	$ 66.5	$ 196.1	$ 208.6
Compensation expense, net of tax	(4.2)	(4.9)	(12.9)	(14.5)
Net income, pro forma	$ 70.8	$ 61.6	$ 183.2	$ 194.1
Net income per share, as reported	$ .75	$ .67	$ 1.96	$ 2.10
Net income per share, assuming dilution, as reported	.75	.67	1.95	2.08
Pro forma net income per share	$ .71	$ .62	$ 1.84	$ 1.95
Pro forma net income per share, assuming dilution	.70	.62	1.82	1.94

7. Foreign Currency

Translation of financial statements of subsidiaries operating in hyperinflationary economies and transactions in foreign currencies resulted in losses of $2.2 million and $6.7 million during the three and nine months ended September 25, 2004, respectively. For the three and nine months ended September 27, 2003, these transactions resulted in a loss of $.6 million and a gain of $.8 million, respectively. Operations in hyperinflationary economies consist of the Company's operations in Turkey and the Dominican Republic.

8. Financial Instruments

The Company enters into certain foreign exchange forward, option and swap contracts to reduce its risk from exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in certain foreign currencies that arise as a result of its operations outside the United States of America. The Company enters into certain interest rate contracts to manage its exposure to interest rate fluctuations. The Company also enters into certain natural gas futures contracts to hedge against price fluctuations for a portion of its anticipated domestic purchases.

During the three and nine months ended September 25, 2004, the amount recognized in earnings related to cash flow hedges that were ineffective was not significant. The reclassification from other comprehensive loss to earnings for settlement or ineffectiveness was a net loss of $2.5 million and $5.1 million during the three and nine months ended September 25, 2004, respectively. The reclassifications were net gains of $.3 million and $2.2 million during the three and nine months ended September 27, 2003, respectively. A net loss of approximately $3.5 million is expected to be reclassified from other comprehensive loss to earnings within the next 12 months.

In connection with the issuance of the $250 million 10-year Senior Notes in January 2003, the Company settled the related forward starting interest rate swap at a loss of approximately $32.5 million. The loss is being amortized to interest expense over a 10-year period, which corresponds to the term of the related debt. The related interest expense recognized for the three and nine months ended September 25, 2004 was $.7 million and $1.9 million, respectively. The related interest expense recognized for the three and nine months ended September 27, 2003 was $.6 million and $1.8 million, respectively. The Company estimates that the amortization for this loss will be approximately $2.5 million for 2004, which is part of the reclassification described above.

9. Debt

In August 2004, the Company issued $150 million in floating interest rate Senior Notes due 2007, under its existing shelf registration statement filed with the Securities and Exchange Commission in the third quarter of 2001. The Notes are callable at par by the Company after one year. The Company has $50 million available under its existing registration statement as of September 2004.

In July 2004, the Company entered into a revolving credit agreement with 10 domestic and foreign banks for a total commitment of $525 million, expiring July 16, 2009. This revolving credit agreement replaces the Company's previous agreements for a $250 million credit facility expiring July 1, 2006 and a $200 million 364-day credit facility expiring December 3, 2004, both of which were terminated in connection with the new revolving credit agreement. Financing available under the new agreement is used as a commercial paper back-up facility and is also available to finance other corporate requirements. The terms of the new agreement are generally similar to the previous agreements.

10. Inventories

Inventories consisted of:

(In millions)	September 25, 2004	December 27, 2003
Raw materials	$ 130.9	$ 124.8
Work-in-progress	104.7	92.7
Finished goods	212.4	204.6
Inventories at lower of FIFO cost or market (approximates replacement cost)	448.0	422.1
Less LIFO adjustment	(17.9)	(16.0)
	$ 430.1	$ 406.1

11. Research and Development

Research and development expense for the three and nine months ended September 25, 2004 was $20.4 million and $60.3 million, respectively. For the three and nine months ended September 27, 2003, research and development expense was $17.6 million and $54.2 million, respectively.

12. Commitments and Contingencies

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

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

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

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

12. Commitments and Contingencies (continued)

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

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for San Francisco County on March 30, 2004. A further similar complaint was filed in the Superior Court for Maricopa County, Arizona on November 6, 2003. Plaintiffs voluntarily dismissed their complaint without prejudice on October 4, 2004. The Company intends to defend these matters vigorously.

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

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

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

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

In the course of its internal examination of matters pertinent to the EC's investigation of anticompetitive activities affecting the European paper and forest products sector, the Company discovered instances of improper conduct by certain employees in its European operations. This conduct violated the Company's policies and in some cases constituted an infringement of EC competition law. As a result, the Company expects that the EC will fine the Company when its investigation is completed. The EC has wide discretion in fixing the amount of a fine, up to a maximum fine of 10 percent of a company's annual revenue. Because the Company is unable to estimate either the timing or the amount or range of any fine, the Company has made no provision for a fine in its financial statements. However, the Company believes that the fine could well be material in amount. There can be no assurance that

12. Commitments and Contingencies (continued)

additional adverse consequences to the Company will not result from the conduct discovered by the Company or other matters under EC or other laws. The Company is cooperating with authorities, continuing its internal examination, and taking remedial actions.

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

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

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

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

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

The Company and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. Based upon current information, management believes that the resolution of these matters will not materially affect the Company.

The Company participates in receivable financing programs, both domestically and internationally, with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At September 25, 2004, the Company had guaranteed approximately $13 million.

The Company guaranteed up to approximately $18 million of certain foreign subsidiaries' obligations to their suppliers as of September 25, 2004.

In the first quarter of 1999, the Company recorded an obligation associated with the transaction with Steinbeis Holding GmbH, which combined substantially all of the Company's office products businesses in Europe with Zweckform Büro-Produkte GmbH, a German office products supplier. This obligation of $101.5 million was included in the "Other accrued liabilities" line in the Consolidated Balance Sheet at December 27, 2003. The Company paid the entire obligation in February 2004 for $105.8 million, which included the impact of foreign currency translation.

12. Commitments and Contingencies (continued)

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

Product warranty liabilities were as follows:

(In millions)	Total
Balance as of December 28, 2002	$ 1.4
Accruals for warranties issued	3.2
Payments	(2.1)
Balance as of December 27, 2003	$ 2.5
Accruals for warranties issued	1.6
Payments	(1.7)
Balance as of September 25, 2004	$ 2.4

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

In connection with the L&E acquisition in 2002, the Company issued 743,108 shares at $63.08 per share. In the event the value of the Company's common shares falls below the price of the shares that were issued to L&E (adjusted for dividends received), during the period from January 1, 2005 through December 31, 2007, the Company may be obligated to pay the difference in value to L&E, in the form of cash or common shares at the Company's option.

13. Components of Other Expense (Income) and Cost Reduction Actions

The Company recorded a pretax charge of $13.8 million in the second quarter of 2004 relating to restructuring costs, asset impairments and planned disposition of property, plant and equipment and lease cancellation costs primarily associated with the completion of the Company's integration of the Jackstädt acquisition in the Company's Pressure-sensitive Adhesives and Materials segment, as well as cost reduction actions in the Consumer and Converted Products segment.

The charge included severance and related costs of $7.7 million ($7 million for approximately 175 positions in the Pressure-sensitive Adhesives and Materials segment and $.7 million for approximately 20 positions in the Consumer and Converted Products segment), which represent cash paid or to be paid to employees terminated under these actions. At September 25, 2004, $1.6 million remained accrued for severance and related costs (included in "Other current liabilities" in the Condensed Consolidated Balance Sheet), and of the approximately 195 positions affected under these actions, approximately 170 employees (approximately 155 employees from the Pressure-sensitive Adhesives and Materials segment and approximately 15 employees from the Consumer and Converted Products segment) had left the Company. The remaining employees impacted by these actions are expected to leave the Company by 2005 and final payments to the terminated employees will be made in 2005.

Also included in the $13.8 million pretax charge was a charge of $6.1 million for asset impairments and planned disposition of property, plant and equipment, lease cancellation costs and other associated costs in the Pressure-sensitive Adhesives and Materials segment. Asset impairments were based on the market values for similar assets. Of the total charge, $4.5 million related to asset impairments and planned disposition of property, plant and equipment ($2.8 million of buildings and land and $1.7 million of machinery and equipment), $.2 million related to lease cancellation costs and $1.4 million for other associated costs. The Company completed the payments for the lease cancellation costs in September 2004.

13. Components of Other Expense (Income) and Cost Reduction Actions (continued)

The Company recorded a pretax charge of $21.4 million in the first quarter of 2004 relating to restructuring costs and asset impairment charges as part of the Company's integration of the Jackstädt acquisition in the Company's Pressure-sensitive Adhesives and Materials segment. Asset impairments were based on the market values for similar assets. The charge included severance and related costs of $15.9 million, which represent cash paid or to be paid to employees terminated under these actions, involving the elimination of approximately 210 positions. These employees had left the Company as of September 2004 and final payments to the terminated employees will be made in 2005. At September 25, 2004, $7.9 million remained accrued for severance and related costs (included in "Other current liabilities" in the Condensed Consolidated Balance Sheet). Also included in the charge was $2.9 million related to impairment of software and $2.6 million related to impairment and planned disposition of machinery and equipment.

