UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 28, 2002

OR

o **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)**

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

Indicate by a check x whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes x No o

Number of shares of $1 par value common stock outstanding as of October 26, 2002: 109,808,214

AVERY DENNISON CORPORATION
AND SUBSIDIARIES

INDEX TO FORM 10-Q

Table of Contents

PART I. ITEM 1. FINANCIAL INFORMATION
AVERY DENNISON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in millions)
(Unaudited)

	September 28, 2002	December 29, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28.9	$ 19.1
Trade accounts receivable, net	742.0	569.1
Inventories, net	341.0	267.4
Deferred taxes	53.3	58.8
Other current assets	76.3	65.8
Total current assets	1,241.5	980.2
Property, plant and equipment, at cost	2,205.0	2,057.5
Accumulated depreciation	1,071.4	982.9
Property, plant and equipment, net	1,133.6	1,074.6
Goodwill, net	446.1	293.2
Other intangibles resulting from business acquisitions, net	129.2	120.0
Other assets	351.7	341.4
	$ 3,302.1	$ 2,809.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term and current portion of long-term debt	$ 268.9	$ 223.0
Accounts payable	388.6	316.4
Other current liabilities	559.4	409.6
Total current liabilities	1,216.9	949.0
Long-term debt	768.7	626.7
Non-current deferred taxes and other long-term liabilities	215.2	229.7
Other long-term obligation	81.1	74.6
Shareholders' equity:		
Common stock - $1 par value; authorized - 400,000,000 shares; issued - 124,126,624 shares at September 28, 2002 and December 29, 2001	124.1	124.1
Capital in excess of par value	740.2	707.2
Retained earnings	1,649.0	1,556.1
Cost of unallocated ESOP shares	(13.7)	(13.7)
Employee stock trusts, 11,304,840 shares at September 28, 2002 and 12,008,123 shares at December 29, 2001	(667.8)	(674.5)
Treasury stock at cost, 14,316,822 shares at September 28, 2002 and 14,235,871 shares at December 29, 2001	(638.4)	(633.4)
Accumulated other comprehensive loss	(173.2)	(136.4)
Total shareholders' equity	1,020.2	929.4
	$ 3,302.1	$ 2,809.4

See Notes to Consolidated Financial Statements

Table of Contents

AVERY DENNISON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2002	September 29, 2001	September 28, 2002	September 29, 2001
Net sales	$ 1,114.5	$ 966.7	$ 3,101.6	$ 2,890.7
Cost of products sold	761.3	653.9	2,093.0	1,947.1
Gross profit	353.2	312.8	1,008.6	943.6
Marketing, general and administrative expense	239.5	209.6	676.6	627.2
Interest expense	11.8	12.4	30.7	39.7
Other expense	15.2	—	15.2	—
Income before taxes	86.7	90.8	286.1	276.7
Taxes on income	23.6	29.1	84.4	91.4
Income before accounting change	63.1	61.7	201.7	185.3
Cumulative effect of accounting change, net of tax	—	—	—	(.2)
Net income	$ 63.1	$ 61.7	$ 201.7	$ 185.1
Per share amounts:				
Net income per common share:				
Before accounting change	$ .64	$ .63	$ 2.05	$ 1.89
Cumulative effect of accounting change	—	—	—	—
Net income per common share	$ .64	$ .63	$ 2.05	$ 1.89
Net income per common share, assuming dilution:				
Before accounting change	$ .64	$ .63	$ 2.03	$ 1.88
Cumulative effect of accounting change	—	—	—	—
Net income per common share, assuming dilution	$ .64	$ .63	$ 2.03	$ 1.88
Dividends	$ .33	$ .30	$ .99	$ .90
Average shares outstanding:				
Common shares	98.5	97.9	98.3	97.8
Common shares, assuming dilution	99.3	98.6	99.2	98.6

See Notes to Consolidated Financial Statements

AVERY DENNISON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended	
	September 28, 2002	September 29, 2001
Operating Activities:		
Net income	$ 201.7	$ 185.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	94.6	93.1
Amortization	16.6	23.9
Deferred taxes	4.8	1.9
Asset impairment and lease cancellation costs	15.2	—
Changes in assets and liabilities	(12.2)	(59.6)
Net cash provided by operating activities	320.7	244.4
Investing Activities:		
Purchase of property, plant and equipment	(71.3)	(96.6)
Proceeds from sale of assets	9.9	11.0
Payments for acquisitions	(220.9)	(63.9)
Purchase of software	(14.4)	(42.3)
Other	(10.3)	(13.9)
Net cash used in investing activities	(307.0)	(205.7)
Financing Activities:		
Additional borrowings	404.8	416.5
Payments of debt	(326.0)	(356.7)
Dividends paid	(108.7)	(99.1)
Purchase of treasury stock	(5.0)	(17.8)
Proceeds from exercise of stock options	20.3	14.6
Other	11.4	9.9
Net cash used in financing activities	(3.2)	(32.6)
Effect of foreign currency translation on cash balances	(0.7)	—
Increase in cash and cash equivalents	9.8	6.1
Cash and cash equivalents, beginning of period	19.1	11.4
Cash and cash equivalents, end of period	$ 28.9	$ 17.5

See Notes to Consolidated Financial Statements

Table of Contents

AVERY DENNISON CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

The accompanying unaudited consolidated financial statements include normal recurring adjustments necessary for a fair presentation of the Company's interim results. Certain prior year amounts have been reclassified to conform with the current year presentation. The condensed 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 2001 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 2001 Annual Report on Form 10-K.

The third quarters of 2002 and 2001 consisted of thirteen-week periods ending September 28, 2002 and September 29, 2001, respectively. The interim results of operations are not necessarily indicative of future financial results.

2. Recent Acquisitions

On May 17, 2002, the Company acquired Jackstädt GmbH, a privately-held manufacturer of pressure-sensitive adhesive materials based in Germany. Jackstädt has a global customer base and had consolidated revenues of approximately $400 million in 2001. The Jackstädt business is included in the Company's Pressure-sensitive Adhesives and Materials segment. Jackstädt complements the Company's operations in North America, Asia, Latin America and Europe. Jackstädt enhances the Company's global presence, including its capability to grow in Eastern Europe, and enables it to offer a broader selection of products and services.

The purchase price at closing was approximately $300 million, which included approximately $200 million in cash and assumed debt of approximately $100 million. The Company assumed liabilities of approximately $203 million, including the assumed debt, accrued payroll and benefits, accounts payable, other accrued liabilities, long-term retirement benefits and other current and long-term liabilities. The Company funded the transaction with cash and short-term commercial paper. The excess of the cost-basis over the fair value of net tangible assets acquired is currently estimated to be approximately $152 million, which includes estimated identified intangible assets of approximately $11 million, which are being amortized on a straight-line basis over 5 years. The purchase price paid at closing was based on financial statement values at June 30, 2001, and is subject to adjustment based upon a formula in the purchase agreement and is subject to finalization after a review of the closing financial statements. Jackstädt's results of operations have been included in the Company's consolidated financial statements as of the acquisition date.

Table of Contents

AVERY DENNISON CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. Recent Acquisitions (continued)

The preliminary allocation of the purchase price as of September 28, 2002 has been made and recorded in these financial statements. The Company has not finalized this allocation and is currently obtaining third-party valuations of assets and liabilities. In addition, the Company is currently reviewing its plans with regard to facilities rationalization that may require adjustments to estimated amounts recorded for closure of certain facilities and carrying values of Jackstädt assets. Review of the final valuations and ongoing assessments may impact the allocation of the purchase price, and changes to the preliminary allocation are likely to occur.

The following represents the unaudited pro forma results of operations for the Company and Jackstädt as though the acquisition of Jackstädt had occurred at the beginning of the periods shown. The pro forma results include interest expense on additional debt that would have been needed to finance the purchase, amortization of intangibles that would have been acquired, and certain adjustments that would have been required to conform to the Company's accounting policies. The pro forma results of operations have been prepared based on the preliminary allocation of the purchase price and may require adjustment in accordance with the terms of the purchase agreement or as a result of the finalization of the purchase price allocation. This pro forma information is for comparison purposes only, and is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of the periods presented, nor is it necessarily indicative of future results.

(In millions, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2002	September 29, 2001	September 28, 2002	September 29, 2001
Net sales	$ 1,114.5	$ 1,061.9	$ 3,252.5	$ 3,189.2
Net income	$ 63.1	$ 60.2	$ 202.2	$ 184.7
Net income per common share	$ .64	$ .61	$ 2.06	$ 1.89
Net income per common share, assuming dilution	$ .64	$ .61	$ 2.04	$ 1.87

Other acquisitions during 2002 were not significant to the Company's consolidated financial position or results of operations.

3. Goodwill and Other Intangibles Resulting from Business Acquisitions

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," which supersedes Accounting Principles Board (APB) Opinion No. 16, "Business Combinations." This Statement requires that all business combinations be accounted for by the purchase method and establishes specific criteria for the recognition of other intangible assets separately from goodwill. The provisions of the Statement apply to business combinations initiated after June 30, 2001. For business combinations accounted for using the purchase method before July 1, 2001, the provisions of this Statement were effective in the first quarter of 2002. As a result of this Statement, the Company discloses goodwill separately from other intangible assets on the Condensed Consolidated Balance Sheet.

AVERY DENNISON CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

In July 2001, the FASB issued SFAS No. 142, “Goodwill and Other Intangible Assets,” which supersedes APB Opinion No. 17, “Intangible Assets.” This Statement addresses the accounting and reporting of goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that (i) goodwill and indefinite-lived intangible assets will no longer be amortized, (ii) impairment will be measured using various valuation techniques based on discounted cash flows, (iii) goodwill will be tested for impairment at least annually at the reporting unit level, (iv) intangible assets deemed to have an indefinite life will be tested for impairment at least annually and (v) intangible assets with finite lives will be amortized over their useful lives. The Statement provides specific guidance on testing goodwill and other intangible assets for impairment, and requires that reporting units be identified for the purpose of assessing potential future impairments. All provisions of this Statement were effective at the beginning of fiscal 2002. Utilizing internal and external resources, the Company adopted SFAS No.142 in the first quarter of 2002. The Company identified its reporting units and the amounts of goodwill, other intangible assets, other assets and liabilities allocated to those reporting units.

