

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 26, 2004.

OR

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

For the transition period from _____ to _____

Commission file number: 1-7685

AVERY DENNISON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

150 North Orange Grove Boulevard
Pasadena, California
(Address of principal executive offices)

91103
(Zip Code)

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

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

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

Number of shares of \$1 par value common stock outstanding as of July 24, 2004: 110,462,059

AVERY DENNISON CORPORATION
FISCAL SECOND QUARTER 2004 FORM 10-Q QUARTERLY REPORT
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET

(Dollars in millions)

(Unaudited)

	June 26, 2004	December 27, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28.0	\$ 29.5
Trade accounts receivable, less allowances of \$54.6 and \$54.2 for 2004 and 2003, respectively	868.3	833.2
Inventories, net	452.7	406.1
Deferred taxes	27.0	29.5
Other current assets	111.5	142.6
	<u>1,487.5</u>	<u>1,440.9</u>
Property, plant and equipment	2,524.6	2,500.3
Accumulated depreciation	1,250.4	1,210.5
	<u>1,274.2</u>	<u>1,289.8</u>
Property, plant and equipment, net	1,274.2	1,289.8
Goodwill	709.4	716.6
Other intangibles resulting from business acquisitions, net	143.4	151.3
Other assets	512.0	506.7
	<u>\$4,126.5</u>	<u>\$ 4,105.3</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 445.0	\$ 292.6
Accounts payable	578.5	548.5
Other current liabilities	498.6	654.9
	<u>1,522.1</u>	<u>1,496.0</u>
Total current liabilities	1,522.1	1,496.0
Long-term debt	813.5	887.7
Non-current deferred taxes and other long-term liabilities	413.3	402.9
Commitments and contingencies (see Note 12)		
Shareholders' equity:		
Common stock, \$1 par value; authorized – 400,000,000 shares at June 26, 2004 and December 27, 2003; issued – 124,126,624 shares at June 26, 2004 and December 27, 2003; outstanding – 99,920,100 shares and 99,569,383 shares at June 26, 2004 and December 27, 2003, respectively	124.1	124.1
Capital in excess of par value	802.4	703.7
Retained earnings	1,811.9	1,772.5
Cost of unallocated ESOP shares	(11.6)	(11.6)
Employee stock benefit trusts, 10,541,959 shares at June 26, 2004 and 10,897,033 shares at December 27, 2003	(668.6)	(595.4)
Treasury stock at cost, 13,664,565 shares at June 26, 2004 and 13,660,208 shares at December 27, 2003	(597.2)	(597.0)
Accumulated other comprehensive loss, net of tax	(83.4)	(77.6)
	<u>1,377.6</u>	<u>1,318.7</u>
Total shareholders' equity	1,377.6	1,318.7
	<u>\$4,126.5</u>	<u>\$ 4,105.3</u>

See Notes to Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Net sales	\$ 1,324.0	\$ 1,192.2	\$ 2,570.7	\$ 2,327.4
Cost of products sold	933.4	820.8	1,813.6	1,597.6
Gross profit	390.6	371.4	757.1	729.8
Marketing, general and administrative expense	274.3	265.5	532.2	512.6
Interest expense	13.8	14.5	28.5	29.4
Other expense (income), net	13.8	(4.0)	35.2	(4.0)
Income from continuing operations before taxes	88.7	95.4	161.2	191.8
Taxes on income	20.2	25.7	40.1	53.7
Income from continuing operations	68.5	69.7	121.1	138.1
Income from discontinued operations, net of tax	—	1.6	—	4.0
Net income	\$ 68.5	\$ 71.3	\$ 121.1	\$ 142.1
Per share amounts:				
Net income per common share:				
Continuing operations	\$.69	\$.70	\$ 1.21	\$ 1.39
Discontinued operations	—	.02	—	.04
Net income per common share	\$.69	\$.72	\$ 1.21	\$ 1.43
Net income per common share, assuming dilution:				
Continuing operations	\$.68	\$.70	\$ 1.21	\$ 1.38
Discontinued operations	—	.01	—	.04
Net income per common share, assuming dilution	\$.68	\$.71	\$ 1.21	\$ 1.42
Dividends	\$.37	\$.36	\$.74	\$.72
Average shares outstanding:				
Common shares	99.9	99.4	99.8	99.4
Common shares, assuming dilution	100.5	100.1	100.4	100.1
Common shares outstanding at period end	99.9	99.4	99.9	99.4

See Notes to Consolidated Financial Statements

[Table of Contents](#)**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS****(In millions)****(Unaudited)**

	Six Months Ended	
	June 26, 2004	June 28, 2003
Operating Activities:		
Net income	\$ 121.1	\$ 142.1
Less: income from discontinued operations, net of tax	—	4.0
Income from continuing operations	121.1	138.1
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation	73.4	69.0
Amortization	19.2	17.0
Deferred taxes	10.2	(2.4)
Asset impairment and net loss on sale of assets	11.4	3.6
Other noncash items, net	(3.3)	(1.5)
Changes in assets and liabilities, net of the effect of business acquisitions and divestitures	(51.7)	(70.5)
Net cash provided by operating activities	180.3	153.3
Investing Activities:		
Purchase of property, plant and equipment	(77.2)	(103.7)
Purchase of software and other assets	(8.8)	(7.1)
Payments for acquisitions	(2.3)	(7.6)
Proceeds from sale of assets	5.8	5.0
Other	(4.8)	(3.3)
Net cash used in investing activities	(87.3)	(116.7)
Financing Activities:		
Additional borrowings	129.7	413.2
Payments of debt	(164.0)	(363.9)
Dividends paid	(81.7)	(79.6)
Purchase of treasury stock	(.4)	(.1)
Proceeds from exercise of stock options, net	14.0	2.1
Other	7.8	8.4
Net cash used in financing activities	(94.6)	(19.9)
Effect of foreign currency translation on cash balances	.1	3.4
(Decrease)/increase in cash and cash equivalents	(1.5)	20.1
Cash and cash equivalents, beginning of period	29.5	22.8
Cash and cash equivalents, end of period	\$ 28.0	\$ 42.9

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

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

The second quarters of 2004 and 2003 consisted of thirteen-week periods ending June 26, 2004 and June 28, 2003, respectively. The interim results of operations are not necessarily indicative of future financial results.

2. Discontinued Operations

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

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

(In millions)	Three Months Ended June 28, 2003	Six Months Ended June 28, 2003
Net sales	\$ 14.5	\$ 29.9
Income before taxes	\$ 2.2	\$ 5.5
Taxes on income	.6	1.5
Income from discontinued operations, net of tax	\$ 1.6	\$ 4.0

3. Goodwill and Other Intangibles Resulting from Business Acquisitions

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

(In millions)	Consumer and Converted Products	Pressure- sensitive Adhesives and Materials	Total
Balance as of December 28, 2002	\$ 325.9	\$ 292.3	\$ 618.2
Goodwill acquired during the period	.7	6.3	7.0
Acquisition adjustments ⁽¹⁾	12.1	20.4	32.5
Divestiture	(.9)	—	(.9)
Translation adjustments	17.9	41.9	59.8
Balance as of December 27, 2003	\$ 355.7	\$ 360.9	\$ 716.6
Goodwill acquired during the period	1.7	—	1.7
Acquisition adjustments ⁽²⁾	(4.1)	—	(4.1)
Translation adjustments	(.4)	(4.4)	(4.8)
Balance as of June 26, 2004	\$ 352.9	\$ 356.5	\$ 709.4

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

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

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

As part of the Jackstädt purchase price allocations in 2003 and 2002, the Company recognized certain costs related to exit activities and integration costs. These costs totaling approximately \$25 million were recognized as part of the assumed liabilities and included in "Other current liabilities" in the Condensed Consolidated Balance Sheet. The costs were primarily related to severance costs for involuntary terminations of approximately 560 employees of Jackstädt, to be paid through the end of 2004. At June 26, 2004, approximately \$1.1 million remained accrued. All of the employees affected by these actions had left the Company by the end of 2003. Also included were lease exit costs and costs to terminate contracts with sales agents.

The following table sets forth the Company's other intangible assets resulting from business acquisitions, at June 26, 2004 and December 27, 2003, which continue to be amortized:

	June 26, 2004			December 27, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(In millions)						
Amortizable other intangible assets:						
Tradenames and trademarks	\$ 42.3	\$ 21.1	\$ 21.2	\$ 42.7	\$ 18.5	\$ 24.2
Patented and other acquired technology	65.4	14.9	50.5	65.4	13.0	52.4
Customer relationships	83.2	13.1	70.1	84.1	11.3	72.8
Other intangibles	4.4	2.8	1.6	4.4	2.5	1.9
Total	\$ 195.3	\$ 51.9	\$ 143.4	\$ 196.6	\$ 45.3	\$ 151.3

Amortization expense on other intangible assets resulting from business acquisitions was \$3.5 million and \$7 million for the three and six months ended June 26, 2004, respectively, and \$3.3 million and \$6.5 million for the three and six months ended June 28, 2003, respectively. The weighted-average amortization periods for intangible assets resulting from business acquisitions are twelve years for tradenames and trademarks, nineteen years for patented and other acquired technology, twenty-three years for customer relationships, seven years for other intangibles and nineteen years in total. Based on current information, estimated amortization expense for acquired intangible assets for this fiscal year, and for each of the next four succeeding fiscal years, is expected to be approximately \$14 million, \$13 million, \$12 million, \$9 million and \$8 million, respectively.

[Table of Contents](#)**4. Net Income Per Share**

Net income per common share amounts were computed as follows:

	Three Months Ended		Six Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
(In millions, except per share amounts)				
(A) Income from continuing operations	\$ 68.5	\$ 69.7	\$ 121.1	\$ 138.1
(B) Income from discontinued operations	—	1.6	—	4.0
(C) Net income available to common shareholders	\$ 68.5	\$ 71.3	\$ 121.1	\$ 142.1
(D) Weighted average number of common shares outstanding	99.9	99.4	99.8	99.4
Additional common shares issuable under employee stock options using the treasury stock method and contingently issuable shares under an acquisition agreement	.6	.7	.6	.7
(E) Weighted average number of common shares outstanding assuming the exercise of stock options and contingently issuable shares under an acquisition agreement	100.5	100.1	100.4	100.1
Income from continuing operations per common share (A) ÷ (D)	\$.69	\$.70	\$ 1.21	\$ 1.39
Income from discontinued operations per common share (B) ÷ (D)	—	.02	—	.04
Net income per common share (C) ÷ (D)	\$.69	\$.72	\$ 1.21	\$ 1.43
Income from continuing operations per common share, assuming dilution (A) ÷ (E)	\$.68	\$.70	\$ 1.21	\$ 1.38
Income from discontinued operations per common share, assuming dilution (B) ÷ (E)	—	.01	—	.04
Net income per common share, assuming dilution (C) ÷ (E)	\$.68	\$.71	\$ 1.21	\$ 1.42

Certain employee stock options were not included in the computation of net income per common share, assuming dilution, because these options would not have had a dilutive effect. The number of stock options excluded from the computation was 1.4 million for both the three and six months ended June 26, 2004 and 3.7 million and 2.3 million for the three and six months ended June 28, 2003, respectively.

5. Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments, adjustments to the minimum pension liability, net of tax and the gains or losses on the effective portion of cash flow and firm commitment hedges, net of tax, that are currently presented as a component of shareholders' equity. The Company's total comprehensive income was \$55.7 million and \$115.3 million for the three and six months ended June 26, 2004, respectively and \$156.5 million and \$255.7 million for the three and six months ended June 28, 2003, respectively.

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5. Comprehensive Income (continued)

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

(In millions)	June 26, 2004	December 27, 2003
Foreign currency translation adjustment	\$ 33.8	\$ 39.3
Minimum pension liability	(96.0)	(96.0)
Net loss on derivative instruments designated as cash flow and firm commitment instruments	(21.2)	(20.9)
Total accumulated other comprehensive loss	\$ (83.4)	\$ (77.6)

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

(In millions)	June 26, 2004
Beginning accumulated derivative loss	\$ (20.9)
Net loss reclassified to earnings	2.6
Net change in the revaluation of hedging transactions	(2.9)
Ending accumulated derivative loss	\$ (21.2)

6. Stock-Based Compensation

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

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

(In millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Net income, as reported	\$ 68.5	\$ 71.3	\$ 121.1	\$ 142.1
Compensation expense, net of tax	(4.5)	(4.9)	(8.7)	(9.6)
Net income, pro forma	\$ 64.0	\$ 66.4	\$ 112.4	\$ 132.5
Net income per share, as reported	\$.69	\$.72	\$ 1.21	\$ 1.43
Net income per share, assuming dilution, as reported	.68	.71	1.21	1.42
Pro forma net income per share	\$.64	\$.66	\$ 1.13	\$ 1.33
Pro forma net income per share, assuming dilution	.64	.66	1.12	1.32

7. Foreign Currency

Translation of financial statements of subsidiaries operating in hyperinflationary economies and transactions in foreign currencies resulted in losses of \$3.4 million and \$4.5 million during the three and six months ended June 26, 2004, respectively. For the three and six months ended June 28, 2003, these transactions resulted in gains of \$.8 million and \$1.4 million, respectively. Operations in hyperinflationary economies consist of the Company's operations in Turkey and the Dominican Republic.

8. Financial Instruments

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

During the three and six months ended June 26, 2004, the amount recognized in earnings related to cash flow hedges that were ineffective was not significant. The reclassification from other comprehensive loss to earnings for settlement or ineffectiveness was a net loss of \$1.8 million and \$2.6 million during the three and six months ended June 26, 2004, respectively. This reclassification was a net gain of \$1.6 million and \$1.9 million during the three and six months ended June 28, 2003, respectively. A net loss of approximately \$4 million is expected to be reclassified from other comprehensive loss to earnings within the next 12 months.

In connection with the issuance of the \$250 million 10-year Senior Notes in January 2003, the Company settled the related forward starting interest rate swap at a loss of approximately \$32.5 million. The loss is being amortized to interest expense over a 10-year period, which corresponds to the term of the related debt. The related interest expense recognized for the three-month and six-month periods ended June 26, 2004, was \$.6 million and \$1.2 million respectively, unchanged compared to the same periods ended June 28, 2003. The Company estimates that the amortization for this loss will be approximately \$2.5 million for 2004, which is part of the estimated reclassification described above.

9. Debt

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

10. Inventories

Inventories consisted of:

	June 26, 2004	December 27, 2003
(In millions)		
Raw materials	\$ 128.1	\$ 124.8
Work-in-progress	104.7	92.7
Finished goods	237.0	204.6
Inventories at lower of FIFO cost or market (approximates replacement cost)	469.8	422.1
Less LIFO adjustment	(17.1)	(16.0)
	<u>\$ 452.7</u>	<u>\$ 406.1</u>

11. Research and Development

Research and development expense for the three and six months ended June 26, 2004 was \$21.5 million and \$39.9 million, respectively. For the three and six months ended June 28, 2003, research and development expense was \$17.9 million and \$36.6 million, respectively.

12. Commitments and Contingencies

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

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

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

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

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

12. Commitments and Contingencies (continued)

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for San Francisco County on March 30, 2004. A further similar complaint has been filed in the Superior Court for Maricopa County, Arizona. The Company intends to defend these matters vigorously.

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

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

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

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

12. Commitments and Contingencies (continued)

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

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

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

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

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

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

The Company participates in receivable financing programs, both domestically and internationally, with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At June 26, 2004, the Company had guaranteed approximately \$14 million.

The Company guaranteed approximately \$18 million of certain foreign subsidiaries' obligations to their suppliers as of June 26, 2004.

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

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

12. Commitments and Contingencies (continued)

Product warranty liabilities were as follows:

	Total
(In millions)	
Balance as of December 28, 2002	\$ 1.4
Accruals for warranties issued	3.2
Payments	(2.1)
Balance as of December 27, 2003	\$ 2.5
Accruals for warranties issued	1.3
Payments	(1.4)
Balance as of June 26, 2004	\$ 2.4

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

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

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

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

The charge included severance and related costs of \$7.7 million (\$7 million for approximately 175 positions in the Pressure-sensitive Adhesives and Materials segment and \$.7 million for approximately 20 positions in the Consumer and Converted Products segment), which represent cash paid or to be paid to employees terminated under these actions. At June 26, 2004, \$3.7 million remained accrued for severance and related costs (included in "Other current liabilities" in the Condensed Consolidated Balance Sheet), and of the approximately 195 positions affected under these actions, approximately 115 employees (approximately 105 employees from the Pressure-sensitive Adhesives and Materials segment and approximately 10 employees from the Consumer and Converted Products segment) had left the Company. The remaining employees impacted by these actions are expected to leave the Company by 2005 and final payments to the terminated employees will be made in 2005.

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

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

The Company recorded a pretax charge of \$21.4 million in the first quarter of 2004 relating to restructuring costs and asset impairment charges as part of the Company's integration of the Jackstädt acquisition in the Company's Pressure-sensitive Adhesives and Materials segment. Asset impairments were based on the market values for similar assets. The charge included severance and related costs of \$15.9 million, which represent cash paid or to be paid to employees terminated under these actions, involving the elimination of approximately 210 positions. At June 26, 2004, \$11.4 million remained accrued for severance and related costs (included in the "Other current liabilities" in the Condensed Consolidated Balance Sheet), and approximately 205 employees had left the Company. The remaining employees impacted by these actions are expected to leave the Company in 2004 and final payments to the terminated employees will be made in 2005. Also included in the charge was \$2.9 million related to impairment of software and \$2.6 million related to impairment and planned disposition of machinery and equipment.

The Company recorded a pretax charge of \$34.3 million in the fourth quarter of 2003 relating to integration actions and productivity improvement initiatives, as well as net losses associated with several product line divestitures. This charge involved both of the Company's operating segments. The charge included severance and related costs of \$22 million related to the elimination of approximately 530 positions worldwide (\$10.3 million for approximately 180 positions in the Pressure-sensitive Adhesives and Materials segment, \$11.3 million for approximately 335 positions in the Consumer and Converted Products segment and \$.4 million for approximately 15 positions in Corporate). Severance and related costs represent cash paid or to be paid to employees terminated under these actions. At June 26, 2004, \$5.3 million remained accrued for severance and related costs (included in "Other current liabilities" in the Condensed Consolidated Balance Sheet) and of the approximately 530 positions affected under these actions, approximately 410 employees (approximately 265 employees from the Consumer and Converted Products segment, approximately 135 employees from the Pressure-sensitive Adhesives and Materials segment and approximately 10 Corporate employees) had left the Company. The remaining employees impacted by these actions are expected to the Company in 2004 and final payments to the terminated employees will be made in 2005. Also included in the charge was \$8.2 million for asset impairments and planned disposition of property, plant and equipment, lease cancellation costs and other associated costs. Asset impairments were based on the market values for similar assets. Of the total charge, \$4.2 million related to impairment of production software assets in the Consumer and Converted Products segment, \$3.4 million (\$3.2 in the Pressure-sensitive Adhesives and Materials segment and \$.2 million in the Consumer and Converted Products segment) related to asset impairments and planned disposition of property, plant and equipment (\$2.5 million for buildings and land and \$.9 million for machinery and equipment), \$.3 million related to lease cancellation costs and \$.3 million for other associated costs. The Company completed the payments for the lease cancellation costs in June 2004.

The Company recorded a \$10.7 million pretax charge (\$4.7 million in the Pressure-sensitive Adhesives and Materials segment and \$6 million in the Consumer and Converted Products segment) in the fourth quarter of 2002 relating to cost reduction actions and the reorganization of manufacturing and administrative facilities in both of the Company's operating segments. This charge represented severance and related costs associated with the elimination of approximately 300 positions worldwide. The positions eliminated included approximately 80 employees in the Pressure-sensitive Adhesives and Materials segment and approximately 220 employees in the Consumer and Converted Products segment. Severance and related costs represent cash paid or to be paid to employees terminated under these actions. At June 26, 2004, \$.3 million remained accrued for severance and related costs (included in "Other current liabilities" in the Condensed Consolidated Balance Sheet). The employees terminated under these actions had left the Company as of June 2004 and final payments will be made by the end of 2004.

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

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

The table below details lease cancellation cost activities:

	Total
(In millions)	
Balance as of December 28, 2002	\$ 3.7
Additional accrual	3
Cancellation costs paid	(.9)
<hr/>	
Balance as of December 27, 2003	3.1
Additional accrual	2
Cancellation costs paid	(1.5)
<hr/>	
Balance as of June 26, 2004	\$ 1.8

Other income was approximately \$4 million in the second quarter of 2003, which included a \$9 million pretax gain from the settlement of a lawsuit, partially offset by net losses from disposition of fixed assets, asset impairments and costs incurred during the quarter associated with a plant closure.

14. Pensions and Other Postretirement Benefits

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

Pension Benefits	Three Months Ended				Six Months Ended			
	June 26, 2004		June 28, 2003		June 26, 2004		June 28, 2003	
	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l	U.S.	Int'l
(In millions)								
Components of net periodic benefit cost (income):								
Service cost	\$ 4.2	\$ 2.6	\$ 3.1	\$ 2.1	\$ 8.3	\$ 5.1	\$ 6.2	\$ 4.3
Interest cost	6.4	4.7	6.2	3.7	12.7	9.2	12.5	7.5
Expected return on plan assets	(10.9)	(5.2)	(10.1)	(4.7)	(21.2)	(10.4)	(20.2)	(9.5)
Recognized net actuarial loss (gain)	.9	.6	—	.4	1.6	1.2	(.1)	.7
Amortization of prior service cost	—	—	—	.1	—	.1	—	.2
Amortization of transition obligation or asset	(.1)	(.3)	(.1)	(.3)	(.2)	(.6)	(.2)	(.6)
<hr/>								
Net periodic benefit cost (income)	\$.5	\$ 2.4	\$ (.9)	\$ 1.3	\$ 1.2	\$ 4.6	\$ (1.8)	\$ 2.6

14. Pensions and Other Postretirement Benefits (continued)

Postretirement Health Benefits	Three Months Ended		Six Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
(In millions)				
Components of net periodic benefit cost:				
Service cost	\$.3	\$.4	\$.8	\$.7
Interest cost	.5	.8	1.1	1.5
Recognized net actuarial loss	.1	.1	.4	.3
Amortization of prior service cost	(.2)	(.1)	(.4)	(.2)
Net periodic benefit cost	\$.7	\$ 1.2	\$ 1.9	\$ 2.3

The Company contributed \$.4 million and \$.8 million to its U.S. pension plans during the three and six months ended June 26, 2004, respectively. Additionally, the Company contributed \$1 million and \$2 million to its postretirement benefit plan during the three and six months ended June 26, 2004, respectively. The Company expects to contribute a minimum of \$7.4 million to its U.S. pension plans and approximately \$3.9 million to its postretirement benefit plan in 2004.

15. Segment Information

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

	Three Months Ended		Six Months Ended	
	June 26, 2004	June 28, 2003 ⁽¹⁾	June 26, 2004	June 28, 2003 ⁽¹⁾
(In millions)				
Net sales:				
Pressure-sensitive Adhesives and Materials	\$ 853.8	\$ 743.8	\$1,700.1	\$1,468.1
Consumer and Converted Products	507.8	488.8	949.8	946.8
Intersegment ⁽²⁾	(37.6)	(40.4)	(79.2)	(87.5)
Net sales	\$1,324.0	\$1,192.2	\$2,570.7	\$2,327.4
Income from continuing operations before taxes:				
Pressure-sensitive Adhesives and Materials ⁽³⁾	\$ 59.2	\$ 54.4	\$ 107.0	\$ 115.0
Consumer and Converted Products	61.1	58.9	112.3	124.3
Corporate administrative and research and development expenses ⁽⁴⁾	(17.8)	(3.4)	(29.6)	(18.1)
Interest expense	(13.8)	(14.5)	(28.5)	(29.4)
Income from continuing operations before taxes	\$ 88.7	\$ 95.4	\$ 161.2	\$ 191.8

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

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

⁽³⁾ Operating income for the second quarter of 2004 includes restructuring costs and asset impairment charges of \$13.8 million pretax, of which the Pressure-sensitive Adhesives and Materials segment recorded \$13.1 million and the Consumer and Converted Products segment recorded \$.7 million. Operating income for the six months ended June 26, 2004 includes restructuring and asset impairment charges totaling \$35.2 million pretax, of which the Pressure-sensitive Adhesives and Materials segment recorded \$34.5 million and the Consumer and Converted Products segment recorded \$.7 million. See Note 13 "Components of Other Expense (Income) and Cost Reduction Actions," for further information.

⁽⁴⁾ Prior year amounts included a \$9 million pretax gain from the settlement of a lawsuit.

16. Recent Accounting Requirements

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

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

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

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

17. Taxes on Income

The effective tax rate was 22.8 percent for the second quarter of 2004 and 24.9 percent for the first six months of 2004, compared to 27.5 percent for the full year 2003. The decrease in the effective tax rate was due to a favorable foreign tax audit settlement, which resulted in a one-time reduction of tax expense of approximately \$4 million during the second quarter. The decrease in the effective tax rate was also due to changes in the geographic mix of income compared to the same period in the prior year.

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

OVERVIEW AND OUTLOOK

Avery Dennison Corporation's (the "Company") sales from continuing operations for the first six months in 2004 increased 10 percent compared to the same period in 2003 to \$2.6 billion, due to core unit volume growth and the benefit of foreign currency translation, partially offset by the negative impact of changes in product mix and pricing. Net income and diluted earnings per share decreased approximately \$21 million and \$.21 per share, respectively.

The decline in earnings relative to the increase in sales was due to the impact of restructuring and asset impairment charges (totaling \$35.2 million pretax) during the first six months of 2004, primarily associated with the Jackstädt GmbH ("Jackstädt") integration (\$34.5 million pretax). This action had a \$.25 per share negative impact on earnings in the first six months of 2004. Additionally, the Company's earnings were negatively affected by a decline in the Company's gross profit margin (see "Analysis of Results of Operations for the Six Months Year-to-Date" below) in the first six months of 2004, reflecting the impact of a difficult pricing environment, faster growth in the Pressure-sensitive Adhesives and Materials segment than in the higher gross profit margin Consumer and Converted Products segment ("segment mix"), transition costs for new manufacturing equipment in Europe and higher raw material costs. The negative effect of segment mix on gross profit margin was partially offset by lower operating expenses as a percent of sales in the Pressure-sensitive Adhesives and Materials segment, compared to the Consumer and Converted Products segment. The operating expense ratio to sales also improved due to cost savings from productivity improvement initiatives. In addition, the results for the period included the benefit from a foreign tax audit settlement, which resulted in a one-time reduction of tax expense of approximately \$4 million in the second quarter of 2004.

Core unit volumes grew an estimated 6 percent to 7 percent in the first six months of 2004. For the second quarter of 2004, core unit volumes increased an estimated 8 percent compared to an estimated 4.5 percent growth in the first quarter of 2004. (Core unit volume growth is a measure of sales performance that excludes the estimated impact of acquisitions, divestitures, changes in product mix and pricing and currency translation. Management uses this measure to evaluate underlying demand for the Company's products and services, and to assess sales trends over time.) The growth in the Company's core unit volumes was due to generally improving economic conditions, growth in the emerging markets of Asia, Latin America and Eastern Europe and the benefit from new products and applications. Core unit volume growth in the Company's Pressure-sensitive Adhesives and Materials segment was partially offset by a decline in the Consumer and Converted Products segment.

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

Summary Results by Operating Segment

The Pressure-sensitive Adhesives and Materials segment reported 15 percent and 16 percent increases in sales in the second quarter and first six months of 2004, respectively, compared to the same periods in 2003. Approximately 55 percent of the incremental sales in the first six months of 2004 were due to increases in core unit volume in the businesses within the segment partially offset by the negative impact of changes in product mix and pricing. The balance of the incremental sales was attributable to the favorable impact of foreign currency translation. Operating income (operating income refers to income before interest and taxes) for this segment increased approximately \$5 million in the second quarter and decreased approximately \$8 million in the first six months of 2004, compared to the same periods in 2003. Operating income included a total pretax charge of approximately \$13 million in the second quarter and approximately \$34 million in the first half of 2004, related to restructuring costs and asset impairment charges associated with the Jackstädt integration. Operating income was also negatively affected by transition costs associated with new manufacturing equipment in Europe, as well as higher raw material costs. These decreases were partially offset by the cost savings from productivity improvement initiatives, including the closure of two European plants during the first six months of 2004.