The Company recorded a pretax charge of $34.3 million in the fourth quarter of 2003 relating to integration actions and productivity improvement initiatives, as well as net losses associated with several product line divestitures. This charge involved both of the Company's operating segments. The charge included severance and related costs of $22 million related to the elimination of approximately 530 positions worldwide ($10.3 million for approximately 180 positions in the Pressure-sensitive Adhesives and Materials segment, $11.3 million for approximately 335 positions in the Consumer and Converted Products segment and $.4 million for approximately 15 positions in Corporate). Severance and related costs represent cash paid or to be paid to employees terminated under these actions. At September 25, 2004, $2.3 million remained accrued for severance and related costs (included in "Other current liabilities" in the Condensed Consolidated Balance Sheet) and of the approximately 530 positions affected under these actions, approximately 475 employees (approximately 320 employees from the Consumer and Converted Products segment, approximately 140 employees from the Pressure-sensitive Adhesives and Materials segment and approximately 15 Corporate employees) had left the Company. The remaining employees impacted by these actions are expected to leave the Company in 2005 and final payments to the terminated employees will be made in 2006. Also included in the charge was $8.2 million for asset impairments and planned disposition of property, plant and equipment, lease cancellation costs and other associated costs. Asset impairments were based on the market values for similar assets. Of the total charge, $4.2 million related to impairment of production software assets in the Consumer and Converted Products segment, $3.4 million ($3.2 million in the Pressure-sensitive Adhesives and Materials segment and $.2 million in the Consumer and Converted Products segment) related to asset impairments and planned disposition of property, plant and equipment ($2.5 million for buildings and land and $.9 million for machinery and equipment), $.3 million related to lease cancellation costs and $.3 million for other associated costs. The Company completed the payments for the lease cancellation costs in June 2004.

The Company recorded a $10.7 million pretax charge ($4.7 million in the Pressure-sensitive Adhesives and Materials segment and $6 million in the Consumer and Converted Products segment) in the fourth quarter of 2002 relating to cost reduction actions and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. This charge represented severance and related costs associated with the elimination of approximately 300 positions worldwide. The positions eliminated included approximately 80 employees in the Pressure-sensitive Adhesives and Materials segment and approximately 220 employees in the Consumer and Converted Products segment. The employees terminated under these actions had left the Company as of June 2004 and final payments were made as of September 2004.

In the third quarter of 2002, the Company recorded lease cancellation costs of $3.9 million. The Company expects to pay the lease cancellation costs through 2011.

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13. Components of Other Expense (Income) and Cost Reduction Actions (continued)

The table below details lease cancellation cost activities:

(In millions)	Total
Balance as of December 28, 2002	$ 3.7
Additional accrual	3
Cancellation costs paid	(.9)
Balance as of December 27, 2003	3.1
Additional accrual	.2
Cancellation costs paid	(1.7)
Balance as of September 25, 2004	$ 1.6

Other income was approximately $3.8 million for the nine months ended September 27, 2003, which included a $9 million pretax gain from the settlement of a lawsuit during the second quarter of 2003, partially offset by net losses from disposition of fixed assets, asset impairments and costs associated with a plant closure.

14. Pensions and Other Postretirement Benefits

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

Pension Benefits	Three Months Ended				Nine Months Ended			
	September 25, 2004		September 27, 2003		September 25, 2004		September 27, 2003	
(In millions)	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l
Components of net periodic benefit cost/(income):								
Service cost	$ 4.2	$ 2.5	$ 3.0	$ 2.1	$ 12.5	$ 7.6	$ 9.2	$ 6.4
Interest cost	6.4	4.3	6.2	3.8	19.1	13.5	18.7	11.3
Expected return on plan assets	(10.6)	(5.1)	(10.0)	(4.8)	(31.8)	(15.5)	(30.2)	(14.3)
Recognized net actuarial loss (gain)	1.0	.6	(.1)	.3	2.6	1.8	(.2)	1.0
Amortization of prior service cost	.1	.1	.1	.1	.1	.2	.1	.3
Amortization of transition obligation or asset	(.2)	(.4)	(.2)	(.2)	(.4)	(1.0)	(.4)	(.8)
Net periodic benefit cost/(income)	$ .9	$ 2.0	$ (1.0)	$ 1.3	$ 2.1	$ 6.6	$ (2.8)	$ 3.9

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14. Pensions and Other Postretirement Benefits (continued)

Postretirement Health Benefits

(In millions)	Three Months Ended September 25, 2004	Three Months Ended September 27, 2003	Nine Months Ended September 25, 2004	Nine Months Ended September 27, 2003
Components of net periodic benefit cost:				
Service cost	$ .3	$ .3	$ 1.1	$ 1.0
Interest cost	.6	.7	1.7	2.2
Recognized net actuarial loss	.1	.1	.5	.4
Amortization of prior service cost	(.3)	—	(.7)	(.2)
Net periodic benefit cost	$ .7	$ 1.1	$ 2.6	$ 3.4

During the third quarter of 2004, the Company contributed $25.3 million to its U.S. pension plans, resulting in a total contribution of $26.1 million for the nine months ended September 25, 2004. Based on the minimum funding requirements for the full year of 2004, the Company was only required to contribute $7.4 million to its U.S. pension plans. Additionally, the Company contributed $1 million and $2.9 million to its postretirement benefit plan during the three and nine months ended September 25, 2004, respectively.

15. Segment Information

Financial information by operating segment from continuing operations is set forth below:

(In millions)	Three Months Ended September 25, 2004	Three Months Ended September 27, 2003[1]	Nine Months Ended September 25, 2004	Nine Months Ended September 27, 2003[1]
Net sales:				
Pressure-sensitive Adhesives and Materials	$ 857.5	$ 756.1	$ 2,557.6	$ 2,224.2
Consumer and Converted Products	517.3	492.1	1,467.1	1,438.9
Intersegment[2]	(38.6)	(44.1)	(117.8)	(131.6)
Net sales	$ 1,336.2	$ 1,204.1	$ 3,906.9	$ 3,531.5
Income from continuing operations before taxes:				
Pressure-sensitive Adhesives and Materials[3]	$ 76.0	$ 55.3	$ 183.0	$ 170.3
Consumer and Converted Products	59.6	58.4	171.9	182.7
Corporate administrative and research and development expenses [4]	(19.3)	(11.7)	(48.9)	(29.8)
Interest expense	(13.8)	(13.9)	(42.3)	(43.3)
Income from continuing operations before taxes	$ 102.5	$ 88.1	$ 263.7	$ 279.9

(1) Certain prior year amounts have been reclassified to conform with the 2004 financial statement presentation.

(2) The majority of intersegment sales represents sales from the Pressure-sensitive Adhesives and Materials segment to the Consumer and Converted Products segment.

(3) Operating income for the nine months ended September 25, 2004 includes restructuring costs, asset impairment and lease cancellation charges totaling $35.2 million pretax, of which the Pressure-sensitive Adhesives and Materials segment recorded $34.5 million and the Consumer and Converted Products segment recorded $.7 million. See Note 13 “Components of Other Expense (Income) and Cost Reduction Actions,” for further information.

(4) Operating income for the nine months ended September 27, 2003 included a $9 million pretax gain from the settlement of a lawsuit, partially offset by net losses of $5.2 million from disposition of fixed assets, asset impairment charges and costs associated with a plant closure. The Pressure-sensitive Adhesives and Materials segment recorded a $.5 million loss, the Consumer and Converted Products segment recorded a $1.2 million loss, and Corporate recorded a $5.5 million pretax gain.

16. Recent Accounting Requirements

In September 2004, the consensus of Emerging Issues Task Force (EITF) Issue No. 04-10, “Applying Paragraph 19 of FASB Statement No. 131, ‘Disclosures about Segments of an Enterprise and Related Information,’ in Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds,” was published. EITF Issue No. 04-10 addresses how an enterprise should evaluate the aggregation criteria of SFAS No. 131 when determining whether operating segments that do not meet the quantitative thresholds may be aggregated in accordance with SFAS No. 131. The provisions of EITF Issue No. 04-10 are effective for fiscal years ending after October 13, 2004. The Company is currently in the process of determining the impact of this consensus on its financial results.

In May 2004, the FASB issued Staff Position No. 106-2, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,” that provides guidance on the accounting for the effects of the new law regarding prescription drug benefits under Medicare for sponsors of postretirement health care benefits. Under the guidance, a subsidy could be provided to the Company if it is concluded that its prescription drug benefits available under the plan are actuarially equivalent to Medicare Part D. The Company has concluded that the prescription drug benefits available under the plan are actuarially equivalent to Medicare Part D; however, based on the Company’s current estimates, the subsidy would not be significant to the Company’s postretirement benefits plan and financial position.

In March 2004, the consensus of EITF Issue No. 03-06, “Participating Securities and the Two-Class Method under FASB Statement 128,” was published. EITF Issue No. 03-06 addresses the computations of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company. Further guidance on the application and allocations of the two-class method of calculating earnings per share is also included. The provisions of EITF Issue No. 03-06 were effective for reporting periods beginning after March 31, 2004. The adoption of this guidance has not had a significant impact on the Company’s financial results of operations and financial position.