SFAS No. 142 requires that goodwill be tested for impairment upon adoption of the Statement, as well as annually thereafter. The Company completed its goodwill impairment test during the first quarter of 2002 and had no impairment losses. Other intangible assets deemed to have an indefinite life are tested for impairment by comparing the fair value of the asset to its carrying amount. The Company does not have other intangible assets with indefinite lives.

The Company adopted SFAS No. 142 effective at the beginning of fiscal 2002 and as a result, ceased amortization of goodwill as of that date. Changes in the net carrying amount of goodwill for the nine months ended September 28, 2002, by reportable segment, are as follows:

(In millions)	Consumer and Converted Products	Pressure-sensitive Adhesives and Materials	Total
Balance as of December 29, 2001	$ 148.9	$ 144.3	$ 293.2
Goodwill acquired during the period	3.6	150.6	154.2
Impairment losses	—	—	—
Translation adjustments and other	7.5	(8.8)	(1.3)
Balance as of September 28, 2002	$ 160.0	$ 286.1	$ 446.1

AVERY DENNISON CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

The following table sets forth the Company's acquired other intangible assets at September 28, 2002 and December 29, 2001, which will continue to be amortized:

	September 28, 2002			December 29, 2001		
(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	$ 35.7	$ 9.9	$ 25.8	$ 23.4	$ 6.8	$ 16.6
Patented technology	63.6	8.3	55.3	63.6	5.8	57.8
Customer relations	51.8	5.2	46.6	47.6	3.6	44.0
Other intangibles	2.7	1.2	1.5	2.3	.7	1.6
Total	$ 153.8	$ 24.6	$ 129.2	$ 136.9	$ 16.9	$ 120.0

Amortization expense on intangible assets resulting from business acquisitions was $2.8 million and $6.8 million for the three and nine months ended September 28, 2002, respectively, and $1.9 million and $5.5 million for the three and nine months ended September 29, 2001. Amortization expense on goodwill was $3.8 million and $11.0 million for the three and nine months ended September 29, 2001. Based on current information, estimated amortization expense for such acquired intangible assets for this fiscal year, and for each of the next four succeeding fiscal years, is expected to be approximately $10 million, $10 million, $9 million, $9 million and $9 million, respectively.

As required by SFAS No. 142, the results for the prior year's quarters have not been restated. Had the Company accounted for its goodwill under SFAS No. 142 for all periods presented, the Company's net income and earnings per share would have been as follows:

	Three Months Ended		Nine Months Ended	
(In millions, except per share amounts)	September 28, 2002	September 29, 2001	September 28, 2002	September 29, 2001
Reported net income	$ 63.1	$ 61.7	$ 201.7	$ 185.1
Goodwill amortization, net of tax	—	3.6	—	10.4
Adjusted net income	$ 63.1	$ 65.3	$ 201.7	$ 195.5
Basic earnings per share:				
As reported	$ .64	$ .63	$ 2.05	$ 1.89
Goodwill amortization	—	.04	—	.11
Adjusted basic earnings per share	$ .64	$ .67	$ 2.05	$ 2.00
Diluted earnings per share:				
As reported	$ .64	$ .63	$ 2.03	$ 1.88
Goodwill amortization	—	.03	—	.10
Adjusted diluted earnings per share	$ .64	$ .66	$ 2.03	$ 1.98

Table of Contents

AVERY DENNISON CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 28, 2002	Three Months Ended September 29, 2001	Nine Months Ended September 28, 2002	Nine Months Ended September 29, 2001
(A) Net income available to common shareholders	$ 63.1	$ 61.7	$ 201.7	$ 185.1
(B) Weighted average number of common shares outstanding	98.5	97.9	98.3	97.8
Additional common shares issuable under employee stock options using the treasury stock method	.8	.7	.9	.8
(C) Weighted average number of common shares outstanding assuming the exercise of stock options	99.3	98.6	99.2	98.6
Net income per common share (A) ÷ (B)	$ .64	$ .63	$ 2.05	$ 1.89
Net income per common share, assuming dilution (A) ÷ (C)	$ .64	$ .63	$ 2.03	$ 1.88

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 antidilutive stock options (which are options that have exercise prices greater than the average market price for the period) excluded from the computation were 0.1 million for the three and nine months ended September 28, 2002, and 2.1 million and 1.7 million for the three and nine months ended September 29, 2001, respectively.

5. Comprehensive Income

Comprehensive income for the Company included net income, foreign currency translation adjustments and the effective portion of cash flow hedges that are currently presented as a component of shareholders' equity. There was no change in the minimum pension liability for the three and nine months ended September 28, 2002. The Company's total comprehensive income for the three and nine months ended September 28, 2002 was $12.5 million and $164.9 million, respectively. For the three and nine months ended September 29, 2001, total comprehensive income was $79.5 million and $182.7 million, respectively. As of September 28, 2002, the foreign currency translation adjustment, minimum pension liability, net loss on derivative instruments designated as cash flow hedges and total accumulated other comprehensive loss balances were $(126.4) million, $(14.3) million, $(32.5) million and $(173.2) million, respectively. As of December 29, 2001, the foreign currency translation adjustment, minimum pension liability, net gain on derivative instruments designated as cash flow hedges and total accumulated other comprehensive loss balances were $(123.1) million, $(14.3) million, $1 million and $(136.4) million respectively.

AVERY DENNISON CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. Comprehensive Income (continued)

The table below details the cash flow hedging instrument activity in other comprehensive income (loss) for the first nine months of 2002:

(In millions)		September 28, 2002
Beginning accumulated derivative gain	$	1.0
Net gain reclassified to earnings		(.6)
Net change in revaluation of hedging transactions		(32.9)
Ending accumulated derivative loss	$	(32.5)

The Company entered into a forward starting interest rate swap in May 2002 to hedge the interest cost associated with the Company's anticipated long-term debt issuance. The principal amount of the hedge was $250 million. Because of a shift in interest rates, an unrealized loss of approximately $33 million was included in other comprehensive income as of the end of the third quarter 2002. The forward starting interest rate swap is revalued monthly in accordance with applicable accounting standards. Upon issuance of the long-term debt, the gain or loss, if any, will be amortized to interest expense over 10 years.

6. Foreign Currency

Translation of financial statements of subsidiaries operating in hyperinflationary economies and transactions in foreign currencies resulted in losses, net of tax, of $0.7 million and $2.8 million, during the three and nine months ended September 28, 2002, respectively. For the three and nine months ended September 29, 2001, the Company recorded losses of $0.6 million and $0.4 million, respectively. Operations in hyperinflationary economies consist of the Company's operations in Turkey for 2001 and 2002.

7. Financial Instruments

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, in the first quarter of 2001 and recorded a transition adjustment reducing net income by $0.2 million (net of tax). This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value.

The Company enters into 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 foreign currencies. The Company also enters into interest rate contracts to manage its exposure to interest rate fluctuations.

During the three and nine months ended September 28, 2002 changes in fair market value related to fair value hedges and the ineffectiveness related to cash flow hedges were not significant. The Company expects to reclassify from other comprehensive income to earnings a loss of approximately $1.9 million over the next twelve months. A loss of approximately $2.7 million related to a net investment hedge is included in the foreign currency translation adjustment reported in accumulated other comprehensive loss.

The Company entered into a forward starting interest rate swap in May 2002 to hedge the interest cost associated with the Company's anticipated long-term debt issuance. The principal amount of the hedge was $250 million. Because of a shift in interest rates, an unrealized loss of approximately $33 million was included in other comprehensive income as of the end of the third quarter 2002. The forward starting interest rate swap is revalued monthly in accordance with applicable accounting standards. Upon issuance of the long-term debt, the gain or loss, if any, will be amortized to interest expense over 10 years.

AVERY DENNISON CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

8. Inventories

Inventories consisted of:

(In millions)	September 28, 2002	December 29, 2001
Raw materials	$ 100.1	$ 82.9
Work-in-progress	81.5	67.6
Finished goods	175.6	134.6
LIFO adjustment	(16.2)	(17.7)
	$ 341.0	$ 267.4

9. Software

The Company capitalizes software costs in accordance with American Institute of Certified Public Accountants' Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Capitalized software costs are included in the "Other assets" line on the Condensed Consolidated Balance Sheet. Capitalized software is amortized on a straight-line basis over the estimated useful life of the software, not to exceed 10 years.

10. Research and Development

Research and development expense for the three and nine months ended September 28, 2002 was $18.4 million and $53.4 million, respectively. For the three and nine months ended September 29, 2001, research and development expense was $16.6 million and $51.9 million, respectively.

11. Contingencies

The Company has been designated by the U.S. Environmental Protection Agency (EPA) and/or other responsible state agencies as a potentially responsible party (PRP) at 9 waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed upon. The Company is participating with other PRPs at 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 sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the minimum cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites, and sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Amounts currently accrued are not significant to the consolidated financial position of the Company and, based upon current information, management believes that it is unlikely the final resolution of these matters will significantly impact the consolidated financial position and operations of the Company.

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

AVERY DENNISON CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

12. Other Expense and Cost Reduction Program

In the third quarter of 2002, the Company recorded a $15.2 million pretax charge for the planned disposition of fixed assets (land, buildings, machinery and equipment) and lease cancellation costs associated with the integration of Jackstädt operations, as well as the planned closure of a plant facility, costs to exit leases and other fixed asset impairments related to other businesses. Approximately 60 percent of the charge relates to the integration of Jackstädt. The charge, shown in the "Other expense" line in the Consolidated Statement of Income, relates entirely to assets and leases owned by the Company prior to the acquisition of Jackstädt. Of the $15.2 million charge, approximately $11.3 million relates to asset write-downs for property, plant and equipment and $3.9 million relates to lease cancellation costs.