The Consumer and Converted Products segment reported a 4 percent and less than 1 percent increase in sales in the second quarter and first six months of 2004, respectively, compared to the same periods in 2003. For the first six months, a decline

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in core unit volume was more than offset by the benefit of foreign currency translation which represented approximately 3 percentage points of growth over the first six months of the prior year. The volume decline was attributable to the Company's office products business, reflecting the loss of market share with one major customer, impact of customer inventory reductions in the first quarter of 2004 (due largely to higher than usual orders by customers late in the fourth quarter of 2003), loss of sales from discontinued product lines and the impact of continued weak business conditions in the office products business. In addition, sales were negatively affected by the changes in product mix and pricing in this business. Partially offsetting the declines in the office products business was higher sales in the retail information services business in comparison to prior year, particularly in Asia and Latin America due in part to relatively weak results in 2003 related to Severe Acute Respiratory Syndrome ("SARS") and slow economic conditions that affected this business in 2003. Operating income for this segment increased approximately \$2 million and decreased \$12 million in the second quarter and first six months of 2004, respectively, compared to the same periods in 2003, due to lower sales in the office products business and higher raw material costs, partially offset by cost savings from productivity improvement initiatives.

Impact of Currency Exchange Rates

International operations constitute approximately 50 percent of the Company's net sales. As a result, the Company is exposed to foreign currency exchange rate risk, and changes to foreign currency exchange rates will impact the Company's financial results. As previously noted, the Company benefited from foreign currency translation during 2004 representing growth in net sales of approximately \$44 million in the second quarter and approximately \$129 million in the first six months compared to the same periods in 2003. The benefit from foreign currency translation reflected the strength of the Euro, Australian dollar, British pound and Canadian dollar against the U.S. dollar. The benefit of currency translation added approximately \$.01 diluted earnings per share in the second quarter of 2004 and \$.05 to diluted earnings per share in the first six months of 2004.

Acquisitions and Divestitures

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

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

Cost Reduction Actions

In the second quarter of 2004, the Company recorded pretax charges of \$13.8 million for severance and asset impairment charges primarily associated with the completion of the Jackstädt integration (\$13.1 million). These charges were in addition to the pretax charges in the first quarter of 2004 totaling \$21.4 million also related to the Jackstädt integration. These actions are anticipated to result in annualized savings of approximately \$25 million to \$30 million.

In the fourth quarter of 2003, the Company recorded pretax charges totaling \$34.3 million associated with productivity improvement initiatives, as well as the integration of the Jackstädt acquisition described above. The productivity improvement initiatives included headcount reductions of approximately 420 positions, approximately half of which impact the office products business. These productivity improvement initiatives are anticipated to yield additional annualized savings of approximately \$25 million to \$30 million when completed by the end of 2004.

In connection with the integration and other cost reduction actions described above, the Company realized approximately \$17 million of savings in the first six months of 2004, and expects to realize approximately \$25 million to \$30 million in savings during the second half of 2004.

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

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Operating Expenses, Interest and Taxes

Marketing, general and administrative expenses increased 4 percent to \$532.2 million in the first six months of 2004 compared to \$512.6 million in the same period in 2003 due to the impact of foreign currency translation and additional spending on long-term growth initiatives, including radio-frequency identification (“RFID”) applications. Marketing, general and administrative expenses as a percent of sales have improved to 20.7 percent in the first six months of 2004 compared to 22 percent in the same period in 2003, due to higher sales in 2004, segment mix (lower operating expenses as a percent of sales in the faster growing Pressure-sensitive Adhesives and Materials segment, compared to the Consumer and Converted Products segment) and the benefit of productivity improvement initiatives. Interest expense was \$28.5 million for the first six months of 2004, compared to \$29.4 million for the same period in 2003.

The effective tax rate was 22.8 percent for the second quarter of 2004 and 24.9 percent for the first six months of 2004, compared to 27.5 percent for the full year 2003. The decrease in the effective tax rate was due to a favorable foreign tax audit settlement, which resulted in a one-time reduction of tax expense of approximately \$4 million. The decrease was also due to changes in the geographic mix of income compared to the same period in the prior year.

Free Cash Flow

Free cash flow for the first six months of 2004 increased \$53.5 million to \$103.1 million for the first six months of 2004 compared to \$49.6 million in the same period in of 2003, due to lower capital expenditures in 2004, as well as net changes in assets and liabilities. See “Liquidity” below for more details. Free cash flow refers to cash flow from operating activities less spending on property, plant and equipment. Management utilizes free cash flow as a measurement tool to assess the cash flow available for other corporate purposes, such as dividends and debt service.

	Six Months Ended	
	June 26, 2004	June 28, 2003
(In millions)		
Net cash provided by operating activities	\$ 180.3	\$ 153.3
Purchase of property, plant and equipment	(77.2)	(103.7)
Free cash flow	\$ 103.1	\$ 49.6

Label Stock Industry Investigations

In April 2003, the Company was notified by the U.S. Department of Justice’s Antitrust Division (“DOJ”) that it had initiated a criminal investigation into competitive practices in the label stock industry, and on August 15, 2003, the DOJ issued a subpoena to the Company in connection with the investigation. In May 2004, the European Commission initiated inspections and obtained documents from the Company’s pressure-sensitive materials facilities in the Netherlands and Germany, seeking evidence of unlawful anticompetitive activities. In July 2004, the Company was notified by the Competition Law Division of the Department of Justice of Canada that it was seeking information in connection with a label stock investigation. The Company is cooperating with these investigations. The Company is a named defendant in purported class actions in the U.S. seeking treble damages and other relief for alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation. The Company is also a named defendant in purported stockholder class actions in the U.S. seeking damages and other relief for alleged disclosure violations pertaining to alleged unlawful competitive practices. The Company is unable to predict the effect of these matters at this time, although the effect may be adverse and material. These matters are reported in Note 12 “Commitments and Contingencies” to the Consolidated Financial Statements.

Outlook

In the second half of 2004, the Company anticipates increases in sales and net income resulting from core unit volume growth, implementation of selling price increases to offset higher raw material costs and productivity improvement initiatives. The Company also expects continued improvement in global economic and market conditions and a benefit from foreign currency translation, based on the assumption that the average Euro to U.S. dollar exchange rate for 2004 will remain approximately at the current level (above U.S. \$1.20 for Euro 1) for the remainder of 2004.

The Company expects continued growth in the Pressure-sensitive Adhesives and Materials segment during the second half of 2004. The Company anticipates that raw material costs will continue to increase in the second half of 2004. However, the Company expects to offset the increases in raw material costs with price increases to be implemented in the third and fourth quarters of 2004.

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In the Consumer and Converted Products segment, the Company anticipates higher sales growth during the second half of 2004 in comparison to the rate of growth achieved in the first half of the year. This expectation reflects continued growth in the retail information services business and modest growth in the office products business compared to the same period 2003. However, the Company anticipates that raw material costs will increase modestly in this segment over the next six months and does not expect to recover these raw material costs increases in the office products business until 2005, due to contractual obligations to its customers.

The Company expects higher earnings in the second half of 2004 than in the first half, due to anticipated higher sales and savings associated with cost reduction actions, as well as price increases to partially offset higher raw material costs. In addition, the Company expects continued profitability improvement from ongoing Six Sigma efforts, a program designed to improve productivity and quality, and other productivity initiatives.

Increases in annual pension, medical, and insurance costs are expected to be in the range of \$13 million to \$14 million before taxes during 2004, due in part to an estimated increase of \$9 million for pension expense resulting from changes in actuarial assumptions. However, this increase could be impacted by foreign currency movements. The Company also anticipates increased spending related to certain long-term growth initiatives, including RFID applications (estimated to be \$16 million to \$20 million in spending for 2004).

The Company estimates that interest expense in 2004 will be comparable to 2003, subject to changes in interest rates. Anticipated increases in interest rates are expected to be offset by net debt reductions in the second half of the year.

The Company anticipates that the effective tax rate will be approximately 27.5 percent to 28 percent for the next two quarters, resulting in a full year rate of approximately 26.5 percent for 2004, subject to changes in the geographic mix of income.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE SECOND QUARTER

	2004	2003
(In millions)		
Net sales	\$1,324.0	\$1,192.2
Cost of products sold	933.4	820.8
Gross profit	390.6	371.4
Marketing, general and administrative expense	274.3	265.5
Interest expense	13.8	14.5
Other expense (income), net	13.8	(4.0)
Income from continuing operations before taxes	88.7	95.4
Taxes on income	20.2	25.7
Income from continuing operations	68.5	69.7
Income from discontinued operations, net of tax	—	1.6
Net income	\$ 68.5	\$ 71.3

Sales increased 11 percent to \$1.3 billion in the second quarter of 2004, compared to \$1.2 billion in the second quarter of 2003. Approximately \$88 million of the increase in sales in 2004 reflected core unit volume growth in many of the

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Company's businesses that was partially offset by the negative impact of changes in product mix and pricing. The increase in sales also included the favorable impact of foreign currency translation (approximately \$44 million).

Gross profit margins for the second quarters of 2004 and 2003 were 29.5 percent and 31.2 percent, respectively. The decrease in 2004 reflected the impact of a difficult pricing environment and segment mix (faster growth in the Pressure-sensitive Adhesives and Materials segment compared to the higher gross profit margin Consumer and Converted Products segment). The decrease also reflected transition costs for new manufacturing equipment in Europe and higher raw material costs.

Marketing, general and administrative expense as a percent of sales decreased to 20.7 percent in the second quarter of 2004 from 22.3 percent in the second quarter of 2003 due to higher sales in 2004, segment mix (lower operating expenses as a percent of sales in the faster growing Pressure-sensitive Adhesives and Materials segment, compared to the Consumer and Converted Products segment) and the benefit from productivity improvement initiatives. Expenses increased approximately \$9 million due to the impact of foreign currency translation and additional spending on long-term growth initiatives, including RFID applications.

The Company recorded pretax charges of \$13.8 million in the second quarter of 2004 related to severance (approximately \$7.7 million) and asset impairment charges (approximately \$6.1 million) primarily related to the completion of the Jackstädt integration actions (\$13.1 million).

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

Interest expense for the second quarters of 2004 and 2003 was \$13.8 million and \$14.5 million, respectively. The decrease reflects lower interest rates on a portion of the Company's variable rate debt.

Income before taxes, as a percent of sales, was 6.7 percent in the second quarter of 2004 and 8 percent in the second quarter of 2003. The decrease in 2004 reflected the impact of the restructuring charges taken during the second quarter of 2004, as well as lower gross profit as a percent of sales, partially offset by lower marketing, general and administrative expense as a percent of sales compared to the same period in the prior year.

The effective tax rate for the second quarter of 2004 was 22.8 percent and 24.9 percent for year-to-date 2004 compared to 27.5 percent for the full year of 2003. The decrease in the effective tax rate was due to a favorable foreign tax audit settlement, which resulted in a one-time reduction of tax expense of approximately \$4 million in the second quarter. The lower tax rate was also due to changes in the geographic mix of income compared to the same period in the prior year.

Net income from discontinued operations was \$1.6 million for the second quarter of 2003, which reflected net sales of approximately \$15 million. Refer to Note 2 "Discontinued Operations," to the Consolidated Financial Statements for more detail.

Net Income and Earnings Per Share:

	<u>2004</u>	<u>2003</u>
(In millions, except share amounts)		
Net income	\$68.5	\$71.3
Net income per common share	.69	.72
Net income per common share, assuming dilution	.68	.71

Net income for the second quarter of 2004 decreased 3.9 percent compared to the second quarter of 2003. Net income, as a percent of sales, was 5.2 percent and 6 percent in the second quarter of 2004 and 2003, respectively.

Net income per common share for the second quarter of 2004 decreased 4.2 percent compared to the second quarter of 2003.

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Net income per common share, assuming dilution, for the second quarter of 2004 decreased 4.2 percent compared to the second quarter of 2003.

RESULTS OF OPERATIONS BY OPERATING SEGMENT FOR THE SECOND QUARTER

Pressure-sensitive Adhesives and Materials:

	<u>2004</u>	<u>2003</u>
(In millions)		
Sales – U.S.	\$377.6	\$343.1
Sales – International	523.3	443.2
Intrasegment sales	(47.1)	(42.5)
	<u> </u>	<u> </u>
Net sales	\$853.8	\$743.8
Income before interest and taxes	59.2	54.4
	<u> </u>	<u> </u>

The Pressure-sensitive Adhesives and Materials segment reported an increase in sales and operating income for the second quarter of 2004 compared to the second quarter of 2003. Sales increased approximately \$110 million or 15 percent to \$854 million in the second quarter of 2004 compared to \$744 million in 2003 as a result of higher sales in both the domestic and international operations. Operating income increased approximately \$5 million or 9 percent to \$59 million compared to \$54 million in the second quarter of 2003. Operating income for this segment reflected a pretax charge of approximately \$13 million in 2004 related to restructuring costs and asset impairment charges during the quarter. (See “*Cost Reduction Actions*” above.)

Results from Domestic Operations

Domestic sales, including intrasegment sales, increased approximately \$35 million or 10 percent due to higher sales in the roll materials business (approximately \$21 million), specialty tapes business (approximately \$8 million) and graphics and reflective business (approximately \$6 million). The sales increases in these businesses were due to core unit volume growth, including the benefit from new products and applications. Partially offsetting these increases was the negative impact of changes in product mix and pricing.

Income from domestic operations increased approximately \$2 million. The increase reflected higher sales, partially offset by higher raw material costs.

Results from International Operations

International sales, including intrasegment sales, increased approximately \$80 million or 18 percent due to higher sales in the roll materials business (approximately \$61 million), graphics and reflective business (approximately \$13 million) and specialty tapes business (approximately \$7 million). The sales increases in these businesses reflected core unit volume growth in Europe, Asia and Latin America, partially offset by the negative impact of changes in product mix and pricing. The favorable impact of foreign currency translation also contributed to international sales (approximately \$34 million).

Income from international operations increased approximately \$3 million. Operating income for this segment reflected a pretax charge of approximately \$13 million for restructuring costs and asset impairment charges. The increase is due to higher sales, as well as the impact of foreign currency translation and the cost savings from productivity improvement initiatives, partially offset by the restructuring charge, transition costs for new manufacturing equipment in Europe and higher raw material costs.

Consumer and Converted Products:

(In millions)	2004	2003
Sales – U.S.	\$312.0	\$314.4
Sales – International	214.0	191.0
Intrasegment sales	(18.2)	(16.6)
Net sales	\$507.8	\$488.8
Income before interest and taxes	61.1	58.9

The Consumer and Converted Products segment reported increased sales and operating income for the second quarter of 2004 compared to the second quarter of 2003. Sales increased approximately \$19 million or 4 percent to \$508 million in the second quarter of 2004 compared to \$489 million in the second quarter of 2003, reflecting increases in the international operations, partially offset by decreases in sales in the domestic operations. Operating income increased approximately \$2 million or 4 percent to \$61 million in the second quarter of 2004 compared to \$59 million in the second quarter of 2003 reflecting an increase in income in international operations, partially offset by a decline in income in domestic operations.

Results from Domestic Operations

Domestic sales, including intrasegment sales, decreased approximately \$2 million or 1 percent reflecting lower sales in the office products business (approximately \$9 million) due to loss of market share with one major customer (estimated to be \$9 million), as well as the negative impact of changes in product mix and pricing. The decline in sales in the office products business was partially offset by higher sales in the industrial and automotive products business (approximately \$6 million) due to core unit volume growth.

Income from domestic operations decreased approximately \$3 million. The decrease reflected the decline in sales in the office products business and higher raw material costs, partially offset by the benefit from cost savings from productivity improvement initiatives.

Results from International Operations

International sales, including intrasegment sales, increased approximately \$23 million or 12 percent reflecting higher sales in the retail information services business (approximately \$17 million) and office products business (approximately \$9 million). Included in these increases was the favorable impact of foreign currency translation (approximately \$10 million). Increased sales in the retail information services business reflected core unit volume growth in 2004, due in part to relatively weak results in the second quarter of 2003 related to SARS and slow economic conditions that affected this business in 2003.

Income from international operations increased approximately \$5 million reflecting core unit volume growth in the retail information services business, the cost savings from productivity improvement initiatives and the favorable impact of foreign currency translation.

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

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

(In millions)	2004	2003
Net sales	\$2,570.7	\$2,327.4
Cost of products sold	1,813.6	1,597.6
Gross profit	757.1	729.8
Marketing, general and administrative expense	532.2	512.6
Interest expense	28.5	29.4
Other expense (income), net	35.2	(4.0)
Income from continuing operations before taxes	161.2	191.8
Taxes on income	40.1	53.7
Income from continuing operations	121.1	138.1
Income from discontinued operations, net of tax	—	4.0
Net income	\$ 121.1	\$ 142.1

Sales increased 10 percent to \$2.6 billion in the first six months of 2004, compared to \$2.3 billion in the same period of 2003. The increase in sales in 2004 included the favorable impact of foreign currency translation (approximately \$129 million), as well as approximately \$114 million from core unit volume growth which was partially offset by the negative impact of product mix and pricing.

Gross profit margins for the first six months of 2004 and 2003 were 29.5 percent and 31.4 percent, respectively. The decrease in 2004 reflected the impact of a difficult pricing environment and segment mix (faster growth in the Pressure-sensitive Adhesives and Materials segment compared to the higher gross profit margin Consumer and Converted Products segment). The decrease also reflected transition costs for new manufacturing equipment in Europe and higher raw material costs.

Marketing, general and administrative expense as a percent of sales decreased to 20.7 percent in the first six months of 2004 from 22 percent in the first six months of 2003 due to higher sales in 2004, segment mix (lower operating expenses as a percent of sales in the faster growing Pressure-sensitive Adhesives and Materials segment, compared to the Consumer and Converted Products segment) and the benefit from productivity improvement initiatives. Expenses increased approximately \$20 million due to the impact of foreign currency translation and additional spending on long-term growth initiatives, including RFID applications.

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

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

Interest expense for the first six months of 2004 and 2003 was \$28.5 million and \$29.4 million, respectively.

Income before taxes, as a percent of sales in the first six months of 2004 and 2003, was 6.3 percent and 8.2 percent, respectively. The percentage decrease in 2004 reflected the impact of the restructuring charges taken during the first six months of 2004, as well as lower gross profit as a percent of sales, partially offset by lower marketing, general and administrative expense as a percent of sales.

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The year-to-date effective tax rate decreased to 24.9 percent in 2004 compared to 27.5 percent for the full year of 2003. The decrease in the effective tax rate was due to a favorable foreign tax audit settlement during the second quarter of 2004, which resulted in a one-time reduction of tax expense of approximately \$4 million. The lower tax rate was also due to changes in the geographic mix of income.

Net income from discontinued operations was \$4 million for the first six months of 2003, which reflected net sales of approximately \$30 million. Refer to Note 2 “Discontinued Operations,” to the Consolidated Financial Statements for more detail.

Net Income and Earnings Per Share:

	2004	2003
(In millions, except share amounts)		
Net income	\$ 121.1	\$ 142.1
Net income per common share	1.21	1.43
Net income per common share, assuming dilution	1.21	1.42

Net income for the first six months of 2004 decreased 14.8 percent compared to the same period in 2003. Net income, as a percent of sales, was 4.7 percent and 6.1 percent in the first six months of 2004 and 2003, respectively.

Net income per common share for the first six months of 2004 decreased 15.4 percent compared to the same period in 2003. Net income per common share, assuming dilution, for the first six months of 2004 decreased 14.8 percent compared to the same period in 2003.

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

Pressure-sensitive Adhesives and Materials:

	2004	2003
(In millions)		
Sales – U.S.	\$ 744.4	\$ 681.1
Sales – International	1,048.3	870.5
Intrasegment sales	(92.6)	(83.5)
Net sales	\$1,700.1	\$1,468.1
Income before interest and taxes	107.0	115.0

The Pressure-sensitive Adhesives and Materials segment reported an increase in sales and a decrease in operating income for the first six months of 2004 compared to the same period in 2003. Sales increased approximately \$232 million or 16 percent to \$1.7 billion in the first six months of 2004 compared to \$1.5 billion in 2003 as a result of higher sales in both the domestic and international operations. Operating income decreased approximately \$8 million or 7 percent to \$107 million compared to \$115 million in the first six months of 2003. Operating income for this segment reflected a pretax charge of approximately \$34 million in 2004 related to restructuring costs and asset impairment charges during the first six months, primarily associated with the completion of the Company’s integration of the Jackstädt acquisition. (See “*Cost Reduction Actions*” above.)

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Results from Domestic Operations

Domestic sales, including intrasegment sales, increased approximately \$63 million or 9 percent due to higher sales in the roll materials business (approximately \$40 million), specialty tapes business (approximately \$14 million) and graphics and reflective business (approximately \$13 million). The sales increases in these businesses were due to core unit volume growth, including the benefit from new products and applications.

Income from domestic operations increased approximately \$5 million. The increase reflected higher sales, as well as the cost savings from productivity improvement initiatives, partially offset by higher raw material costs.

Results from International Operations

International sales, including intrasegment sales, increased approximately \$178 million or 20 percent due to higher sales in the roll materials business (approximately \$135 million), graphics and reflective business (approximately \$26 million) and specialty tapes business (approximately \$17 million). The sales increases in these businesses reflected core unit volume growth in Europe, Asia and Latin America, partially offset by the negative impact of changes in product mix and pricing. The favorable impact of foreign currency translation also contributed to increased international sales (approximately \$101 million).

Income from international operations decreased approximately \$14 million. The decrease reflected a pretax charge of approximately \$34 million related to restructuring and asset impairment charges during the first six months of 2004. Transition costs for new manufacturing equipment in Europe and higher raw material costs also contributed to the decline in operating income from international operations. Offsetting these factors was the benefit of higher sales, the positive impact of foreign currency translation and the cost savings from productivity improvement initiatives.

Consumer and Converted Products:

	2004	2003
(In millions)		
Sales – U.S.	\$573.5	\$612.4
Sales – International	409.4	367.2
Intrasegment sales	(33.1)	(32.8)
Net sales	\$949.8	\$946.8
Income before interest and taxes	112.3	124.3

The Consumer and Converted Products segment reported an increase in sales and a decrease in operating income for the first six months of 2004 compared to the same period in 2003. Sales increased approximately \$3 million or less than 1 percent to \$950 million in the first six months of 2004 compared to \$947 million in the same period in 2003, reflecting increases in sales in the international operations, partially offset by decreases in the domestic operations. Operating income decreased approximately \$12 million or 10 percent to \$112 million in the first six months of 2004 compared to \$124 million in the same period in 2003 reflecting a decline in income in domestic operations, partially offset by an increase in income in international operations.

Results from Domestic Operations

Domestic sales, including intrasegment sales, decreased approximately \$39 million or 6 percent reflecting lower sales in the office products business (approximately \$40 million) due to loss of market share with one major customer (approximately \$18 million), impact of customer inventory reductions during the first quarter of 2004 (due largely to higher than usual orders by customers late in the fourth quarter of 2003) and the impact of continued weak business conditions in the first quarter of 2004, including the effect of lower selling prices. Also included in the sales decline was the negative impact of changes in product mix and pricing and loss of sales from discontinued product lines (approximately \$10 million).

Income from domestic operations decreased approximately \$19 million. The decrease reflected declines in sales in the office products business, including the effect of lower selling prices and higher raw material costs, partially offset by the cost savings from productivity improvement initiatives.

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Results from International Operations

International sales, including intrasegment sales, increased approximately \$42 million or 11 percent reflecting higher sales in the retail information services business (approximately \$29 million) and office products business (approximately \$18 million). Included in these increases was the favorable impact of foreign currency translation (approximately \$31 million). The core unit volume growth in the retail information services business was offset by a decline in the office products business. The core unit volume growth in the retail information services business was due in part to relatively weak results in the second quarter of 2003 related to SARS and slow economic conditions that affected this business in 2003.

Income from international operations increased approximately \$7 million. The increase in international operations reflected core unit volume growth in the retail information services business, the cost savings from productivity improvement initiatives and the favorable impact of foreign currency translation, offset by declines in core unit volume in the office products business.

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

FINANCIAL CONDITION

LIQUIDITY

Cash Flow Provided by Operating Activities

Net cash flow provided by operating activities was \$180.3 million in the first six months of 2004 and \$153.3 million in the first six months of 2003. Cash flow from operating activities for 2004 was negatively impacted by changes in assets and liabilities of approximately \$52 million. Cash flow from operating activities for 2003 was negatively impacted by changes in assets and liabilities of approximately \$71 million. For cash flow purposes, changes in assets and liabilities exclude the impact of foreign currency translation, the impact of acquisitions and divestitures and certain non-cash transactions (discussed in more detail in the "Analysis of Selected Balance Sheet Accounts" below).

Cash flow from accounts receivable decreased in the second quarter of 2004 due to higher accounts receivable balances resulting from higher sales, partially offset by a decrease in the average number of days sales outstanding, from 60.5 in the first six months of 2003 to 59.7 in the first six months of 2004. (See "Accounts Receivable Ratios" discussed below.) Cash flow from inventory decreased due to higher inventory for the back-to-school season and introduction of new products in the office products business and increases in inventory due to higher sales in the emerging markets of Asia, Latin America and Eastern Europe. Cash flow from accounts payable and accrued liabilities increased due to higher levels of inventory purchases during the second quarter. Taxes on income decreased due to the timing of payments.

Cash Flow Used in Investing Activities

Net cash flow used in investing activities was \$87.3 million in the first six months of 2004 compared to \$116.7 million in the first six months of 2003.

Capital Spending

Capital expenditures in the first six months of 2004 were \$77.2 million compared to \$103.7 million in 2003. The Company expects higher capital expenditures in the second half of 2004 than in the first half. Total capital expenditures are expected to be approximately \$200 million in 2004. The Company's major capital projects in 2004 include expansion of the Company's capacity in Asia, as well as projects related to productivity improvement in the Company's North American roll materials operation.

Expenditures related to capitalized software and other capitalized assets were \$8.8 million in the first six months of 2004 and \$7.1 million in 2003.

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Acquisitions and Divestitures

During the first six months of 2004, payments for acquisitions of \$2.3 million were related to an acquisition in the ticketing business in Asia.

In the first six months of 2003, payments for acquisitions of \$7.6 million were primarily due to certain contingencies related to the achievement of performance targets associated with the 2001 acquisition of Dunsirn Industries, Inc.

Cash Flow Used in Financing Activities

Net cash flow used in financing activities was \$94.6 million in the first six months of 2004 compared to \$19.9 million in the same period in 2003.

Borrowings and Repayments of Debt

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

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

Shareholders' Equity

Dividends paid for the first six months of 2004 totaled \$81.7 million compared to \$79.6 million in the same period in 2003. Proceeds from the exercise of stock options for the first six months of 2004 were \$14 million, compared to \$2.1 million in the same period in 2003.

Analysis of Selected Balance Sheet Accounts

Other Current Liabilities

Other current liabilities decreased approximately \$156 million during the first six months of 2004 reflecting the payment to Steinbeis (approximately \$106 million), as well as a decrease in income taxes payable due to timing (approximately \$49 million). See "*Commitments and Contingencies*" below.

Other Shareholders' Equity Accounts

The market value of shares held in the employee stock benefit trust increased by \$95 million during the first six months of 2004 due to changes in stock price. This increase was partially offset by the issuance of shares during the first six months of 2004 from the trust under the Company's stock and incentive plans valued at approximately \$22 million.

Analysis of Selected Financial Ratios

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

Working Capital Ratio

Working capital (current assets minus current liabilities), as a percent of annualized sales was (.7) percent for the first six months of 2004 compared to (.9) percent for the first six months of 2003. Management utilizes the working capital from continuing operations ratio as a measurement tool to assess the working capital requirements of the Company, because it excludes the impact of fluctuations due to financing activities of the Company. The timing of financing activities is not necessarily related to current operations and would tend to distort the working capital ratio from period to period. Working capital from continuing operations, as a percent of annualized sales, was 8 percent for each of the first six-month periods ended of 2004 and 2003, as shown below. Management's objective is to minimize its investment in working capital from operations by reducing this ratio, to maximize cash flow and return on investment.