In December 2003, the FASB reissued SFAS No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106.” This Statement revises employers’ disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS No. 87, “Employers’ Accounting for Pensions,” SFAS No. 88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,” and SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions.” This Statement retains the disclosure requirements contained in the original SFAS No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits.” The revised Statement also requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The provisions of the original SFAS No. 132 will remain in effect until the provisions of this Statement are adopted. Certain new provisions were effective for financial statements with fiscal years ending after December 15, 2003, while other provisions are effective for fiscal years ending after June 15, 2004. The interim period disclosures were effective for interim periods beginning after December 15, 2003. See Note 14 “Pensions and Other Postretirement Benefits,” for disclosures required under the revised SFAS No. 132.

In December 2003, the FASB reissued Interpretation No. 46, “Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51.” The Interpretation clarifies the application of Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity risk for the entity to finance its activities without additional subordinated financial support. The provisions of this Interpretation were effective for interim periods ending after March 15, 2004. The adoption of this Interpretation has not had a significant impact on the Company’s financial results of operations and financial position.

17. Taxes on Income

The effective tax rate was 26.8 percent for the third quarter of 2004 and 25.6 percent for the first nine months of 2004. The full year tax rate for 2004 is expected to be 26 percent compared to 27.5 percent for the full year 2003. The decrease in the effective tax rate was due to changes in the geographic mix of income and the effect of a favorable foreign tax audit settlement, which resulted in a one-time reduction of tax expense of approximately $4 million during the second quarter of 2004.

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

OVERVIEW AND OUTLOOK

Avery Dennison Corporation's (the "Company") sales from continuing operations for the first nine months in 2004 increased 11 percent compared to the same period in 2003 to $3.9 billion, due to core unit volume growth and the benefit of foreign currency translation, partially offset by the negative impact of changes in product mix and pricing. Net income and diluted earnings per share decreased approximately $13 million and $.13 per share, respectively.

The decline in earnings during the first nine months was due to the impact of restructuring and asset impairment charges (totaling $35.2 million pretax) taken during the first six months of 2004, primarily associated with the Jackstädt GmbH ("Jackstädt") integration ($34.5 million pretax). These actions had a $.25 per share negative impact on earnings in the first nine months of 2004. The Company's earnings were also negatively affected by a decline in the Company's gross profit margin (see "Analysis of Results of Operations for the Nine Months Year-to-Date" below) in the first nine months of 2004, reflecting the impact of a difficult pricing environment, faster growth in the Pressure-sensitive Adhesives and Materials segment than in the higher gross profit margin Consumer and Converted Products segment ("segment mix"), transition costs for new manufacturing equipment in Europe and the net impact of higher raw material costs partially offset by associated selling price increases. The negative effect of segment mix on gross profit margin was partially offset by lower operating expenses as a percent of sales in the Pressure-sensitive Adhesives and Materials segment, compared to the Consumer and Converted Products segment. The operating expense ratio to sales also improved due to cost savings from productivity improvement initiatives. In addition, the results for the first nine months of 2004 included the benefit of a lower effective tax rate compared to 2003.

Core unit volumes grew an estimated 7 percent in the first nine months of 2004. (Core unit volume growth is a measure of sales performance that excludes the estimated impact of acquisitions, divestitures, changes in product mix and pricing and currency translation. Management uses this measure to evaluate underlying demand for the Company's products and services, and to assess sales trends over time.) The growth in the Company's core unit volumes was due to generally improved economic conditions and growth in the emerging markets of Asia, Latin America and Eastern Europe, as well as the benefit from new products and applications.

As a result of the divestiture of the Company's package label converting business in Europe in October 2003 (discussed below in "Acquisitions and Divestitures"), the discussions which follow generally reflect summary results from the Company's continuing operations unless otherwise noted. However, the net income and net income per share discussions include the impact of discontinued operations.

Summary Results by Operating Segment

The Pressure-sensitive Adhesives and Materials segment reported 13 percent and 15 percent increases in sales in the third quarter and first nine months of 2004, respectively, compared to the same periods in 2003. Approximately 60 percent of the incremental sales in the first nine months of 2004 was due to an increase in core unit volume partially offset by the negative impact of changes in product mix and pricing. The balance of the incremental sales was attributable to the favorable impact of foreign currency translation. Operating income (operating income refers to income before interest and taxes) for this segment increased approximately 37 percent in the third quarter, compared to the same period in 2003 due to the savings from productivity improvement initiatives (particularly the consolidation of the European roll materials operations). In the first nine months of 2004, operating income for this segment increased approximately 7 percent, compared to the same period in 2003. Operating income in the first nine months of 2004 included a total pretax charge of approximately $34 million, related to restructuring costs and asset impairment charges associated with the Jackstädt integration. Operating income during this period was also negatively affected by transition costs associated with new manufacturing equipment in Europe, as well as higher raw material costs. These decreases were partially offset by the cost savings from productivity improvement initiatives, including the closure of two European plants during the first six months of 2004, and the impact of selling price increases implemented during the year.

The Consumer and Converted Products segment reported a 5 percent and a 2 percent increase in sales in the third quarter and first nine months of 2004, respectively, compared to the same periods in 2003. For the first nine months of 2004, a decline in core unit volume and the effect of a difficult pricing environment were more than offset by the benefit of foreign currency translation, which represented approximately 3 percentage points of growth over the first nine months of the prior year. The volume decline was attributable to the Company's office products business, reflecting the loss of market share with one major customer, loss of sales from discontinued product lines, the impact of tighter customer inventory management (including reductions in the first quarter of 2004, due largely to higher than usual orders by customers late in the fourth quarter of 2003) and the impact of weak business conditions in the office products business. In addition, sales were negatively affected by changes in product mix and pricing in this business. Partially offsetting the declines in the office products business were higher sales in the retail information services business in comparison to prior year, particularly in Asia and Latin America. The strength of this business reflected growth from geographic expansion, as well as relatively weak results in 2003, related to slow industry conditions due in part to the economic effects of Severe Acute Respiratory Syndrome ("SARS"). Operating income for this segment increased approximately 2 percent in the third quarter of 2004 compared to 2003, due to growth in the retail information services business, partially offset by lower sales in the office products business. In the first nine months of 2004, operating income for this segment decreased approximately 6 percent, compared to 2003 due to lower sales in the office products business and higher raw material costs, partially offset by cost savings from productivity improvement initiatives and growth in the retail information services business.

Impact of Currency Exchange Rates

International operations generate approximately 50 percent of the Company's net sales. As a result, the Company is exposed to foreign currency exchange rate risk, and changes in foreign currency exchange rates will impact the Company's financial results. As previously noted, the Company benefited from foreign currency translation during 2004 representing growth in net sales of approximately $39 million in the third quarter and approximately $167 million in the first nine months compared to the same periods in 2003. The benefit from foreign currency translation reflected the strength of the Euro, Australian dollar, British pound and Canadian dollar against the U.S. dollar. The benefit of currency translation added approximately $.01 to diluted earnings per share in the third quarter of 2004 and approximately $.06 to diluted earnings per share in the first nine months of 2004.

Acquisitions and Divestitures

During the third quarter of 2004, the Company acquired Rinke Etiketten, a privately held company located in Germany, with 2003 annual sales of approximately $25 million. The impact of this acquisition on the Company's net sales was approximately $2 million during the third quarter of 2004. This acquisition supports the Company's growth in its retail information services business.

During the first six months of 2004, the Company completed its actions to integrate the operations of the 2002 acquisition of Jackstädt into the Company's other existing businesses. The Company closed a manufacturing facility in France during the first quarter and a manufacturing facility in Italy during the second quarter, and the Company recorded restructuring charges associated with severance and asset impairments for each of these periods. (See "*Cost Reduction Actions*" below.)

In October 2003, the Company completed the sale of its package label converting business in Europe, which consisted of two package label converting facilities in Denmark and a package label converting facility in France, which combined represented approximately $30 million in sales in the first nine months of 2003. The results from this business, which were previously reported in the Company's Consumer and Converted Products segment, have been accounted for as discontinued operations for 2003.

Cost Reduction Actions

In the second quarter of 2004, the Company recorded pretax charges of $13.8 million for severance and asset impairment charges primarily associated with the completion of the Jackstädt integration ($13.1 million). These charges were in addition to the pretax charges in the first quarter of 2004 totaling $21.4 million also related to the Jackstädt integration.

In the fourth quarter of 2003, the Company recorded pretax charges totaling $34.3 million associated with productivity improvement initiatives, as well as the integration of the Jackstädt acquisition described above. The productivity improvement initiatives included headcount reductions of approximately 420 positions, approximately half of which impact the office products business.

In connection with all of the integration and other cost reduction actions described above, the Company realized an estimated $30 million of savings in the first nine months of 2004. Annualized savings associated with these actions are anticipated to be approximately $50 million to $60 million.

See also Note 13 "Components of Other Expense (Income) and Cost Reduction Actions," to the Consolidated Financial Statements for further detail.