The Company recorded a charge in the fourth quarter of 2001 relating to cost reduction actions. The 2001 charge involves cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. The cost reduction efforts resulted in a pretax charge of $19.9 million, which consisted of employee severance and related costs of $13.1 million for approximately 400 positions worldwide, and asset write-downs of $6.8 million. The positions included approximately 170 employees in the Pressure-sensitive Adhesives and Materials segment, 210 employees in the Consumer and Converted Products segment and 20 Corporate employees. Severance and related costs represent cash paid or to be paid to employees terminated under the program. Asset write-downs represent non-cash charges required to reduce the carrying value of assets to be disposed of to net realizable value as of the planned date of disposal. At the end of the third quarter of 2002, $3.1 million remained accrued for severance and related costs (included in "Other current liabilities") in the Condensed Consolidated Balance Sheet, and all amounts related to asset write-downs had been utilized. At the end of the third quarter, of the 400 positions under these actions, approximately 370 employees had left the Company. The Company expects to complete this cost reduction program in 2002, with the exception of some payments under long-term severance contracts, which will be paid beyond 2002.

AVERY DENNISON CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

13. Segment Information

Financial information by reportable operating segment is set forth below:

(In millions)	Three Months Ended September 28, 2002	Three Months Ended September 29, 2001	Nine Months Ended September 28, 2002	Nine Months Ended September 29, 2001
Net sales:				
Pressure-sensitive Adhesives and Materials	$ 687.2	$ 554.6	$ 1,877.6	$ 1,649.2
Consumer and Converted Products	470.8	461.9	1,351.0	1,362.6
Intersegment[1]	(43.5)	(49.8)	(127.0)	(121.1)
Net sales	$ 1,114.5	$ 966.7	$ 3,101.6	$ 2,890.7
Income (loss) from operations before Interest and taxes [2] :				
Pressure-sensitive Adhesives and Materials	$ 41.8	$ 47.6	$ 153.5	$ 138.9
Consumer and Converted Products	65.3	62.5	191.5	196.3
Corporate administrative and research and Development expenses	(8.6)	(6.9)	(28.2)	(18.8)
Interest expense	(11.8)	(12.4)	(30.7)	(39.7)
Income before taxes and accounting change	$ 86.7	$ 90.8	$ 286.1	$ 276.7

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

(2) Income from operations for the three and nine months ended September 29, 2002 includes asset impairment charges and lease cancellation costs of $15.2 million, of which the Pressure-sensitive Adhesives and Materials segment recorded $11 million and the Consumer and Converted Products segment recorded $4.2 million.

AVERY DENNISON CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

14. Recent Accounting Requirements

In July 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” Under EITF Issue No. 94-3, a liability for an exit cost is recognized at the date an entity commits to an exit plan. SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF Issue 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This Statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of this Statement will be effective after December 31, 2002. The Company is currently in the process of evaluating the impact of adopting SFAS No. 146.

In May 2002, the FASB issued SFAS No. 145, “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.” This Statement rescinds FASB Statement No. 4, “Reporting Gains and Losses from Extinguishment of Debt,” and an amendment of that Statement, FASB Statement No. 64, “Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements.” This Statement amends FASB Statement No. 13, “Accounting for Leases,” to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of Statement No. 4 are effective beginning in 2003. All other provisions were effective May 16, 2002. The provisions adopted, effective May 16, 2002, did not have a significant impact on the Company’s financial results. The Company is in the process of determining the impact of this standard on the Company’s financial results for those provisions effective in 2003.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” This Statement was effective for the Company on December 30, 2001, and supersedes SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of” and amends Accounting Principles Board (APB) Opinion No. 30, “Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.” This Statement requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less costs to sell. SFAS No. 144 retains the fundamental provisions of SFAS 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. This Statement also retains APB Opinion No. 30’s requirement that companies report discontinued operations separately from continuing operations. For the quarter and nine months ended September 28, 2002, the Company divested operations whose results, including the gain/loss on asset sales, did not have a significant impact on the income statement and were, therefore, not reflected as discontinued operations in the Company’s Consolidated Statement of Income.

In August 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations,” which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. All provisions of this Statement will be effective at the beginning of fiscal 2003. The Company is in the process of determining the impact of this standard on the Company’s financial results when effective.

AVERY DENNISON CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

15. Subsequent Event

On November 5, 2002, the Company acquired RVL Packaging, Inc. “RVL”, a global provider of brand identification products to apparel manufacturers and retailers. RVL, a privately held company, designs, markets and distributes woven and printed labels, graphic tags and specialty packaging products. On the same day, the Company also acquired the assets of L&E Packaging “L&E” a privately held company and RVL’s supplier. L&E offers a broad range of offset and flexographic printing products tailored to the specific needs of the apparel and retail industries. Both transactions included the acquisition of certain related entities. The purchase price for these transactions was approximately $220 million, of which approximately $47 million was paid in Avery Dennison stock. Funds to complete the acquisitions were derived from short-term borrowings. On a combined basis, unaudited revenues for RVL, L&E and affiliated companies were approximately $175 million for 2001. The operations of the companies are expected to enhance the Company’s existing data management and ticketing capabilities.

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations: For the Quarter

Quarterly sales were $1.1 billion, compared to third quarter 2001 sales of $966.7 million. Excluding the impact of currency, sales increased 12.9 percent. The Company estimates the acquisition of Jackstädt contributed an additional $93 million in sales to the third quarter of 2002 as compared to the same period last year.

Gross profit margin decreased to 31.7 percent for the quarter compared to 32.4 percent for the third quarter of 2001. The decrease was due largely to the lower gross profit margin in the recently acquired Jackstädt business.

Marketing, general and administrative expense, as a percent of sales, was 21.5 percent compared to 21.7 percent for the third quarter of 2001. Although the ratio of marketing, general and administrative expense as a percent of sales improved, total spending in absolute dollars increased. The increase was due to a number of factors including, but not limited to, higher costs associated with Jackstädt expenses, including integration costs, increases in marketing expenses and bonus accruals due to higher sales and net income. The increase was partially offset by the reduction in amortization expense associated with the change in accounting for goodwill adopted at the beginning of 2002.

In the third quarter of 2002, the Company recorded a $15.2 million pretax charge for the planned disposition of fixed assets (land, buildings, machinery and equipment) and lease cancellation costs associated with the integration of Jackstädt operations, as well as the planned closure of a plant facility, costs to exit leases and other fixed asset impairments related to other businesses. Approximately 60 percent of the charge relates to the integration of Jackstädt. The charge, shown in the "Other expense" line in the Consolidated Statement of Income, relates entirely to assets and leases owned by the Company prior to the acquisition of Jackstädt. Of the $15.2 million charge, approximately $11.3 million relates to asset write-downs for property, plant and equipment and $3.9 million relates to lease cancellation costs.

Interest expense decreased to $11.8 million for the quarter, compared to $12.4 million a year ago, reflecting lower interest rates on short-term, floating rate debt. The decrease in interest expense was partially offset by the additional interest on the debt used to fund the Jackstädt acquisition.

Income before taxes, as a percent of sales, was 7.8 percent compared to 9.4 percent a year ago. The decrease reflects the $15.2 million pretax charge and lower gross profit margin as a percent of sales. The elimination of goodwill amortization partially offset the decrease. During the quarter, the year-to-date effective tax rate was reduced from 30.5 percent to 29.5 percent, which resulted in a quarterly effective tax rate of 27.2 percent. The decrease is principally due to structural and other operational changes, the impact of acquisitions, the geographic mix of income and the change in accounting for goodwill that reduced the effective tax rate on a global basis.

Net income totaled $63.1 million compared to $61.7 million in the third quarter of 2001. Net income, as a percent of sales, was 5.7 percent for the third quarter of 2002 and 6.4 percent for the same period last year.

Net income per common share for the quarter was $.64 compared to $.63 in the third quarter of 2001. Net income per common share, assuming dilution, was $.64 for the third quarter of 2002 and $.63 for the third quarter of 2001. The results (net income per common share, assuming dilution) for the third quarter of 2002 include a $(.10) impact from the asset impairment and lease cancellation charge, a negative impact of approximately $(.05) from the Jackstädt acquisition, a benefit of approximately $.03 related to the accounting change eliminating goodwill amortization, a benefit of approximately $.02 from the year-to-date tax rate adjustment and a benefit of approximately $.02 from the positive impact of changes in foreign currency exchange rates.

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations: For the Quarter (continued)

Results of Operations by Reportable Operating Segment

Pressure-sensitive Adhesives and Materials:

	Three Months Ended	
(In millions)	**September 28, 2002**	**September 29, 2001**
Net sales	$ 687.2	$ 554.6
Income from operations before interest and taxes	$ 41.8	$ 47.6

The Pressure-sensitive Adhesives and Materials segment reported increased sales for the third quarter of 2002 compared to the same period last year. Sales increased domestically due to the strong volume growth in the roll materials business, which was attributable largely to industry consolidation, new products and service programs and new applications. Strong sales growth in the specialty tapes business from the introduction of new applications and products for the medical and industrial markets also contributed to the increase in domestic sales. The sales increase was partially offset by the reduction in sales from divested operations, including the specialty coatings business sold in the fourth quarter of 2001, as well as from a slight decline in the graphics and reflective business. Sales increased internationally, mainly due to the acquisition of Jackstädt, which had sales of approximately $93 million, sales growth in most businesses in Asia and Latin America and the positive impact of changes in foreign currency exchange rates.

The segment reported a decrease in income for the third quarter of 2002 compared to the same period last year. Income for the third quarter of 2002 was impacted by an $11 million charge ($3.6 million in the U.S. operations and $7.4 million in the international operations) related to asset impairment and lease cancellation costs. Excluding this charge, income increased domestically largely due to strong volume growth and improved profitability achieved through cost reductions and productivity gains, and the change in accounting for goodwill amortization. Income was comparable to the prior year for the segment's international operations. Sales growth and the change in accounting for goodwill amortization was offset by integration costs related to the Jackstädt acquisition.