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Working capital from continuing operations consists of:

	Six Months Ended	
	June 26, 2004	June 28, 2003
(In millions)		
(A) Working capital (current assets minus current liabilities)	\$ (34.6)	\$ (43.8)
Reconciling items:		
Short-term and current portion of long-term debt	445.0	326.9
Steinbeis obligation (see "Commitments and Contingencies")	—	95.8
(B) Working capital from continuing operations	\$ 410.4	\$ 378.9
(C) Annualized sales (Year-to-date sales multiplied by 2)	\$5,141.4	\$4,654.8
Working capital, as a percent of annualized sales (A) ÷ (C)	(.7)%	(.9)%
Working capital from continuing operations as a percent of annualized sales (B) ÷ (C)	8.0%	8.0%

In the first six months of 2004, working capital from continuing operations, as a percent of annualized sales, reflected higher sales, higher balances in accounts receivable (approximately \$69 million) and inventory (approximately \$47 million), partially offset by increased balances in accounts payable (approximately \$64 million). Included in the changes in working capital balances for the first six months of 2004 was the impact of changes in foreign currency translation. Higher accounts receivable balances reflected higher sales in the Pressure-sensitive Adhesives and Materials segment and the retail information services business. Increased inventory balances were a result of the back-to-school season and introduction of new products in the office products business and continued growth in the emerging markets of Asia, Eastern Europe and Latin America. Higher balances in accounts payable were due to increased inventory purchases.

Accounts Receivable Ratios

The average number of days sales outstanding in accounts receivable decreased to 59.7 days in the first six months of 2004 compared to 60.5 days in the first six months of 2003 due to improved customer terms and collections.

Inventory Ratios

Inventory turnover was 8.3 for both the first six months of 2004 and 2003.

Debt Ratios

Total debt to total capital was 47.7 percent at June 26, 2004 compared to 50.3 percent at June 28, 2003. This decrease was due to higher equity balances in 2004.

Shareholders' Equity Ratios

Return on average shareholders' equity was 18 percent for the first six months of 2004 compared to 24.2 percent for the first six months of 2003. Return on average total capital was 12.5 percent for the first six months of 2004 compared to 15.1 percent for the first six months of 2003. Decreases in these returns in 2004 compared to 2003 were primarily due to the impact of restructuring costs and asset impairment charges, as well as an increase in retained earnings from 2003 to 2004.

CAPITAL RESOURCES

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

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Capital from Debt

Total debt increased by approximately \$78 million to \$1.3 billion as of June 2004 compared to December 2003. This increase during the first six months of 2004 reflected the issuance of commercial paper borrowings of approximately \$106 million in connection with the final settlement of the Steinbeis obligation in the first quarter, partially offset by net repayments of debt (approximately \$34 million).

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

The Company currently has availability of \$200 million under its existing shelf registration statement filed with the Securities and Exchange Commission in the third quarter of 2001. The Company anticipates issuing approximately \$150 million during the third quarter of 2004 under this registration statement.

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

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

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

Commitments and Contingencies

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

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

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

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

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

The Company participates in receivable financing programs, both domestically and internationally, with several financial institutions whereby advances may be requested from these financial institutions. Such advances are guaranteed by the Company. At June 26, 2004, the Company had guaranteed approximately \$14 million.

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

The Company guaranteed approximately \$18 million of certain foreign subsidiaries' obligations to their suppliers as of June 26, 2004.

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

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

RECENT ACCOUNTING REQUIREMENTS

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

SAFE HARBOR STATEMENT

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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

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

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

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of label stock against the Company, UPM and

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UPM's subsidiary Raflatac ("Raflatac"), seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for San Francisco County on March 30, 2004. A further similar complaint has been filed in the Superior Court for Maricopa County, Arizona. The Company intends to defend these matters vigorously.

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

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

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

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

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

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

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

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

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

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the period from 1990 through 1999, the Board of Directors authorized the repurchase of an aggregate 40.4 million shares of the Company's outstanding common stock (the "Program"). The last Board of Directors' authorization of 5 million shares occurred in October 1999 and has no expiration. The acquired shares may be reissued under the Company's stock option and incentive plans or used for other corporate purposes. Included in the total shares repurchased were 5,267 shares that were delivered (actually or constructively) to the Company by participants exercising stock options during the second quarter under the Company's stock option plans, in payment of the option exercise price and/or to satisfy withholding tax obligations.

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

(Shares in thousands, except per share amounts)

Period	Total shares repurchased	Average price per share	Remaining shares available for repurchases under the Program
March 28, 2004 – April 24, 2004	5.3	\$ 41.55	3,157.5
April 25, 2004 – May 22, 2004	1.8	64.94	3,155.7
May 23, 2004 – June 26, 2004	—	—	3,155.7
Quarterly total	7.1	\$ 47.48	3,155.7

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit 10.1: Revolving Credit Agreement dated July 16, 2004

Exhibit 10.8.2: Amended Employment Agreement with Philip M. Neal

Exhibit 10.8.4: Form of Employment Agreement

Exhibit 12: Computation of Ratio of Earnings to Fixed Charges

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

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

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

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

(b) Reports on Form 8-K:

Registrant furnished a current report on Form 8-K on April 20, 2004, providing a copy of a news release relating to its financial results for the quarter ending March 27, 2004.

Registrant furnished a current report on Form 8-K on May 25, 2004, providing a copy of several news releases relating to an investigation of the paper and forest products industry (including the adhesive label stock market) by European regulators concerning alleged anticompetitive activities.

Registrant furnished a current report on Form 8-K on July 20, 2004, providing a copy of a news release relating to its financial results for the quarter ending June 26, 2004.

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)

August 4, 2004

**REVOLVING
CREDIT AGREEMENT**

Dated as of July 16, 2004

among

AVERY DENNISON CORPORATION,
as Borrower,

CITICORP USA, INC.
as Administrative Agent

BANK OF AMERICA, N.A.
as Syndication Agent

and

The Other Banks Party Hereto

CITIGROUP GLOBAL MARKETS INC.
and
BANC OF AMERICA SECURITIES LLC

as

Arrangers

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REVOLVING CREDIT AGREEMENT

THIS REVOLVING CREDIT AGREEMENT is dated as of July 16, 2004 and is entered into by and among AVERY DENNISON CORPORATION, a Delaware corporation (the "Borrower"), the undersigned banks and other financial institutions (together with each bank and financial institution which becomes a Bank hereunder pursuant to Section 2.12 or Section 10.08, collectively the "Banks") party hereto, BANK OF AMERICA, N.A., as Syndication Agent (the "Syndication Agent") and CITICORP USA, INC., as Administrative Agent (the "Administrative Agent").

RECITAL

Borrower and the Banks desire to enter into this Agreement on the terms and conditions set forth herein.

SECTION 1.

DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth respectively after each:

"Acquisition" means any transaction, or any series of related transactions, consummated after the Effective Date, by which Borrower and/or any of its Subsidiaries directly or indirectly (a) acquires any going business or all or substantially all of the assets of any firm, corporation, or division thereof, whether through purchase of assets, merger or otherwise or (b) acquires (in one transaction or as the most recent transaction in a series of transactions) control of at least a majority in ordinary voting power of the securities of a corporation which have ordinary voting power for the election of directors or (c) acquires control of at least a majority ownership interest in any partnership or joint venture.

"Affiliate" means, as to any Person, any other Person which directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise), provided that, in any event, any Person which owns directly or indirectly 50% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation or 50% or more of the partnership or other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person.

"Administrative Agent" means CUSA in its capacity as administrative agent for the Banks hereunder, and any successor agent arising under Section 9.08.

"Administrative Agent's Payment Office" means the address for payments set forth on Schedule 10.06 or such other address as the Administrative Agent may from time to time specify.

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“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Agent Parties” has the meaning specified in Section 10.21(b).

“Agent-Related Persons” means CUSA and any successor agent arising under Section 9.08 and Bank of America, together with their respective Affiliates (including, in the case of CUSA, Citigroup Global Markets Inc., and in the case of Bank of America, Banc of America Securities LLC), and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

“Aggregate Amounts Due” has the meaning specified in Section 10.09(b).

“Agreement” means this Revolving Credit Agreement, either as originally executed or as it may from time to time be supplemented, modified, or amended.

“Alternative Currency” means any Committed Alternative Currency and any other lawful currency (other than Dollars) that is freely transferable or convertible into Dollars.

“Alternative Currency Equivalent” means, with respect to any amount denominated in Dollars on any date of determination, the amount of an Alternative Currency that could be purchased with such amount of Dollars using the reciprocal of the foreign exchange rate(s) specified in the definition of “Dollar Equivalent,” as determined by the Administrative Agent.

“Alternative Currency Loan” means any Loan denominated in an Alternative Currency. Each Alternative Currency Loan must be a Eurocurrency Rate Loan.

“Applicable Margin” means, for any date of determination, for the designated Rating Level, Utilization Ratio applicable to such date of determination and Type of Loan, the following interest rates per annum:

	Applicable Margin when Utilization Ratio is equal to or less than 0.50:1.00		Applicable Margin when Utilization Ratio is greater than 0.50:1.00	
	TYPE OF LOAN		TYPE OF LOAN	
	Base Rate Loan	Eurocurrency Rate Loan	Base Rate Loan	Eurocurrency Rate Loan
Rating Level I	0%	0.130%	.125%	0.255%
Rating Level II	0%	0.170%	.125%	0.295%
Rating Level III	0%	0.225%	.125%	0.350%
Rating Level IV	0%	0.350%	.125%	0.475%
Rating Level V	0%	0.450%	.125%	0.575%

For purposes of this definition, “Utilization Ratio” means, as of any date of determination, the ratio of (1) the aggregate outstanding principal amount of all Loans as of such date to (2) the Commitments in effect as of such date (whether used or unused) of all Banks. The Applicable Margin shall be adjusted daily to reflect changes in the Utilization Ratio and the Rating Level

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applicable to Borrower; provided, however, in the event of a change in Borrower's Rating Level, the Applicable Margin with respect to outstanding Eurocurrency Rate Loans will continue to be in effect until the end of the then existing Interest Period. The then existing Applicable Margins shall thereupon be effective as to any new or continued Eurocurrency Rate Loans.

"Approved Fund" has the meaning specified in Section 10.08(g).

"Assignment and Assumption" means an Assignment and Assumption substantially in the form of Exhibit D.

"Bank of America" means Bank of America, N.A.

"Base Rate" means for any day a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Citibank as Citibank's base rate (which is a rate set by Citibank based upon various factors including Citibank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans which may be priced at, above, or below such announced rate). Any change in such rate announced by Citibank shall take effect at the opening of business on the day specified in the public announcement of such change.

"Base Rate Loan" means a Loan that bears interest based on the Base Rate. All Base Rate Loans shall be denominated in Dollars.

"Borrowing" means any of the groups of Loans made at any one time by the Banks, and shall include any Loans outstanding on the Effective Date. Each Borrowing shall be made up of Loans made simultaneously by the Banks. Each Loan made by each Bank shall be equal to that Banks' pro-rata share, according to its Commitment, of the applicable Borrowing.

"Borrowing Date" means any date on which a Borrowing occurs under Section 2.03.

"Business Day," means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the State of New York or the state where the Administrative Agent's Payment Office with respect to Obligations denominated in Dollars is located and (a) if such day relates to any Eurocurrency Rate Loan denominated in a currency other than Euro, means any such day on which dealings in deposits in the relevant currency are conducted by and between banks in the London interbank market or (b) if such day relates to any Eurocurrency Rate Loan denominated in Euro, means a TARGET Day.

"Calculation Date" means, in respect of a Eurocurrency Rate Loan denominated in an Alternative Currency, (a) the date falling two Business Days (or such other period as is customary in the relevant foreign exchange market for delivery on the date of the relevant Borrowing) prior to the date of each Borrowing, (b) the date falling two Business Days (or such other period as is customary in the relevant foreign exchange market for delivery on the date of the relevant conversion or continuation of a Loan) prior to the date of conversion or continuation of any Loan pursuant to Section 2.04, or (c) such additional dates as the Administrative Agent or the Majority Banks shall specify.

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“Cash Equivalents” means, when used in connection with any Person, the Person’s Investments in:

- (a) Government Securities due within one year after the date of the making of the Investment;
- (b) certificates of deposit issued by, bank deposits in, bankers’ acceptances of, and repurchase agreements covering Government Securities executed by, any Bank or any bank doing business in and incorporated under the laws of the United States of America or any state thereof, or Canada and having on the date of such Investment combined capital, surplus, and undivided profits of at least \$500,000,000 in each case due within one year after the date of the making of the Investment; and
- (c) readily marketable commercial paper of corporations doing business in and incorporated under the laws of the United States of America or any state thereof, Canada or any province thereof given on the date of such Investment the highest credit rating by NCO/Moody’s Commercial Paper Division of Moody’s or S&P, in each case due within six months after the date of the making of the Investment.

“Citibank” means Citibank, N.A.

“Code” means the Internal Revenue Code of 1986, as amended.

“Commitment” means, as to each Bank, the amount set forth opposite that Bank’s name on Schedule 2.01 hereto, as such amount may be increased under Section 2.12 or reduced under Section 2.05.

“Committed Alternative Currency” means each of Euro, Sterling and each other currency that is freely available and freely transferable and convertible into Dollars and which is approved by all the Banks in accordance with Section 1.07.

“Communications” has the meaning specified in Section 10.21(a).

“Compliance Certificate” means a certificate in the form of Exhibit C signed by a Designated Officer.

“Consolidated Debt” means, at any date, the Debt of Borrower and its Consolidated Subsidiaries, determined on a consolidated basis as of such date.

“Consolidated Earnings Before Interest and Taxes” means, as of any date of determination, the earnings of Borrower and the Consolidated Subsidiaries for the twelve month fiscal period then ended before deducting interest expense and taxes on or measured by income charged against earnings for that period, all determined and consolidated in conformity with generally accepted accounting principles consistently applied.

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent deducted in the determination of such Consolidated Net Income, (a) Consolidated Interest for such period, (b) the provision for income taxes for such period, and (c) depreciation and amortization expense for such period.

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“Consolidated Interest” means, as of any date of determination, the interest expense of Borrower and the Consolidated Subsidiaries for the twelve month fiscal period then ended, determined and consolidated in conformity with generally accepted accounting principles consistently applied.

“Consolidated Net Income” means, for any fiscal year, the consolidated net income of Borrower and the Consolidated Subsidiaries for that period, determined and consolidated in conformity with generally accepted accounting principles consistently applied.

“Consolidated Net Worth” means, as of any date of determination, the consolidated net worth of Borrower and the Consolidated Subsidiaries, determined in accordance with generally accepted accounting principles consistently applied, plus Subordinated Debt in an amount up to but not exceeding 20% of the consolidated net worth of Borrower and the Consolidated Subsidiaries (minus any Subordinated Debt carried in the treasury of Borrower or any Subsidiary).

“Consolidated Subsidiary” means any Subsidiary of Borrower whose financial statements are consolidated with the financial statements of Borrower in conformity with generally accepted accounting principles consistently applied.

“Consolidated Total Liabilities” means, as of any date of determination, all liabilities of Borrower and the Consolidated Subsidiaries that in conformity with generally accepted accounting principles consistently applied should be reflected in the liability side of a consolidated balance sheet of Borrower and the Consolidated Subsidiaries as of such date of determination.

“Consolidated Total Tangible Assets” means, as of any date of determination, all assets of Borrower and the Consolidated Subsidiaries that in conformity with generally accepted accounting principles consistently applied should be reflected in the asset side of a consolidated balance sheet of Borrower and the Consolidated Subsidiaries as of such date of determination, excluding any Intangible Assets.

“Contingent Obligation” means any guarantee of any obligation of another Person, or any agreement to become directly or indirectly responsible for an obligation of another Person, (including, without limitation, any agreement to maintain the net worth or liquidity of another Person or to purchase any obligation, goods or services of another Person, or otherwise to provide credit assurances to the holder of an obligation of another Person), or any agreement in the nature of a guarantee or having the effect of creating responsibility for the obligation of another Person, except the guarantee or agreement in the nature of a guarantee by Borrower or a Consolidated Subsidiary of the obligations of a Consolidated Subsidiary.

“Conversion/Continuation Date” means any date on which a conversion or continuation occurs under Section 2.04.

“Current Anniversary Date” has the meaning specified in Section 2.11.

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“CUSA” means Citicorp USA, Inc.

“Debt” of any Person means at any date, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable and deferred employee compensation obligations arising in the ordinary course of business, (d) all obligations of such Person as lessee which are capitalized in accordance with generally accepted accounting principles, (e) all unpaid reimbursement obligations of such Person in respect of letters of credit or similar instruments but only to the extent that either (i) the issuer has honored a drawing thereunder or (ii) payment of such obligation is otherwise due under the terms thereof, (f) all Debt secured by a Lien on real property which is otherwise an obligation of such Person, and (g) all Debt of others in excess of \$1,000,000 guaranteed by such Person.

“Declining Bank” has the meaning specified in Section 2.11.

“Default” means any event that, with the giving of notice or passage of time or both, would be an Event of Default.

“Designated Interbank Eurocurrency Market” means, for any Eurocurrency Rate Loan an interbank Eurocurrency market designated solely by the Administrative Agent to be the appropriate interbank Eurocurrency market for that Eurocurrency Rate Loan.

“Designated Interbank Eurocurrency Market Day” means any Business Day on which the Administrative Agent accepts deposits in the Designated Interbank Eurocurrency Market.

“Designated Officer” means (i) the chief executive officer, (ii) chief financial officer, (iii) vice president and treasurer or (iv) vice president and controller of Borrower.

“Dollar Equivalent” means, as of any date of determination (a) with respect to any amount denominated in Dollars, such amount, and (b) with respect to any amount denominated in any currency other than Dollars, the amount of Dollars that would be required to purchase the amount of the relevant Alternative Currency based on the spot rate for the purchase by Citibank of such Alternative Currency through its foreign exchange trading office on such date.

“Dollar Loan” means any Loan denominated in Dollars.

“Dollars” (or “\$”) means the national currency of the United States of America denominated in dollars.

“Domestic Subsidiary” means any Subsidiary whose principal place of business is located in the United States of America.

“Effective Date” means the time and Business Day on which the consummation of all of the transactions contemplated in Section 4.01 occurs.

“Eligible Assignee” has the meaning specified in Section 10.08(g).

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“EMU” means the economic and monetary union in accordance with the Treaty of Rome 1957, as amended by the Single European Act 1986, the Maastricht Treaty of 1992 and the Amsterdam Treaty of 1998, as amended from time to time.

“EMU Legislation” means the legislative measures of the European Council for the introduction of, changeover to or operation of a single or unified European currency (whether known as the “Euro” or otherwise).

“Environmental Claims” means all claims, however asserted, by any Governmental Authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, or for release or injury to the environment.

“Environmental Laws” means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authorities, in each case relating to environmental, health, safety and land use matters.

“ERISA” means, at any date, the Employee Retirement Income Security Act of 1974 and the regulations thereunder.

“Euro” and “€” means the lawful currency of the Participating Member States introduced in accordance with the EMU Legislation.

“Eurocurrency Rate” means (a) for any Interest Period with respect to any Eurocurrency Rate Loan other than one referred to in subsection (b) of this definition, a rate per annum determined by the Administrative Agent pursuant to the following formula:

$$\text{Eurocurrency Rate} = \frac{\text{Eurocurrency Base Rate}}{1.00 - \text{Eurocurrency Reserve Percentage}}$$

Where,

“Eurocurrency Base Rate” means, for such Interest Period:

(i) the rate per annum equal to the rate determined by the Administrative Agent to be the offered rate that appears on the page of the Telerate screen (or a successor servicer) that displays an average British Bankers Association Interest Settlement Rate for deposits in the relevant currency (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, determined as of approximately 11:00 a.m. (London time) on the Quotation Date for such currency.

(ii) in the event the rate referenced in the preceding clause (i) does not appear on such page or service or such page or service shall cease to be available, the rate per annum equal to the rate determined by the Administrative Agent to be the offered rate on such other page or other service that displays an average British Bankers Association Interest Settlement Rate for deposits in the relevant currency (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, determined as of approximately 11:00 a.m. (London time) on the Quotation Date for such currency, or

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(iii) in the event the rates referenced in the preceding subsections (i) and (ii) are not available, the rate per annum determined by the Administrative Agent as the rate of interest (rounded upward to the next 1/100th of 1%) at which deposits in the relevant currency for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurocurrency Rate Loan being made, continued or converted by Citibank and with a term equivalent to such Interest Period would be offered by Citibank to major banks in the London interbank market for such currency at their request at approximately 11:00 a.m. (London time) on the Quotation Date for such currency; and

(b) for any Interest Period with respect to any Eurocurrency Rate Loan denominated in a currency other than Dollars and advanced by a Bank required to comply with the relevant requirements of the United Kingdom or any Participating Member State, the sum of (i) the rate determined in accordance with subsection (a) of this definition and (ii) the Mandatory Cost Rate for such Interest Period.

“Eurocurrency Rate Loan” means a Loan that bears interest based on the Eurocurrency Rate. Eurocurrency Rate Loans may be denominated in Dollars or in a Committed Alternative Currency.

“Eurocurrency Reserve Percentage” means, for any day during any Interest Period, the reserve percentage (expressed as a decimal, rounded upward to the next 1/100th of 1%) in effect on such day, whether or not applicable to any Bank, under regulations issued from time to time by the Board of Governors of the Federal Reserve System for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as “Eurocurrency liabilities”). The Eurocurrency Rate for each outstanding Eurocurrency Rate Loan shall be adjusted automatically as of the effective date of any change in the Eurocurrency Reserve Percentage.

“Events of Default” has the meaning set forth for that term in Section 8.01.

“Extending Bank” has the meaning specified in Section 2.11.

“Federal Funds Rate” means, for any day, the rate per annum (rounded upwards to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate charged to Citibank on such day on such transactions as determined by the Administrative Agent.

“Foreign Bank” has the meaning specified in Section 10.08(e).

“Fund” has the meaning specified in Section 10.08(g).

“Government Securities” means readily marketable direct obligations of the United States of America or obligations fully guaranteed by the United States of America.

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“Governmental Agency” means (a) any federal, state, county or municipal government, or political subdivision thereof, (b) any governmental or quasi-governmental agency, authority, board, bureau, commission, department, instrumentality, or public body, or (c) any court, administrative tribunal, or public utility, in each case whether of the United States of America or any other nation or supranational entity.

“Intangible Assets” means assets having no physical existence and that, in conformity with generally accepted accounting principles consistently applied, should be classified as intangible assets, including without limitation such intangible assets as patents, trademarks, copyrights, franchises, licenses and goodwill.

“Interest Period” means, as to any Eurocurrency Rate Loan, the period commencing on the Borrowing Date of such Loan or on the Conversion/Continuation Date on which the Loan is converted into or continued as a Eurocurrency Rate Loan, and ending on the date one, two, three or six months thereafter as selected by Borrower in its Notice of Borrowing or Notice of Conversion/Continuation; provided that:

(a) if any Interest Period would otherwise end on a day that is not a Business Day, that Interest Period shall be extended to the following Business Day unless, in the case of a Eurocurrency Rate Loan, the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) no Interest Period for any Loan shall extend beyond the Maturity Date.

“Investment” means, when used in connection with any Person, any investment by the Person, whether by means of purchase or other acquisition of stock or other securities or by means of loan, advance, capital contribution, guarantee, or other debt or equity participation or interest in any other Person.

“Laws” means, collectively, all federal, state and local laws, statutes, codes, ordinances, rules and regulations, including published opinions of the court of last resort in the applicable jurisdiction, and shall include, without limitation, all of the foregoing relating to environmental matters.

“Lending Office” means, as to any Bank, the office or offices of such Bank specified as its “Lending Office” or “Domestic Lending Office” or “Eurocurrency Lending Office”, as the case may be, on Schedule 10.06, or such other office or offices as such Bank may from time to time notify Borrower and the Administrative Agent.

“Leverage Ratio” means, at any date, the ratio of Consolidated Debt at such date to Consolidated EBITDA for the period of four consecutive fiscal quarters most recently ended on or prior to such date.

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“Lien” means any mortgage, deed of trust, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof, and any financing statement filed under the Uniform Commercial Code of any jurisdiction).

“Loan” means each of the loans outstanding on the Effective Date and any other loans to be made to Borrower hereunder by each of the Banks, and may be a Eurocurrency Rate Loan or a Base Rate Loan (each a “Type” of Loan).

“Loan Documents” means this Agreement and all other documents delivered to the Administrative Agent or any Bank in connection herewith.

“Majority Banks” means, at any time, a Bank or Banks holding more than 50% of the aggregate principal amount of the Loans then outstanding (or if no Loans are at the time outstanding, a Bank or Banks having more than 50% of the aggregate Commitments).

“Mandatory Cost Rate” means, with respect to any period, a rate per annum determined in accordance with Schedule 1.01.

“Margin Stock” means “margin stock” as such term is defined in Regulation U of the Board of Governors of the Federal Reserve System, or any successor thereto.

“Material Adverse Effect” means a material adverse change in, or a material adverse effect upon, the operations, business, assets, condition (financial or otherwise) of Borrower or Borrower and its Subsidiaries taken as a whole.

“Maturity Date” means the earlier to occur of: (a) July 16, 2009 or, with respect to a particular Bank, such later date as such Bank and Borrower shall subsequently agree pursuant to Section 2.11; and (b) the date on which the Commitments terminate in accordance with the provisions of this Agreement.

“Moody’s” means Moody’s Investors Service Inc.

“Notice of Borrowing” means a notice in substantially the form of Exhibit A.

“Notice of Conversion/Continuation” means a notice in substantially the form of Exhibit B.

“Obligations” means all obligations of every nature of Borrower from time to time owed to the Administrative Agent, the Syndication Agent and the Banks under the Loan Documents.

“Overnight Rate” means, for any day, with respect to any amount denominated in an Alternative Currency, the rate of interest per annum at which overnight deposits in the applicable Alternative Currency, in an amount approximately equal to the amount with respect to which such rate is being determined, would be offered for such day by Citibank to major banks in the London interbank market.

“Participant” has the meaning specified in Section 10.08(d).

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“Participating Member State” means each state so described in any EMU Legislation.

“Pension Plan” means any “employee pension benefit plan” (as such term is defined in ERISA) which is subject to ERISA and which is from time to time maintained by Borrower or any of its Subsidiaries.

“Person” means any entity, whether an individual, trustee, corporation, partnership, joint stock company, trust, unincorporated organization, union, tribe, business association or firm, joint venture, Governmental Agency, or otherwise.

“Platform” has the meaning specified in Section 10.21(b).

“Pro Rata Share” means, as to any Bank at any time, the percentage equivalent (expressed as a decimal, rounded to the ninth decimal place) at such time of such Bank’s Commitment divided by the combined Commitments of all Banks.

“Quotation Date” means, for any Interest Period, (a) for any currency other than Sterling, the date two Business Days prior to the commencement of such Interest Period and (b) for Sterling, the first day of such Interest Period; provided that if market practice differs in the relevant interbank market for any currency, the “Quotation Date” for such currency shall be determined by the Administrative Agent in accordance with market practice in the relevant interbank market (and if quotations would normally be given by leading banks in the relevant interbank market on more than one day, the “Quotation Date” shall be the last of such days).

“Rating Level I” has the meaning assigned to that term in Section 1.08.

“Rating Level II” has the meaning assigned to that term in Section 1.08.

“Rating Level III” has the meaning assigned to that term in Section 1.08.

“Rating Level IV” has the meaning assigned to that term in Section 1.08.

“Rating Level V” has the meaning assigned to that term in Section 1.08.

“Regulation D” or “Regulation U” mean, respectively, Regulation D or Regulation U, as at any time amended, of the Board of Governors of the Federal Reserve System or any other regulation in substance substituted therefor.

“Regulatory Development” means any or all of the following: (i) any change in the Laws, or any change in the interpretation thereof by any Governmental Agency or other authority (whether or not having the force of law); (ii) any change in the application of any existing Laws by any Governmental Agency or other authority (whether or not having the force of law); and (iii) compliance by any Bank with any request or directive (whether or not having the force of law) of any monetary or fiscal agency or authority.