Operating Expenses, Interest and Taxes

Marketing, general and administrative expenses increased 5 percent to $805.3 million in the first nine months of 2004 compared to $765.9 million in the same period in 2003 due to the impact of foreign currency translation, higher pension, medical and insurance costs and additional spending on long-term growth initiatives, including radio-frequency identification ("RFID") applications. Marketing, general and administrative expenses as a percent of sales have improved to 20.6 percent in the first nine months of 2004 compared to 21.7 percent in the same period in 2003, due to higher sales in 2004, segment mix (lower operating expenses as a percent of sales in the faster growing Pressure-sensitive Adhesives and Materials segment, compared to the Consumer and Converted Products segment) and the benefit of productivity improvement initiatives. Interest expense was $42.3 million for the first nine months of 2004, compared to $43.3 million for the same period in 2003.

The effective tax rate was 26.8 percent for the third quarter of 2004 and 25.6 percent for the first nine months of 2004. The full year tax rate for 2004 is expected to be 26 percent compared to 27.5 percent for the full year 2003. The decrease in the effective tax rate was due to changes in the geographic mix of income and the effect of a favorable foreign tax audit settlement, which resulted in a one-time reduction of tax expense of approximately $4 million during the second quarter of 2004.

Free Cash Flow

Free cash flow for the first nine months of 2004 increased $99 million to $217 million for the first nine months of 2004 compared to $118 million in the same period in 2003, due to net changes in assets and liabilities, as well as lower capital expenditures in 2004. See "Liquidity" below for more details. Free cash flow refers to cash flow from operating activities less spending on property, plant and equipment. Management utilizes free cash flow as a measurement tool to assess the cash flow available for other corporate purposes, such as dividends and debt service.

	Nine Months Ended	
(In millions)	**September 25, 2004**	**September 27, 2003**
Net cash provided by operating activities	$ 332.7	$ 266.4
Purchase of property, plant and equipment	(115.6)	(148.3)
Free cash flow	$ 217.1	$ 118.1

Label Stock Industry Investigations

In April 2003, the Company was notified by the U.S. Department of Justice's Antitrust Division ("DOJ") that it had initiated a criminal investigation into competitive practices in the label stock industry, and on August 15, 2003, the DOJ issued a subpoena to the Company in connection with the investigation. In May 2004, the European Commission ("EC") initiated inspections and obtained documents from the Company's pressure-sensitive materials facilities in the Netherlands and Germany, seeking evidence of unlawful anticompetitive activities. In July 2004, the Company was notified by the Competition Law Division of the Department of Justice of Canada that it was seeking information in connection with a label stock investigation. The Company is cooperating with these investigations. The Company is a named defendant in purported class actions in the U.S. seeking treble damages and other relief for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation. The Company is also a named defendant in purported stockholder class actions in the U.S. seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. The Company has discovered instances of improper conduct by certain employees in its European operations that constituted an infringement of EC competition law. The Company accordingly expects that the EC will impose a fine on the Company when its investigation is completed. The Company is unable to predict the effect of these matters at this time, although the effect could well be adverse and material. These matters are reported in Note 12 "Commitments and Contingencies," to the Consolidated Financial Statements.

Outlook

In the fourth quarter of 2004, the Company anticipates increases in sales and net income in comparison to the same period in 2003, resulting from core unit volume growth, continued implementation of selling price increases to partially offset higher raw material costs, and the benefit from productivity improvement initiatives. For the third quarter of 2004, core unit volumes increased an estimated 7 percent compared to an estimated 8 percent growth in the second quarter of 2004. This recent slowing in core unit volume growth is expected to continue through the fourth quarter of 2004, reflecting a more difficult comparison to the previous year, as well as the potential for weaker economic conditions affecting demand for the Company's products. The Company also expects a benefit from foreign currency translation, based on the assumption that the average Euro to U.S. dollar exchange rate for 2004 will remain approximately at the current level (above U.S. $1.20 for Euro 1) for the remainder of 2004.

A current global supply shortage of acrylic monomers, a component used in some of the Company's adhesives, is affecting certain of its materials businesses. Production has been only minimally affected and the Company does not expect the shortage to have a material impact on earnings in the fourth quarter of 2004. Nevertheless, a potentially significant downside risk related to this shortage does exist.

The Company expects continued growth in the Pressure-sensitive Adhesives and Materials segment during the fourth quarter of 2004, although the growth rate is expected to be slower than the third quarter of 2004. The Company anticipates that raw material costs will continue to increase in the fourth quarter of 2004. However, the Company expects to partially offset the increases in raw material costs with additional selling price increases.

In the Consumer and Converted Products segment, the Company anticipates higher sales growth during the fourth quarter of 2004 in comparison to the rate of growth achieved in the third quarter of 2004. The Company expects continued strength in its retail information services business. In addition, the Company expects growth in the office products business, particularly in North America, due to anticipated inventory replenishment by major customers resulting from tighter customer inventory management in the third quarter, the impact of an additional week of sales in the fourth quarter, and the anniversary of the market share loss in 2003. However, the Company also anticipates that raw material costs will increase in this segment over the next three months and does not expect to offset these raw material cost increases in the office products business until 2005, due to contractual obligations to its customers.

Increases in annual pension, medical, and insurance costs are expected to be in the range of $13 million to $14 million before taxes by the end of 2004, due in part to an estimated increase of $9 million for pension expense resulting from changes in actuarial assumptions. However, this increase could be impacted by changes in foreign currency translation.

The Company also anticipates increased spending related to certain long-term growth initiatives, including RFID applications (expected to be $7 million to $8 million during the fourth quarter of 2004, resulting in approximately $17 million in spending for 2004).

The Company estimates that interest expense in 2004 will be comparable to 2003. Increases in interest rates are expected to be offset by net debt reductions.

The Company anticipates that the effective tax rate will be approximately 26.5 percent to 27 percent for the fourth quarter, subject to changes in the geographic mix of income, which would result in a full year rate of approximately 26 percent for 2004. The Company believes that this rate is sustainable through 2005, subject to changes in the geographic mix of income. On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law. The Company is presently assessing various provisions of this Act, including the provision for a one-time repatriation of accumulated foreign earnings. The Company's current intention is to continue to indefinitely reinvest its undistributed foreign earnings and therefore, no deferred tax liability has been recorded at this time.

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ANALYSIS OF RESULTS OF OPERATIONS FOR THE THIRD QUARTER

(In millions)	2004	2003
Net sales	$1,336.2	$ 1,204.1
Cost of products sold	946.8	848.6
Gross profit	389.4	355.5
Marketing, general and administrative expense	273.1	253.3
Interest expense	13.8	13.9
Other expense, net	—	0.2
Income from continuing operations before taxes	102.5	88.1
Taxes on income	27.5	23.3
Income from continuing operations	75.0	64.8
Income from discontinued operations, net of tax	—	1.7
Net income	$ 75.0	$ 66.5

Sales increased 11 percent to $1.3 billion in the third quarter of 2004, compared to $1.2 billion in the third quarter of 2003. Approximately $92 million of the increase in sales in 2004 reflected core unit volume growth in many of the Company’s businesses. The increase in sales also included the favorable impact of foreign currency translation (approximately $40 million).

Gross profit margins for the third quarters of 2004 and 2003 were 29.1 percent and 29.5 percent, respectively. The decrease in 2004 reflected the net impact of higher raw material costs partially offset by associated selling price increases. In the third quarter of 2004, raw material costs increased by approximately $12 million compared to the same period in the prior year, while associated selling prices increased by approximately $5 million to $6 million.

Marketing, general and administrative expense as a percent of sales decreased to 20.4 percent in the third quarter of 2004 from 21 percent in the same period in the prior year due to higher sales in 2004, segment mix (lower operating expenses as a percent of sales in the faster growing Pressure-sensitive Adhesives and Materials segment, compared to the Consumer and Converted Products segment) and the benefit from productivity improvement initiatives. Expenses increased approximately $20 million due to the impact of foreign currency translation, additional spending on long-term growth initiatives, including RFID applications, and higher annual pension, medical, and insurance costs.

Interest expense for the third quarters of 2004 and 2003 was $13.8 million and $13.9 million, respectively.

Income before taxes, as a percent of sales, was 7.7 percent in the third quarter of 2004 and 7.3 percent in the third quarter of 2003. The increase in 2004 reflected lower marketing, general and administrative expense as a percent of sales, partially offset by lower gross profit as a percent of sales.

The effective tax rate for the third quarter of 2004 was 26.8 percent and 25.6 percent for the first nine months of 2004. The full year tax rate for 2004 is expected to be 26 percent compared to 27.5 percent for the full year of 2003.

Net income from discontinued operations was $1.7 million for the third quarter of 2003, which reflected net sales of approximately $14 million. Refer to Note 2 “Discontinued Operations,” to the Consolidated Financial Statements for more detail.

Net Income and Earnings Per Share:

(In millions, except share amounts)	2004	2003
Net income	$75.0	$66.5
Net income per common share	.75	.67
Net income per common share, assuming dilution	.75	.67

Net income for the third quarter of 2004 increased 12.8 percent compared to the third quarter of 2003. Net income, as a percent of sales, was 5.6 percent and 5.5 percent in the third quarter of 2004 and 2003, respectively.

Net income per common share and net income per common share, assuming dilution for the third quarter of 2004 increased 11.9 percent compared to the third quarter of 2003.