Consumer and Converted Products:

	Three Months Ended	
(In millions)	**September 28, 2002**	**September 29, 2001**
Net sales	$ 470.8	$ 461.9
Income from operations before interest and taxes	65.3	62.5

The Consumer and Converted Products segment reported an increase in sales for the third quarter of 2002 compared to the same period last year. Sales in the U.S. operations increased mainly due to increased sales in the industrial and automotive products business and the ticketing business. Sales from the office products business decreased slightly due to earlier customer inventory builds, which benefited the second quarter, as well as slower economic conditions and weaker consumer confidence impacting demand for office products. Sales from international operations increased principally due to the strong volume growth in Asia, especially in the ticketing business, and the positive impact of changes in foreign currency exchange rates in Europe. The increase was partially offset by weakened economic conditions in Europe.

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations: For the Quarter (continued)

The segment reported an increase in income for the third quarter of 2002 compared to the same period last year. Income for the third quarter of 2002 was impacted by a $4.2 million charge ($2.7 million in the U.S. operations and $1.5 million in the international operations) related to asset impairment and lease cancellation costs. Excluding this charge, income from domestic operations increased due to a number of factors including, but not limited to, sales of higher margin products in the industrial and automotive business and office products business, cost reduction efforts and the change in accounting for goodwill amortization. Income from international operations was comparable to the prior year, excluding the asset impairment and lease cancellation charge. Increases in Asia and Latin America, as well as the change in accounting for goodwill amortization were offset by the slower economic conditions in Europe.

Results of Operations: Nine Months Year-To-Date

On May 17, 2002, the Company acquired Jackstädt GmbH, a privately-held manufacturer of pressure-sensitive adhesive materials based in Germany. Jackstädt has a global customer base and had consolidated revenues of approximately $400 million in 2001. The Jackstädt business is included in the Company's Pressure-sensitive Adhesives and Materials segment. Jackstädt complements the Company's operations in North America, Asia, Latin America and Europe. Jackstädt enhances the Company's global presence, including its capability to grow in Eastern Europe, and enables it to offer a broader selection of products and services.

The purchase price at closing was approximately $300 million, which included approximately $200 million in cash and assumed debt of approximately $100 million. The Company assumed liabilities of approximately $203 million, including the assumed debt, accrued payroll and benefits, accounts payable, other accrued liabilities, long-term retirement benefits and other current and long-term liabilities. The Company funded the transaction with cash and short-term commercial paper. The excess of the cost-basis over the fair value of net tangible assets acquired is currently estimated to be approximately $152 million, which includes estimated identified intangible assets of approximately $11 million, which are being amortized on a straight-line basis over 5 years. The purchase price paid at closing was based on financial statement values at June 30, 2001, and is subject to adjustment based upon a formula in the purchase agreement and is subject to finalization after a review of the closing financial statements. Jackstädt's results of operations have been included in the Company's consolidated financial statements as of the acquisition date.

Sales for the first nine months of 2002 were $3.1 billion, compared to $2.89 billion in the corresponding period of 2001. Excluding the impact of currency, sales increased 7.3 percent. The Company estimates the acquisitions of Jackstädt in May of 2002 and Dunsirn Industries and CD Stomper in February of 2001 contributed approximately $145 million in sales for the first nine months of 2002 over the amounts contributed during the same period last year.

Gross profit margin for the first nine months was 32.5 percent, comparable to 32.6 percent for the first nine months of 2001. Lower gross profit margin on the Jackstädt business offset improvements from cost reduction programs and productivity improvement gains achieved through the Six Sigma program.

Marketing, general and administrative expense, as a percent of sales, for the first nine months was 21.8 percent compared to 21.7 percent for the first nine months of 2001. The increase was largely due to higher costs associated with Jackstädt expenses, including integration costs, increases in marketing expenses and bonus accruals due to higher sales and net income. Productivity improvements and the change in accounting for goodwill amortization partially offset the increases.

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations: Nine Months Year-To-Date (continued)

In the third quarter of 2002, the Company recorded a $15.2 million pretax charge for the planned disposition of fixed assets (land, buildings, machinery and equipment) and lease cancellation costs associated with the integration of Jackstädt operations, as well as the planned closure of a plant facility, costs to exit leases and other fixed asset impairments related to other businesses. Approximately 60 percent of the charge relates to the integration of Jackstädt. The charge, shown in the "Other expense" line in the Consolidated Statement of Income, relates entirely to assets and leases owned by the Company prior to the acquisition of Jackstädt. Of the $15.2 million charge, approximately $11.3 million relates to asset write-downs for property, plant and equipment and $3.9 million relates to lease cancellation costs.

Interest expense decreased to $30.7 million for the first nine months, compared to $39.7 million for the first nine months of 2001, reflecting lower interest rates on short-term, floating rate debt. The decrease in interest expense was partially offset by the additional interest on the debt used to fund the Jackstädt acquisition.

Income before taxes, as a percent of sales, was 9.2 percent compared to 9.6 percent a year ago. The decrease reflects the $15.2 million pretax charge recorded in the third quarter, lower gross profit margin as a percent of sales and increased marketing expenses and bonus accruals. The decrease was partially offset by lower interest expense and the elimination of goodwill amortization. The year-to-date effective tax rate decreased to 29.5 percent for 2002 from 33 percent for the first nine months of 2001. The decrease is mainly due to structural and other operational changes, the impact of acquisitions, the geographic mix of income and the change in accounting for goodwill that reduced the effective tax rate on a global basis.

Net income totaled $201.7 million compared to $185.1 million in the first nine months of 2001. Net income, as a percent of sales, was 6.5 percent for the first nine months of 2002 and 6.4 percent for the same period last year.

Net income per common share for the first nine months was $2.05 compared to $1.89 for the same period last year. Net income per common share, assuming dilution, was $2.03 for the first nine months of 2002 and $1.88 for the first nine months of 2001. The results (net income per common share, assuming dilution) for the first nine months of 2002 include a $(.10) impact from the asset impairment and lease cancellation charge, a benefit of approximately $.10 related to the accounting change eliminating goodwill amortization and a negative impact of approximately $(.07) from the Jackstädt acquisition.

Results of Operations by Reportable Operating Segment

Pressure-sensitive Adhesives and Materials:

	Nine Months Ended	
(In millions)	**September 28, 2002**	**September 29, 2001**
Net sales	$ 1,877.6	$ 1,649.2
Income from operations before interest and taxes	153.5	138.9

The Pressure-sensitive Adhesives and Materials segment reported increased sales for the first nine months of 2002 compared to the same period last year. Sales increased domestically principally due to the strong volume growth in the roll materials business, including the market share gain from business obtained from the closure of a competitor's plant and a supply agreement with a company that decided to outsource its manufacturing of certain roll label materials, a full nine months of sales from the Dunsirn acquisition, which occurred in February of 2001, industry consolidation, new products and service programs and new applications. Strong sales growth in the specialty tapes business from the introduction of new applications and products for the medical and industrial markets also contributed to the increase in domestic sales. The sales increase was partially offset by the reduction in sales from divested operations, including

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations: Nine Months Year-To-Date (continued)

the specialty coatings business sold in the fourth quarter of 2001, as well as from sales declines in the U.S. graphics and reflective business. Sales increased internationally, mainly due to the acquisition of Jackstädt, which had sales of approximately $139 million, and strong volume growth in Asia and Latin America. Sales growth in Latin America was partially offset by the negative impact of changes in foreign currency exchange rates.

The segment reported an increase in income for the first nine months of 2002 compared to the same period last year. Income for 2002 was impacted by an $11 million charge ($3.6 million in the U.S. operations and $7.4 million in the international operations) related to asset impairment and lease cancellation costs. Excluding this charge, income increased domestically due to strong volume growth in the U.S. roll materials business, improved profitability achieved through cost reductions and productivity gains in the roll materials, specialty tapes and graphics businesses, as well as the positive impact from the change in accounting for goodwill amortization. Income increased for the segment's international operations principally due to sales growth, improved profitability in the roll materials, graphics and specialty tapes businesses achieved through cost reductions and productivity gains, and the change in accounting for goodwill amortization. The increases were partially offset by integration costs related to the Jackstädt acquisition.

Consumer and Converted Products:

(In millions)	Nine Months Ended September 28, 2002	Nine Months Ended September 29, 2001
Net sales	$ 1,351.0	$ 1,362.6
Income from operations before interest and taxes	191.5	196.3

The Consumer and Converted Products segment reported a decrease in sales for the first nine months of 2002 compared to the same period last year. Sales in the U.S. operations were comparable to the prior year. Increased sales in the industrial and automotive business were offset by general economic weakness in the first quarter, which impacted sales volumes across most of the segment, and weaker demand for office products. The negative impact on office products in the U.S. Operations was partially offset by a full nine months of sales from the acquisition of CD Stomper, which occurred in February of 2001. Excluding the reduction in sales from divested operations, sales from international operations increased. The increase was largely due to the strong sales growth in Asia, especially in the ticketing business, and the positive impact of changes in foreign currency exchange rates in Europe. The increase was partially offset by lower sales volume in most of the segment's businesses in Europe and Latin America.

The segment reported a decrease in income for the first nine months of 2002 compared to the same period last year. Income for 2002 was impacted by a $4.2 million charge ($2.7 million in the U.S. Operations and $1.5 million in the international operations) related to asset impairment and lease cancellation costs. Excluding the charge, income was comparable to the prior year. The benefit from the change in accounting for goodwill amortization was offset by weak economic conditions in Europe.

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Financial Condition

Average working capital, excluding short-term debt, as a percent of sales, decreased to 6.6 percent for the quarter from 8 percent a year ago. This decrease is due largely to the increase in other current liabilities, including increased bonus accruals and hedge liabilities, and the increase in sales. The average number of days sales outstanding in accounts receivable increased to 61 days compared to 58 days a year ago, reflecting the longer payment terms associated with increased international sales and newly acquired businesses.