“Restricted Margin Stock” means, as of any date of determination, all of the Margin Stock owned by Borrower and its Subsidiaries to the extent that the fair market value thereof is not more than 25% of the aggregate fair market value of the assets of Borrower and its Subsidiaries, determined on a consolidated basis.

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“Right of Others” means, as to any property in which a Person has an interest, any legal or equitable claim or other interest (other than a Lien) in or with respect to that property held by any other Person, and any option or right held by any other Person to acquire any such claim or other interest, including a Lien.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

“Significant Subsidiary” means a Subsidiary of Borrower with assets in excess of 3% of Consolidated Total Tangible Assets.

“Special Euro Base Rate Borrowing” shall have the meaning assigned to that term in Section 2.03.

“Sterling” and “£” means the lawful currency of the United Kingdom.

“Sterling Reference Bank” means Citibank.

“Subordinated Debt” means, as of any date of determination, the aggregate principal amount then outstanding of indebtedness of Borrower that is subordinated to the Obligations, on terms that (a) prohibit any payment on that indebtedness (whether principal, premium, if any, interest, or otherwise) if: (i) any event not waived hereunder has occurred and is continuing that is a Default or an Event of Default, or (ii) the payment would cause the occurrence of a Default or an Event of Default; and (b) require that, upon acceleration of that indebtedness or upon dissolution, liquidation, or reorganization of Borrower, the Obligations must be paid in full before any payment (whether of principal, premium, if any, interest, or otherwise) may be made on that indebtedness.

“Subsidiary” means, with respect to any Person, any corporation, partnership or joint venture whether now existing or hereafter organized or acquired: (a) in the case of a corporation of which a majority of the securities having ordinary voting power for the election of a majority of the board of directors (other than securities having such power only by reason of the happening of a contingency) are at the time owned by such Person and/or one or more Subsidiaries of such Person or (b) in the case of a partnership or joint venture, in which such Person is a general partner or joint venturer or of which a majority of the partnership or other ownership interests are at the time owned by such Person and/or one or more of its Subsidiaries.

“TARGET Day” means any day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System (or, if such clearing system ceases to be operative, such other clearing system (if any) determined by the Administrative Agent to be a suitable replacement) is operating.

“to the best knowledge of” means, when modifying a representation, warranty, or other statement of any Person, that the fact or situation described therein is known by the Person (or, in the case of a Person other than a natural person, known by a responsible officer, director or

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partner of that Person) making the representation, warranty, or other statement, or with the exercise of reasonable due diligence under the circumstances (in accordance with the standard of what a reasonable person in similar circumstances would have done) should have been known by the Person (or, in the case of a Person other than a natural person, should have been known by a responsible officer, director or partner of that Person).

“Type” has the meaning specified in the definition of “Loan.”

“Unrestricted Margin Stock” means, as of any date of determination, all of the Margin Stock owned by Borrower and its Subsidiaries that is not Restricted Margin Stock.

1.02 Use of Defined Terms. Any defined term used in the plural preceded by the definite article shall be taken to encompass all members of the relevant class. Any defined term used in the singular preceded by “any” shall be taken to indicate any number of the members of the relevant class.

1.03 Accounting Terms. All accounting terms not specifically defined in this Agreement shall be construed in conformity with, and all financial data required to be submitted by this Agreement shall be prepared in conformity with, generally accepted accounting principles applied on a consistent basis, except as otherwise specifically prescribed herein.

1.04 Exhibits and Schedules. All exhibits and schedules to this Agreement, either as originally existing or as the same may from time to time be supplemented, modified, or amended, are incorporated herein by reference.

1.05 Exchange Rates; Alternative Currency Equivalents. On each Calculation Date, the Administrative Agent shall determine the exchange rate as of such Calculation Date to be used for calculating relevant Dollar Equivalent and Alternative Currency Equivalent amounts. The exchange rates so determined shall become effective on such Calculation Date and shall for all purposes of this Agreement (other than any provision expressly requiring the use of a current exchange rate) be the exchange rates employed in converting any amounts between the applicable currencies. Wherever in this Agreement in connection with a Borrowing, conversion or continuation of a Loan, an amount, such as a required minimum or multiple amount, is expressed in Dollars, but such Borrowing or Loan is denominated in an Alternative Currency, such amount shall be the relevant Alternative Currency Equivalent of such Dollar amount (rounded to the nearest 1,000 units of such Alternative Currency), as determined by the Administrative Agent.

1.06 Redenomination of Sterling.

(a) At such time, if any, as the United Kingdom of Great Britain and Northern Ireland adopts the Euro as its lawful currency, each obligation of each party to this Agreement to make a payment denominated in Sterling shall be redenominated into Euro at the time of such adoption (in accordance with the applicable United Kingdom legislation and the EMU Legislation). If the basis of accrual of interest expressed in this Agreement in respect of Sterling shall be inconsistent with any convention or practice in the London interbank market for the basis of accrual of interest in respect of the Euro, such expressed basis shall be replaced by such convention or practice with that applicable to the Euro; provided that if any Borrowing in Sterling is outstanding immediately prior to such date, such replacement shall take effect, with respect to such Borrowing, at the end of the then current Interest Period.

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(b) Each provision of this Agreement shall be subject to such reasonable changes of construction as the Administrative Agent may from time to time specify to be appropriate to reflect the adoption of the Euro by any member state of the European Union and any relevant market conventions or practices relating to the Euro.

1.07 Additional Committed Alternative Currencies. Borrower may from time to time request that Loans be made in a currency other than those specifically listed in the definition of “Committed Alternative Currency” provided that such requested currency otherwise meets the requirements set forth in such definition. Any such request shall be made to the Administrative Agent (which shall promptly notify each Bank thereof) not later than noon (New York City time) ten Business Days prior to the date of the desired Borrowing. Each Bank shall notify the Administrative Agent, not later than noon (New York City time) five Business Days after receipt of such request whether it consents, in its sole discretion, to making Loans in such requested currency. Any failure by a Bank to respond to such request within the time period specified in the preceding sentence shall be deemed to be a refusal by such Bank to make Loans in such requested currency. If all the Banks consent to making Loans in such requested currency, the Administrative Agent shall so notify Borrower and such currency shall thereupon be deemed for all purposes to be a Committed Alternative Currency hereunder.

1.08 Pricing Levels. For purposes of this Agreement, the following terms have the following meanings, subject to the concluding paragraph of this Section 1.08:

“Rating Level I” means a period during which the long-term senior unsecured debt rating of Borrower is equal to or better than (i) A+ by S&P, or (ii) A1 by Moody’s.

“Rating Level II” means a period (other than a Rating Level I) during which the long-term senior unsecured debt rating of Borrower is equal to or better than (i) A by S&P, or (ii) A2 by Moody’s.

“Rating Level III” means a period (other than a Rating Level I or a Rating Level II) during which the long-term senior unsecured debt rating of Borrower is equal to or better than (i) A- by S&P, or (ii) A3 by Moody’s.

“Rating Level IV” means a period (other than a Rating Level I, a Rating Level II or a Rating Level III) during which the long-term senior unsecured debt rating of Borrower is equal to or better than (i) BBB+ by S&P, or (ii) Baa1 by Moody’s.

“Rating Level V” means any period which is not a Rating Level I, a Rating Level II, a Rating Level III, or a Rating Level IV.

The credit ratings to be used for purposes of this Section 1.08 are those assigned to the long-term senior unsecured debt of Borrower without third-party credit enhancement. Any rating assigned to any other debt of Borrower shall be disregarded. The rating in effect at any date is that in effect at the close of business on such date.

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If Borrower is split-rated and the ratings differential is one level, the higher of the two ratings will apply (e.g., A+/A2 results in a Rating Level I and BBB+/A3 results in a Rating Level III). If Borrower is split-rated and the ratings differential is more than one level, the rating one level below the higher of the two ratings shall be used (e.g., A+/A3 results in a Rating Level II). If, however, at any date Borrower's long-term senior unsecured debt is not rated by both S&P and Moody's, then a Rating Level V shall apply; provided, however, if a rating by either Moody's or S&P is unavailable because Moody's or S&P has ceased to be in the business of providing ratings, or no longer provides ratings of companies similar to the Borrower, the rating level of the remaining rating agency shall apply.

SECTION 2. LOANS

2.01 Loans. Subject to the terms and conditions hereof, at any time and from time to time from the Effective Date through the Maturity Date, each Bank severally agrees to make Loans to Borrower in such principal amounts in Dollars or in one or more Committed Alternative Currencies as Borrower may request that do not, in the case of all Loans made by such Bank, exceed in the aggregate outstanding at any one time the Dollar Equivalent of that Bank's Commitment or, in the case of all Loans made by all Banks, exceed in the aggregate the Dollar Equivalent of all Banks' combined Commitments. Within the limits of each Bank's Commitment, and subject to the other terms and conditions hereof, Borrower may borrow under this Section 2.01, prepay under Section 2.07(b) and reborrow under this Section 2.01.

2.02 Loan Accounts. The Loans made by each Bank shall be evidenced by one or more loan accounts or records maintained by such Bank in the ordinary course of business. The loan accounts or records maintained by the Administrative Agent and each Bank shall be conclusive absent manifest error of the amount of the Loans made by the Banks to Borrower and the interest and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower hereunder to pay any amount owing with respect to the Loans.

2.03 Procedure for Borrowing.

(a) Each Borrowing shall be made upon Borrower's irrevocable written notice delivered to the Administrative Agent in the form of a Notice of Borrowing in the form of Exhibit A hereto (which notice must be received by the Administrative Agent (i) prior to noon (New York City time) three Business Days prior to the requested Borrowing Date, in the case of Eurocurrency Rate Loans denominated in Dollars; (ii) prior to noon (New York City time) four Business Days prior to the requested Borrowing Date, in the case of Eurocurrency Rate Loans denominated in an Alternative Currency; (iii) prior to noon (New York City time) on the Business Day of the requested Borrowing Date, in the case of Base Rate Loans and (iv) prior to noon (New York City time) two Business Days prior to the requested Borrowing Date, in the case of a Special Euro Base Rate Borrowing (as defined in subsection (e) below), specifying: (A) the amount and, if an Alternative Currency Loan, the currency of the Borrowing, which shall be in an aggregate minimum amount of \$5,000,000 or any multiple of \$1,000,000 in excess thereof in the case of Eurocurrency Rate Loans, and in an aggregate minimum amount of \$1,000,000 or any multiple of \$100,000 in excess thereof in the case of Base Rate Loans; (B) the

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requested Borrowing Date, which shall be a Business Day; (C) the Type of Loans comprising the Borrowing; and (D) the duration of the Interest Period applicable to such Loans included in such notice. If the Notice of Borrowing fails to specify the duration of the Interest Period for any Borrowing comprised of Eurocurrency Rate Loans, such Interest Period shall be three months. If Borrower fails to specify a currency in a Notice of Borrowing requesting a Borrowing, then the Loans so requested shall be made in Dollars.

(b) The Administrative Agent will promptly notify each Bank of its receipt of any Notice of Borrowing and of the amount of such Bank's Pro Rata Share of that Borrowing.

(c) Each Bank will make the amount of its Pro Rata Share of each Borrowing available to the Administrative Agent for the account of Borrower at the Administrative Agent's Payment Office by 2:00 p.m. (New York City time) on the Borrowing Date requested by Borrower in funds immediately available to the Administrative Agent. The proceeds of all such Loans will then be made available to Borrower by the Administrative Agent by wire transfer in accordance with written instructions provided to the Administrative Agent by Borrower of like funds as received by the Administrative Agent.

(d) After giving effect to any Borrowing, unless the Administrative Agent shall otherwise consent, there may not be more than eight different Interest Periods in effect.

(e) Borrower may request a Special Euro Base Rate Borrowing pursuant to Section 2.03(a)(iv). A "Special Euro Base Rate Borrowing" is a Borrowing of Base Rate Loans in Dollars, the proceeds of which, net of commissions and fees, are used by Administrative Agent, on terms and conditions agreed upon by Administrative Agent and Borrower, to purchase Euro for the account of Borrower for delivery at an account specified by Borrower in London on the requested Borrowing Date. Each Bank shall make available its Pro Rata Share of any Special Euro Base Rate Borrowing in immediately available funds in Dollars pursuant to subsection (c) above. For all purposes of this Agreement, a Special Euro Base Rate Borrowing shall be deemed a Borrowing of Base Rate Loans and shall be repaid by Borrower in Dollars.

2.04 Conversion and Continuation Elections.

(a) Borrower may, upon irrevocable written notice to the Administrative Agent in the form of a Notice of Conversion/Continuation in the form of Exhibit B hereto in accordance with Section 2.04(b): (i) elect, as of any Business Day to convert any Base Rate Loans (or any part thereof in an amount not less than \$5,000,000, or that is in an integral multiple of \$1,000,000 in excess thereof) into Eurocurrency Rate Loans; (ii) elect, as of the last day of the applicable Interest Period to convert any Eurocurrency Rate Loans (or any part thereof in an amount not less than \$1,000,000, or that is in an integral multiple of \$100,000 in excess thereof) into Base Rate Loans; or (iii) elect, as of the last day of the applicable Interest Period, to continue any Eurocurrency Rate Loans having Interest Periods expiring on such day (or any part thereof in an amount not less than \$5,000,000, or that is in an integral multiple of \$1,000,000 in excess thereof); provided, that if at any time the aggregate amount of Eurocurrency Rate Loans in respect of any Borrowing is reduced, by payment, prepayment, or conversion of part thereof to be less than \$5,000,000, such Eurocurrency Rate Loans shall automatically convert into Base Rate Loans, and on and after such date the right of Borrower to continue such Loans as, and convert such Loans into, Eurocurrency Rate Loans shall terminate.

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(b) Borrower shall deliver a Notice of Conversion/Continuation to be received by the Administrative Agent not later than (i) noon (New York City time) at least three Business Days in advance of the Conversion/Continuation Date, if the Loans are to be converted into or continued as Eurocurrency Rate Loans denominated in Dollars; (ii) 11:00 a.m. (New York City time) at least four Business Days in advance of the Conversion/Continuation Date, if the Loans are to be converted into or continued as Eurocurrency Rate Loans denominated in an Alternative Currency; and (iii) 11:00 a.m. (New York City time) on the Conversion/Continuation Date, if the Loans are to be converted into Base Rate Loans, specifying: (A) the proposed Conversion/Continuation Date; (B) the aggregate amount of Loans to be converted or continued and, if an Alternative Currency Loan, the currency thereof; (C) the Type of Loans resulting from the proposed conversion or continuation; and (D) other than in the case of conversions into Base Rate Loans, the duration of the requested Interest Period.

(c) If upon the expiration of any Interest Period applicable to Eurocurrency Rate Loans, Borrower has failed to select timely a new Interest Period to be applicable to such Eurocurrency Rate Loans, or if any Default or Event of Default then exists, Borrower shall be deemed to have elected to convert such Eurocurrency Rate Loans into Base Rate Loans effective as of the expiration date of such Interest Period; provided, however, that in the case of a failure to timely request a continuation of Loans denominated in a currency other than Dollars, such Loans shall be continued as Eurocurrency Rate Loans in their original currency with an Interest Period of one month. No Eurocurrency Rate Loan may be converted into or continued as a Eurocurrency Rate Loan denominated in a different currency, but instead must be prepaid in the original currency of such Eurocurrency Rate Loan and reborrowed in the other currency except as described in Sections 2.04(e) and 3.02(a).

(d) The Administrative Agent will promptly notify each Bank of its receipt of a Notice of Conversion/Continuation, or, if no timely notice is provided by Borrower, the Administrative Agent will promptly notify each Bank of the details of any automatic conversion. All conversions and continuations shall be made ratably according to the respective outstanding principal amounts of the Loans with respect to which the notice was given held by each Bank.

(e) Unless the Majority Banks otherwise consent, during the existence of a Default or Event of Default, Borrower may not elect to have a Loan converted into or continued as a Eurocurrency Rate Loan. In the event Majority Banks consent, on the date of any such conversion or continuation, any such Eurocurrency Rate Loan that is an Alternative Currency Loan shall be redenominated into a Dollar Loan in a principal amount equal to the Dollar Equivalent of the amount of such Alternative Currency Loan.

(f) After giving effect to any conversion or continuation of Loans, unless the Administrative Agent shall otherwise consent, there may not be more than eight different Interest Periods in effect.

2.05 Optional Reduction or Termination of Commitments. Borrower may at any time and from time to time, upon three Business Days' written notice to the Administrative

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Agent (which shall promptly notify each Bank thereof) by telecopier, telegram, personal delivery or cable, terminate in whole or in part the unused portions of the Commitments; provided, however, that in each case each partial termination shall be in integral multiples of \$1,000,000; provided, further, that the Commitments may not be reduced at any time to an amount less than the aggregate principal amount of all Borrowings then outstanding; provided, further, that after any such termination, the Commitments may not thereafter be increased in any amount without the consent of all of the Banks.

2.06 Interest.

(a) Interest shall be payable on the outstanding daily unpaid principal amount of each Loan from the date thereof until payment in full at the rates set forth herein both before and after default and before and after maturity and judgment, with interest on overdue interest to bear interest at the rate set forth in Section 2.06(d), to the extent permitted by applicable Laws. Upon any partial prepayment of any Base Rate Loan and upon any conversion of a Eurocurrency Rate Loan, interest accrued through the date of such prepayment shall be payable on the next following April 1, July 1, October 1 or January 1. Upon any partial or full prepayment of any Eurocurrency Rate Loan, interest accrued through the date of such payment, prepayment or conversion shall be payable on such date.

(b) Interest accrued on each Base Rate Loan shall be due and payable on each April 1, July 1, October 1 and January 1, commencing with the first such date upon which Base Rate Loans are outstanding hereunder. The unpaid principal amount of any Base Rate Loan shall bear interest at a fluctuating rate per annum equal to the Base Rate.

(c) Interest accrued on each Eurocurrency Rate Loan with an Interest Period of three months or less shall be payable on the last day of the Interest Period for that Eurocurrency Rate Loan. Interest accrued on each six month Eurocurrency Rate Loan shall also be paid at the end of the third month of such Interest Period. The unpaid principal amount of any Eurocurrency Rate Loan shall bear interest at a rate per annum equal to the sum of the Eurocurrency Rate for that Eurocurrency Rate Loan plus the Applicable Margin.

(d) Notwithstanding Section (b) or (c) of this Section, during the existence of an Event of Default, the unpaid principal amount of Loans (and to the extent not paid when due, interest thereon and fees) shall bear interest, to the extent permitted by applicable Laws, at a fluctuating interest rate per annum at all times equal to the interest rate otherwise applicable to such Loan (or, if not a Loan, at the interest rate per annum otherwise payable under this Agreement for Base Rate Loans) plus 2% per annum, payable upon demand.

2.07 Repayment and Prepayments of Principal.

(a) If not sooner paid, the principal indebtedness hereunder owed to each Bank shall be payable on the Maturity Date of such Bank.

(b) The principal indebtedness hereunder may, at any time and from time to time, be prepaid in whole or in part without premium or penalty, except that: (i) any partial prepayment shall be at least \$1,000,000 (or the Alternative Currency Equivalent thereof determined on the date notice of prepayment is given), (ii) the Administrative Agent must have received written

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notice of any prepayment at least one Business Day before the date of prepayment in the case of Base Rate Loans and at least three Business Days before the date of prepayment in the case of Eurocurrency Rate Loans (and the Administrative Agent shall promptly notify each Bank thereof); (iii) each prepayment of principal, except for partial prepayments on Base Rate Loans, shall be accompanied by prepayment of interest accrued through the date of payment on the amount of principal paid, and (iv) in the case of any prepayment of any Eurocurrency Rate Loan, Borrower shall promptly reimburse each Bank for any loss or cost directly or indirectly resulting from the prepayment, determined as set forth in Section 3.03.

(c) If the Administrative Agent notifies Borrower at any time that the Dollar Equivalent of the aggregate principal amount of all outstanding Loans exceeds the combined Commitments, by reason of fluctuations in exchange rates or otherwise, Borrower shall, within two Business Days after receipt of such notice, prepay Loans in an aggregate amount sufficient to reduce the Dollar Equivalent thereof as of the date of such payment to an amount not to exceed the combined Commitments then in effect.

2.08 Fees.

(a) **Facility Fee.** Borrower shall pay to the Administrative Agent, for the account of the Banks ratably in proportion to their Commitments, a facility fee on the daily average aggregate amount of the Commitments (including both the portion thereof that is used and the portion thereof that is unused), at the rate of (i) 0.070% per annum during each Rating Level I, (ii) 0.080% per annum during each Rating Level II, (iii) 0.100% per annum during each Rating Level III, (iv) 0.125% per annum during each Rating Level IV, and (v) 0.175% per annum during each Rating Level V. Such facility fee shall accrue, with respect to any Bank, from and including the Effective Date to but excluding the Maturity Date of such Bank, payable quarterly in advance as of each April 1, July 1, October 1 and January 1 prior to the Maturity Date of such Bank. The facility fee provided in this subsection shall be nonrefundable and shall accrue at all times after the Effective Date, including at any time during which one or more conditions in Section 4 are not met.

(b) **Agency Fees.** Borrower shall pay an agency fee to the Administrative Agent for the Administrative Agent's own account as agreed upon between Borrower and the Administrative Agent.

2.09 Payments by Borrower.

(a) All payments to be made by Borrower shall be made without set-off, recoupment or counterclaim. Except as otherwise expressly provided herein and except with respect to payments of principal of and interest on Alternative Currency Loans, all payments by Borrower shall be made to the Administrative Agent for the account of the Banks at the Administrative Agent's Payment Office, and shall be made in Dollars and in immediately available funds, no later than 1:00 p.m. (New York City time) on the date specified herein. Except as otherwise expressly provided herein, all payments by Borrower hereunder with respect to principal of and interest on Alternative Currency Loans shall be made to the Administrative Agent, for the account of the respective Banks to which such payment is owed, at the Administrative Agent's Payment Office in such Alternative Currency and in immediately available funds not later than

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1:00 p.m., New York City time, on the date specified herein. The Administrative Agent will promptly distribute to each Bank its Pro Rata Share (or other applicable share as expressly provided herein) of such payment in like funds as received. Any payment received by the Administrative Agent later than 1:00 p.m. (New York City time) shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue.

(b) Unless the Administrative Agent receives notice from Borrower prior to the date on which any payment is due to the Banks that Borrower will not make such payment in full as and when required, the Administrative Agent may assume that Borrower has made such payment in full to the Administrative Agent on such date in immediately available funds and the Administrative Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent Borrower has not made such payment in full to the Administrative Agent, each Bank shall repay to the Administrative Agent on demand such amount distributed to such Bank, together with interest thereon at the Federal Funds Rate or, with respect to Alternative Currency Loans, the Overnight Rate for each day from the date such amount is distributed to such Bank until the date repaid.

2.10 Payments by the Banks to the Administrative Agent.

(a) Unless the Administrative Agent receives notice from a Bank on or prior to the Effective Date or, with respect to any Borrowing after the Effective Date, at least one Business Day prior to the date of such Borrowing (or prior to the time of a Borrowing, in the case of any Base Rate Loan), that such Bank will not make available as and when required hereunder to the Administrative Agent for the account of Borrower the amount of that Bank's Pro Rata Share of the Borrowing, the Administrative Agent may assume that each Bank has made such amount available to the Administrative Agent in immediately available funds in the applicable currency on the Borrowing Date and the Administrative Agent may (but shall not be so required), in reliance upon such assumption, make available to Borrower on such date a corresponding amount. If and to the extent any Bank shall not have made its full amount available to the Administrative Agent in immediately available funds in the applicable currency and the Administrative Agent in such circumstances has made available to Borrower such amount, that Bank shall on the Business Day following such Borrowing Date make such amount available to the Administrative Agent, together with interest at the Federal Funds Rate or, with respect to Alternative Currency Loans, the Overnight Rate for each day during such period. A notice of the Administrative Agent submitted to any Bank with respect to amounts owing under this Section (a) shall be conclusive, absent manifest error. If such amount is so made available, such payment to the Administrative Agent shall constitute such Bank's Loan on the date of Borrowing for all purposes of this Agreement. If such amount is not made available to the Administrative Agent on the Business Day following the Borrowing Date, the Administrative Agent will notify Borrower of such failure to fund and, upon demand by the Administrative Agent, Borrower shall pay such amount to the Administrative Agent for the Administrative Agent's account, together with interest thereon for each day elapsed since the date of such Borrowing, at a rate per annum equal to the interest rate applicable at the time to the Loans comprising such Borrowing.

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(b) The failure of any Bank to make any Loan on any Borrowing Date shall not relieve any other Bank of any obligation hereunder to make a Loan on such Borrowing Date, but no Bank shall be responsible for the failure of any other Bank to make the Loan to be made by such other Bank on any Borrowing Date.

2.11 Extension of Maturity Date. Borrower may, upon not less than 30 days' (but not more than 45 days') notice prior to each anniversary of the Effective Date (the "Current Anniversary Date") to the Administrative Agent (which shall notify each Bank of receipt of such request), propose to extend the Maturity Date for an additional one-year period measured from the Maturity Date then in effect. Each Bank shall endeavor to respond to such request, whether affirmatively or negatively (such determination to be in the sole discretion of such Bank), by notice to the Administrative Agent in writing not less than 20 days (but not more than 30 days) prior to the Current Anniversary Date. The Administrative Agent shall, upon not less than 15 days' notice prior to the Current Anniversary Date, notify Borrower in writing of the Banks' decisions. No Maturity Date of any Bank shall be extended unless (i) by the date 20 days prior to the Maturity Date then in effect Banks having at least 50% in aggregate amount of the Commitments in effect at the time any such extension is requested shall have elected so to extend their Commitments and (ii) the Administrative Agent shall have received a certificate signed by a Designated Officer dated as of such extension date in form and substance satisfactory to the Administrative Agent stating that the representations and warranties contained in Section 5 are true and correct in all material respects on and as of such date, and that no state of facts constituting a Default or an Event of Default has occurred and is continuing. Any Bank which does not give such notice to the Administrative Agent by the date 20 days prior to the Maturity Date then in effect shall be deemed to have elected not to extend as requested, and the Commitment of each non-extending Bank shall terminate on its Maturity Date determined without giving effect to such requested extension. If any Bank does not consent to a request for an extension of the Maturity Date, or is deemed not to have consented to the requested extension (each, a "Declining Bank"), and the Maturity Date has been extended for the other Bank(s) (the "Extending Banks"), Borrower may, prior to the end of the Current Anniversary Date, replace such Declining Bank with one or more third party financial institutions acceptable to the Administrative Agent or increase the Commitment of an Extending Bank, in an amount equal to the amount of the Commitments of the Declining Banks, provided that, as provided in Section 2.13, the Extending Banks shall have the right to increase their Commitments ratably up to the amount of the Declining Banks' Commitments before Borrower will be permitted to substitute any other financial institution for the Declining Banks.

2.12 Increased Commitments; Additional Banks.

(a) On a single occasion during each year subsequent to the Effective Date, Borrower may, upon at least thirty (30) days' notice to the Administrative Agent (which shall promptly provide a copy of such notice to the Banks), propose to increase the amount of the Commitments in an aggregate minimum amount of \$10,000,000 and an aggregate maximum amount for all increases pursuant to this Section 2.12 not to exceed \$100,000,000 (the amount of any such increase, the "Increased Commitments") provided that (i) at the time of and after giving effect to such Increased Commitments, Borrower maintains at least a Rating Level III and (ii) the Administrative Agent shall have received a certificate signed by a Designated Officer dated as of the date of such increase in form and substance satisfactory to the Administrative Agent stating

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that the representations and warranties contained in Section 5 are true and correct in all material respects on and as of such date and that no Default or Event of Default has occurred and is continuing. Each Bank party to this Agreement at such time shall have the right (but no obligation), for a period of fifteen (15) days following receipt of such notice, to elect by notice to Borrower and the Administrative Agent to increase its Commitment by a principal amount which bears the same ratio to the Increased Commitments as its then Commitment bears to the aggregate Commitments then existing.