RESULTS OF OPERATIONS BY OPERATING SEGMENT FOR THE THIRD QUARTER

Pressure-sensitive Adhesives and Materials:

(In millions)	2004	2003
Sales – U.S.	$372.8	$345.8
Sales – International	533.3	451.3
Intrasegment sales	(48.6)	(41.0)
Net sales	$857.5	$756.1
Income before interest and taxes	76.0	55.3

The Pressure-sensitive Adhesives and Materials segment reported an increase in sales and operating income for the third quarter of 2004 compared to the third quarter of 2003. Sales increased approximately $101 million or 13 percent to $858 million in the third quarter of 2004 compared to $756 million in 2003 as a result of higher sales in both the domestic and international operations. Operating income increased approximately $21 million or 37 percent to $76 million compared to $55 million in the third quarter of 2003.

Results from Domestic Operations

Domestic sales, including intrasegment sales, increased approximately $27 million or 8 percent due to higher sales in the roll materials business (approximately $21 million), graphics and reflective business (approximately $5 million) and specialty tapes business (approximately $3 million). The sales increases in these businesses were due to core unit volume growth, as well as a positive effect of changes in product mix and pricing.

Income from domestic operations remained the same in the third quarter of 2004 compared to the third quarter of 2003, reflecting higher sales offset by higher raw material costs.

Results from International Operations

International sales, including intrasegment sales, increased approximately $82 million or 18 percent due to higher sales in the roll materials business (approximately $64 million), graphics and reflective business (approximately $10 million) and specialty tapes business (approximately $7 million). The sales increases in these businesses reflected core unit volume growth in Europe, Asia and Latin America, as well as the favorable impact of foreign currency translation (approximately $31 million).

Income from international operations increased approximately $20 million. The increase is due to higher sales, the cost savings from productivity improvement initiatives (particularly the consolidation of the European roll materials operations) and the impact of foreign currency translation, partially offset by higher raw material costs.

Consumer and Converted Products:

(In millions)	2004	2003
Sales – U.S.	$325.7	$330.7
Sales – International	207.6	174.3
Intrasegment sales	(16.0)	(12.9)
Net sales	$517.3	$492.1
Income before interest and taxes	59.6	58.4

The Consumer and Converted Products segment reported increased sales and operating income for the third quarter of 2004 compared to the third quarter of 2003. Sales increased approximately $25 million or 5 percent to $517 million in the third quarter of 2004 compared to $492 million in the third quarter of 2003, reflecting increases in the international operations, partially offset by decreases in sales in the domestic operations. Operating income increased approximately $1 million or 2 percent to $60 million in the third quarter of 2004 reflecting an increase in income in international operations, partially offset by a decline in income in domestic operations.

Results from Domestic Operations

Domestic sales, including intrasegment sales, decreased approximately $5 million or 2 percent reflecting loss of sales from discontinued product lines (approximately $10 million), lower sales in the office products business (approximately $9 million), partially offset by higher sales in the retail information services business (approximately $8 million) and the industrial and automotive products business (approximately $6 million). The lower sales in the office products business was due to loss of market share with one major customer (estimated to be $9 million). The higher sales in the retail information services business and the industrial and automotive products business were due to core unit volume growth.

Income from domestic operations decreased approximately $4 million. The decrease reflected the decline in sales in the office products business and higher raw material costs, partially offset by the benefit from cost savings from productivity improvement initiatives.

Results from International Operations

International sales, including intrasegment sales, increased approximately $33 million or 19 percent reflecting higher sales in the retail information services business (approximately $28 million). Included in the international sales increase was the favorable impact of foreign currency translation (approximately $9 million). Increased sales in the retail information services business reflected core unit volume growth in 2004, as a result of growth from geographic expansion, as well as relatively weak results in 2003 related to slow industry conditions, due in part to the economic effects of SARS.

Income from international operations increased approximately $5 million reflecting higher sales, the cost savings from productivity improvement initiatives and the favorable impact of foreign currency translation.

In October 2003, the Company completed the sale of its package label converting business in Europe, which was previously reported in the Consumer and Converted Products segment. The results for this business were accounted for as discontinued operations for 2003.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE NINE MONTHS YEAR-TO-DATE

(In millions)	2004	2003
Net sales	$3,906.9	$3,531.5
Cost of products sold	2,760.4	2,446.2
Gross profit	1,146.5	1,085.3
Marketing, general and administrative expense	805.3	765.9
Interest expense	42.3	43.3
Other expense (income), net	35.2	(3.8)
Income from continuing operations before taxes	263.7	279.9
Taxes on income	67.6	77.0
Income from continuing operations	196.1	202.9
Income from discontinued operations, net of tax	—	5.7
Net income	$ 196.1	$ 208.6

Sales increased 11 percent to $3.9 billion in the first nine months of 2004, compared to $3.5 billion in the same period of 2003. Approximately $208 million of the increase in sales in 2004 reflected core unit volume growth in many of the Company's businesses, which was partially offset by the negative impact of product mix and pricing. The increase in sales also included the favorable impact of foreign currency translation (approximately $167 million).

Gross profit margins for the first nine months of 2004 and 2003 were 29.3 percent and 30.7 percent, respectively. The decrease in 2004 reflected the impact of a difficult pricing environment and segment mix (faster growth in the Pressure-sensitive Adhesives and Materials segment compared to the higher gross profit margin Consumer and Converted Products segment). The decrease also reflected transition costs for new manufacturing equipment in Europe, which were partially offset by the savings from plant closures in the region. In addition, the decrease reflected higher raw material costs, partially offset by selling price increases.

Marketing, general and administrative expense as a percent of sales decreased to 20.6 percent in the first nine months of 2004 from 21.7 percent in the first nine months of 2003 due to higher sales in 2004, segment mix (lower operating expenses as a percent of sales in the faster growing Pressure-sensitive Adhesives and Materials segment, compared to the Consumer and Converted Products segment) and the benefit from productivity improvement initiatives. Expenses increased approximately $39 million due to the impact of foreign currency translation and additional spending on long-term growth initiatives, including RFID applications, as well as higher annual pension, medical and insurance costs.

The Company recorded pretax charges totaling $35.2 million in the first nine months of 2004 related to severance (approximately $23.6 million) and asset impairment charges (approximately $11.6 million) primarily related to the completion of the Jackstädt integration actions ($34.5 million).

Other income in the first nine months of 2003 included a $9 million settlement of a lawsuit, partially offset by net losses from disposition of fixed assets, asset impairments and other costs associated with a plant closure.

Interest expense for the first nine months of 2004 and 2003 was $42.3 million and $43.3 million, respectively.

Income before taxes, as a percent of sales in the first nine months of 2004 and 2003, was 6.7 percent and 7.9 percent, respectively. The percentage decrease in 2004 reflected the impact of the restructuring charges taken during the first nine months of 2004, as well as lower gross profit as a percent of sales, partially offset by lower marketing, general and administrative expense as a percent of sales.

The effective tax rate for the first nine months of 2004 was 25.6 percent. The full year tax rate for 2004 is expected to be 26 percent compared to 27.5 percent for the full year of 2003.

Net income from discontinued operations was $5.7 million for the first nine months of 2003, which reflected net sales of approximately $44 million. Refer to Note 2 "Discontinued Operations," to the Consolidated Financial Statements for more detail.

Net Income and Earnings Per Share:

(In millions, except share amounts)	2004	2003
Net income	$196.1	$208.6
Net income per common share	1.96	2.10
Net income per common share, assuming dilution	1.95	2.08

Net income for the first nine months of 2004 decreased 6 percent compared to the same period in 2003. Net income, as a percent of sales, was 5 percent and 5.9 percent in the first nine months of 2004 and 2003, respectively.

Net income per common share for the first nine months of 2004 decreased 6.7 percent compared to the same period in 2003. Net income per common share, assuming dilution, for the first nine months of 2004 decreased 6.3 percent compared to the same period in 2003.

RESULTS OF OPERATIONS BY OPERATING SEGMENT FOR THE NINE MONTHS YEAR-TO-DATE

Pressure-sensitive Adhesives and Materials:

(In millions)	2004	2003
Sales – U.S.	$1,117.2	$1,026.9
Sales – International	1,581.6	1,321.8
Intrasegment sales	(141.2)	(124.5)
Net sales	$2,557.6	$2,224.2
Income before interest and taxes	183.0	170.3

The Pressure-sensitive Adhesives and Materials segment reported an increase in sales and operating income for the first nine months of 2004 compared to the same period in 2003. Sales increased approximately $333 million or 15 percent to $2.6 billion in the first nine months of 2004 compared to $2.2 billion in 2003 as a result of higher sales in both the domestic and international operations. Operating income increased approximately $13 million or 7 percent to $183 million compared to $170 million in the first nine months of 2003. Operating income for this segment reflected a pretax charge of approximately $34 million in 2004 related to restructuring costs and asset impairment charges during the first nine months, primarily associated with the completion of the Company's integration of the Jackstädt acquisition. (See *"Cost Reduction Actions"* above.)

Results from Domestic Operations

Domestic sales, including intrasegment sales, increased approximately $90 million or 9 percent due to higher sales in the roll materials business (approximately $61 million), graphics and reflective business (approximately $18 million) and specialty tapes business (approximately $17 million). The sales increases in these businesses were due to core unit volume growth.

Income from domestic operations increased approximately $6 million. The increase reflected higher sales, as well as the cost savings from productivity improvement initiatives, partially offset by higher raw material costs.