Net cash flows provided by operating activities totaled $320.7 million for the first nine months of 2002 and $244.4 million for the first nine months of 2001. The increase in net cash flows provided by operating activities was mainly due to the changes in working capital (increases in other current liabilities and accounts payable) and the increase in net income. In addition to cash flows from operations, the Company has adequate financing arrangements, at competitive rates, to conduct its operations.

Capital expenditures for the quarter were $32.9 million compared to $31.9 million a year ago. For the first nine months of 2002, capital spending totaled $71.3 million compared to $96.6 million a year ago. Capital expenditures for 2002 are expected to be in the range of $140 million to $150 million, as compared to $135.4 million in 2001. The Company's major capital projects this year are focused on the international markets, including additional capital needs for the Jackstädt business.

During the first nine months of 2002, total debt increased $187.9 million to $1.04 billion from year end 2001. The increase in debt was to fund the acquisition of Jackstädt, capital purchases and for other general purposes. Total debt to total capital was 50.4 percent as of the end of the third quarter of 2002 and 47.8 percent at year end 2001. The increase is due to additional short-term borrowings to fund the Jackstädt acquisition. 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 $81.1 million is the only amount reported in the "Other long-term obligation" line on the Condensed Consolidated Balance Sheet, and is scheduled to be paid in 2004.

Subsequent to the announcement of the then pending RVL and L&E acquisitions, Standard & Poor's Rating Services (S&P) and Moody's Investors Service (Moody's) reviewed the Company's debt ratings. S&P reaffirmed the Company's "A1" short-term rating, "A" long-term rating and "negative" outlook. Moody's downgraded the Company's short-term rating from "P1" to "P2" and its long-term rating from "A2" to "A3", and changed the outlook for the Company from "negative" to "stable." The downgrade will increase interest rates on the Company's debt. Beginning in 2003, based on current interest rates, the increased interest cost is estimated to have an after-tax impact in the range of approximately $1 million to $3 million per year.

In the third quarter of 2001, the Company filed a shelf registration statement with the Securities and Exchange Commission to permit the issuance of up to $600 million in debt and equity securities. Proceeds from the shelf offering may be used for general corporate purposes, including repaying, redeeming or repurchasing existing debt, and for working capital, capital expenditures and acquisitions. No securities have been issued since the filing.

Shareholders' equity increased to $1.02 billion from $929.4 million at year end 2001. During the first nine months of 2002, the Company purchased approximately 87,000 shares of common stock at a cost of approximately $5 million. The market value of shares held in the employee stock benefit trust, after the issuance of shares under the Company's stock and incentive plans, decreased by $6.7 million to $667.8 million from year end 2001. Dividends paid for the first nine months of 2002 totaled $108.7 million compared to $99.1 million a year ago.

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Cost Reduction Program

The Company recorded a charge in the fourth quarter of 2001 relating to cost reduction actions. The 2001 charge involves cost reduction programs and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. The cost reduction efforts resulted in a pretax charge of $19.9 million, which consisted of employee severance and related costs of $13.1 million for approximately 400 positions worldwide, and asset write-downs of $6.8 million. The positions included approximately 170 employees in the Pressure-sensitive Adhesives and Materials segment, 210 employees in the Consumer and Converted Products segment and 20 Corporate employees. Severance and related costs represent cash paid or to be paid to employees terminated under the program. Asset write-downs represent non-cash charges required to reduce the carrying value of assets to be disposed of to net realizable value as of the planned date of disposal. At the end of the third quarter of 2002, $3.1 million remained accrued for severance and related costs (included in "Other current liabilities") in the Condensed Consolidated Balance Sheet, and all amounts related to asset write-downs had been utilized. At the end of the third quarter, of the 400 positions under these actions, approximately 370 employees had left the Company. The Company expects to complete this cost reduction program in 2002, with the exception of some payments under long-term severance contracts, which will be paid beyond 2002.

Subsequent Event

On November 5, 2002, the Company acquired RVL Packaging, Inc. "RVL", a global provider of brand identification products to apparel manufacturers and retailers. RVL, a privately held company, designs, markets and distributes woven and printed labels, graphic tags and specialty packaging products. On the same day, the Company also acquired the assets of L&E Packaging "L&E" a privately held company and RVL's supplier. L&E offers a broad range of offset and flexographic printing products tailored to the specific needs of the apparel and retail industries. Both transactions included the acquisition of certain related entities. The purchase price for these transactions was approximately $220 million, of which approximately $47 million was paid in Avery Dennison stock. Funds to complete the acquisitions were derived from short-term borrowings. On a combined basis, unaudited revenues for RVL, L&E and affiliated companies, were approximately $175 million in 2001. The operations of the companies are expected to enhance the Company's existing data management and ticketing capabilities.

Future Accounting Requirements

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under EITF Issue No. 94-3, a liability for an exit cost is recognized at the date an entity commits to an exit plan. SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF Issue 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This Statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of this Statement will be effective after December 31, 2002. The Company is currently in the process of evaluating the impact of adopting SFAS No. 146.

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Future Accounting Requirements (continued)

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of Statement No. 4 are effective beginning in 2003. All other provisions were effective May 16, 2002. The provisions adopted, effective May 16, 2002, did not have a significant impact on the Company's financial results. The Company is in the process of determining the impact of this standard on the Company's financial results for those provisions effective in 2003.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement was effective for the Company on December 30, 2001, and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and amends Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This Statement requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less costs to sell. SFAS No. 144 retains the fundamental provisions of SFAS 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. This Statement also retains APB Opinion No. 30's requirement that companies report discontinued operations separately from continuing operations. For the quarter and nine months ended September 28, 2002, the Company divested operations whose results, including the gain/loss on asset sales, did not have a significant impact on the income statement and were, therefore, not reflected as discontinued operations in the Company's Consolidated Statement of Income.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. All provisions of this Statement will be effective at the beginning of fiscal 2003. The Company is in the process of determining the impact of this standard on the Company's financial results when effective.

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Outlook

The Jackstädt acquisition in May 2002 is the Company's largest acquisition in over a decade. The Company believes the combination is a strategic fit with the Company's core pressure-sensitive materials and graphics businesses. Jackstädt strengthens the Company's business in many developing markets and important growth areas around the world, including Asia, Latin America and Eastern Europe. Integration of the Jackstädt business is ahead of plan, and the majority of the integration actions are expected to be completed over the next 21 months. As part of the integration, the Company recorded a charge in the third quarter of 2002 for the impairment of property, plant and equipment and lease cancellation costs related to fixed assets and leases owned by the Company prior to the acquisition. Approximately 60 percent of the $15.2 million pretax charge relates to the integration of Jackstädt. In addition, the Company plans on recording an additional $17 million charge in the fourth quarter of 2002 for severance costs related to the elimination of Avery Dennison positions as a result of the Jackstädt integration. Revaluation of property, plant and equipment related to Jackstädt fixed assets, lease cancellation costs for Jackstädt facilities and severence of former Jackstädt employees are accounted for as adjustments to goodwill. The Company does not expect additional severance or asset impairment charges to earnings associated with the Jackstädt integration after 2002.

Interest expense was $11.8 million for the third quarter and $30.7 million for the first nine months of 2002, reflecting lower interest rates on the Company's short-term, floating rate debt. The Company expects interest expense to increase to the range of $13 million to $15 million in the fourth quarter, after giving effect to an anticipated refinancing of short-term debt to long-term debt. Timing of the refinancing will be dependent upon market conditions, acquisition activity and other factors.

Subsequent to the announcement of the then pending RVL and L&E acquisitions, Standard & Poor's Rating Services (S&P) and Moody's Investors Service (Moody's) reviewed the Company's debt ratings. S&P reaffirmed the Company's "A1" short-term rating, "A" long-term rating and "negative" outlook. Moody's downgraded the Company's short-term rating from "P1" to "P2" and its long-term rating from "A2" to "A3", and changed the outlook for the Company from "negative " to "stable." The downgrade will increase interest rates on the Company's debt. Beginning in 2003, based on current interest rates, the increased interest cost is estimated to have an after-tax impact in the range of approximately $1 million to $3 million per year.

The effective tax rate was 29.5 percent for the first nine months of 2002. Due to structural and other operational changes, the impact of acquisitions, the geographic mix of income and the change in accounting for goodwill, the Company believes the effective tax rate will be approximately 29.5 percent going forward, subject to changes in the geographic mix of income.

The Company is encouraged by the outlook for its businesses, with continuing uncertainty about economic conditions in Europe. Softer economic conditions in Europe may continue to negatively impact the Company's results in the fourth quarter of 2002.

Any further devaluation of the Argentine peso would continue to negatively impact revenues and earnings from the Company's operations in Argentina, but currently it is not expected to have a significant impact on the Company's financial results. The Company is also exposed to a potential negative impact from its operations in Brazil. Political, economic, and regulatory issues in Brazil present uncertainty regarding the stability of Brazil's currency. The Company has hedged a portion of its currency exposure in Brazil for the fourth quarter and does not currently anticipate a significant negative impact if the currency devalues. Operations in Brazil (the majority of which are reported in the Pressure-sensitive Adhesives and Materials segment) represented approximately $40 million in sales in 2001 and are not significant to the Company's financial results.

Table of Contents

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Outlook (continued)

Other international operations, principally in Western Europe, constitute a significant portion of the Company's business. The Company is exposed to foreign currency exchange rate risk, and changes to foreign exchange rates in Western Europe and elsewhere will impact the Company's financial results.

The adoption of SFAS No.142 benefited earnings per share, assuming dilution, by approximately $0.10 in the first nine months of 2002. Under the new accounting standard, the Company no longer amortizes goodwill. The Company expects the new accounting rule to benefit earnings per share, assuming dilution, by approximately $0.13 for 2002, as compared to 2001. However, the Company anticipates that increased amortization expense related to capitalized software will partially offset the benefit from the accounting change for goodwill amortization.