(b) If any Bank party to this Agreement shall not elect to increase its Commitment pursuant to subsection (a) of this Section, Borrower may designate another bank or other banks (which may be, but need not be, one or more of the existing Banks, but which shall be an Eligible Assignee), which at the time agree to (i) in the case of any such Bank that is an existing Bank, increase its Commitment and (ii) in the case of any other such Bank (an "Additional Bank"), become a party to this Agreement, provided that the Commitment of each such bank or banks equals or exceeds \$10,000,000. The sum of the increases in the Commitments of the existing Banks pursuant to this subsection (b) plus the Commitments of the Additional Banks shall not in the aggregate exceed the unsubscribed amount of the Increased Commitments.

(c) An increase in the aggregate amount of the Commitments pursuant to this Section 2.12 shall become effective upon the receipt by the Administrative Agent of an agreement in form and substance satisfactory to the Administrative Agent signed by Borrower, by each Additional Bank and by each other Bank whose Commitment is to be increased, setting forth the new Commitments of such Banks and setting forth the agreement of each Additional Bank to become a party to this Agreement and to be bound by all the terms and provisions hereof, together with such evidence of appropriate corporate authorization on the part of Borrower with respect to the Increased Commitments and such opinions of counsel for Borrower with respect to the Increased Commitments as the Administrative Agent may reasonably request.

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2.13 Substitution of Banks. If any Bank declines to extend its Maturity Date pursuant to Section 2.11, Borrower shall have the right, with the assistance of the Administrative Agent, to seek one or more Eligible Assignees (which may be one or more of the Banks) reasonably satisfactory to the Administrative Agent and Borrower to purchase the Loans and assume the Commitments of such Bank, and Borrower, the Administrative Agent, such Bank, and such Eligible Assignees shall execute and deliver an appropriately completed Assignment and Assumption pursuant to Section 10.08 hereof to effect the assignment of rights to and the assumption of obligations by such Eligible Assignees; provided that (i) such requesting Bank shall be entitled to compensation under Section 3 for any costs incurred by it prior to its replacement, (ii) no Default or Event of Default has occurred and is continuing, (iii) Borrower has satisfied all of its obligations under the Loan Documents relating to such Bank, (iv) in the case of the Commitments of any Banks that have declined to extend their Maturity Date pursuant to Section 2.11, the Banks that have extended their Maturity Date pursuant to Section 2.11 shall on a ratable basis have the right (but no obligation), for a period of seven days following receipt of notice from the Administrative Agent at the request of Borrower that the Commitments of non-extending Banks may be assumed, to assume the Commitments of such declining Banks before any other Eligible Assignees assume such Commitments, and (v) Borrower shall have paid the Administrative Agent a \$3,500 administrative fee if such replacement Bank is not an existing Bank.

SECTION 3. PAYMENTS, COSTS

3.01 Eurocurrency Costs. Upon notice from any Bank and subject to compliance with Section 9.09, Borrower shall promptly, reimburse that Bank for any increase in its costs, including without limitation taxes (and additional amounts equal to increases in taxes attributable to payments by Borrower of such taxes), assessments or a change in the basis of taxation of payments to such Bank (other than any tax, or changes in the rate of any tax, based upon the income, profits or business of the Bank, or upon any personal property or franchise of the Bank, or any similar tax which may be levied upon the Bank, or any change in the rate of any such similar tax by the United States or any other government having jurisdiction, or any political subdivision or taxing authority of any thereof), fees, charges, and/or special deposit and/or other similar reserve requirements (other than requirements expressly included herein in the determination of the Eurocurrency Rate hereunder) directly or indirectly resulting from or relating to any Eurocurrency Rate Loan due to any circumstance, except only any increase in costs that is attributable to the prepayment by a Bank, in the case of a Eurocurrency Rate Loan, of a time deposit in the Designated Interbank Eurocurrency Market, where Borrower has not paid or redesignated a corresponding Eurocurrency Rate Loan prior to the end of the term of such Eurocurrency Rate Loan. As used in the preceding sentence, "reserve requirements" shall be calculated after taking into account any compensation received by the Bank through the computation of the Eurocurrency Reserve Percentage or any Eurocurrency fee paid to the Bank. Amounts payable to a Bank under this Section 3.01 shall be determined solely by that Bank upon the assumption that the Bank funded 100% of that Eurocurrency Rate Loan by the acceptance of a time deposit in the Designated Interbank Eurocurrency Market for a corresponding amount and term, regardless of whether the Bank did so in fact. In attributing a Bank's general costs relating to its Eurocurrency operations to any transaction under this Agreement, or averaging any cost over a period of time, that Bank may use any reasonable attribution and/or averaging method it deems appropriate and practical. The determination of such amount by the Bank shall be presumed correct in the absence of manifest error.

3.02 Special Eurocurrency Circumstances. If (x) any Regulatory Development relating to the interbank Eurocurrency markets shall at any time in the reasonable opinion of any Bank make it unlawful or impractical for that Bank to fund or maintain a Eurocurrency Rate Loan in the Designated Interbank Eurocurrency Market for a corresponding amount or term, or to continue that funding or maintaining, or to determine or charge interest rates based upon any appropriate Eurocurrency Rate or (y) the Administrative Agent or any Bank determines in connection with any request for a Eurocurrency Rate Loan or a conversion to or continuation thereof that (i) deposits in the relevant currency are not being offered to banks in the applicable offshore interbank market for such currency for the applicable amount and Interest Period of such Eurocurrency Rate Loan, (ii) adequate and reasonable means do not exist for determining the Eurocurrency Rate for such Eurocurrency Rate Loan, or (iii) the Eurocurrency Rate for such Eurocurrency Rate Loan does not adequately and fairly reflect the cost to the Banks of funding such Eurocurrency Rate Loan, the Administrative Agent or that Bank, as applicable, shall promptly notify the Administrative Agent and the Banks who shall notify Borrower and, notwithstanding any other provision of this Agreement:

(a) the then outstanding principal amounts of any outstanding Eurocurrency Rate Loan shall be automatically converted into a Base Rate Loan and, if, on the date of any such conversion, any such Eurocurrency Rate Loan is an Alternative Currency Loan, it shall be redenominated into a Dollar Loan in a principal amount equal to the Dollar Equivalent of the amount of such Alternative Currency Loan; and

(b) no Eurocurrency Rate Loan may be made thereafter until that Bank determines that to do so would be lawful or practical.

Upon receipt of such notice, Borrower may revoke any pending request for a Borrowing, conversion or continuation of Eurocurrency Rate Loans or, failing that, will be deemed to have converted such request into a request for a Borrowing of Base Rate Loans in the amount specified therein.

3.03 Eurocurrency Indemnification. Borrower hereby indemnifies each Bank against, and agrees to hold each Bank harmless from and reimburse each Bank on demand for all costs, expenses, claims, penalties, liabilities, losses, legal fees and damages (including without limitation any interest paid or that would be paid by a Bank for deposits in Dollars in the Designated Interbank Eurocurrency Market and any loss sustained or that would be sustained by a Bank in connection with the reemployment of funds) incurred or sustained, or that would be incurred or sustained, by each Bank, as reasonably determined by the Bank, as a result of (a) any failure of Borrower to consummate, or the failure of any condition required for the consummation of, any Eurocurrency Rate Loan on the date or in the amount specified in any notice, requesting or designating a Eurocurrency Rate Loan or (b) Borrower's prepayment of any Eurocurrency Rate Loan before the last day of its Interest Period. The indemnification shall be determined as though the Bank had funded or would have funded 100%, as the case may be, of the Eurocurrency Rate Loan in the Designated Interbank Eurocurrency Market for a corresponding amount and term. The determination of such amount by the Bank shall be presumed correct in the absence of manifest error.

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3.04 Computation of Interest and Fees. All computations of interest hereunder shall be calculated on the basis of a year of 365 days or 366 days, as the case may be, and the actual number of days elapsed, except that computations of interest on all Eurocurrency Rate Loans (other than Eurocurrency Rate Loans denominated in Sterling) and computations of interest on Base Rate Loans when the Base Rate is calculated by reference to the Federal Funds Rate shall be calculated on the basis of a year of 360 days and the actual number of days elapsed. All computations of fees hereunder shall be calculated on the basis of a year of 360 days and the actual number of days elapsed.

3.05 Holidays. If any payment to be made by Borrower on a Base Rate Loan shall come due on a day other than a Business Day, payment shall be made on the next succeeding Business Day and the extension of time shall be reflected in computing interest. If any payment to be made by Borrower on a Eurocurrency Rate Loan shall come due on a day other than a Designated Interbank Eurocurrency Market Day, payment shall be made on the next preceding or succeeding Designated Interbank Eurocurrency Market Day as determined by the Administrative Agent in accordance with the then current banking practice in the Designated Interbank Eurocurrency Market and the adjustment shall be reflected in computing interest.

3.06 Payment Free of Taxes. Subject to compliance with Section 9.09, any payments made by Borrower hereunder shall be made free and clear of, and without reduction by reason of, any withholding tax.

3.07 Funding Sources. Nothing in this Agreement shall be deemed to obligate any Bank to obtain the funds for any Borrowing in any particular place or manner or to constitute a representation by any Bank that it has obtained or will obtain the funds for any Borrowing in any particular place or manner.

3.08 Failure to Charge Not Subsequent Waiver. Any decision by the Administrative Agent or any Bank not to require payment of any fee or costs, or to reduce the amount of the payment required for any fee or costs or to calculate any fee or costs in any particular manner, for any particular Eurocurrency Rate Loan shall in no way limit the Administrative Agent's or that Bank's right to require full payment of any fee or costs for any other Eurocurrency Rate Loan or to calculate any fee or costs in another manner.

3.09 Other Costs. If, at any time subsequent to the Effective Date, any Bank shall have reasonably determined that the adoption of any Law regarding capital adequacy, any reserve, special deposit or similar requirements generally applicable to commitments or credit arrangements similar to the Commitments (other than requirements expressly included herein in the determination of the Eurocurrency Rate) hereunder, or any change therein, or any change in the interpretation or administration thereof by any Governmental Agency, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by said Bank or any corporation controlling said Bank with any request or directive regarding capital adequacy, any reserve, special deposit or similar requirement (other than requirements expressly included herein in the determination of the Eurocurrency Rate hereunder) (whether or

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not having the force of Law) of any such Governmental Agency, central bank or comparable agency, has or would have the effect of increasing the cost to, or reducing the income received by or imposing any expense (including loss of margin), on any said Bank or any corporation controlling said Bank, or, in the case of any capital adequacy requirement, reducing the rate of return on said Bank's or corporation's capital as a consequence of its obligations hereunder to a level below that which said Bank or corporation could have achieved but for such adoption, change or compliance (taking into consideration said Bank's or corporation's policies with respect to capital adequacy), then from time to time, each affected Bank may notify Borrower (with a copy to Administrative Agent) of the additional amount or amounts as will compensate said Bank or corporation for such increase, reduction or imposition and, upon demand, Borrower shall pay said affected Bank or corporation such amount or amounts. In determining such amount, the affected Bank or corporation may use reasonable attribution and/or averaging methods which it deems appropriate and practical. In no event shall Borrower be liable for any such amounts relating to periods of time more than three months prior to the date upon which Borrower receives notice from the affected Bank, except to the extent that such periods of time (i) relate to retroactive applications of any such Law or retroactive interpretations or administrations of any such Law or (ii) represent periods during which it is impracticable for any such Bank to calculate any such amounts due; provided, however, that such information shall be provided to Borrower as soon as practicable. Said affected Bank shall, upon Borrower's request, provide Borrower with a statement showing in reasonable detail, the basis for determining the amount charged hereunder.

3.10 Survivability. Borrower's obligations under this Section 3 shall survive the date on which all Borrowings hereunder were fully paid.

SECTION 4. CONDITIONS

4.01 Effective Date. This Agreement shall become effective (as of the date first written above) only upon the satisfaction of all of the following conditions precedent:

(a) The Administrative Agent shall have received all of the following, each dated as of the Effective Date (unless otherwise specified or unless the Administrative Agent otherwise agrees) and all in form and substance satisfactory to the Administrative Agent and legal counsel for the Administrative Agent:

(i) a certificate signed by a Designated Officer (A) stating that the execution, delivery and performance of the Loan Documents by Borrower was duly authorized by resolution of its board of directors on the date therein specified and that such authorization is still in force and effect, (B) setting forth such resolution adopted by such board of directors, (C) setting forth the name of each person authorized to sign any Loan Document on behalf of Borrower with specimen signatures of such persons, and (D) stating that the representations and warranties contained in Section 5 are true and correct on and as of the Effective Date, no state of facts constituting a Default or an Event of Default has occurred and is continuing, and Borrower shall be in compliance with all the terms and provisions of the Loan Documents;

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- (ii) a current good standing certificate for Borrower issued by the appropriate Governmental Agency in the jurisdiction of incorporation;
- (iii) a certificate of good standing of Borrower as a foreign corporation in California;
- (iv) an opinion of counsel signed by appropriate legal counsel;
- (v) such other certificates, documents, consents, or opinions that any Bank may reasonably request; and

(vi) evidence satisfactory to Administrative Agent that each of (x) the Third Amended and Restated Revolving Credit Agreement (as amended) dated as of December 15, 2000 among Borrower, the Banks party thereto and Bank of America, as Administrative Agent for the Banks and (y) the 364-Day Revolving Credit Agreement (as amended and extended) dated as of December 6, 2002 among Borrower, the Banks party thereto and CUSA, as Agent for the Banks has been terminated and all amounts payable by Borrower thereunder have been paid in full.

4.02 Any Borrowing, Conversion or Continuation. The obligation of the Banks to make any Loan or to convert into or continue any Eurocurrency Rate Loan is subject to the following conditions precedent:

(a) the representations and warranties contained in Section 5 (other than in [Sections 5.06](#) and [5.09](#)) shall be true and correct in all material respects, and shall be deemed made, on and as of the date of the Loan, conversion or continuation as though made on and as of that date, and no state of facts constituting a Default or an Event of Default shall have occurred and be continuing; and, upon its request therefor, the Administrative Agent shall have received, dated as of the date of the Loan, a certificate of a Designated Officer from Borrower to that effect, with any changes or exceptions thereto being described in a schedule attached to such certificate and with such changes or exceptions being subject to the approval of the Majority Banks;

(b) the Administrative Agent shall have timely received a Notice of Borrowing or a Notice of Conversion/Continuation, as applicable, in compliance with Section 2.

SECTION 5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to the Administrative Agent and the Banks that:

5.01 Existence and Qualification; Power; Compliance with Law.

(a) Borrower is a corporation duly formed, validly existing and in good standing under the laws of Delaware. The chief executive offices of Borrower are in Pasadena, California. Borrower is duly qualified or registered to transact business in California and each other jurisdiction in which the conduct of its business or the ownership of its properties make such qualification or registration necessary, except where the failure so to qualify or register would not have a Material Adverse Effect. Borrower has all requisite corporate power and authority to conduct its business, to own and lease its properties and to execute, deliver and perform all of its obligations under the Loan Documents.

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(b) All outstanding shares of capital stock of Borrower are duly authorized, validly issued, fully paid, nonassessable, and issued in compliance with all applicable state and federal securities and other laws.

(c) Borrower is in compliance with all Laws and other legal requirements applicable to its business, has obtained all authorizations, consents, approvals, orders, licenses and permits from, and has accomplished all filings, registrations and qualifications with, or obtained exemptions from any of the foregoing from, any Governmental Agency that are necessary for the transaction of its business, except where the failure so to comply, file, register, qualify or obtain exemptions would not have a Material Adverse Effect.

5.02 Authority; Compliance with Other Instruments and Government Regulations. The execution, delivery, and performance by Borrower of the Loan Documents have been duly authorized by all necessary action and do not and will not (a) require any consent or approval not heretofore obtained of any stockholder, security holder or creditor; (b) violate or conflict with any provision of Borrower's charter, certificate, articles of incorporation or bylaws, or amendments thereof; (c) result in or require the creation or imposition of any Lien or Right of Others upon or with respect to any property now owned or leased or hereafter acquired by Borrower; (d) violate any provision of any Laws (including without limitation Regulation U of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree, determination, or award presently in effect having applicability to Borrower; or (e) result in a breach of or constitute a default under, or cause or permit the acceleration of any obligation owed under, any indenture or loan or credit agreement or any other material agreement, lease, or instrument to which Borrower is a party or by which Borrower or any of its property, is bound or affected; and Borrower is not in default under any Laws, order, writ, judgment, injunction, decree, determination, award, indenture, agreement, lease, or instrument described in Section 5.02(e) in any respect that would have a Material Adverse Effect.

5.03 No Governmental Approvals Required. No authorization, consent, approval, order, license or permit from, or filing, registration, or qualification with, or exemption from any of the foregoing from, any Governmental Agency is or will be required to authorize or permit under applicable Laws the execution, delivery, and performance by Borrower of the Loan Documents.

5.04 Subsidiaries.

(a) [Schedule 5.04](#) hereto correctly sets forth as of December 27, 2003 the names, forms of legal entity and jurisdictions of formation of all Subsidiaries of Borrower and states whether each is or is not a Consolidated Subsidiary. Except for shares of capital stock or partnership interests in a Subsidiary required by applicable Laws to be held by a director or comparable official of that Subsidiary and unless otherwise indicated in [Schedule 5.04](#) or where the failure to own all of the shares of capital stock or partnership interests in such Subsidiary would not have a Material Adverse Effect, all of the outstanding shares of capital stock or partnership interests of each Subsidiary are owned beneficially by Borrower, and, to the best

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knowledge of Borrower, all securities and interests so owned are duly authorized, validly issued, fully paid, non-assessable, and issued in compliance with all applicable state and federal securities and other laws, and are free and clear of all Liens and Rights of Others.

(b) Each Subsidiary is a corporation or other legal entity duly formed, validly existing, and in good standing under the laws of its jurisdiction of formation, is duly qualified to do business and is in good standing in each jurisdiction in which the conduct of its business or the ownership or leasing of its properties makes such qualification necessary, except where the failure to be so duly qualified and in good standing does not have a Material Adverse Effect, and has all requisite legal power and authority to conduct its business and to own and lease its properties.

(c) Each Subsidiary is in compliance with all Laws and other requirements applicable to its business and has obtained all authorizations, consents, approvals, orders, licenses, and permits from, and has accomplished all filings, registrations, and qualifications with, or obtained exemptions from any of the foregoing from, any Governmental Agency that are necessary for the transaction of its business, except where the failure to be in such compliance, obtain such authorizations, consents, approvals, orders, licenses, and permits, accomplish such filings, registrations, and qualifications, or obtain such exemptions, does not have a Material Adverse Effect.

5.05 Financial Statements. Borrower has furnished to each Bank the following financial statements: (i) the consolidated balance sheet of Borrower and its Consolidated Subsidiaries as at December 27, 2003, and the related consolidated statements of income, shareholders' equity and changes in financial position for the year then ended, together with the report of PricewaterhouseCoopers on such financial statements and (ii) the consolidated balance sheet of Borrower and its Consolidated Subsidiaries as at March 27, 2004, and the related consolidated statements of income, shareholder's equity and changes in financial position for the three months then ended. The foregoing financial statements are in accordance with the books and records of Borrower and its Consolidated Subsidiaries, were prepared in accordance with generally accepted accounting principles applied consistently throughout the periods covered thereby and fairly present the consolidated financial condition and results of operations of Borrower and the Consolidated Subsidiaries as at the dates and for the periods covered thereby.

5.06 No Material Adverse Change or Other Liabilities. Except as set forth in Section 5.09, since December 27, 2003, there has been no event or circumstance that has had a Material Adverse Effect. Borrower and the Consolidated Subsidiaries do not have any material liability or material contingent liability required to be reflected or disclosed in the financial statements or notes thereto described in Section 5.05 which is not so reflected or disclosed.

5.07 Title to Assets. Borrower has good and valid title to all of the assets reflected in the financial statements described in Section 5.05 (except for assets that are sold in transactions that are not prohibited by the terms of this Agreement) free and clear of all Liens and Rights of Others other than (a) those reflected or disclosed in such financial statements or notes thereto, (b) immaterial Liens or Rights of Others not required under generally accepted accounting principles to be so reflected or disclosed, and (c) Liens or Rights of Others permitted pursuant to Section 7.02.

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5.08 Regulated Industries. Neither Borrower nor any Subsidiary is a “holding company,” or a “subsidiary company” of a “holding company,” or an “affiliate” of a “holding company” or of a “subsidiary company” of a “holding company,” within the meaning of the Public Utility Holding Company Act of 1935, as amended. Neither Borrower nor any of its Subsidiaries is or is required to be registered under the Investment Company Act of 1940.

5.09 Litigation. There are no actions, suits, or proceedings pending or, to the best of Borrower’s knowledge, threatened against or affecting Borrower or any of its Subsidiaries or any property of any of them in any court of law or before any Governmental Agency which, if determined adversely to any of them, would have a Material Adverse Effect, except as set forth in [Schedule 5.09](#) annexed hereto or as referred to in Borrower’s news releases and filings with the Securities and Exchange Commission made or filed on or prior to the Effective Date (including a Department of Justice criminal investigation into competitive practices in the label stock industry and an investigation by the European Commission and relevant national competition authorities into alleged anticompetitive activities in the European paper and forestry products industry, including the adhesive label stock market, as well as related and threatened inquiries, claims and litigation concerning or related to these investigations).

5.10 Binding Obligations. This Agreement constitutes the legal, valid, and binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws relating to or affecting creditors’ rights generally or by equitable principles relating to the granting of specific performance and other equitable remedies as a matter of judicial discretion.

5.11 No Default. No Default or Event of Default exists or has resulted from the incurring of any Obligations by Borrower. As of the Effective Date, neither Borrower nor any Subsidiary is in default under or with respect to any material contractual obligation in any respect which, individually or together with all such defaults, has had a Material Adverse Effect.

5.12 ERISA. (a) The actuarial present value of all vested accrued benefits under all Pension Plan does not exceed the current fair market value of the assets determined on an ongoing basis of the Pension Plans by an amount which would materially affect the financial condition or Borrower’s abilities to pay or perform its obligations under the Loan Documents; (b) no Pension Plan or trust created thereunder has incurred any “accumulated funding deficiency” (as such term is defined in Section 302 of ERISA) whether or not waived, since the effective date of ERISA; and (c) based on information received from the respective administrators of “multiemployer plans” (as defined in ERISA) to which Borrower or any Subsidiary contributes, the aggregate present value of the unfunded vested benefits allocable to Borrower or such Subsidiaries under all such multiemployer plans is not an amount which would materially affect the financial condition or Borrower’s abilities to pay or perform its obligations under the Loan Documents.

5.13 Regulation U. Neither Borrower nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for purpose of “buying” or “carrying” any Margin Stock within the meanings of Regulation U of the Board of Governors of the Federal Reserve System. No part of any Borrowing will be used to buy or carry any Margin Stock, or to extend credit to others for that purpose, or for any purpose, if to do so would violate the provisions of Regulation U.

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5.14 Tax Liability. Borrower and its Subsidiaries have filed all income tax returns which are required to be filed, and have paid, or made provision for the payment of, all taxes which have become due pursuant to said returns or pursuant to any assessment received by Borrower or any Subsidiary, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided, and except such taxes the failure of which to pay will not have a Material Adverse Effect.

5.15 Copyrights, Patents, Trademarks and Licenses, etc. Borrower or its Subsidiaries own or are licensed or otherwise have the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other rights that are reasonably necessary for the operation of their respective businesses, where the failure to have such rights would have a Material Adverse Effect. To the best knowledge of Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by Borrower or any Subsidiary infringes upon any rights held by any other Person, where such infringement would create a Material Adverse Effect.

5.16 Environmental Matters. Borrower conducts in the ordinary course of business a review of the effect of existing Environmental Laws and existing Environmental Claims on its business, operations and properties, and as a result thereof Borrower has reasonably concluded that such Environmental Laws and Environmental Claims would not, individually or in the aggregate, have a Material Adverse Effect.

5.17 Insurance. The properties of Borrower and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where Borrower or such Subsidiary operates.

5.18 Disclosure. No written statement made by Borrower to the Banks in connection with the Loan Documents or any Loan contains or will contain any untrue statement of a material fact or omits or will omit a material fact necessary to make the statements contained or made therein not misleading. There is no fact which Borrower has not disclosed to the Banks in writing which materially and adversely affects nor, so far as Borrower can now foresee, is reasonably likely to prove to affect materially and adversely the business, operations, properties, prospects, profits or condition (financial or otherwise) of Borrower and its Subsidiaries, taken as a whole, or the ability of Borrower to perform the Obligations.

SECTION 6.
AFFIRMATIVE COVENANTS

As long as any Borrowing remains unpaid, or any other Obligation remains unpaid or unperformed, or any commitment to make Loans remains in effect, Borrower shall, and shall cause each of its Subsidiaries to, unless the Majority Banks otherwise consent in writing:

6.01 Financial and Business Information. As long as any Borrowing remains unpaid or any other Obligation remains unpaid or unperformed, or any Commitment remains in effect, Borrower shall, unless the Majority Banks otherwise consent in writing, deliver to the Banks at its own expense:

(a) As soon as reasonably possible, and in any event within 60 days after the close of each of the first three fiscal quarters of Borrower, (i) the consolidated balance sheet of Borrower and its Consolidated Subsidiaries as of the end of such quarter, setting forth in comparative form the corresponding figures for the corresponding quarter of the preceding fiscal year, if available, and (ii) the consolidated statements of profit and loss and changes in financial position of Borrower and its Consolidated Subsidiaries for such quarter and for the portion of the fiscal year ended with such quarter, setting forth in comparative form the corresponding periods of the preceding fiscal year, all in reasonable detail, prepared in accordance with generally accepted accounting principles consistently applied and certified by the principal financial officer of Borrower, subject to normal year-end audit adjustments;

(b) As soon as reasonably possible, and in any event within 120 days after the close of each fiscal year of Borrower, (i) the consolidated balance sheets of Borrower and its Consolidated Subsidiaries as at the end of such fiscal year, setting forth in comparative form the corresponding figures at the end of the preceding fiscal year and (ii) the consolidated statements of profit and loss and changes in financial position of Borrower and its Consolidated Subsidiaries for such fiscal year, setting forth in comparative form the corresponding figures for the previous fiscal year. Such consolidated balance sheet and statements shall be prepared in reasonable detail, in accordance with generally accepted accounting principles consistently applied, and shall be accompanied by a report and opinion of PricewaterhouseCoopers or other independent public accountants selected by Borrower and reasonably satisfactory to the Majority Banks, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall be subject only to such qualifications and exceptions as are acceptable to the Majority Banks.

6.02 Certificates; Other Information. As long as any Borrowing remains unpaid or any other Obligation remains unpaid or unperformed, or any Commitment remains in effect, Borrower shall deliver or make available to the Banks via Borrower's website, averydennison.com or at its own expense:

(a) concurrently with the delivery of the financial statements referred to in Sections 6.01(a) and (b), a Compliance Certificate executed by a Designated Officer;

(b) promptly after request by any Bank, copies of any material report filed by Borrower or any of its Subsidiaries with any Governmental Agency unless to do so would violate applicable Laws; and

(c) promptly after the same are available, at any Bank's request, copies of each annual report, proxy or financial statement or other material report or communication sent to all stockholders of Borrower, and copies of all annual, regular, periodic and special reports and registration statements which Borrower files with the Securities and Exchange Commission or any similar or corresponding Governmental Agency or with any securities exchange.