Results from International Operations

International sales, including intrasegment sales, increased approximately $260 million or 20 percent due to higher sales in the roll materials business (approximately $199 million), graphics and reflective business (approximately $36 million) and specialty tapes business (approximately $24 million). The sales increases in these businesses reflected core unit volume growth in Europe, Asia and Latin America. The favorable impact of foreign currency translation also contributed to increased international sales (approximately $136 million).

Income from international operations increased approximately $7 million. The increase reflected the benefit of higher sales, the cost savings from productivity improvement initiatives and the positive impact of foreign currency translation. Partially offsetting these factors were pretax charges of approximately $34 million related to restructuring and asset impairment charges. Income from international operations reflected a negative effect of transition costs for new manufacturing equipment in Europe, which were partially offset by the savings from plant closures in the region. In addition, income from international operations reflected higher raw material costs, partially offset by selling price increases.

Consumer and Converted Products:

(In millions)	2004	2003
Sales – U.S.	$ 899.2	$ 944.7
Sales – International	617.0	538.9
Intrasegment sales	(49.1)	(44.7)
Net sales	$1,467.1	$1,438.9
Income before interest and taxes	171.9	182.7

The Consumer and Converted Products segment reported an increase in sales and a decrease in operating income for the first nine months of 2004 compared to the same period in 2003. Sales increased approximately $28 million or 2 percent to $1.5 billion in the first nine months of 2004 compared to $1.4 billion in the same period in 2003. Operating income decreased approximately $11 million or 6 percent to $172 million in the first nine months of 2004 compared to $183 million in the same period in 2003 reflecting a decline in income in domestic operations, partially offset by an increase in income in international operations.

Results from Domestic Operations

Domestic sales, including intrasegment sales, decreased approximately $46 million or 5 percent reflecting lower sales in the office products business (approximately $42 million) and loss of sales from discontinued product lines (approximately $28 million), partially offset by higher sales in the industrial and automotive products business (approximately $15 million) and the retail information services business (approximately $12 million). Lower sales in the office products business was due to loss of market share with one major customer (approximately $26 million), impact of tighter inventory management by customers (including reductions during the first quarter of 2004 due largely to higher than usual orders by customers late in the fourth quarter of 2003) and the impact of weak business conditions, including the effect of lower selling prices.

Income from domestic operations decreased approximately $24 million. The decrease reflected declines in sales in the office products business and higher raw material costs, partially offset by cost savings from productivity improvement initiatives.

Results from International Operations

International sales, including intrasegment sales, increased approximately $78 million or 14 percent reflecting higher sales in the retail information services business (approximately $60 million) and office products business (approximately $28 million), partially offset by loss of sales from discontinued product lines (approximately $12 million). Included in these increases was the favorable impact of foreign currency translation (approximately $40 million). The core unit volume growth in the retail information services business was a result of growth from geographic expansion, as well as relatively weak results in 2003 related to slow industry conditions, due in part to the economic effects of SARS.

Income from international operations increased approximately $13 million. The increase in international operations reflected core unit volume growth in the retail information services business, the cost savings from productivity improvement initiatives and the favorable impact of foreign currency translation.

In October 2003, the Company completed the sale of its package label converting business in Europe, which was previously reported in the Consumer and Converted Products segment. The results for this business were accounted for as discontinued operations for 2003.

FINANCIAL CONDITION

LIQUIDITY

Cash Flow Provided by Operating Activities

Net cash flow provided by operating activities was $332.7 million in the first nine months of 2004 and $266.4 million in the first nine months of 2003. Cash flow from operating activities for 2004 was negatively impacted by changes in assets and liabilities of approximately $19 million. Cash flow from operating activities for 2003 was negatively impacted by changes in assets and liabilities of approximately $75 million. For cash flow purposes, changes in assets and liabilities exclude the impact of foreign currency translation, the impact of acquisitions and divestitures and certain non-cash transactions (discussed in more detail in the “Analysis of Selected Balance Sheet Accounts” below).

Cash flow from accounts receivable decreased due to a higher accounts receivable balance resulting from higher sales. Cash flow from inventory decreased due to a higher inventory balance resulting from geographic expansion and growth. Cash flow from other receivables and other assets increased due to collection of certain receivables and cash receipts for vendor rebates. Cash flow from accounts payable and accrued liabilities increased due to the timing of payments and higher inventory.

Cash Flow Used in Investing Activities

Net cash flow used in investing activities was $146 million in the first nine months of 2004 compared to $170.4 million in the first nine months of 2003.

Capital Spending

Capital expenditures in the first nine months of 2004 and 2003 were $115.6 million and $148.3 million, respectively. Total capital expenditures are expected to be approximately $200 million by the end of 2004. The Company’s major capital projects in 2004 include expansion of the Company’s capacity in Asia, as well as projects related to productivity improvement in the Company’s North American roll materials operation.

Expenditures related to capitalized software and other capitalized assets were $17.4 million and $15.2 million in the first nine months of 2004 and 2003, respectively.

Acquisitions and Divestitures

During the first nine months of 2004, payments for acquisitions of $14.3 million were related to several small acquisitions in the retail information services business, including the acquisition of Rinke Etiketten in Germany.

In the first nine months of 2003, payments for acquisitions of $9.5 million were primarily due to certain contingencies related to the achievement of performance targets associated with the 2001 acquisition of Dunsirn Industries, Inc.

Cash Flow Used in Financing Activities

Net cash flow used in financing activities was $146.6 million in the first nine months of 2004 compared to $88.9 million in the same period in 2003.

Borrowings and Repayments of Debt

In August 2004, the Company issued $150 million in floating interest rate Senior Notes due 2007, under its existing shelf registration statement filed with the Securities and Exchange Commission in the third quarter of 2001. The Notes are callable at par by the Company after one year. This debt issuance was used to rebalance the Company's short term and long term debt.

In February 2004, the Company paid approximately $106 million in final settlement of its obligation associated with the 1999 transaction with Steinbeis Holding GmbH ("Steinbeis"), financed through the issuance of commercial paper borrowings. See *"Commitments and Contingencies"* below.

In January 2003, the Company refinanced $400 million of its variable rate commercial paper borrowings through the offering of $250 million of 4.9 percent Senior Notes due 2013 and $150 million of 6 percent Senior Notes due 2033.

Shareholders' Equity

Dividends paid for the first nine months of 2004 totaled $122.6 million compared to $119.3 million in the same period in 2003. Proceeds from the exercise of stock options for the first nine months of 2004 were $14.9 million, compared to $2.3 million in the same period in 2003.

Analysis of Selected Balance Sheet Accounts

Other Current Liabilities

Other current liabilities decreased approximately $112.3 million during the first nine months of 2004 reflecting the payment to Steinbeis (approximately $106 million), as well as a decrease in income taxes payable due to timing of payments (approximately $25 million). See *"Commitments and Contingencies"* below.

Other Shareholders' Equity Accounts

The market value of shares held in the employee stock benefit trust increased by $92.5 million during the first nine months of 2004 due to changes in stock price. This increase was partially offset by the issuance of shares during the first nine months of 2004 from the trust under the Company's stock and incentive plans valued at approximately $24 million.

Analysis of Selected Financial Ratios

Management utilizes certain financial ratios to assess its financial condition and operating performance, as discussed in detail below.

Working Capital Ratio

Working capital (current assets minus current liabilities), as a percent of annualized sales was 4.1 percent for the first nine months of 2004 compared to (1.4) percent for the first nine months of 2003. Management utilizes the working capital from continuing operations ratio as a measurement tool to assess the working capital requirements of the Company because it excludes the impact of fluctuations due to financing activities of the Company. The timing of financing activities is not necessarily related to current operations and would tend to distort the working capital ratio from period to period. Working capital from continuing operations, as a percent of annualized sales, was 7.8 percent for the first nine months of 2004 compared to 7.5 percent for the first nine months of 2003, as shown below. Management's objective is to minimize its investment in working capital from operations by reducing this ratio, to maximize cash flow and return on investment.

Working capital from continuing operations consists of:

(In millions)	Nine Months Ended September 25, 2004	Nine Months Ended September 27, 2003
(A) Working capital (current assets minus current liabilities)	$ 211.4	$ (67.7)
Reconciling items:		
Short-term and current portion of long-term debt	197.1	325.6
Steinbeis obligation (see "*Commitments and Contingencies*")	—	93.8
(B) Working capital from continuing operations	$ 408.5	$ 351.7
(C) Annualized sales [(1)]	$ 5,209.2	$ 4,708.7
Working capital, as a percent of annualized sales (A) ÷ (C)	4.1%	(1.4)%
Working capital from continuing operations as a percent of annualized sales (B) ÷ (C)	7.8%	7.5%

(1) Year-to-date net sales multiplied by four-thirds.

In the first nine months of 2004, working capital from continuing operations, as a percent of annualized sales, reflected higher sales, higher balances in accounts receivable (approximately $86 million), inventory (approximately $39 million) and cash and cash equivalents (approximately $38 million). Included in the changes in working capital balances for the first nine months of 2004 was the impact of changes in foreign currency translation (approximately $12 million). Higher accounts receivable balances reflected higher sales in the Pressure-sensitive Adhesives and Materials segment and the retail information services business. Increased inventory balances were a result of continued growth in the roll materials business in North America and in the emerging markets of Asia, Eastern Europe and Latin America. Higher balances in cash and cash equivalents were due to a timing issue impacting the cash balance at the end of the third quarter of 2004 in Europe.