In this period of challenging worldwide economic conditions, the Company is focused on cost management efforts and believes it is positioned for further growth as economic conditions improve. The Company has reduced costs and expects to continue to benefit from the implementation of productivity improvement initiatives. In addition to driving down costs, the Company continues to pursue long-term growth initiatives. These initiatives include acquisitions, entry into new markets, development of new products and geographic expansion.

Safe Harbor Statement

Except for historical information contained herein, the matters discussed in the Management's Discussion and Analysis of Results of Operations and Financial Condition 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," "estimate," "expect," "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 anticipated future 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 the Company's Annual Report on Form 10-K for the year ended December 29, 2001 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, price and availability of raw materials, impact of competitive products and pricing, business mix shift, credit risks, increases in the cost of debt, successful integration of new acquisitions, 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, fluctuations in foreign exchange rates and other risks associated with foreign operations, changes in economic or political conditions, acts of war, terrorism, natural disasters, and other factors.

Any forward looking statement should also be considered in light of the factors detailed in Exhibit 99 to the Company's Annual Report on Form 10-K for the year ended December 29, 2001.

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.

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 3. QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

ITEM 3. – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company entered into a forward starting interest rate swap in May 2002 to hedge the interest cost associated with the Company's anticipated long-term debt issuance. The principal amount of the hedge was $250 million. Because of a shift in interest rates, an unrealized loss of approximately $33 million was included in other comprehensive income as of the end of the third quarter 2002. The forward starting interest rate swap is revalued monthly in accordance with applicable accounting standards. Upon issuance of the long-term debt, the gain or loss, if any, will be amortized to interest expense over 10 years.

Subsequent to the announcement of the then pending RVL and L&E acquisitions, Standard & Poor's Rating Services (S&P) and Moody's Investors Service (Moody's) reviewed the Company's debt ratings. S&P reaffirmed the Company's "A1" short-term rating, "A" long-term rating and "negative" outlook. Moody's downgraded the Company's short-term rating from "P1" to "P2" and its long-term rating from "A2" to "A3", and changed the outlook for the Company from "negative" to "stable." The downgrade will increase interest rates on the Company's debt. Beginning in 2003, based on current interest rates, the increased interest cost is estimated to have an after-tax impact in the range of approximately $1 million to $3 million per year.

There were no other material changes in the information provided in Item 7A of the Company's Form 10-K for the fiscal year ended December 29, 2001.

AVERY DENNISON CORPORATION AND SUBSIDIARIES
ITEM 4. CONTROLS AND PROCEDURES

ITEM 4. – CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as defined in Exchange Act Rule 13a – 14(c)) 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. Within 90 days prior to the date of this report, 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.

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 functioning effectively to provide reasonable assurance that the Company can meet its disclosure requirements.

There have been no significant changes in the Company’s internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

PART II. OTHER INFORMATION
AVERY DENNISON CORPORATION
AND SUBSIDIARIES

ITEM 1.

There are no material changes in the information provided in Item 3 of the Company's Form 10-K for the fiscal year ended December 29, 2001.

ITEMS 2, 3, 4 and 5.

Not Applicable

ITEM 6. – EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits:

	3(i)	Restated Certificate of Incorporation
	12	Computation of Ratio of Earnings to Fixed Charges

b. Reports on Form 8-K:

Registrant filed a current report on Form 8-K on August 13, 2002 containing information pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 related to the Company's Chief Executive Officer and Chief Financial Officer certifications.

Registrant filed a current report on Form 8-K on August 6, 2002 containing information pursuant to SEC Order No. 4-460 relating to the Company's Chief Executive Officer and Chief Financial Officer statements.

Table of Contents

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 12, 2002

CERTIFICATIONS

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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ PHILIP M. NEAL

Philip M. Neal
Chairman and
Chief Executive Officer

November 12, 2002

Table of Contents

CERTIFICATIONS

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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ DANIEL R. O'BRYANT

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

November 12, 2002

Table of Contents

Exhibit 3(i)

RESTATED CERTIFICATE OF INCORPORATION
OF
AVERY DENNISON CORPORATION

(Originally Incorporated on February 23, 1977 under the name
AVERY INTERNATIONAL CORPORATION)

ARTICLE I

The name of the Corporation is:

AVERY DENNISON CORPORATION

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, and the name of its registered agent at that address is United States Corporation Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

(a) The Corporation is authorized to issue two classes of shares to be designated, respectively, “Common Stock” and “Preferred Stock”. The total number of shares which the Corporation shall have authority to issue is Four Hundred Five Million (405,000,000) shares, and the aggregate par value of all shares which are to have a par value is Four Hundred Five Million Dollars ($405,000,000). The total number of shares of Preferred Stock which the Corporation shall have authority to issue is Five Million (5,000,000) shares, and the par value of each share of Preferred Stock is One Dollar ($1.00). The total number of shares of Common Stock which the Corporation shall have authority to issue is Four Hundred Million (400,000,000) shares, and the par value of each share of Common Stock is One Dollar ($1.00).

(b) The Preferred Stock may be issued in one or more series, each series to be appropriately designated by a distinguishing letter or title, prior to the issue of any shares thereof.

(c) The Board of Directors is hereby authorized to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms or redemption (including sinking fund provisions, if any), the redemption price or prices, the liquidation preferences, any other designations, preferences and relative, participating, optional or other special rights, and any qualifications, limitations or restrictions thereof, of any wholly unissued series of Preferred Stock, and the number of shares constituting any such unissued series and the designation thereof, or any of them; and to increase or decrease the number of shares of any series subsequent to the issue of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

(d) Pursuant to the authority conferred by this Article IV upon the Board of Directors of the Corporation, the Board of Directors created a series of 1,300,000 shares of Preferred Stock designated as Series A Junior Participating Preferred Stock by filing a Certificate of Designations of the Corporation with the Secretary of State of the State of Delaware on December 10, 1997 and the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the Corporation's Series A Junior Participating Preferred Stock are set forth in Appendix A hereto and are incorporated herein by reference.

ARTICLE V

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, repeal, alter, amend and rescind the Bylaws of the Corporation.

ARTICLE VI

Bylaws shall not be made, repealed, altered, amended or rescinded by the stockholders of the Corporation except by the vote of the holders of not less than eighty percent (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 Article VI as one class.

ARTICLE VII

The number of directors shall be fixed from time to time by a bylaw or amendment thereof duly adopted by the Board of Directors or by the stockholders acting in accordance with Article VI herein.

ARTICLE VIII

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; provided, however, that the directors appointed in Article IX herein to Class I shall serve for a term ending on the date of the first annual meeting next following November 30, 1977, the directors appointed in Article IX herein to Class II shall serve for a term ending on the date of the second annual meeting next following November 30, 1977, and the directors appointed in Article IX herein to Class III shall serve for a term ending on the date of the third annual meeting next following November 30, 1977.

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, retirement, 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 Article, as applied to the new authorized number of directors.

Notwithstanding any of the foregoing provisions of this Article, each director shall serve until his successor is elected and qualified or until his death, retirement, resignation or removal. No director may be removed during his term except for cause. Should a vacancy occur or be created, the remaining directors (even though less than a quorum) may fill the vacancy for the full term of the class in which the vacancy occurs or is created.

ARTICLE IX

The names and addresses of the initial directors of the Corporation, and the class to which each is hereby appointed, are as follows:

Name	Address	Class
R. Stanton Avery	Avery International Corporation 415 Huntington Drive San Marino, California 91108	III
H. Russell Smith	Avery International Corporation 415 Huntington Drive San Marino, California 91108	III
H. Safford Nye	1275 Oak Grove San Marino, California 91108	III

Table of Contents

Austin H. Peck, Jr.	Latham & Watkins 555 South Flower Street Los Angeles, California 90071	II
Lawrence R. Tollenaere	Ameron, Inc. 400 South Atlantic Blvd Monterey Park, California 91754	II
F. Daniel Frost	Gibson, Dunn & Crutcher 515 South Flower Street Los Angeles, California 90071	II
Dennis S. Avery	City Attorney's Office San Diego, California 92101	I
Paolo N. Rogers	106 Piazza Navona Rome, Italy	I
Charles D. Miller	Avery International Corporation 415 Huntington Drive San Marino, California 91108	I

ARTICLE X

Elections of directors at an annual or special meeting of stockholders need not be by written ballot unless the Bylaws of the Corporation shall so provide.

ARTICLE XI

No action shall be taken by the stockholders except at an annual or special meeting of stockholders.

ARTICLE XII

Special meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time by the Board of Directors, or by a majority of the members of the Board of Directors, or by a committee of the Board of Directors which has been duly designated by the Board of Directors and whose powers and authority, as provided in a resolution of the Board of Directors or in the Bylaws of the Corporation, include the power to call such meetings, but such special meetings may not be called by any other person or persons; provided, however, that if and to the extent that any special meeting of stockholders may be called by any other person or persons specified in any provisions of the Certificate of Incorporation or any amendment thereto or any certificate filed under Section 151(g) of the Delaware General Corporation Law, then such special meeting may also be called by the person or persons, in the manner, at the times and for the purpose so specified.

ARTICLE XIII

[Intentionally omitted]

ARTICLE XIV

(a) The affirmative vote of the holders of not less than eighty percent (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 Article XIV as one class, shall be required for the approval or authorization of any "business combination" (as hereinafter defined) with any "other entity" (as hereinafter defined) if, as of the record date for the determination of stockholders entitled to notice thereof and to vote thereon, such other entity is, directly or indirectly, the beneficial owner of more than 10% of the outstanding shares of the Common Stock of the Corporation; provided, however, that such 80% voting requirement shall not be applicable if:

(1) The business combination was approved by resolution of the Board of Directors of the Corporation prior to the acquisition by such other entity of the beneficial ownership of more than 10% of the outstanding shares of the Common Stock of the Corporation; or

(2) The business combination is solely between the Corporation and another corporation, 50% or more of the voting stock of which is owned by the Corporation; or

(3) The cash or fair market value of the property, securities or other consideration to be received per share by holders of Common Stock of the Corporation in the business combination is not less than the highest per share price (including (i) brokerage commissions, (ii) soliciting dealers' fees, (iii) dealer-manager compensation, and (iv) other expenses, including, but not limited to, costs of newspaper advertisements, printing expenses and attorneys' fees) paid by such other entity in acquiring any of its holdings of the Corporation's Common Stock.