6.03 Notices. Borrower shall promptly notify the Administrative Agent and each Bank:

(a) promptly upon becoming aware of the occurrence of any (i) “reportable event” (as such term is defined in Section 4043 of ERISA) or (ii) “prohibited transaction” (as such term is defined in Section 406 or Section 2003(a) of ERISA) with respect to which Borrower may be liable for excise tax under Section 4975 of the Code in connection with any Pension Plan or any trust created thereunder, in either case which may result in a Material Adverse Effect, a written notice specifying the nature thereof, what action Borrower and/or any of its Subsidiaries is taking or proposes to take with respect thereto, and, when known, any action taken by the Internal Revenue Service with respect thereto; it being understood that for purposes of this provision, “aware” means that such event or transaction must be actually known to the chief financial officer or the treasurer of Borrower;

(b) promptly upon, and in any event within five Business Days after, becoming aware of the existence of any condition or event which constitutes a Default or an Event of Default a written notice specifying the nature and period of existence thereof and what action Borrower is taking or proposes to take with respect thereto; it being understood that for purposes of this provision, “aware” means that such condition or event must be actually known to the chief financial officer or the treasurer of Borrower;

(c) promptly upon becoming aware that the holder of any evidence of indebtedness or other security of Borrower or any of its Subsidiaries that is material to Borrower and its consolidated Subsidiaries, considered as a whole, has given notice or taken any other action with respect to a claimed default or event of default, a written notice specifying the notice given or action taken by such holder and the nature of the claimed default or event of default and what action Borrower or its Subsidiary is taking or proposes to take with respect thereto; it being understood that for purposes of this provision, “aware” means that such notice or action must be actually known to the chief financial officer or the treasurer of Borrower;

(d) of any change in accounting policies or financial reporting practices by Borrower or any of its consolidated Subsidiaries that is material to Borrower and its consolidated Subsidiaries considered as a whole; and

(e) such other data and information as from time to time may be reasonably requested by any Bank.

6.04 Payment of Taxes and Other Potential Liens. Pay and discharge promptly, all taxes (including any withholding taxes required by law to be paid by the Borrower), assessments, and governmental charges or levies imposed upon it, upon its property or any part thereof, upon its income or profits or any part thereof, in each case that, individually or in the aggregate, are material to Borrower and its Subsidiaries, considered as a whole, or upon any right or interest of the Banks under any Loan Document; except that Borrower and its Subsidiaries shall not be required to pay or cause to be paid (a) any income or gross receipts tax generally applicable to banks or (b) any tax, assessment, charge, or levy that is not yet past due, or is being contested in good faith by appropriate proceedings, as long as the relevant entity has established and maintains adequate reserves for the payment of the same and by reason of such nonpayment no material property of Borrower is in danger of being lost or forfeited.

6.05 Preservation of Existence. Preserve and maintain their respective existence, licenses, rights, franchises, and privileges in the jurisdiction of their formation and all authorizations, consents, approvals, orders, licenses, permits, or exemptions from, or registrations with, any Governmental Agency that are necessary for the transaction of their respective businesses, and qualify and remain qualified to transact business in each jurisdiction in which such qualification is necessary in view of their respective business or the ownership or leasing of their respective properties, except that the failure to preserve and maintain any particular license, right, franchise, privilege, authorization, consent, approval, order, permit, exemption, or registration, or to qualify or remain qualified in any jurisdiction, that would not have a Material Adverse Effect will not constitute a violation of this covenant, and except that nothing in this Section 6.05 shall prevent the termination of the business or existence (corporate or otherwise) of any Subsidiary of Borrower which in the reasonable judgment of the Board of Directors of Borrower is no longer necessary or desirable.

6.06 Maintenance of Properties. Maintain, preserve, and protect all of their respective properties and equipment in good order and condition, subject to wear and tear in the ordinary course of business and, in the case of unimproved properties, damage caused by the natural elements, and not permit any waste of their respective properties, except where a failure to maintain, preserve, and protect a particular item of property or equipment would not result in a Material Adverse Effect.

6.07 Maintenance of Insurance. Maintain insurance with responsible insurance companies in such amounts and against such risks as is usually carried by responsible companies engaged in similar businesses and owning similar assets in the general areas in which Borrower and its Subsidiaries operate except to the extent that Borrower or a Subsidiary is, in the reasonable opinion of a Designated Officer, adequately self-insured in a manner comparable to responsible companies engaged in similar businesses and owning similar assets in the general areas in which Borrower and its Subsidiaries operate.

6.08 Compliance with Laws. Comply with the requirements of all applicable Laws and orders of any Governmental Agency, noncompliance with which would result in a Material Adverse Effect, except that Borrower and its Subsidiaries need not comply with a requirement then being contested by any of them in good faith by appropriate proceedings so long as no interest of the Banks would be materially impaired thereby.

6.09 Inspection Rights. At any time during regular business hours and as often as reasonably requested, permit any Bank or any employee, agent, or representative thereof to examine, audit and make copies and abstracts from the records and books of account of, and to visit and inspect the properties of Borrower and its Subsidiaries and to discuss the affairs, finances, and accounts of Borrower and its Subsidiaries with any of their officials, customers or vendors, and, upon request, to furnish promptly to each Bank true copies of all material financial information formally made available to the senior management of Borrower and reasonably identifiable by Borrower. Nothing herein shall obligate Borrower to disclose any information to the Banks respecting trade secrets or similar proprietary information constituting products or processes relating to the business of Borrower or its Subsidiaries or in violation of applicable Laws.

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6.10 Keeping of Records and Books of Account. Keep adequate records and books of account reflecting financial transactions in conformity with generally accepted accounting principles applied on a consistent basis and all applicable requirements of any Governmental Agency having jurisdiction over Borrower or any of its Subsidiaries, except where the failure to comply with generally accepted accounting principles or such applicable requirements would not make the records and books of accounts of Borrower and its Subsidiaries, taken as a whole, materially misleading.

6.11 ERISA Compliance. Comply with the minimum funding requirements of ERISA with respect to all Pension Plans.

6.12 Environmental Laws. Conduct its operations and keep and maintain its property in compliance with all Environmental Laws where failure to do so will have a Material Adverse Effect.

6.13 Use of Proceeds. Use the proceeds of the Loans for working capital, commercial paper backup and other general corporate purposes not in contravention of any Law or of any Loan Document, including acquiring other Persons so long as the acquisition is approved by the board of directors, requisite general partners, requisite managers or other governing board or body of the Person being acquired.

SECTION 7. NEGATIVE COVENANTS

As long as any Borrowing remains unpaid or any other Obligation remains unpaid or unperformed, or any commitment to make Loans remains in effect, Borrower shall not, and shall cause each of its Subsidiaries to not, unless the Majority Banks otherwise consent in writing:

7.01 Type of Business. Make any substantial change in the present character of the business of Borrower and its Subsidiaries, taken as a whole.

7.02 Liens. Create, incur, assume or permit to exist any Lien upon any of its property or assets (other than Unrestricted Margin Stock) now owned or hereafter acquired if the aggregate obligations secured by all such Liens exceeds, or would exceed (giving effect to any proposed new Lien) an amount equal to 10% of Consolidated Net Worth, except:

(a) Liens for taxes not delinquent or being contested in good faith by appropriate proceedings in accordance with Section 6.04;

(b) Liens arising in connection with workers' compensation, unemployment insurance or social security obligations;

(c) mechanics', workmen's, materialmen's, landlords', carriers', or other like Liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings;

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(d) minor Liens which do not in the aggregate materially detract from the value of its property or assets or materially impair their use in the operation of the business of Borrower or the Subsidiary owning same;

(e) Liens in existence on property at the time of its acquisition by Borrower or its Subsidiary;

(f) Liens under the Loan Documents; and

(g) purchase money Liens in connection with nonrecourse tax sale and leaseback transactions.

7.03 Investments. Make or permit to exist any Investment in any Person, except:

(a) credit extended in connection with the sale of goods or rendering of services in the ordinary course of business;

(b) Investments in a Consolidated Subsidiary;

(c) Acquisitions;

(d) Investments consisting of Cash Equivalents;

(e) Investments that individually or in the aggregate would not result in a Material Adverse Effect; and

(f) Investments in corporations, joint ventures, partnerships and other Persons not majority-owned by Borrower and its Subsidiaries not exceeding 5% of Consolidated Net Worth in the aggregate.

7.04 Contingent Obligations. Incur or permit to exist any Contingent Obligation if the aggregate of all Contingent Obligations exceeds, or would exceed (giving effect to any proposed new Contingent Obligation) an amount equal to 5% of Consolidated Net Worth, except the endorsement of negotiable instruments in the ordinary course of collection.

7.05 Subordinated Debt. Make any principal prepayment on any Subordinated Debt or, if and so long as Default or Event of Default exists, any payment of principal or interest on any Subordinated Debt.

7.06 Sale of Assets or Merger. Sell or otherwise dispose of all or substantially all of the assets, or merge with any other corporation unless Borrower or one of its Subsidiaries is the surviving corporation except that the sale of all or substantially all of the assets of a Subsidiary of Borrower, or the merger of any Subsidiary of Borrower when it is not the surviving corporation shall not violate this Section 7.06 if the assets of that Subsidiary are not material in relation to the assets of Borrower and its Subsidiaries, taken as a whole.

7.07 Financial Covenants.

- (a) Not permit the Leverage Ratio to exceed 3.50 to 1.00 at any time; and
- (b) Not permit the ratio of Consolidated Earnings Before Interest and Taxes to Consolidated Interest to be less than 3.50 to 1 at any time.

7.08 Use of Proceeds. Use any portion of the Loan proceeds, in any manner that might cause the Loan or the application of such proceeds to violate Regulation U, Regulation T or Regulation X of the Board of Governors of the Federal Reserve System or any other regulation of such Board or to violate the Securities Exchange Act of 1934, as amended, in each case as in effect on the date or dates of such Loan and such use of proceeds.

**SECTION 8.
EVENTS OF DEFAULT AND REMEDIES UPON EVENTS OF DEFAULT**

8.01 Events of Default. There will be a default hereunder if any one or more of the following events (“Events of Default”) occurs and is continuing, whatever the reason therefor:

- (a) failure of Borrower to pay any installment of principal when due or to pay interest hereunder or any fee or other amounts due to any Bank hereunder within three Business Days after the date when due; or
- (b) Borrower fails to perform or observe any other term, covenant, or agreement contained in any Loan Document on its part to be performed or observed within 30 days after the date performance is due; or
- (c) any representation or warranty in any Loan Document or in any certificate, agreement, instrument, or other document made or delivered pursuant to or in connection with any Loan Document proves to have been incorrect when made in any material respect; or
- (d) Borrower or any of its Subsidiaries (i) fails to pay the principal, or any principal installment, or any present or future indebtedness for borrowed money, or any guaranty of present or future indebtedness for borrowed money, within 10 days of the date when due (or within any longer stated grace period), whether at the stated maturity, upon acceleration, by reason of required prepayment or otherwise in excess of \$20,000,000 or (ii) fails to perform or observe any other term, covenant, or agreement on its part to be performed or observed in connection with any present or future indebtedness for borrowed money, or any guaranty of present or future indebtedness for borrowed money, in excess of \$20,000,000, if as a result of such failure any holder or holders thereof (or an agent or trustee on its or their behalf) has the right to declare it due before the date on which it otherwise would become due; or
- (e) any Loan Document, at any time after its execution and delivery and for any reason other than the agreement of the Banks or satisfaction in full of all the Obligations, ceases to be in full force and effect or is declared by a court of competent jurisdiction to be null and void, invalid, or unenforceable in any respect which is, in the reasonable opinion of the Majority Banks, materially adverse to the interest of the Banks; or Borrower denies that it has any or further liability or obligation under any Loan Document; or

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(f) a final judgment against Borrower or any of its Subsidiaries is entered for the payment of money in excess of \$20,000,000, and remains unsatisfied without procurement of a stay of execution for 45 days after the date of entry of judgment or in any event later than five days prior to the date of any proposed sale under such judgment; or

(g) any Domestic Subsidiary, any Significant Subsidiary or Borrower is the subject of an order for relief by a bankruptcy court, or is unable or admits in writing its inability to pay its debts as they mature, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator, or similar officer for it or for all or any part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator, or similar officer is appointed without the application or consent of that entity and the appointment continues undischarged or unstayed for 60 days; or institutes or consents to any bankruptcy, proposal in bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, custodianship, conservatorship, liquidation, rehabilitation, or similar proceeding relating to it or to all or any part of its property under the laws of any jurisdiction; or any similar proceeding is instituted without the consent of that entity and continues undischarged or unstayed for 60 days; or any judgment, writ, warrant of attachment or execution, or similar process is issued or levied against all or any part of the property of any such entity in an amount in excess of 10% of the total assets of such entity, and is not released, vacated, or fully bonded within sixty (60) days after its issue or levy, or Borrower or any Domestic Subsidiary or any Significant Subsidiary shall take any corporate action to authorize any of the actions set forth above in this subsection (g).

8.02 Remedies Upon Event of Default.

(a) Upon the occurrence of any Event of Default (other than an Event of Default described in Section 8.01(g)): (i) all commitments to make Loans may be terminated by the Majority Banks without notice to or demand upon Borrower, which are expressly waived by Borrower and (ii) the Majority Banks may declare the unpaid principal of or unperformed balance of all Obligations due to the Banks hereunder, all interest accrued and unpaid thereon, and all other amounts payable under the Loan Documents to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable, without protest, presentment, notice of dishonor, demand, or further notice of any kind, all of which are expressly waived by Borrower.

(b) Upon the occurrence of any Event of Default described in Section 8.01(g): (i) all commitments to make Loans shall terminate without notice to or demand upon Borrower, which are expressly waived by Borrower; and (ii) the unpaid principal of or unperformed balance of all Obligations due to the Banks hereunder, and all interest accrued and unpaid on such obligations shall be forthwith due and payable, without protest, presentment, notice of dishonor, demand, or further notice of any kind, all of which are expressly waived by Borrower.

(c) Upon the occurrence of an Event of Default and acceleration of the unpaid principal of or unperformed balance of all Obligations due to the Banks hereunder, as provided in Sections 8.02(a) or 8.02(b), the Administrative Agent and the Banks, or any of them, without notice to or demand upon Borrower, which are expressly waived by Borrower, may proceed to protect, exercise, and enforce their rights and remedies under the Loan Documents against

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Borrower and such other rights and remedies as are provided by law or equity. The order and manner in which the rights and remedies of the Administrative Agent and the Banks under the Loan Documents and otherwise may be protected, exercised, or enforced shall be determined by the Majority Banks.

(d) All payments received by the Administrative Agent and the Banks, or any of them, shall be applied first to the costs and expenses (including attorneys fees and disbursements) of the Administrative Agent, acting as Administrative Agent, and of the Banks and thereafter to the Banks pro-rata according to the unpaid principal amount of the Loans held by each Bank. Regardless of how any Bank may treat the payments for the purpose of its own accounting, for the purpose of computing Borrower's Obligations hereunder, the payments shall be applied first, to the payment of accrued and unpaid fees provided for hereunder and interest on all Obligations to and including the date of such application, second, to the ratable payment of the unpaid principal of all Loans, and third, to the payment of all other amounts then owing to the Banks under the Loan Documents. No application of the payments will cure any Event of Default or prevent acceleration, or continued acceleration, of amounts payable under the Loan Documents or prevent the exercise, or continued exercise, of rights or remedies of the Administrative Agent or Banks hereunder or under applicable Laws.

SECTION 9. THE ADMINISTRATIVE AGENT

9.01 Appointment and Authorization. Each Bank hereby irrevocably appoints and authorizes each of the Administrative Agent and the Syndication Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Administrative Agent or the Syndication Agent by the terms thereof or are reasonably incidental, as determined by the Administrative Agent or the Syndication Agent, thereto. This appointment and authorization does not constitute appointment of the Administrative Agent or the Syndication Agent as trustee for any Bank and, except as specifically set forth herein to the contrary, each of the Administrative Agent and the Syndication Agent shall take such action and exercise such powers only in an administrative and ministerial capacity. Without limiting the generality of the foregoing sentence, the use of the term "administrative agent" in this Agreement with reference to the Administrative Agent and the use of the term "syndication agent" in this Agreement with reference to the Syndication Agent are not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such terms are used merely as a matter of market custom, and are intended to create or reflect only an administrative relationship between independent contracting parties.

9.02 Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care.

9.03 Administrative Agent and Affiliates. CUSA (and each successor Administrative Agent) and its Affiliates have the same rights and powers under the Loan

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Documents as any other Bank and may exercise the same as though CUSA (or any successor Administrative Agent) were not the Administrative Agent; and the term “Bank” or “Banks” includes CUSA in its individual capacity. CUSA (and each successor Administrative Agent) and its respective Affiliates may accept deposits from, lend money to, and generally engage in any kind of banking, trust or other business with Borrower and any Affiliate of Borrower, as if it were not the Administrative Agent and without any duty to account therefor to the Banks. CUSA (and each successor Administrative Agent) need not account to any other Bank for any monies received by it for reimbursement of its costs and expenses as Administrative Agent hereunder, or for any monies received by it in its capacity as a Bank hereunder, except as otherwise provided herein.

9.04 Banks’ Credit Decisions. Each Bank agrees that it has, independently and without reliance upon the Administrative Agent, the Syndication Agent, any other Bank, or the directors, officers, agents, or employees of the Administrative Agent, the Syndication Agent or of any other Bank, and instead in reliance upon information supplied to it by or on behalf of Borrower and upon such other information as it has deemed appropriate, made its own independent credit analysis and decision to enter into this Agreement. Each Bank also agrees that it shall, independently and without reliance upon the Administrative Agent, the Syndication Agent, any other Bank, or the directors, officers, agents, or employees of the Administrative Agent, the Syndication Agent or of any other Bank, continue to make its own independent credit analyses and decisions in acting or not acting under the Loan Documents. Except for notices, reports and other documents expressly herein required to be furnished to the Banks by the Administrative Agent, neither the Administrative Agent nor the Syndication Agent shall have any duty or responsibility to provide any Bank with any credit or other information concerning the business, prospects, operations, property, financial and other condition or credit worthiness of Borrower which may come into the possession of any of the Agent-Related Persons.

9.05 Action by Administrative Agent.

(a) The Administrative Agent may assume that no Event of Default has occurred and is continuing, unless the Administrative Agent has actual knowledge of the Event of Default, has received notice from Borrower stating the nature of the Event of Default and stating that such notice is a “notice of default”, or has received notice from a Bank stating the nature of the Event of Default and that that Bank considers the Event of Default to have occurred and to be continuing.

(b) The Administrative Agent has only those obligations under the Loan Documents that are expressly set forth therein. Without limitation on the foregoing, the Administrative Agent shall have no duty to inspect any property of Borrower although the Administrative Agent may in its discretion periodically inspect any property from time to time.

(c) Except for any obligation expressly set forth in the Loan Documents and as long as the Administrative Agent may assume that no Event of Default has occurred and is continuing, the Administrative Agent may, but shall not be required to, exercise its discretion to act or not act, except that the Administrative Agent shall be required to act or not act upon the instructions of the Majority Banks (or of all the Banks, to the extent required by Section 10.02) and those instructions shall be binding upon the Administrative Agent and all the Banks,

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provided that the Administrative Agent shall not be required to act or not act if to do so would expose the Administrative Agent to significant personal liability or would be contrary to any Loan Document or to applicable law.

(d) If the Administrative Agent may not, pursuant to Section 9.05(a), assume that no Event of Default has occurred and is continuing, the Administrative Agent shall give notice thereof to the Banks and shall act or not act upon the instructions of the Majority Banks (or all of the Banks, to the extent required by Section 10.02), provided that the Administrative Agent shall not be required to act or not act if to do so would expose the Administrative Agent to significant liability or would be contrary to any Loan Document or to applicable law. The Administrative Agent will notify the Banks of its receipt of any such notice. The Administrative Agent shall take such action with respect to such Default or Event of Default as may be requested by the Majority Banks in accordance with Section 8; provided, however, that unless and until the Administrative Agent has received any such request, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interest of the Banks.

(e) The Administrative Agent shall have no liability to any Bank for acting, or not acting, as instructed by the Majority Banks (or all the Banks, if required under Section 10.02), notwithstanding any other provision hereof.

9.06 Liability of Administrative Agent. None of the Agent-Related Persons shall be liable for any action taken or not taken by them under or in connection with the Loan Documents, except for their own gross negligence or willful misconduct. Without limitation on the foregoing, the Agent-Related Persons:

(a) may treat each Person whose name is recorded in the Register as a Bank hereunder until the Administrative Agent receives notice of the assignment or transfer of such Person's interests hereunder in form satisfactory to the Administrative Agent, signed by that Bank;

(b) may consult with legal counsel, in-house legal counsel, independent public accountants, in-house accountants and other professionals, or other experts selected by it, of with legal counsel, independent public accountants, or other experts for Borrower, and shall not be liable for any action taken or not taken by it or them in good faith in accordance with the advice of such legal counsel, independent public accountants, or experts;

(c) will not be responsible to any Bank for any statement, warranty, or representation made in any of the Loan Documents or in any notice, certificate, report, request, or other statement (written or oral) in connection with any of the Loan Documents;

(d) except to the extent expressly set forth in the Loan Documents, will have no duty to ascertain or inquire as to the performance or observance by Borrower or any other Person of any of the terms, conditions, or covenants of any of the Loan Documents or to inspect the property, books, or records of Borrower or any of its Subsidiaries or other Person;

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(e) will not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, effectiveness, sufficiency, or value of any Loan Document, any other instrument or writing furnished pursuant thereto or in connection therewith;

(f) will not incur any liability by acting or not acting in reliance upon any Loan Document, notice, consent, certificate, statement, or other instrument or writing believed by it or them to be genuine and signed or sent by the proper party or parties; the Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Majority Banks and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Banks (for purposes of determining compliance with the conditions specified in Section 4.01, each Bank that has executed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter either sent by the Administrative Agent to such Bank for consent, approval, acceptance or satisfaction, or required thereunder to be consented to or approved by or acceptable or satisfactory to the Bank); and

(g) will not incur any liability for any arithmetical error in computing any amount payable to or receivable from any Bank hereunder, including without limitation payment of principal and interest hereunder, payment of commitment fees, Loans, and other amounts; provided that promptly upon discovery of such an error in computation, the Administrative Agent, the Banks and (to the extent applicable) Borrower shall make such adjustments as are necessary to correct such error and to restore the parties to the position that they would have occupied had the error not occurred.

9.07 Indemnification. Whether or not the transactions contemplated hereby are consummated, the Banks shall indemnify upon demand the Agent-Related Persons (to the extent not reimbursed by or on behalf of Borrower and without limiting the obligation of Borrower to do so), pro rata, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, charges, expenses and disbursements (including, without limitation, attorney's fees and disbursements and the allocated cost of inhouse counsel) of any kind or nature whatsoever which may at any time (including at any time following repayment of the Loans and the termination, resignation or replacement of the Administrative Agent or replacement of any Bank) be imposed on, incurred by or asserted against any such Person in any way relating to or arising out of this Agreement or any document contemplated by or referred to herein, or the transactions contemplated hereby, or any action taken or omitted by any such Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any bankruptcy or other insolvency proceeding or appellate proceeding) related to or arising out of this Agreement or the Loans or the use of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"); provided, however, that no Bank shall be liable for the payment to any Agent-Related Person of any portion of such Indemnified Liabilities resulting solely from such Person's negligence or willful misconduct. Without limitation of the foregoing, each Bank shall reimburse each of the Administrative Agent and the Syndication Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including fees and expenses of any counsel (including in-house counsel)) incurred by the Administrative Agent or the Syndication Agent in connection with the preparation, execution, delivery, administration, modification, amendment, or enforcement (whether through negotiations, legal proceedings or

otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Administrative Agent or the Syndication Agent is not reimbursed for such expenses by or on behalf of Borrower. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of the Administrative Agent.

9.08 Successor Administrative Agent. The Administrative Agent may, and at the request of the Majority Banks shall, resign as Administrative Agent upon 30 days' notice to the Banks. If the Administrative Agent resigns under this Agreement, the Majority Banks shall appoint from among the Banks a successor agent for the Banks. If no successor agent is appointed prior to the effective date of the resignation of the Administrative Agent, the Administrative Agent may appoint, after consulting with the Banks and Borrower, a successor agent from among the Banks. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Administrative Agent and the term "Administrative Agent" shall mean such successor agent and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Section 9 and Section 10.03 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. If no successor agent has accepted appointment as Administrative Agent by the date which is 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Banks shall perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Majority Banks appoint a successor agent as provided for above.

9.09 Withholding Tax. Each Bank that is a "foreign corporation, partnership or trust" within the meaning of the Code shall deliver to the Administrative Agent, prior to becoming a Bank (including after accepting an assignment of an interest herein) and promptly upon becoming aware that any form or other documentation provided pursuant to this Section 9.09 has become invalid, two duly signed completed copies of either IRS Form W-8BEN or any successor thereto (relating to such Person and entitling it to an exemption from, or reduction of, withholding tax on all payments to be made to such Person by Borrower pursuant to this Agreement) or IRS Form W-8ECI or any successor thereto (relating to all payments to be made to such Person by Borrower pursuant to this Agreement) or such other evidence satisfactory to Borrower and the Administrative Agent that such Person is entitled to an exemption from, or reduction of, U.S. withholding tax. Thereafter and from time to time, each such Person shall (a) promptly submit to the Administrative Agent such additional duly completed and signed copies of one of such forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may then be available under then current United States laws and regulations to avoid, or such evidence as is satisfactory to Borrower and the Administrative Agent of any available exemption from or reduction of, United States withholding taxes in respect of all payments to be made to such Person by Borrower pursuant to this Agreement, (b) promptly notify the Administrative Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction, and (c) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Bank, and as may be reasonably necessary (including the re-designation of its Lending Office) to avoid any requirement of applicable Laws that Borrower make any deduction or withholding for taxes

from amounts payable to such Person. If such Person fails to deliver the above forms or other documentation, then the Administrative Agent may withhold from any interest payment to such Person an amount equivalent to the applicable withholding tax imposed by Sections 1441 and 1442 of the Code, without reduction, and, unless such failure shall result from a change in law making it impossible for such Person to provide such forms or other documentation, the Borrower shall not be required to pay any additional amounts as a result of such withholding. If any Governmental Authority asserts that the Administrative Agent did not properly withhold any tax or other amount from payments made in respect of such Person, such Person shall indemnify the Administrative Agent therefor, including all penalties and interest, any taxes imposed by any jurisdiction on the amounts payable to the Administrative Agent under this Section, and costs and expenses (including the reasonable fees and out-of-pocket expenses of any legal counsel (including the allocated cost of inhouse counsel)) of the Administrative Agent. The obligation of the Banks under this Section shall survive the payment of all Obligations and the resignation or replacement of the Administrative Agent.

**SECTION 10.
MISCELLANEOUS**

10.01 Cumulative Remedies; No Waiver. The rights, powers, and remedies of the Administrative Agent or any Bank provided in any Loan Document are cumulative and not exclusive of any right, power, or remedy provided by law or equity. No failure or delay on the part of the Administrative Agent or any Bank in exercising any right, power, or remedy may be, or may be deemed to be, a waiver thereof; nor may any single or partial exercise of any right, power, or remedy preclude all other or further exercise of any other right, power, or remedy. The terms and conditions of Sections 4.01 and 4.02 are inserted for the sole benefit of the Banks and may be waived by the Majority Banks in whole or in part with or without terms or conditions in respect of any Loan, without prejudicing the Bank's rights to assert them in whole or in part in respect of any other Loans.

10.02 Amendments; Consents. No amendment, modification, supplement, termination, or waiver of any provision of this Agreement, and no consent to any departure by Borrower therefrom, may in any event be effective unless in writing signed by the Administrative Agent with the written approval of the Majority Banks, and then only in the specific instance and for the specific purpose given; and without the approval in writing of all the Banks, no amendment, modification, supplement, termination, waiver, or consent may be effective:

(a) to reduce the principal of, or the amount of principal, principal prepayments, or the rate of interest payable on, any Obligation or increase the amount of any Commitment (except as provided in Section 2.12) or decrease the amount of any fee payable to any Bank;

(b) to postpone any date fixed for any payment of principal of, prepayment of principal of, or any installment of interest on, any Obligation or any installment of any fee or to extend the term of any Commitment (except as provided in Section 2.11);

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(c) to amend or modify the provisions of the definitions in Section 1.01 of “Commitment” or “Majority Banks”, of Sections 2.11, 2.12, 10.02, 10.09, 10.11 or of Section 8; or

(d) to amend or modify any provision of this Agreement that expressly requires the consent or approval of all the Banks;

provided, further, that no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Majority Banks or all the Banks, as the case may be, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document. Any amendment, modification, supplement, termination, waiver or consent pursuant to this Section 10.02 shall apply equally to and be binding upon, all of the Banks.