Accounts Receivable Ratios

The average number of days sales outstanding in accounts receivable decreased to 59.3 days in the first nine months of 2004 compared to 60 days in the first nine months of 2003 due to improved customer terms and collections.

Inventory Ratios

Inventory turnover was 8.4 for both the first nine months of 2004 and 2003.

Debt Ratios

Total debt to total capital was 46.9 percent at September 25, 2004 compared to 49.1 percent at September 27, 2003. This decrease was due to higher equity balances in 2004.

Shareholders' Equity Ratios

Return on average shareholders' equity was 19.1 percent for the first nine months of 2004 compared to 23.7 percent for the first nine months of 2003. Return on average total capital was 13 percent for the first nine months of 2004 compared to 15 percent for the first nine months of 2003. Decreases in these returns in 2004 compared to 2003 were primarily due to the impact of restructuring costs and asset impairment charges in the first and second quarters of 2004.

CAPITAL RESOURCES

The Company's sources of capital include cash flow from operations and debt financing. The Company maintains adequate financing arrangements at competitive rates. These financing arrangements consist of commercial paper programs in the U.S. and Europe, committed and uncommitted bank lines of credit in the countries in which the Company operates, callable commercial notes and long-term debt, including medium-term notes.

Capital from Debt

Total debt increased by approximately $71 million to $1.25 billion as of September 2004 compared to December 2003. This increase during the first nine months of 2004 reflected the issuance of commercial paper borrowings of approximately $106 million in connection with the final settlement of the Steinbeis obligation in the first quarter, partially offset by repayments of debt. Debt levels are also affected by the seasonality of cash flow.

In August 2004, the Company issued $150 million in floating interest rate Senior Notes due 2007, under its existing shelf registration statement filed with the Securities and Exchange Commission in the third quarter of 2001. The Company has $50 million available under this registration statement as of September 2004.

In July 2004, the Company entered into a revolving credit agreement with 10 domestic and foreign banks for a total commitment of $525 million, expiring July 16, 2009. This revolving credit agreement replaces the Company's previous agreements for a $250 million credit facility expiring July 1, 2006 and a $200 million 364-day credit facility expiring December 3, 2004, both of which were terminated in connection with the new revolving credit agreement. Financing available under the new agreement is used as a commercial paper back-up facility and is also available to finance other corporate requirements. The terms of the new agreement are generally similar to the previous agreements.

Credit ratings are an important factor in the Company's ability to obtain short-term and long-term financing. When determining a credit rating, the rating agencies consider many aspects of the Company's business including the Company's competitive position, business outlook, consistency of cash flows, debt level and liquidity, global presence and management team.

The ratings assigned to the Company also impact the interest rates on its commercial paper and other borrowings. The Company's credit ratings are as follows:

	Short-term	Long-term	Outlook
Standard & Poor's Rating Service	A-1	A	Negative
Moody's Investor Service	P2	A3	Stable

Commitments and Contingencies

In April 2003, the Company was notified by the U.S. Department of Justice's Antitrust Division that it had initiated a criminal investigation into competitive practices in the label stock industry, and on August 15, 2003, the DOJ issued a subpoena to the Company in connection with the investigation. In May 2004, the European Commission initiated inspections and obtained documents from the Company's pressure-sensitive materials facilities in the Netherlands and Germany, seeking evidence of unlawful anticompetitive activities. In July 2004, the Company was notified by the Competition Law Division of the Department of Justice of Canada that it was seeking information in connection with a label stock investigation. The Company is cooperating with these investigations. The Company is a named defendant in purported class actions in the U.S. seeking treble damages and other relief for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation. The Company is also a named defendant in purported stockholder class actions in the U.S. seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. The Company has discovered instances of improper conduct by certain employees in its European operations that constituted an infringement of EC competition law. The Company accordingly expects that the EC will impose a fine on the Company when its investigation is completed. The Company is unable to predict the effect of these matters at this time, although the effect could well be adverse and material. These matters are reported in Note 12 "Commitments and Contingencies," to the Consolidated Financial Statements.

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

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

The Company and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. Based upon current information, management believes that the resolution of these matters will not materially affect the Company.

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

The Company participates in receivable financing programs, both domestically and internationally, with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At September 25, 2004, the Company had guaranteed approximately $13 million.

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

The Company guaranteed up to approximately $18 million of certain foreign subsidiaries' obligations to their suppliers as of September 25, 2004.

In the first quarter of 1999, the Company recorded an obligation associated with the transaction with Steinbeis Holding GmbH, which combined substantially all of the Company's office products businesses in Europe with Zweckform Büro-Produkte GmbH, a German office products supplier. The obligation of $101.5 million was included in the "Other accrued liabilities" line in the Consolidated Balance Sheet at December 27, 2003. The Company paid the entire obligation (approximately $106 million) in February 2004, which included the impact of foreign currency translation.

In connection with the L&E acquisition in 2002, the Company issued 743,108 shares at $63.08 per share. In the event the value of the Company's common shares falls below the price of the shares that were issued to L&E (adjusted for dividends received), during the period from January 1, 2005 through December 31, 2007, the Company may be obligated to pay the difference in value, in the form of cash or common shares, to L&E.

RECENT ACCOUNTING REQUIREMENTS

During the first nine months of 2004, the Company adopted several accounting and financial accounting disclosure requirements by the Financial Accounting Standards Board ("FASB"), Emerging Issues Task Force ("EITF") and Financial Staff Position by the FASB, none of which has had a significant impact on the Company's financial results of operations and financial position, nor is expected to have a significant impact on the Company's financial results of operations and financial position when effective. (Refer to Note 16 "Recent Accounting Requirements," to the Notes to Consolidated Financial Statements for more information).

SAFE HARBOR STATEMENT

Except for historical information contained herein, the matters discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, may contain estimates, assumptions, projections and/or expectations regarding future events. Words such as "anticipate," "assume," "believe," "could," "estimate," "expect," "may," "plan," "project," "will," and other expressions, which refer to future events and trends, identify forward-looking statements. Such forward-looking statements, and financial or other business targets, are subject to certain risks and uncertainties, which could cause actual results to differ materially from expected results, performance or achievements of the Company expressed or implied by such forward-looking statements.

Certain of such risks and uncertainties are discussed in more detail in Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended December 27, 2003 and include, but are not limited to, risks and uncertainties relating to investment in development activities and new production facilities, timely development and successful market acceptance of new products, fluctuations in cost and availability of raw materials, impact of competitive products and pricing, business mix shift, credit risks, ability to obtain adequate financing arrangements, fluctuations in pension, insurance and employee benefit costs, successful integration of acquisitions, projections related to estimated cost savings from integration and productivity improvement actions, successful implementation of new manufacturing technologies and installation of manufacturing equipment, customer and supplier and manufacturing concentrations, financial condition and inventory strategies of customers, changes in customer order patterns, increased competition, loss of significant contract(s) or customer(s), legal proceedings, including the U.S. Department of Justice ("DOJ") criminal investigation, as well as the European Commission and Canadian Department of Justice investigations, into competitive practices in the label stock industry and any related proceedings or lawsuits pertaining to these investigations or to the subject matter thereof including purported class actions seeking treble damages for alleged unlawful competitive practices, and purported class actions related to alleged disclosure violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation, as well as a likely fine by the European Commission in respect of certain employee misconduct in Europe, changes in governmental regulations, fluctuations in interest rates, fluctuations in foreign currency exchange rates and other risks associated with foreign operations, ability to estimate the impact of foreign currency on financial results and other risks associated with foreign operations, changes in worldwide and local economic or political conditions, acts of war, terrorism, natural disasters, impact of epidemiological events on the economy, the Company's customers and suppliers, and other factors.

The Company believes that the most significant risk factors that could affect its ability to achieve its stated financial expectations in the near-term include (1) potential adverse developments in legal proceedings and/or investigations regarding competitive conditions in the label stock industry; (2) the degree to which higher raw material costs can be passed on to customers through price increases, without a significant loss of volume; (3) the impact of economic conditions on underlying demand for the Company's products, particularly in the U.S. and Western Europe; and (4) availability and cost of certain components used to manufacture adhesives used in some products sold by the Company, an extended shortage of which could disrupt production, resulting in a potentially significant loss of revenue and earnings.

Any forward looking statement should also be considered in light of the factors detailed in Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended December 27, 2003.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are no material changes in the information provided in Item 7A of the Company's Form 10-K for the fiscal year ended December 27, 2003.

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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

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

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

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for San Francisco County on March 30, 2004. A further similar complaint was filed in the Superior Court for Maricopa County, Arizona on November 6, 2003. Plaintiffs voluntarily dismissed their complaint without prejudice on October 4, 2004. The Company intends to defend these matters vigorously.