(b) For purposes of this Article XIV:

(1) The term "business combination" shall mean any merger or consolidation of the Corporation or of any subsidiary of the Corporation with or into any other entity, or the sale or lease of all or any substantial part of the assets of the Corporation to any other entity, or any sale or lease to the Corporation or any subsidiary thereof in exchange for securities of the Corporation of any assets (except assets having an aggregate fair market value of less than $5,000,000) of any other entity;

(2) The term "other entity" shall mean and include (i) any individual, corporation, partnership or other person; (ii) any other party which is an

“affiliate” or “associate” (as those terms are defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect on January 1, 1977) of any entity described in clause (i); (iii) any other party with which any entity described in clause (i) or any of its affiliates or associates have any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of shares of the Corporation; and (iv) the predecessors, successors or assigns of any entities described in clauses (i), (ii) or (iii) in any transaction or series of transactions not involving a public offering of the shares of the Corporation within the meaning of the Securities Act of 1933;

(3) Without limitation, any shares of stock of the Corporation which any other entity has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise, shall be deemed beneficially owned by such other entity;

(4) In calculating the percentage ownership of any other entity, the outstanding shares of the Common Stock of the Corporation shall include shares deemed owned by that other entity through application of subparagraph (3) above but shall not include any other shares of Common Stock which may be issuable pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise;

(5) For the purposes of subparagraph (a) (3) of this Article XIV, the term “other consideration to be received” shall mean Common Stock of the Corporation retained by its existing public stockholders in the event of a business combination with such other entity in which the Corporation is the surviving corporation; and

(6) With respect to any proposed business combination, the term “continuing director” shall mean a director who was a member of the Board of Directors prior to the time than any other entity involved in the proposed business combination acquired in excess of 10% of the outstanding shares of Common Stock of the Corporation.

(c) A majority of the continuing directors shall have the power and duty to determine, for purposes of this Article XIV and on the basis of information known to them:

(1) Whether the proposed business combination is within the scope of this Article XIV;

(2) Whether such other entity owns beneficially more than 10% of the outstanding shares of Common Stock of the Corporation;

(3) The per share value proposed to be paid to the holders of Common Stock of the Corporation in the business combination, within the meaning of subparagraph (a) (3) of this Article XIV; and

(4) The highest price per share paid by such other entity, within the meaning of subparagraph (a) (3) of this Article XIV.

Such determination, if made in good faith, shall be binding upon all parties

(d) To the maximum extent permissible under Section 262 of the Delaware General Corporation Law, the stockholders of the Corporation shall be entitled to the statutory appraisal rights provided therein notwithstanding any exception otherwise provided therein, with respect to any business combination involving the Corporation and any other entity which at the time of such business combination is, directly or indirectly, the beneficial owner of more than 10% of the outstanding shares of the Common Stock of the Corporation, except a business combination described in subparagraph (a) (1) or subparagraph (a) (2) of this Article XIV.

(e) With respect to any other business combination (that is, one as to which the statutory appraisal rights provided by such Section 262 are not available and has not been made available by paragraph (d) of this Article XIV) involving the Corporation and any other entity which at the time of such other business combination is, directly or indirectly, the beneficial owner of more than 10% of the outstanding shares of the Common Stock of the Corporation, except a business combination described in subparagraph (a) (1) or subparagraph (a) (2) of this Article XIV, the stockholders of the Corporation shall have dissenters' rights of appraisal, analogous to the provisions of Section 262 of the Delaware General Corporation Law, in accordance with the following provisions and procedures:

(1) Within 10 days after the effective date of any such business combination, the Corporation shall notify all of its stockholders of record as of such effective date, in writing addressed to them at their addresses as appear on the records of the Corporation, of the authorization, consummation and effective date of such business combination, and that appraisal rights are available for the shares of any objecting stockholder in accordance with the provisions of this paragraph (e). A copy of this paragraph (e) shall be included in the notice.

(2) If any such stockholder shall, within 20 days after the date of mailing of the notice, object to such business combination and demand in writing payment of the value of his stock, the Corporation shall, within 30 days after the expiration of the period of 20 days, pay to him the value of his stock on the effective date of the business combination, exclusive of any element of value arising from the expectation or accomplishment of the business combination.

(3) If, during the period of 30 days following the period of 20 days provided for in subparagraph (2) above, the Corporation and any such stockholder fail to agree upon the value of such stock, such stockholder or the Corporation may demand in writing an appraisal and determination of the value of the stock of all such stockholders with whom agreements as to the value of their shares have not been reached by an appraiser to be appointed as provided in subparagraph (4) below.

(4) Within 30 days of the mailing by or receipt by the Corporation of any such demand for appraisal, the Corporation shall prepare a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached, and the Corporation shall designate and appoint a qualified and independent person to act as appraiser of the value of such shares. Within 10 days after the expiration of the period of 30 days, the Corporation shall give written notice of the preparation of such list, its availability for inspection at the offices of the Corporation and the name and address of the appraiser designated by the Corporation, to all stockholders shown upon such list at the addresses therein stated. Such notice shall also be given by publishing a notice thereof at least once in a newspaper of general circulation published in the City of Wilmington, Delaware.

(5) The holders of a majority of the number of shares for which payment has been demanded and as to which agreements have not been reached may, in writing delivered to the Corporation and to the first designated appraiser within 20 days of the notice provided for in subparagraph (4) above, designate a second qualified and independent appraiser, in which case the Corporation shall notify the two appraisers so designated, who shall within a further period of 20 days select and designate a third qualified and independent appraiser. If the two appraisers so designated shall not within said 20 days select such third appraiser, any party may apply upon 20 days' written notice to the other parties to the Court of Chancery of the State of Delaware for the appointment of such third appraiser.

(6) The appraiser of appraisers so designated shall determine the stockholders who have complied with the provisions of this section and become entitled to the valuation of any payment for their shares. The appraiser or appraisers may examine any of the books and records of the Corporation and shall make a determination of the value of the shares upon such investigation as may be reasonable and proper. The value of the shares of stock of the Corporation, for purposes of this paragraph (e), shall mean the fair value thereof as ordinarily determined in appraisal proceedings conducted under the analogous provisions of Section 262 of the Delaware General Corporation Law. The appraiser or appraisers shall also afford an opportunity to the parties interested to submit pertinent evidence on the value of the shares. The appraiser or appraisers shall conduct the proceedings in accordance with the

rules applicable to Masters under the Rules of the Court of Chancery of the State of Delaware.

(7) The appraiser or appraisers may require the stockholders who demanded payment for their shares to submit their certificates representing such stock to the appraiser or appraisers for notation thereon of the pendency of the appraisal proceedings, and if any stockholder fails to comply with such request, the appraisal proceedings as to such stockholder shall be dismissed, and his shares shall be treated as provided in the terms of the business combination.

(8) The appraiser or appraisers by majority decision shall determine the value of the stock of the stockholders found to be entitled to payment therefor and shall file a report of their determination of such value with the Corporation and mail copies of such report to all parties in interest. The Corporation shall thereupon, within 20 days of the filing of such appraisal report, pay such value, together with such interest, if any, as may be determined by the appraisal report to be equitable, to the stockholders entitled thereto upon their surrender to it of the certificates representing such stock.

(9) The costs of any such appraisal proceeding, including a reasonable fee to and the reasonable expenses of the appraiser or appraisers, but exclusive of fees and expenses of counsel or any expert retained by any party, may be taxed upon and apportioned among the parties to such appraisal or any of them as appears to be the appraiser or appraisers to be equitable, except that the cost of giving all notices by mail or publication as provided hereinabove shall be paid by the Corporation. Upon application of a stockholder party, all or any portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including the reasonable fees and expenses of counsel or any expert, may at the discretion of the appraiser or appraisers be charged pro rata against the determined value of all of the shares entitled to an appraisal, and in such case shall be paid by the Corporation, which shall then be entitled to reduce pro rata the amounts paid to all such stockholders.

(10) Any stockholder who has demanded appraisal of the value of his stock as provided in this paragraph (e) shall thereafter neither be entitled to vote such stock for any purpose nor be entitled to the payment of dividends or other distribution on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the business combination), unless the appraisal proceeding be dismissed as to such stockholder for noncompliance with the requirements of this paragraph (e) or unless such stockholder shall with the written consent of the Corporation deliver to the Corporation a written withdrawal of his objections to and an acceptance of the terms of the business combination and a withdrawal of his demand for appraisal, in any of which cases the right of such stockholder to payment of the value of his stock shall cease, and his shares shall be treated as provided in the terms of the business combination.

(11) The decision and report of the appraiser or appraisers shall be final and binding on all interested parties. The provisions of this paragraph (e) may be enforced by decree of specific performance or other appropriate decree upon the application of any interested party to the Court of Chancery of the State of Delaware.

(f) The stockholder vote, if any, required for business combinations not expressly provided for in this Article XIV shall be such as may be required by applicable law.

(g) Nothing contained in this Article XIV shall be construed to relieve any other entity from any fiduciary obligation imposed by statute or case law.

ARTICLE XV

The provisions set forth in this Article XV and in Articles VI [dealing with the alteration of Bylaws of stockholders], VII [dealing with the number of directors], VIII [dealing with the classified board], XI [dealing with the prohibition against stockholder action without meetings] and XIV [dealing with the 80% vote of stockholders required for certain mergers and similar transactions] herein may not be repealed or amended in any respect, and no article imposing cumulative voting in the election of directors may be added, unless such action is approved by the affirmative vote of the holders of not less than eighty percent (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 Article XV as one class. The voting requirements contained in Article VI, Article XIV, and this Article XV herein shall be in addition to the voting requirements imposed by law, other provisions of this Certificate of Incorporation or any Certificate of Designation of Preferences in favor of certain classes or series of classes of shares of the Corporation.