10.03 Costs, Expenses and Taxes. Borrower shall pay on demand the reasonable costs and expenses of the Administrative Agent in connection with the negotiation, preparation, execution and delivery, amendment, waiver, refinancing and restructuring of, and reorganization (including a bankruptcy reorganization, if such payment is approved by the bankruptcy court) affecting, the Loan Documents and the reasonable expenses of the Administrative Agent and the Banks in connection with the enforcement of the Loan Documents, and any matter related thereto, including without limitation filing fees, recording fees, title insurance fees, appraisal fees, search fees, and other out-of-pocket expenses and the reasonable fees and out-of-pocket expenses of any legal counsel (including the allocated cost of inhouse counsel), independent public accountants, and other outside experts retained by the Administrative Agent or the Banks. Borrower shall pay any and all documentary and other taxes (other than income or gross receipts taxes generally applicable to banks) and all costs, expenses, fees, and charges payable or determined to be payable in connection with the filing or recording of this Agreement, any other Loan Document, or any other instrument or writing to be delivered hereunder or thereunder, or in connection with any transaction pursuant hereto or thereto, and shall reimburse, hold harmless, and indemnify the Administrative Agent and the Banks from and against any and all loss, liability, or legal or other expense with respect to or resulting from any delay in paying or failure to pay any tax, cost, expense, fee, or charge or that any of them may suffer or incur by reason of the failure of Borrower to perform any of the Obligations. Any amount payable to the Administrative Agent or the Banks under this Section 10.03 shall bear interest from the date of demand for payment at the rate then in effect for Base Rate Loans.

10.04 Banks’ Relationship. Nothing contained in this Agreement or any other Loan Document and no action taken by the Banks and Borrower pursuant hereto or thereto may, or may be deemed to, make any Bank and Borrower a partnership, an association, a joint venture, or other entity. The sole relationship between the Banks and Borrower is that of lenders and borrower, respectively. Each Bank’s obligation to make any Loan is several, and not joint or joint and several, and is conditioned upon the performance by all other Banks of their obligations to make Loans. A default by any Bank will not increase the Commitment of any other Bank. Any Bank not in default may, if it desires, assume in such proportion as the non-defaulting Banks may agree the obligations of any Bank in default, but is not obligated to do so.

10.05 Survival of Representations and Warranties. All representations and warranties of Borrower contained herein or in any other Loan Document (including, for this

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purpose, all representations and warranties contained in any certificate or other writing required to be delivered by or on behalf of Borrower pursuant to any Loan Document) will survive the execution and delivery of this Agreement, and, in the absence of actual knowledge by the Banks of the untruth of any representation or warranty, have been or will be relied upon by the Banks, notwithstanding any investigation made by the Banks or on their behalf.

10.06 Notices.

(a) General. Unless otherwise expressly provided in the Loan Documents, all notices, requests, demands, directions and other communications provided for hereunder or under any other Loan Document shall be in writing (including by facsimile transmission). All such written notices shall be mailed, faxed or delivered to the applicable address, facsimile number or (subject to Section 10.21) electronic mail address, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to Borrower or the Administrative Agent, to the address, facsimile number, electronic mail address or telephone number specified for such Person on Schedule 10.06 or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to the other parties; and

(ii) if to any other Bank, to the address, facsimile number, electronic mail address or telephone number specified in its Administrative Questionnaire or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to Borrower and the Administrative Agent.

(b) Timing. All such notices and other communications shall be deemed to be given or made upon the earlier to occur of (i) actual receipt by the relevant party hereto and (ii) (A) if delivered by hand or by courier, when signed for by or on behalf of the relevant party hereto; (B) if delivered by mail, four Business Days after deposit in the United States mail, postage prepaid; (C) if delivered by facsimile, when sent and receipt has been confirmed by telephone; and (D) if delivered by electronic mail (subject to the provisions of Section 10.21(c)) when received; provided, however, that notices and other communications to the Administrative Agent and the Banks pursuant to Section 2 shall not be effective until actually received by such Person. In no event shall a voicemail message be effective as a notice, communication or confirmation hereunder.

(c) Effectiveness of Facsimile Documents and Signatures. Loan Documents may be transmitted and/or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable law, have the same force and effect as manually-signed originals and shall be binding on Borrower, the Administrative Agent and the Banks. The Administrative Agent may also require that any such documents and signatures be confirmed by a manually-signed original thereof; provided, however, that the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

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(d) Reliance by the Administrative Agent and Banks. The Administrative Agent and the Banks shall be entitled to rely and act upon any notices purportedly given by or on behalf of Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. All telephonic notices to and other communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

10.07 Execution in Counterparts. This Agreement and any other Loan Document may be executed in any number of counterparts and any party hereto or thereto may execute any counterpart, each of which when executed and delivered will be deemed to be an original and all of which counterparts of this Agreement or any other Loan Document, as the case may be, taken together will be deemed to be but one and the same instrument. The execution of this Agreement or any other Loan Document by any party hereto or thereto will not become effective until counterparts hereof or thereof, as the case may be, have been executed by all the parties hereto or thereto.

10.08 Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Bank (and any attempted assignment or transfer by Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Indemnitees) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Bank may at any time assign, with, so long as no Event of Default has occurred and is continuing, the consent of Borrower (which consent may be given or withheld in Borrower's sole discretion) to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that (i) except in the case of an assignment of the entire remaining amount of the assigning Bank's Commitment and the Loans at the time owing to it or in the case of an assignment to a Bank or an Affiliate of a Bank or an Approved Fund with respect to a Bank, the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000, or that is in an integral multiple of \$1,000,000 in excess thereof, unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, Borrower otherwise consents (each such consent to be within the discretion of the consenting party), (ii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Bank's rights and obligations under this Agreement with respect to the Loans or the Commitment assigned, (iii) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500 (which fee shall not be payable by the Borrower) and (iv) no consent of Borrower shall be required if the proposed assignment is to another Bank, an

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Affiliate of a Bank or an Approved Fund with respect to a Bank unless as a result of such assignment, the Borrower would incur an additional cost pursuant to Section 3.06, but the assigning Bank shall give the Administrative Agent and Borrower written notice thereof. Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Bank under this Agreement, and the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 3.01, 3.03 and 3.09 with respect to facts and circumstances occurring prior to the effective date of such assignment). Any assignment or transfer by a Bank of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Bank of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) The Administrative Agent, acting solely for this purpose as an agent of Borrower, shall maintain at the Administrative Agent's Payment Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Banks, and the Commitments of, and principal amounts of the Loans owing to, each Bank pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and Borrower, the Administrative Agent and the Banks may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by Borrower and any Bank, at any reasonable time and from time to time upon reasonable prior notice.

(d) Any Bank may at any time, without the consent of, but with notice to, Borrower or the Administrative Agent, sell participations to any Person (other than a natural person or Borrower or any of Borrower's Affiliates or Subsidiaries (each, a "Participant")) in all or a portion of such Bank's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans owing to it); provided that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) Borrower, the Administrative Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Bank sells such a participation shall provide that such Bank shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Bank will not, without the consent of the Participant, agree to any amendment, waiver or other modification that would (x) postpone any date upon which any payment of money is to be paid to such Participant or (y) reduce the principal, interest, fees or other amounts payable to such Participant. Subject to subsection (e) of this Section, Borrower agrees that each Participant shall be entitled to the benefits of Sections 3.01, 3.03 and 3.09 to the same extent as if it were a Bank and had acquired its interest by assignment pursuant to

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subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of, and be subject to, Section 10.09 as though it were a Bank.

(e) A Participant shall not be entitled to receive any greater payment under Section 3.01, 3.03 or 3.09 than the applicable Bank would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with Borrower's prior written consent. A Participant that would be a "foreign corporation, partnership or trust" as contemplated by Section 9.09 (a "Foreign Bank") if it were a Bank shall not be entitled to the benefits of Section 3.01 unless Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of Borrower, to comply with Section 9.09 as though it were a Bank.

(f) Any Bank may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Bank, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Bank from any of its obligations hereunder or substitute any such pledgee or assignee for such Bank as a party hereto.

(g) As used herein, the following terms have the following meanings:

"Eligible Assignee" means, (a) a Bank; (b) an Affiliate of a Bank; (c) an Approved Fund; and (d) any other Person (other than a natural person) approved by (i) the Administrative Agent, and (ii) unless (A) such Person is taking delivery of an assignment in connection with physical settlement of a credit derivative transaction or (B) an Event of Default has occurred and is continuing, Borrower (each such consent to be within the discretion of the consenting party); provided that notwithstanding the foregoing, "Eligible Assignee" shall not include Borrower or any of Borrower's Affiliates or Subsidiaries

"Fund" means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"Approved Fund" means any Fund that is administered or managed by (a) a Bank, (b) an Affiliate of a Bank or (c) an entity or an Affiliate of an entity that administers or manages a Bank.

10.09 Right of Setoff; Sharing of Excess Payments.

(a) Borrower acknowledges that each Bank and each of its Affiliates have a contractual right of setoff of amounts credited to any deposit account maintained by Borrower with that Bank or its Affiliates against the Obligations owed to that Bank or its Affiliates. Upon the occurrence of an Event of Default which is then continuing, Borrower consents to the exercise by each Bank and its Affiliates of its right of setoff, as aforesaid, in accordance with applicable Laws.

(b) Each Bank severally agrees that if that Bank or any of its Affiliates shall, through the exercise of a right of setoff, banker's lien or counterclaim against Borrower or by virtue of a

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voluntary or involuntary payment received or applied, receive payment or reduction of a proportion of the aggregate amount of principal and interest then due hereunder, or amounts due to that Bank or its Affiliates in respect of fees hereunder (collectively, the “Aggregate Amounts Due” to such Bank and such Affiliates), which is greater than the proportion received by any other Bank in respect to the Aggregate Amounts Due to such other Bank, then the Bank and its Affiliates receiving such greater proportionate payment shall purchase participations (which it shall be deemed to have purchased from each seller simultaneously upon the receipt by such seller of its portion of such payment) in the Aggregate Amounts Due to the other Banks so that all such recoveries of Aggregate Amounts Due shall be shared by the Banks in proportion to the Aggregate Amounts Due them. If all or a portion of any such excess payment is thereafter recovered from any Bank which received the same, the purchase provided for herein shall be rescinded to the extent of such recovery, without interest.

10.10 Indemnification by Borrower. Whether or not the transactions contemplated hereby are consummated, Borrower agrees to indemnify, save and hold harmless each Agent-Related Person, each Bank and their respective Affiliates, directors, officers, employees, counsel, agents and attorneys-in-fact (collectively the “Indemnitees”) from and against: (a) any and all claims, demands, actions or causes of action that are asserted against any Indemnitee by any Person (other than the Administrative Agent, the Syndication Agent or any Bank) relating directly or indirectly to a claim, demand, action or cause of action that such Person asserts or may assert against Borrower, any Affiliate of Borrower or any of their respective officers or directors which arises out of or in connection with the Loan Documents, the use of Loan proceeds or the transactions contemplated thereby; (b) any and all claims, demands, actions or causes of action that may at any time (including at any time following repayment of the Obligations and the resignation or removal of the Administrative Agent or the replacement of any Bank) be asserted or imposed against any Indemnitee, arising out of or relating to, the Loan Documents, any predecessor loan documents, the Commitments, the use or contemplated use of the proceeds of any Loan, or the relationship of Borrower, the Administrative Agent, the Syndication Agent and the Banks under this Agreement or any other Loan Document; (c) any administrative or investigative proceeding by any Governmental Agency arising out of or related to a claim, demand, action or cause of action described in subsection (a) or (b) above; and (d) any and all liabilities (including liabilities under indemnities), losses, costs or expenses (including, without limitation, attorney’s fees and disbursements and the allocated cost of inhouse counsel) that any Indemnitee suffers or incurs as a result of the assertion of any foregoing claim, demand, action, cause of action or proceeding, or as a result of the preparation of any defense in connection with any foregoing claim, demand, action, cause of action or proceeding, and whether or not an Indemnitee is a party to such claim, demand, action, cause of action or proceeding (all the foregoing, collectively, the “Indemnified Liabilities”); provided that no Indemnitee shall be entitled to indemnification for any claim caused by its own negligence or willful misconduct or for any loss asserted against it by another Indemnitee. The agreements in this Section shall survive the termination of the Commitments and repayment of all the other Obligations.

10.11 Nonliability of Banks. Neither the Administrative Agent nor any Bank undertakes or assumes any responsibility or duty to Borrower to review, inspect, supervise, pass judgment upon, or inform Borrower of any matter in connection with any phase of Borrower’s business, operations, or condition, financial or otherwise. Borrower shall rely entirely upon its

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own judgment with respect to such matters, and any review, inspection, supervision, exercise of judgment, or information supplied to Borrower by the Administrative Agent or any Bank in connection with any such matter is for the protection of the Administrative Agent and the Banks, and neither Borrower nor any third party is entitled to rely thereon.

10.12 Confidentiality. Each Bank agrees to hold any confidential information which it may receive from Borrower pursuant to this Agreement in confidence, except for disclosure (a) to its Affiliates, legal counsel, accountants, and other professional advisors to the Bank provided that such advisors and Affiliates are obliged to hold such information in confidence, (b) regulatory officials having jurisdiction over the Bank or its Affiliates, (c) as required by law or legal process or in connection with any legal proceeding to which the Bank is a party provided that Borrower is notified prior to or concurrently with any such disclosure, and (d) to the Administrative Agent or another Bank. This Agreement, and other confidential information as approved by Borrower at the time, may be disclosed, subject to an agreement containing provisions substantially the same as those of this Section 10.12, to any Participants, Eligible Assignees, potential Participants or potential Eligible Assignees.

10.13 Investment Intent. Each Bank is making the Loans provided for herein for its own account and not with a view to the distribution thereof, subject, nevertheless, to any requirement that its property shall at all times be within its control, and subject further to the Bank's right (reserved hereby) to sell participations in the Loans pursuant to this Agreement.

10.14 Further Assurances. Borrower shall, at its expense and without expense to the Administrative Agent or any Bank, do, execute, and deliver such further acts and documents as the Administrative Agent from time to time reasonably requires for the assuring and confirming unto them the rights hereby created or intended now or hereafter so to be, or for carrying out the intention or facilitating the performance of the terms of any Loan Document.

10.15 Integration. This Agreement, together with the other Loan Documents, comprises the complete and integrated agreement of the parties on the subject matter hereof and supersedes all prior agreements, written or oral, on the subject matter hereof; provided, however, that the foregoing is subject to Section 5.18.

10.16 Governing Law; Submission to Jurisdiction; Waiver of Jury Trial. The Loan Documents shall be governed by, and construed and enforced in accordance with, the laws of California. The Loan Documents were drafted with the joint participation of Borrower and the Banks and shall be construed neither against nor in favor of either, but rather in accordance with the fair meaning thereof. All judicial proceedings brought against Borrower with respect to this Agreement may be brought in any state or federal court of competent jurisdiction in the State of California, and by execution and delivery of this Agreement, Borrower accepts for itself and in connection with its properties, generally and unconditionally, the nonexclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. Borrower irrevocably waives any right it may have to assert the doctrine of forum non conveniens or to object to venue to the extent any proceeding is brought in accordance with this Section. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY

DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS LOAN TRANSACTION OR THE LENDER/BORROWER RELATIONSHIP THAT IS BEING ESTABLISHED.

10.17 Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

10.18 Headings. Article and section headings in this Agreement and the other Loan Documents are included for convenience of reference only and are not part of this Agreement or the other Loan Documents for any other purpose.

10.19 Time of the Essence. Time is of the essence of the Loan Documents.

10.20 Judgment Currency. If, for the purposes of obtaining judgment in any court, it is necessary to convert a sum due hereunder or any other Loan Document in one currency into another currency, the rate of exchange used shall be that at which in accordance with normal banking procedures the Administrative Agent could purchase the first currency with such other currency on the Business Day preceding that on which final judgment is given. The obligation of Borrower in respect of any such sum due from them to the Administrative Agent or the Banks hereunder or under the other Loan Documents shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than that in which such sum is denominated in accordance with the applicable provisions of this Agreement (the "Agreement Currency"), be discharged only to the extent that on the Business Day following receipt by the Administrative Agent of any sum adjudged to be so due in the Judgment Currency, the Administrative Agent may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the sum originally due to the Administrative Agent from Borrower in the Agreement Currency, Borrower agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Administrative Agent or the Person to whom such obligation was owing against such loss. If the amount of the Agreement Currency so purchased is greater than the sum originally due to the Administrative Agent in such currency, the Administrative Agent agrees to return the amount of any excess to Borrower (or to any other Person who may be entitled thereto under applicable law).

10.21 Website Communications.

(a) Borrower hereby agrees that it will provide to the Administrative Agent all information, documents and other materials that it is obligated to furnish to the Administrative Agent pursuant to the Loan Documents, including, without limitation, all notices, requests, financial statements, financial and other reports, certificates and other information materials, but excluding any such communication that (i) relates to a request for a new, or a conversion of an existing, borrowing or other extension of credit (including any election of an interest rate or interest period relating thereto), (ii) relates to the payment of any principal or other amount due under this Agreement prior to the scheduled date therefor, (iii) provides notice of any default or event of default under this Agreement or (iv) is required to be delivered to satisfy any condition

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precedent to the effectiveness of this Agreement and/or any borrowing or other extension of credit thereunder (all such non-excluded communications being referred to herein collectively as “Communications”), by transmitting the Communications in an electronic/soft medium in a format acceptable to the Administrative Agent to oploanswebadmin@citigroup.com. In addition, Borrower agrees to continue to provide the Communications to the Administrative Agent in the manner specified in the Loan Documents but only to the extent requested by the Administrative Agent.

(b) Borrower further agrees that the Administrative Agent may make the Communications available to the Banks by posting the Communications on Intralinks or a substantially similar electronic transmission systems (the “Platform”).

THE PLATFORM IS PROVIDED “AS IS” AND “AS AVAILABLE”. THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE COMMUNICATIONS, OR THE ADEQUACY OF THE PLATFORM AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS OR OMISSIONS IN THE COMMUNICATIONS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY THE AGENT PARTIES IN CONNECTION WITH THE COMMUNICATIONS OR THE PLATFORM. IN NO EVENT SHALL THE ADMINISTRATIVE AGENT OR ANY OF ITS AFFILIATES OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, ADVISORS OR REPRESENTATIVES (COLLECTIVELY, “AGENT PARTIES”) HAVE ANY LIABILITY TO BORROWER, ANY BANK OR ANY OTHER PERSON OR ENTITY FOR DAMAGES OF ANY KIND, INCLUDING, WITHOUT LIMITATION, DIRECT OR INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, LOSSES OR EXPENSES (WHETHER IN TORT, CONTRACT OR OTHERWISE) ARISING OUT OF BORROWER’S OR THE ADMINISTRATIVE AGENT’S TRANSMISSION OF COMMUNICATIONS THROUGH THE INTERNET, EXCEPT TO THE EXTENT THE LIABILITY OF ANY AGENT PARTY IS FOUND IN A FINAL NON-APPEALABLE JUDGMENT BY A COURT OF COMPETENT JURISDICTION TO HAVE RESULTED PRIMARILY FROM SUCH AGENT PARTY’S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

(c) The Administrative Agent agrees that the receipt of the Communications by the Administrative Agent at its e-mail address set forth above shall constitute effective delivery of the Communications to the Administrative Agent for purposes of the Loan Documents. Each Bank agrees that notice to it (as provided in the next sentence) specifying that the Communications have been posted to the Platform shall constitute effective delivery of the Communications to such Bank for purposes of the Loan Documents. Each Bank agrees to notify the Administrative Agent in writing (including by electronic communication) from time to time of such Bank’s e-mail address to which the foregoing notice may be sent by electronic transmission and (ii) that the foregoing notice may be sent to such e-mail address.

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Nothing herein shall prejudice the right of the Administrative Agent or any Bank to give any notice or other communication pursuant to any Loan Document in any other manner specified in such Loan Document.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

EVERY DENNISON CORPORATION

By _____

Senior Vice President, Finance
and Chief Financial Officer

By _____

Vice President and Treasurer

CITICORP USA, INC., as Administrative Agent
and as a Bank

By _____

Name _____

Title _____

BANK OF AMERICA, N.A., as Syndication
Agent and as a Bank

By _____

Name _____

Title _____

BARCLAYS BANK PLC, as a Bank

By _____

Name _____

Title _____

WACHOVIA BANK, N.A., as a Bank

By _____

Name _____

Title _____

JPMORGAN CHASE BANK, as a Bank

By _____

Name _____

Title _____

MELLON BANK, N.A., as a Bank

By _____

Name _____

Title _____

KBC BANK, N.V., as a Bank

By _____

Name _____

Title _____

STANDARD CHARTERED BANK, as a Bank

By _____

Name _____

Title _____

**WILLIAM STREET COMMITMENT
CORPORATION, as a Bank**

By _____

Name _____

Title _____

WELLS FARGO BANK, N.A., as a Bank

By _____

Name _____

Title _____

MANDATORY COST RATE

1. The Mandatory Cost Rate is an addition to the interest rate to compensate Banks for the cost of compliance with (a) the requirements of the Bank of England and/or the Financial Services Authority of the United Kingdom (the “**Financial Services Authority**”) (or, in either case, any other authority which replaces all or any of its functions) or (b) the requirements of the European Central Bank.
2. On the first day of each Interest Period (or as soon as possible thereafter) the Administrative Agent shall calculate, as a percentage rate, a rate (the “**Additional Cost Rate**”) for each Bank, in accordance with the paragraphs set out below. The Mandatory Cost Rate will be calculated by the Administrative Agent as a weighted average of the Banks’ Additional Cost Rates (weighted in proportion to the percentage participation of each Bank in the relevant Loan) and will be expressed as a percentage rate per annum.
3. The Additional Cost Rate for any Bank lending from an office in a Participating Member State will be the percentage notified by that Bank to the Administrative Agent. This percentage will be certified by that Bank in its notice to the Administrative Agent to be its reasonable determination of the cost (expressed as a percentage of that Bank’s participation in all Loans made from that office) of complying with the minimum reserve requirements of the European Central Bank in respect of loans made from that office.
4. The Additional Cost Rate for any Bank lending from an office in the United Kingdom will be calculated by the Administrative Agent as follows:

a. in relation to a sterling Loan:

$$\frac{AB + C(B - D) + E \times 0.01}{100 - (A + C)} \quad \text{per cent, per annum}$$

b. in relation to a Loan in any currency other than sterling:

$$\frac{E \times 0.01}{300} \quad \text{per cent, per annum}$$

Where:

- A is the percentage of Eligible Liabilities (assuming these to be in excess of any stated minimum) which that Bank is from time to time required to maintain as an interest free cash ratio deposit with the Bank of England to comply with cash ratio requirements.
- B is the Eurocurrency Base Rate applicable to such Loan.

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- C is the percentage (if any) of Eligible Liabilities which that Bank is required from time to time to maintain as interest bearing Special Deposits with the Bank of England.
- D is the percentage rate per annum payable by the Bank of England to the Administrative Agent on interest bearing Special Deposits.
- E is designed to compensate Banks for amounts payable under the Fees Rules and is calculated by the Administrative Agent as being the average of the most recent rates of charge supplied by the Sterling Reference Banks to the Administrative Agent pursuant to paragraph 7 below and expressed in pounds per £1,000,000.
5. For the purposes of this Schedule:
- (a) **“Eligible Liabilities”** and **“Special Deposits”** have the meanings given to them from time to time under or pursuant to the Bank of England Act 1998 or (as may be appropriate) by the Bank of England;
 - (b) **“Fees Rules”** means the rules on periodic fees contained in the FSA Supervision Manual or such other law or regulation as may be in force from time to time in respect of the payment of fees for the acceptance of deposits;
 - (c) **“Fee Tariffs”** means the fee tariffs specified in the Fees Rules under the activity group A.1 Deposit acceptors (ignoring any minimum fee or zero rated fee required pursuant to the Fees Rules but taking into account any applicable discount rate); and
 - (d) **“Tariff Base”** has the meaning given to it in, and will be calculated in accordance with, the Fees Rules.
6. In application of the above formulae, A, B, C and D will be included in the formulae as percentages (i.e. 5 per cent. will be included in the formula as 5 and not as 0.05). A negative result obtained by subtracting D from B shall be taken as zero. The resulting figures shall be rounded to four decimal places.
7. If requested by the Administrative Agent, each Sterling Reference Bank shall, as soon as practicable after publication by the Financial Services Authority, supply to the Administrative Agent, the rate of charge payable by that Sterling Reference Bank to the Financial Services Authority pursuant to the Fees Rules in respect of the relevant financial year of the Financial Services Authority (calculated for this purpose by that Sterling Reference Bank as being the average of the Fee Tariffs applicable to that Sterling Reference Bank for that financial year) and expressed in pounds per £1,000,000 of the Tariff Base of that Sterling Reference Bank.
8. Each Bank shall supply any information required by the Administrative Agent for the purpose of calculating its Additional Cost Rate. In particular, but without limitation, each Bank shall supply the following information on or prior to the date on which it becomes a Bank:
- (a) the jurisdiction of its funding office; and

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(b) any other information that the Administrative Agent may reasonably require for such purpose.

Each Bank shall promptly notify the Administrative Agent of any change to the information provided by it pursuant to this paragraph.

9. The percentages of each Bank for the purpose of A and C above and the rates of charge of each Sterling Reference Bank for the purpose of E above shall be determined by the Administrative Agent based upon the information supplied to it pursuant to paragraphs 7 and 8 above and on the assumption that, unless a Bank notifies the Administrative Agent to the contrary, each Bank's obligations in relation to cash ratio deposits and Special Deposits are the same as those of a typical bank from its jurisdiction of incorporation with a funding office in the same jurisdiction as its funding office.
10. The Administrative Agent shall have no liability to any person if such determination results in an Additional Cost Rate which over or under compensates any Bank and shall be entitled to assume that the information provided by any Bank or Sterling Reference Bank pursuant to paragraphs 3, 7 and 8 above is true and correct in all respects.
11. The Administrative Agent shall distribute the additional amounts received as a result of the Mandatory Cost Rate to the Banks on the basis of the Additional Cost Rate for each Bank based on the information provided by each Bank and each Sterling Reference Bank pursuant to paragraphs 3, 7 and 8 above.
12. Any determination by the Administrative Agent pursuant to this Schedule in relation to a formula, the Mandatory Cost Rate, an Additional Cost Rate or any amount payable to a Bank shall, in the absence of manifest error, be conclusive and binding on all parties.
13. The Administrative Agent may from time to time, after consultation with the Borrower and the Banks, determine and notify to all parties any amendments which are required to be made to this Schedule in order to comply with any change in law, regulation or any requirements from time to time imposed by the Bank of England, the Financial Services Authority or the European Central Bank (or, in any case, any other authority which replaces all or any of its functions) and any such determination shall, in the absence of manifest error, be conclusive and binding on all parties.