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

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

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

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

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

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

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

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

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

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

The Company and its subsidiaries are involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of the business. Based upon current information, management believes that the resolution of these matters will not materially affect the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the period from 1990 through 1999, the Board of Directors authorized the repurchase of an aggregate 40.4 million shares of the Company’s outstanding common stock (the “Program”). The last Board of Directors’ authorization of 5 million shares occurred in October 1999 and has no expiration. The acquired shares may be reissued under the Company’s stock option and incentive plans or used for other corporate purposes. Included in the total shares repurchased were 11,718 shares that were delivered (actually or constructively) to the Company by participants exercising stock options during the third quarter of 2004 under the Company’ stock option plans, in payment of the option exercise price and/or to satisfy withholding tax obligations.

The following table sets forth the monthly repurchases of the Company’s common stock:

(Shares in thousands, except per share amounts)

Period	Total shares repurchased	Average price per share	Remaining shares available for repurchases under the Program
June 27, 2004 – July 24, 2004	—	—	3,155.7
July 25, 2004 – August 21, 2004	3.7	$ 16.25	3,155.7
August 22, 2004 – September 25, 2004	11.1	$ 44.05	3,152.6
Quarterly total	14.8	$ 37.07	3,152.6

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

Not Applicable

ITEM 5.   OTHER INFORMATION

Not Applicable

ITEM 6.   EXHIBITS

Exhibit 3.2: Bylaws, as amended on September 23, 2004

Exhibit 12: Computation of Ratio of Earnings to Fixed Charges

Exhibit 31.1: Philip M. Neal Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2: Daniel R. O’Bryant Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1: Philip M. Neal Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2: Daniel R. O’Bryant Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVERY DENNISON CORPORATION
(Registrant)

/s/ Daniel R. O'Bryant

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

/s/ Michael A. Skovran

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

November 4, 2004

Exhibit 3.2

BYLAWS
OF
AVERY DENNISON CORPORATION

ARTICLE I

OFFICES

Section 1. ***Registered Office.***

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

Section 2. ***Principal Office.***

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

Section 3. ***Other Offices.***

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

ARTICLE II

STOCKHOLDERS

Section 1. ***Place of Meetings.***

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

Section 2. ***Annual Meetings of Stockholders.***

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

Section 3. ***Special Meetings.***

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

Section 4. ***Notice of Stockholders’ Meetings.***

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

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

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

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

Section 6. ***Quorum.***

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

Section 7. ***Adjourned Meeting and Notice Thereof.***

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

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

Section 8. ***Voting.***

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

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

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

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

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

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

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

Section 11. ***Record Date for Stockholder Notice and Voting.***

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

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

Section 12. ***Proxies.***

Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by proxy. Without limiting the manner in which a proxy may be granted, a stockholder may grant a proxy in the following manners: (i) by executing a writing authorizing another person or persons to act for such stockholder as proxy or (ii) by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to a person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided however that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. A written proxy shall be deemed signed if the stockholder’s name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or electronic transmission or otherwise) by the stockholder or the stockholder’s attorney in fact. A proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, prior to the vote pursuant thereto, by a writing or electronic transmission delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy, or (ii) notice of the death or incapacity of the maker of such proxy is received by the corporation before the vote pursuant thereto is counted; provided, however, that no such proxy shall be valid after the expiration of three years from the date of such proxy, unless otherwise provided in the proxy.

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

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

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

Section 14. ***Nomination and Stockholder Business Bylaw.***

(A) Annual Meetings of Stockholders.

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

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

intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (b) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the corporation to solicit proxies for such annual meeting. The corporation may require any proposed nominee to furnish such other information as the corporation may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the corporation.

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

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

(C) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to be elected at an annual or special meeting of stockholders and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by clause (A)(2)(c)(iv) of this Bylaw), to declare that such defective proposal or nomination shall be disregarded. Notwithstanding the foregoing provisions of this Bylaw, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting

of stockholders of the corporation to present a nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation.

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

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

ARTICLE III

DIRECTORS

Section 1. ***Powers.***

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

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

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

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

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

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

Section 2. ***Number and Qualification of Directors.***

The number of directors of the corporation shall be Twelve (12) until changed by a bylaw amending this Section 2, duly adopted by the board of directors or by the stockholders.

Section 3. ***Election and Term of Office of Directors.***

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

Section 4. ***Vacancies and Newly Created Directorships.***

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

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

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

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

Section 5. ***Place of Meetings and Telephonic Meetings.***

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

Section 6. ***Annual Meetings.***

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

Section 7. ***Other Regular Meetings.***

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

Section 8. ***Special Meetings.***

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

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

Section 9. *Quorum.*

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

Section 10. *Waiver of Notice.*

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

Section 11. *Adjournment.*

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

Section 12. *Notice of Adjournment.*

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

Section 13. *Action Without Meeting.*

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

Section 14. *Fees and Compensation of Directors.*

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

Section 15. *Classification of Directors.*

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

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

ARTICLE IV

COMMITTEES

Section 1. ***Committees of Directors.***

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

(a) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the General Corporation Law to be submitted to the stockholders for approval; or

(b) adopting, amending or repealing any bylaw of the corporation.

Section 2. ***Meetings and Action of Committees.***

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

ARTICLE V

OFFICERS

Section 1. ***Officers.***

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

Section 2. ***Election of Officers.***

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

Section 3. ***Subordinate Officers, etc.***

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

Section 4. ***Removal and Resignation of Officers.***

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

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

Section 5. ***Vacancies in Office.***

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

Section 6. ***Chairman of the Board.***

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

Section 7. ***President.***

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

Section 8. ***Vice Presidents.***

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

Section 9. ***Secretary.***

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

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

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

Section 10. ***Treasurer.***

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

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

Section 11. ***Assistant Secretaries and Assistant Treasurers.***

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

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS

Section 1. ***Indemnification and Insurance.***

(A) Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit, or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans maintained or sponsored by the corporation, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee of agent, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the General Corporation Law as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment), against all expenses, liability and loss (including attorneys' fees, judgements, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in paragraph (C) of this Bylaw, the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors. The right to indemnification conferred in this Bylaw shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the corporation within 20 days after the receipt by the corporation of a statement or statements from the claimant requesting such advance or advances from time to time; provided, however, that if the General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the corporation of an undertaking by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Bylaw or otherwise.

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

(C) If a claim under paragraph (A) of this Bylaw is not paid in full by the corporation within 30 days after a written claim pursuant to paragraph (B) of this Bylaw has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim, including attorney’s fees. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the corporation) that the claimant has not met the standard of conduct which makes it permissible under the General Corporation Law for the corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its Board of Directors, Independent Counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law, nor an actual determination by the corporation (including its Board of Directors, Independent Counsel or stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

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

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

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

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

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

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

(J) For purposes of this Bylaw:

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

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

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

Section 2. ***Fiduciaries of Corporate Employee Benefit Plan.***

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

ARTICLE VII

RECORDS AND REPORTS

Section 1. ***Maintenance and Inspection of Stock Register.***

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

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

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

Section 2. ***Maintenance and Inspection of Bylaws.***

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

Section 3. ***Maintenance and Inspection of Other Corporate Records.***

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

Section 4. ***Inspection by Directors.***

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

ARTICLE VIII

GENERAL CORPORATE MATTERS

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

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

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

Section 2. ***Checks, Drafts, Evidences of Indebtedness.***

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

Section 3. ***Corporate Contracts and Instruments; How Executed.***

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

Section 4. ***Stock Certificates.***

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

Section 5. ***Lost Certificates.***

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

Section 6. ***Representation of Stock of Other Corporations.***

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

Section 7. ***Construction and Definitions.***

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

Section 8. ***Fiscal Year.***

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

Section 9. Seal.

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

ARTICLE IX

AMENDMENTS

Section 1. ***Amendment by Stockholders.***

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

Section 2. ***Amendment by Directors.***

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

Amended September 23, 2004

Exhibit 12

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

	Three Months Ended		Nine Months Ended	
	September 25, 2004	September 27, 2003	September 25, 2004	September 27, 2003
Earnings:				
Income from continuing operations before taxes	$ 102.5	$ 88.1	$ 263.7	$ 279.9
Add: Fixed charges from continuing operations*	21.0	21.5	63.3	64.4
Amortization of capitalized interest	0.6	0.6	1.8	1.7
Less: Capitalized interest	(0.9)	(2.0)	(2.2)	(4.7)
	$ 123.2	$ 108.2	$ 326.6	$ 341.3
*Fixed charges from continuing operations:				
Interest expense	$ 13.8	$ 13.9	$ 42.3	$ 43.3
Capitalized interest	0.9	2.0	2.2	4.7
Amortization of debt issuance costs	0.3	0.3	0.8	0.6
Interest portion of leases	6.0	5.3	18.0	15.8
	$ 21.0	$ 21.5	$ 63.3	$ 64.4
Ratio of Earnings to Fixed Charges	5.9	5.0	5.2	5.3

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

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip M. Neal, certify that:

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

/s/ PHILIP M. NEAL

Philip M. Neal
Chairman and
Chief Executive Officer

November 4, 2004

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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

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

/s/ DANIEL R. O'BRYANT

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

November 4, 2004

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER*

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 25, 2004 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 4, 2004

By: /s/ PHILIP M. NEAL

Name: Philip M. Neal
Title: Chairman and Chief Executive Officer

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

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER*

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 25, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 4, 2004

By: /s/ DANIEL R. O'BRYANT

Name: Daniel R. O'Bryant
Title: Senior Vice President, Finance
and Chief Financial Officer

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