ARTICLE XVI

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred on stockholders herein are granted subject to this reservation. Notwithstanding the foregoing, the provisions set forth in Articles VI, VII, VIII, XI, XIV and XV may not be repealed or amended in any respect unless such repeal or amendment is approved as specified in Article XV herein.

ARTICLE XVII

Each reference to this Certificate of Incorporation to any provision of the Delaware General Corporation Law refers to the specified provision of the General Corporation Law of the State of Delaware, as the same now exists or as it may hereafter be amended or superseded.

ARTICLE XVIII

(a) The affirmative vote of the holders of not less than a majority of the total voting power of the "voting stock" (as hereinafter defined) of the Corporation, excluding the voting power of the voting stock owned by an "interested stockholder" (as hereinafter defined), shall be required for any direct or indirect purchase by the Corporation of shares of its stock from the interested stockholder at a price per share in excess of the "market price" (as hereinafter defined); provided, however, that said voting requirement shall not be applicable to purchases made by the Corporation or any affiliate of the Corporation pursuant to:

(1) A tender offer or exchange offer by the Corporation for some or all of the outstanding shares of its stock made on the same terms to all holders of such shares; or

(2) An open market stock purchase program approved by the Board of Directors and not the result of a privately negotiated transaction.

(b) For purposes of this Article XVIII:

(1) A "person" shall mean any individual, corporation, partnership, trust, association or other person or entity.

(2) "Voting stock" shall mean the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors. In any vote required by or provided for in this Article XVIII, each share of voting stock shall have the number of votes granted to it generally in the election of directors.

(3) "Interested stockholder" shall mean any person (other than the Corporation, any subsidiary of the Corporation or any employee benefit or stock ownership plan of the Corporation) who or which:

(i) is the beneficial owner, directly or indirectly, of more than 5% of the voting power of the outstanding voting stock; or

(ii) was such a beneficial owner at any time within the two-year period immediately prior to the "action date" (as hereinafter defined); or

(iii) is a purchaser or assignee of, or has otherwise succeeded to, any shares of voting stock which were at any time within the two-year period immediately prior to the action date owned by any such beneficial owner, if such purchase, assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933;

and from whom or which the Corporation, directly or indirectly, proposes to purchase voting stock.

(4) A person shall be deemed to be a "beneficial owner" of:

(i) any voting stock which such person and any of its "affiliates and associates" (as hereinafter defined) beneficially owns, directly or indirectly; and

(ii) any voting stock which such person and any of its affiliates or associates has (A) the risks, rights, exchange rights, warrants or options, or otherwise, or (B) the right to vote pursuant to any agreement, arrangement or understanding; and

(iii) any voting stock which is beneficially owned, directly or indirectly, by any other person with which such person or any of its affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of voting stock.

(5) For the purposes of determining whether a person is an interested stockholder pursuant to subparagraph (3) above, the number of shares of voting stock deemed to be outstanding shall include shares deemed owned by the interested stockholder through application of subparagraph (4) above, but shall not include any other shares of voting stock which may be issuable to any other person pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(6) "Affiliate" or "associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on February 28, 1985.

(7) "Market price" means the last closing sale price on the business day immediately preceding the "action date" (as hereinafter defined) of a share of the stock in question on the Composite Tape for New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the last sale price (or closing bid quotation if the last sale price is not available) with respect to a share of such stock on said business day on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use (or any other system of reporting or ascertaining quotations then available), or if such stock is not so quoted, the fair market value of a share of such stock on said business day as determined by the Board of Directors in good faith.

(8) “Action date” means the earlier of (i) the date on which shares of voting stock are to be purchased from the interested stockholder or (ii) the date on which the Corporation and the interested stockholder enter into a mutually binding written contract, subject to stockholder approval if required under this Article XVIII, for the purchase and sale of shares of voting stock.

(c) Nothing contained in this Article XVIII shall be construed to relieve any stockholder of the Corporation from any fiduciary obligation imposed by statute or case law.

(d) The Board of Directors (excluding the interested stockholder and any affiliate or associate thereof) shall have the power and duty to determine, for purposes of this Article XVIII, on the basis of information known to the Board of Directors:

(1) The number of shares of stock of the Corporation beneficially owned by any person;

(2) Whether any person is an interested stockholder;

(3) The number of shares on the record date for any stockholders’ meeting held by persons other than the interested stockholder;

(4) Whether a person is an affiliate or associate of another person;

(5) Whether paragraph (a) of this Article XVIII is or has become applicable in respect of a proposed purchase of shares by the Corporation; and

(6) The market price, and whether the purchase price proposed to be paid the interested stockholder is above the market price;

and any such determination made in good faith by the Board of Directors (excluding the interested stockholder and any affiliate or associate thereof) shall be conclusive and binding for all purposes of this Article XVIII.

(e) The affirmative vote required by paragraph (a) of this Article XVIII shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage or separate class vote may be specified, by law or in any agreement with any national securities exchange or otherwise, and shall be in addition to any voting requirements imposed by law.

ARTICLE XIX

A director shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that this Article XIX shall not eliminate or limit the liability of a director (i) for any breach of his duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law, (iii) under

Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derives an improper personal benefit.

If the General Corporation Law of the State of Delaware is hereafter amended to authorize corporate action further limiting or eliminating the personal liability of directors, then the liability of the director to the Corporation shall be limited or eliminated to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended from time to time. An repeal or modification of this Article XIX by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification.

IN WITNESS WHEREOF, this Restated Certificate of Incorporation, which restates and integrates and does not further amend the provisions of the Certificate of Incorporation of the Corporation, as heretofore amended and supplemented, and which contains no discrepancy between those provisions and the provisions of the Restated Certificate, having been duly adopted in accordance with Section 245 of the General Corporation Law of the State of Delaware, has been executed by its Executive Vice President, General Counsel and Secretary and attested by its Vice President, Associate General Counsel and Assistant Secretary on this 25th day of July, 2002.

AVERY DENNISON CORPORATION

Robert G. van Schoonenberg
Executive Vice President,
General Counsel and Secretary

Attest:

R. P. Randall
Vice President,
Associate General Counsel
and Assistant Secretary

Appendix A

CERTIFICATE OF DESIGNATIONS
of
SERIES A JUNIOR PARTICIPATING PREFERRED STOCK
of
AVERY DENNISON CORPORATION
(Pursuant to Section 151 of the
Delaware General Corporation Law)

Avery Dennison Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (hereinafter called the "Corporation"), hereby certifies that the following resolution was adopted by the Board of Directors of the Corporation as required by Section 151 of the General Corporation Law at a meeting duly called and held on October 23, 1997:

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors of this Corporation (hereinafter called the "Board of Directors" or the "Board") in accordance with the provisions of the Certificate of Incorporation, the Board of Directors hereby creates a series of Preferred Stock, par value $1.00 per share, of the Corporation (the "Preferred Stock") and hereby states the designation and number of shares, and fixes the relative rights, preferences, and limitations thereof as follows:

Series A Junior Participating Preferred Stock:

Section I. Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting the Series A Preferred Stock shall be 1,300,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible intoSeries A Preferred Stock.

Section II. Dividends and Distributions.

A. Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of Common Stock, par value $1.00 per share (the "Common Stock"), of the Corporation, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $1 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

B. The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $1 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

C. Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next precedingthe date of issue of such shares, unless the date of issue of such shares is priorto the record date for the first Quarterly Dividend Payment Date, in which case dividends on suchshares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Dateor is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from suchQuarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distributiondeclared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

Section III. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

A. Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporationshall at any time declare or pay any dividend onthe Common Stock payable in shares of Common Stock, or effect a subdivision *or* combination or consolidationof the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

B. Except as otherwise provided herein, in any other Certificate of Designations creating a series of PreferredStock or any similar stock, or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

C. Except as set forth herein, or as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section IV. Certain Restrictions.

A. Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears,thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstandingshall have been paid in full, the Corporation shall not:

1. declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

2. declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

3. redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A PreferredStock; or

4. redeem or purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writingor by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair andequitable treatment among the respective series or classes.

B. The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section V. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Certificate of Incorporation, or in any other Certificate of Designations creating a series of Preferred Stock or any similar stock or as otherwise required by law.

Section VI. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution of winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received $100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time declareorpay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately aftersuch event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section VII. Consolidation, Merger, Etc. In case the Corporation shallenterinto any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed intoother stock or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregateamount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stockoutstanding immediately after such eventand the denominatorof which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section VIII. No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

Section IX. Rank. The Series A Preferred Stock shall rank, with respect to the payment of dividends and the distributionof assets, junior to all series of any other class of the Corporation's Preferred Stock.

Section X. Amendment. The Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock, voting together as a single class.

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 28, 2002	September 29, 2001	September 28, 2002	September 29, 2001
Earnings:				
Income before taxes	$ 86.7	$ 90.8	$ 286.1	$ 276.7
Add: Fixed charges*	17.5	18.3	48.6	56.8
Amortization of capitalized interest	1.0	.5	2.0	1.4
Less: Capitalized interest	(1.1)	(1.8)	(4.0)	(4.8)
	$ 104.1	$ 107.8	$ 332.7	$ 330.1
*Fixed charges:				
Interest expense	$ 11.8	$ 12.4	$ 30.7	$ 39.7
Capitalized interest	1.1	1.8	4.0	4.8
Amortization of debt issuance costs	0.1	.1	0.3	.3
Interest portion of leases	4.5	4.0	13.6	12.0
	$ 17.5	$ 18.3	$ 48.6	$ 56.8
Ratio of Earnings to Fixed Charges	5.9	5.9	6.8	5.8

The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose, “earnings” consist of income before taxes plus fixed charges (excluding capitalized interest), and “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.