Schedule 1.01-3

COMMITMENTS AND PRO RATA SHARES

<u>Bank</u>	<u>Commitment</u>	<u>Pro Rata Share</u>
Citicorp USA, Inc.	\$ 77,500,000	14.76%
Bank of America, N.A.	\$ 77,500,000	14.76%
Barclays Bank PLC	\$ 65,000,000	12.38%
Wachovia Bank, N.A.	\$ 65,000,000	12.38%
JPMorgan Chase Bank	\$ 45,000,000	8.57%
Mellon Bank, N.A.	\$ 45,000,000	8.57%
KBC Bank, N.V.	\$ 45,000,000	8.57%
Standard Chartered Bank	\$ 35,000,000	6.67%
William Street Commitment Corporation	\$ 35,000,000	6.67%
Wells Fargo Bank, N.A.	\$ 35,000,000	6.67%
Total	\$ 525,000,000	100%

Schedule 2.01-1

SUBSIDIARIES

Name of Current Subsidiary	Jurisdiction in Which Organized
1. A.V. CHEMIE GMBH	SWITZERLAND
2. ADC PHILIPPINES, INC.	PHILIPPINES
3. ADESPAN S.R.L.	ITALY
4. ADESPAN U.K. LIMITED	UNITED KINGDOM
5. AEAC, INC.	U.S.A.
6. AUSTRACOTE PTY LTD.	AUSTRALIA
7. AVERY (CHINA) COMPANY LIMITED	CHINA
8. AVERY AUTOMOTIVE LIMITED	UNITED KINGDOM
9. AVERY CORP.	U.S.A.
10. AVERY de MEXICO S.A. de C.V.	MEXICO
11. AVERY DENNISON (FIJI) LIMITED	FIJI
12. AVERY DENNISON (GUANGZHOU) CO. LTD.	CHINA
13. AVERY DENNISON (GUANGZHOU) CONVERTED PRODUCTS LIMITED	CHINA
14. AVERY DENNISON (HONG KONG) LIMITED	HONG KONG
15. AVERY DENNISON (INDIA) PRIVATE LIMITED	INDIA
16. AVERY DENNISON (IRELAND) LIMITED	IRELAND
17. AVERY DENNISON (KUNSHAN) LIMITED	CHINA
18. AVERY DENNISON (MALAYSIA) SDN. BHD.	MALAYSIA
19. AVERY DENNISON (SHANGHAI) INTERNATIONAL TRADING LIMITED	CHINA
20. AVERY DENNISON (THAILAND) LTD.	THAILAND
21. AVERY DENNISON (VIETNAM) LIMITED	VIETNAM
22. AVERY DENNISON ACQUISITION GmbH	GERMANY
23. AVERY DENNISON AUSTRALIA GROUP HOLDINGS PTY LIMITED	AUSTRALIA
24. AVERY DENNISON BELGIE BVBA	BELGIUM
25. AVERY DENNISON BV	NETHERLANDS
26. AVERY DENNISON C.A.	VENEZUELA
27. AVERY DENNISON CANADA INC.	CANADA
28. AVERY DENNISON CHILE S.A.	CHILE
29. AVERY DENNISON COLOMBIA S. A.	COLOMBIA
30. AVERY DENNISON CONVERTED PRODUCTS de MEXICO, S.A. de C.V.	MEXICO
31. AVERY DENNISON CONVERTED PRODUCTS EL SALVADOR S. A. de C.V.	EL SALVADOR
32. AVERY DENNISON COORDINATION CENTER BVBA	BELGIUM
33. AVERY DENNISON DEUTSCHLAND GmbH	GERMANY
34. AVERY DENNISON do BRASIL LTDA.	BRAZIL
35. AVERY DENNISON DOVER S.A.	ARGENTINA
36. AVERY DENNISON ETIKET TICARET LIMITED SIRKETI	TURKEY
37. AVERY DENNISON EUROPE HOLDING (DEUTSCHLAND) GmbH & Co KG	GERMANY
38. AVERY DENNISON FINANCE FRANCE S. A. S.	FRANCE
39. AVERY DENNISON FINANCE GERMANY GmbH	GERMANY
40. AVERY DENNISON FINANCE LUXEMBOURG S. A. R. L.	LUXEMBOURG
41. AVERY DENNISON FRANCE S.A.S.	FRANCE
42. AVERY DENNISON G HOLDINGS I COMPANY	U.S.A.
43. AVERY DENNISON G HOLDINGS III COMPANY	U.S.A.
44. AVERY DENNISON G INVESTMENTS I LIMITED	GIBRALTAR
45. AVERY DENNISON G INVESTMENTS II LIMITED	GIBRALTAR

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46.	AVERY DENNISON G INVESTMENTS III LIMITED	GIBRALTAR
47.	AVERY DENNISON G INVESTMENTS IV LIMITED	GIBRALTAR
48.	AVERY DENNISON G INVESTMENTS V LIMITED	GIBRALTAR
49.	AVERY DENNISON GROUP DANMARK ApS	DENMARK
50.	AVERY DENNISON HEALTH MANAGEMENT CORPORATION	U.S.A.
51.	AVERY DENNISON HOLDING & FINANCE THE NETHERLANDS BV	NETHERLANDS
52.	AVERY DENNISON HOLDING AG	SWITZERLAND
53.	AVERY DENNISON HOLDING GmbH	GERMANY
54.	AVERY DENNISON HOLDING LUXEMBOURG S. A. R. L.	LUXEMBOURG
55.	AVERY DENNISON HOLDINGS LIMITED	AUSTRALIA
56.	AVERY DENNISON HONG KONG BV	NETHERLANDS
57.	AVERY DENNISON HUNGARY LIMITED	HUNGARY
58.	AVERY DENNISON IBERICA, S.A.	SPAIN
59.	AVERY DENNISON INVESTMENTS LUXEMBOURG S.a.r.l.	LUXEMBOURG
60.	AVERY DENNISON INVESTMENTS THE NETHERLANDS BV	NETHERLANDS
61.	AVERY DENNISON INVESTMENTS VI LIMITED	GIBRALTAR
62.	AVERY DENNISON ITALIA S.R.L.	ITALY
63.	AVERY DENNISON KOREA LIMITED	KOREA
64.	AVERY DENNISON LUXEMBOURG S.A.R.L.	LUXEMBOURG
65.	AVERY DENNISON MANAGEMENT GmbH	GERMANY
66.	AVERY DENNISON MATERIALS FRANCE S.A.R.L.	FRANCE
67.	AVERY DENNISON MATERIALS GmbH	GERMANY
68.	AVERY DENNISON MATERIALS IRELAND LIMITED	IRELAND
69.	AVERY DENNISON MATERIALS NEDERLAND BV	NETHERLANDS
70.	AVERY DENNISON MATERIALS PTY LIMITED	AUSTRALIA
71.	AVERY DENNISON MATERIALS SDN BHD	MALAYSIA
72.	AVERY DENNISON MATERIALS U.K. LIMITED	UNITED KINGDOM
73.	AVERY DENNISON NETHERLANDS INVESTMENT II B. V.	NETHERLANDS
74.	AVERY DENNISON NETHERLANDS INVESTMENT III B.V.	NETHERLANDS
75.	AVERY DENNISON NETHERLANDS INVESTMENT VI BV	NETHERLANDS
76.	AVERY DENNISON NORDIC ApS	DENMARK
77.	AVERY DENNISON NORGE A/S	NORWAY
78.	AVERY DENNISON OFFICE ACCESSORIES U.K. LIMITED	UNITED KINGDOM
79.	AVERY DENNISON OFFICE PRODUCTS (NZ) LIMITED	NEW ZEALAND
80.	AVERY DENNISON OFFICE PRODUCTS (PTY.) LTD.	SOUTH AFRICA
81.	AVERY DENNISON OFFICE PRODUCTS COMPANY	U.S.A.
82.	AVERY DENNISON OFFICE PRODUCTS de MEXICO, S.A. de C.V.	MEXICO
83.	AVERY DENNISON OFFICE PRODUCTS EUROPE GmbH	SWITZERLAND
84.	AVERY DENNISON OFFICE PRODUCTS FRANCE S. A. S.	FRANCE
85.	AVERY DENNISON OFFICE PRODUCTS ITALIA S.r.l.	ITALY
86.	AVERY DENNISON OFFICE PRODUCTS MANUFACTURING & TRADING LIMITED LIABILITY COMPANY (AVERY DENNISON LTD.)	HUNGARY
87.	AVERY DENNISON OFFICE PRODUCTS MANUFACTURING U.K. LTD.	UNITED KINGDOM
88.	AVERY DENNISON OFFICE PRODUCTS PTY LIMITED	AUSTRALIA
89.	AVERY DENNISON OFFICE PRODUCTS U.K. LTD.	UNITED KINGDOM
90.	AVERY DENNISON OSTERREICH GMB	Austria
91.	AVERY DENNISON OVERSEAS CORPORATION	U.S.A.
92.	AVERY DENNISON PENSION TRUSTEE LIMITED	UNITED KINGDOM
93.	AVERY DENNISON PERU S. R. L.	PERU
94.	AVERY DENNISON POLSKA SP. Z O.O.	POLAND
95.	AVERY DENNISON PRAHA SPOL. R. O.	CZECH REPUBLIC
96.	AVERY DENNISON RETAIL INFORMATION SERVICES DOMINICAN REPUBLIC, S. A.	DOMINICAN REPUBLIC
97.	AVERY DENNISON RETAIL INFORMATION SERVICES GUATEMALA, S.A.	GUATEMALA

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98.	AVERY DENNISON RVL EUROPE GmbH	GERMANY
99.	AVERY DENNISON SCANDINAVIA ApS	DENMARK
100.	AVERY DENNISON SCHWEIZ AG	SWITZERLAND
101.	AVERY DENNISON SECURITY PRINTING EUROPE ApS	DENMARK
102.	AVERY DENNISON SHARED SERVICES, INC.	U.S.A.
103.	AVERY DENNISON SINGAPORE (PTE) LTD	SINGAPORE
104.	AVERY DENNISON SOUTH AFRICA (PROPRIETARY) LIMITED	SOUTH AFRICA
105.	AVERY DENNISON SUOMI OY	FINLAND
106.	AVERY DENNISON SVERIGE AB	SWEDEN
107.	AVERY DENNISON SYSTEMES d'ETIQUETAGE FRANCE S.A.S.	FRANCE
108.	AVERY DENNISON U.K. LIMITED	UNITED KINGDOM
109.	AVERY DENNISON VERMONGENSVERWALTUNGS GmbH & Co K.G.	GERMANY
110.	AVERY DENNISON VERWALTUNGS GmbH	GERMANY
111.	AVERY DENNISON ZWECKFORM AUSTRIA GmbH	AUSTRIA
112.	AVERY DENNISON ZWECKFORM OFFICE PRODUCTS EUROPE GmbH	GERMANY
113.	AVERY DENNISON ZWECKFORM OFFICE PRODUCTS MANUFACTURING GmbH	GERMANY
114.	AVERY DENNISON ZWECKFORM UNTERSTUTZUNGSKASSE GmbH	GERMANY
115.	AVERY DENNISON, S.A. de C.V.	MEXICO
116.	AVERY DENNISON-MAXELL K. K.	JAPAN
117.	AVERY ETIKETTSYSTEM SVENSKA AB	SWEDEN
118.	AVERY GRAPHIC SYSTEMS, INC.	U.S.A.
119.	AVERY GUIDEX LIMITED	UNITED KINGDOM
120.	AVERY HOLDING BV	NETHERLANDS
121.	AVERY HOLDING LIMITED	UNITED KINGDOM
122.	AVERY HOLDING S.A.S.	FRANCE
123.	AVERY MASCHINEN GmbH	GERMANY
124.	AVERY PACIFIC LLC	U.S.A.
125.	AVERY PROPERTIES PTY. LIMITED	AUSTRALIA
126.	AVERY RESEARCH CENTER, INC.	U.S.A.
127.	AVERY, INC.	U.S.A.
128.	CELT SNC	FRANCE
129.	DENNISON COMERCIO, IMPORTACAS E EXPORTACAO LTDA.	BRAZIL
130.	DENNISON DEVELOPMENT ASSOCIATES	U.S.A.
131.	DENNISON INTERNATIONAL COMPANY	U.S.A.
132.	DENNISON INTERNATIONAL HOLDING BV	NETHERLANDS
133.	DENNISON IRELAND LIMITED	IRELAND
134.	DENNISON MANUFACTURING COMPANY	U.S.A.
135.	DENNISON OFFICE PRODUCTS LIMITED	IRELAND
136.	DMC DEVELOPMENT CORPORATION	U.S.A.
137.	ETIKETTRYKKERIET A/S	DENMARK
138.	FASSON CANADA INC.	CANADA
139.	FASSON PORTUGAL PRODUTOS AUTO-ADESIVOS LDA.	PORTUGAL
140.	JAC (U.K.) LIMITED	UNITED KINGDOM
141.	JAC ASIA PACIFIC PTY LTD.	AUSTRALIA
142.	JAC ASIA/PACIFIC SDN BHD	MALAYSIA
143.	JAC AUSTRALIA PTY LTD.	AUSTRALIA
144.	JAC CARIBE C.S.Z.	DOMINICAN REPUBLIC
145.	JAC DO BRASIL LTDA.	BRAZIL
146.	JAC FRANCE SARL ET CIE SNC	FRANCE
147.	JAC ITALIA SRL	ITALY
148.	JAC NEW ZEALAND LIMITED	NEW ZEALAND
149.	JAC SKANDINAVIA A/S	DENMARK
150.	JAC THAI KK	THAILAND
151.	JAC USA, INC.	U.S.A.

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152.	JACFRANCE S.A.R.L.	FRANCE
153.	JACKSTADT FRANCE S.N.C.	FRANCE
154.	JACKSTADT FRANCE SARL	FRANCE
155.	JACKSTADT GMBH	GERMANY
156.	JACKSTADT POLSKA SP. ZO.O	POLAND
157.	JACKSTADT SKANDINAVISKA AB	SWEDEN
158.	JACKSTADT SOUTH AFRICA (PTY) LTD.	SOUTH AFRICA
159.	JACKSTADT TRADE LTD.	HUNGARY
160.	JACKSTADT VERMOGENSVERWALTUNGS Gmb	GERMANY
161.	KNAUP ELEKTRO GMBH I.L.	GERMANY
162.	L& E AMERICAS, S. A. de C.V.	MEXICO
163.	L&E AMERICAS SERVICIOS, S. A. de C.V.	MEXICO
164.	L&E PACKAGING FAR EAST LIMITED	HONG KONG
165.	MODERN MARK INTERNATIONAL LIMITED	HONG KONG
166.	MONARCH INDUSTRIES, INC.	U.S.A.
167.	PT ARVILINDO SENTOSA	INDONESIA
168.	PT AVERY DENNISON INDONESIA	INDONESIA
169.	PT ROBERT VINCENT LYLE PACKAGING INDONESIA	INDONESIA
170.	PT UNIVERSAL GLOBALINDO	INDONESIA
171.	RETAIL PRODUCTS LIMITED	IRELAND
172.	RVL AMERICAS, S de R.L. de C.V.	MEXICO
173.	RVL CENTRAL AMERICA, S. A.	GUATEMALA
174.	RVL PACKAGING FAR EAST LIMITED	HONG KONG
175.	RVL PACKAGING INDIA PRIVATE LIMITED	INDIA
176.	RVL PACKAGING KOREA CO. LTD.	KOREA
177.	RVL PACKAGING MIDDLE EAST F.Z.C.	DUBAI
178.	RVL PACKAGING SINGAPORE PTE LTD.	SINGAPORE
179.	RVL PACKAGING TAIWAN LTD.	TAIWAN
180.	RVL PACKAGING, INC.	U.S.A.
181.	RVL PHILIPPINES, INC.	PHILIPPINES
182.	RVL PRINTED LABEL FAR EAST LIMITED	HONG KONG
183.	RVL PRINTED LABELS, LLC	USA
184.	RVL SERVICE, S. DE R. L. de C. V.	MEXICO
185.	RVL TEXTILE CORPORATION TURKEY	TURKEY
186.	SECURITY PRINTING DIVISION, INC.	U.S.A.
187.	SPARTAN INTERNATIONAL, INC.	U.S.A.
188.	SPARTAN PLASTICS CANADA, LTD	CANADA
189.	STEINBEIS OFFICE PRODUCTS BETEILIGUNGS GmbH	GERMANY
190.	STIMSONITE AUSTRALIA PTY LIMITED	AUSTRALIA
191.	STIMSONITE CORPORATION	U.S.A.
192.	STIMSONITE do BRASIL LTDA	BRAZIL
193.	STIMSONITE EUROPA LIMITED	UNITED KINGDOM
194.	TIADECO PARTICIPACOES, LTDA.	BRAZIL
195.	UNIVERSAL PACKAGING & DESIGN GMBH	GERMANY
196.	UNIVERSAL PACKAGING & DESIGN PTE LTD.	SINGAPORE
197.	UNIVERSAL PACKAGING & DESIGN, LTD.	HONG KONG

LITIGATION

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 twelve waste disposal or waste recycling sites, which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company’s liability has been agreed. The Company is participating with other PRPs at all such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

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

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

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

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

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In connection with the U.S. Department of Justice's investigation into the proposed merger, the Company produced documents and provided testimony by Messrs. Neal, Scarborough and Simcic (CEO, President and Group Vice President - Roll Materials Worldwide, respectively).

On July 25, 2003, the United States District Court for the Northern District of Illinois entered an order enjoining the proposed merger. UPM and Bemis thereafter agreed to terminate the merger agreement. The Court's decision incorporated a stipulation by the U.S. Department of Justice that the paper label industry is competitive.

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

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

On May 21, 2003, The Harman Press filed in the Superior Court for the County of Los Angeles, California, a purported class action on behalf of indirect purchasers of labelstock and against the Company, UPM and UPM's subsidiary Raflatac, seeking treble damages and other relief for alleged unlawful competitive practices, essentially repeating the underlying allegations of the DOJ Merger Complaint. Three similar complaints were filed in various California courts. In November 2003, on petition from the parties, the California Judicial Council ordered the cases be coordinated for pretrial purposes. The cases were assigned to a coordination trial judge in the Superior Court for San Francisco County on March 30, 2004. A further similar complaint has been filed in the Superior Court for Maricopa County, Arizona. The Company intends to defend these matters vigorously.

On August 15, 2003, the U.S. Department of Justice issued a subpoena to the Company in connection with its criminal investigation into competitive practice in the label stock industry.

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The Company is cooperating in the investigation, and has produced documents in response to the subpoena.

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

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

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

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

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

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

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

**LENDING OFFICES AND
ADDRESSES FOR NOTICES**

AVERY DENNISON CORPORATION

AVERY DENNISON CORPORATION
150 North Orange Grove Boulevard
Pasadena, California 91103
Attention: Karyn E. Rodriguez
Vice President and Treasurer
Telephone: 626-304-2210
Facsimile: 626-304-2319

CITICORP USA, INC.

*Administrative Agent's Payment Office and CUSA's Lending Office
(for payments and Notices of Borrowing and Notices of Conversion/Continuation):*

Citibank, N.A.
Global Loans Operations
2 Penns Way, Suite 200
New Castle, Delaware 19726
Attention: Vincent Farrell
Telephone: 302-894-6032
Facsimile: 302-894-6120

Other Notices:

Domestic and Eurocurrency Lending Office:

Citicorp USA, Inc.
1 Court Square
Long Island City, NY 11120
Attention: Melanie Vora
Telephone: 718.248.5698
Facsimile: 718.240.4844

Notices (other than Notices of Borrowing and Notices of Conversion/Continuation):

Citibank, N.A.
Bank Loan Syndications
2 Penns Way, Suite 200
New Castle, Delaware 19720
Attention: Janet Wallace-Himmler
Telephone: 302-894-6029
Facsimile: 212-994-0961
janet.wallacehimmler@citigroup.com

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BANK OF AMERICA, N.A.

Loan repayments, interest, fees:

Bank of America, N.A.

1850 Gateway Blvd., 5th Floor

Mail Code: CA4-706-05-09

Concord, CA 94520-3282

Attention: Kathy Eddy

Telephone: 925.675.8458

Facsimile: 888.969.2420

Electronic Mail: kathy.eddy@bankofamerica.com

Other Notices:

Bank of America, N.A.

555 California Street, 12th Floor

Mail Code: CA5-705-12-12

San Francisco, CA 94104-1503

Attention: Thomas Sullivan

Telephone: 415.622.3482

Facsimile: 415.622.4585

Electronic Mail: Thomas.r.Sullivan@bankofamerica.com

Andrew Stinson

Telephone: 415.953.6909

Facsimile: 415.622.4585

Electronic Mail: Andrew.stinson@bankofamerica.com

WACHOVIA BANK, N.A.

Loan repayments, interest, fees:

Wachovia Bank, N.A.

201 South College Street

Charlotte, NC 28288-1183

Attention: Roy Oliphant

Telephone: 704.715.7604

Facsimile: 704.383.7201

Roshenna Smith

Telephone: 704.374.6171

Facsimile: 704.383.7201

Schedule 10.06-2

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Other Notices:

Wachovia Bank, N.A.
191 Peachtree Street, 22nd Floor, GA8055
Atlanta, GA 30303
Attention: Paige Mesaros
Telephone: 404.332.1322
Facsimile: 404.332.5905

JPMORGAN CHASE BANK

Loan repayments, interest, fees:

JPMorgan Chase Bank
1111 Fannin Street, 10th Floor
Loan & Agency
Houston, TX 77002
Attention: Christy Clophus
Telephone: 713.750.2400
Facsimile: 713.750.2932

Other Notices:

JPMorgan Chase Bank
560 Mission Street, 18th Floor
San Francisco, CA 94105
Attention: William Rindfuss
Telephone: 415.315.8232
Facsimile: 415.315.8586
Electronic Mail: William.rindfuss@jpmorgan.com

JPMorgan Chase Bank
270 Park Avenue, 15th Floor
New York, NY 10017
Attention: Pamela Lambiase
Telephone: 212.270.4105
Facsimile: 212.270.0998
Electronic Mail: Pamela.lambiase@jpmorgan.com

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KBC BANK, N.V.

Loan repayments, interest, fees:

KBC Bank, N.V.

125 West 55th Street, 10th Floor

New York, NY 10019

Attention: Rose Pagan or Robert Pacifici

Telephone: 212.541.0657 or 212.541.0653

Other Notices:

KBC Bank, N.V.

515 S. Figueroa Street, Suite 1920

Los Angeles, CA 90071

Attention: Tom Jackson, First Vice President

Telephone: 213.996.7526

Facsimile: 213.629.5801

KBC Bank, N.V.

125 W. 55th Street, 10th Floor

New York, NY 10019

Attention: Robert Snauffer, First Vice President and Sr. Credit Officer

Telephone: 212.541.0700

Facsimile: 212.956.5580

MELLON BANK, N.A.

Loan repayments, interest, fees:

Mellon Bank, N.A.

Three Mellon Bank Center

Pittsburgh, PA 15250

Attention: Damon Carr

Telephone: 412.234.4749

Facsimile: 412.209.6122

Electronic Mail: carr.dl@mellon.com

Other Notices:

Mellon Bank, N.A.

400 South Hope Street, Fifth Floor

Los Angeles, CA 90071

Attention: Lawrence Ivey

Telephone: 213.553.9543

Facsimile: 213.629.0492

Electronic Mail: ivey.l@mellon.com

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WELLS FARGO BANK, N.A.

Loan repayments, interest, fees:

Wells Fargo Bank, N.A.
201 Third Street, 8th Floor
MAC A0187-080
San Francisco, CA 94103
Attention: Gionie Padgett, Vice President and Manager
Telephone: 415.477.5374
Facsimile: 415.512.1943 or 415.979.0675

Other Notices:

Wells Fargo Bank, N.A.
707 Wilshire Blvd., 16th Floor
MAC E2818-163
Los Angeles, CA 90017
Attention: Lucy Nixon, Vice President
Telephone: 213.614.5804
Facsimile: 213.614.5242

Ling Li, Vice President
Telephone: 213.614.2253
Facsimile: 213.614.2569

STANDARD CHARTERED BANK

Loan repayments, interest, fees:

Standard Chartered Bank
One Madison Avenue, 3rd Floor
New York, NY 10010
Attention: Victoria Faltine
Telephone: 212.667.0203
Facsimile: 212.667.0287
Electronic Mail: Victoria.Faltine@us.standardchartered.com

Other Notices:

Standard Chartered Bank
790 East Colorado Blvd., Suite 808
Pasadena, CA 91101
Attention: Mary Machado-Schammel
Telephone: 626.639.8002
Facsimile: 626.639.8010
Electronic Mail: Mary.Machado-Schammel@us.standardchartered.com

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WILLIAM STREET COMMITMENT CORPORATION

Loan repayments, interest, fees:

William Street Commitment Corporation
85 Broad Street, 6th Floor
New York, NY 10004

Attention: Philip F. Green
Telephone: 212.357.7570
Facsimile: 212.357.4597 or 212.428.1022
Electronic Mail: Philip.F.Green@gs.com

Other Notices:

William Street Commitment Corporation
85 Broad Street, 6th Floor
New York, NY 10004

Attention: Pedro Ramirez
Telephone: 212.343.8319 or 212.357.6240
Facsimile: 212.428.1243
Electronic Mail: Pedro.Ramirez@gs.com

BARCLAYS BANK PLC

Loan repayments, interest, fees and other Notices:

Barclays Capital PLC
222 Broadway
New York, NY 10038

Attention: Carlos de Freitas
Telephone: 212.412.2859
Facsimile: 212.412.5306
Electronic Mail: Carlos.deFreitas@barclayscapital.com

Schedule 10.06-6

FORM OF NOTICE OF BORROWING

TO: Citicorp USA, Inc., as Administrative Agent

Pursuant to Section 2.03 of that certain Revolving Credit Agreement dated as of July 16, 2004 (as from time to time amended, extended, restated, modified or supplemented, the "Credit Agreement;" capitalized terms used herein shall have the meanings assigned to them in the Credit Agreement), among Avery Dennison Corporation (the "Borrower"), the Banks named therein (the "Banks"), Bank of America, N.A., as syndication agent, and Citicorp USA, Inc., as administrative agent (the "Administrative Agent"), this represents Borrower's request to borrow on _____ from the Banks, according to their respective Pro Rata Share, [\$] [€] [£] _____ as [Base Rate] [Eurocurrency Rate] Loans. [The initial Interest Period for such Eurocurrency Rate is requested to be a _____-month period]. The proceeds of such Loans are to be deposited in Borrower's account at the Administrative Agent.

The undersigned Designated Officer hereby certifies that [, except as described in a schedule attached hereto (which is subject to the approval of the Majority Banks),] the representations and warranties contained in Section 5 of the Credit Agreement [(other than in Sections 5.06 and 5.09)] are true and correct in all material respects, and are deemed made, on and as of the date of the Loan as though made on and as of that date, and no state of facts constituting a Default or an Event of Default has occurred and is continuing or will result from the proposed borrowing.

DATED:

AVERY DENNISON CORPORATION

By _____

Its _____

FORM OF NOTICE OF CONVERSION/CONTINUATION

Citicorp USA, Inc., as Administrative Agent

1. **Conversion Selection.** Pursuant to Section 2.04 of that certain Revolving Credit Agreement dated as of July 16, 2004 (as from time to time amended, extended, restated, modified or supplemented, the "Credit Agreement;" capitalized terms used herein shall have the meanings assigned to them in the Credit Agreement), among Avery Dennison Corporation (the "Borrower"), the Banks named therein (the "Banks"), Bank of America, N.A., as syndication agent, Citicorp USA, Inc., as administrative agent (the "Administrative Agent"), this represents Borrower's request to convert [\$] [€] [£] _____ of existing [Base Rate] [Eurocurrency Rate] Loans on _____, 20__, into [Eurocurrency Rate] [Base Rate] Loans, as follows:

Amount	Interest Period (Eurocurrency Rate Loans)
[\$] [€] [£] _____	_____ months

2. **Continuation Selection.** (Eurocurrency Rate Loans). Pursuant to Section 2.04 of the Agreement, please continue [\$] [€] [£] _____ of existing Eurocurrency Rate Loans, the final day of the current Interest Period of which is _____, 20__, as follows:

Amount	Requested Interest Period (Eurocurrency Rate Loans)
[\$] [€] [£] _____	_____ months

3. **Representations and Warranties; No Default.** The undersigned Designated Officer hereby certifies that [, except as described in a schedule attached hereto (which is subject to the approval of the Majority Banks),] the representations and warranties contained in Section 5 of the Credit Agreement (other than in Sections 5.06 and 5.09) are true and correct in all material respects, and are deemed made, on and as of the date of the [conversion] [continuation] requested hereby as though made on and as of that date, and no state of facts constituting a Default or an Event of Default has occurred and is continuing or will result from the proposed [conversion] [continuation].

AVERY DENNISON CORPORATION

By _____

Its _____

COMPLIANCE CERTIFICATE

Citicorp USA, Inc., as Administrative Agent

Reference is made to that certain Revolving Credit Agreement dated as of July 16, 2004 (as from time to time amended, extended, restated, modified or supplemented, the "Credit Agreement;" capitalized terms used herein shall have the meanings assigned to them in the Credit Agreement), among Avery Dennison Corporation (the "Borrower"), the Banks named therein (the "Banks"), Bank of America, N.A., as syndication agent, and Citicorp USA, Inc., as administrative agent (the "Administrative Agent").

I, _____, hereby certify that I am a Designated Officer of Borrower holding the office set forth below my signature and that:

1. Based on the duly certified financial statements delivered concurrently with this Certificate, as of the date thereof:

A. LEVERAGE RATIO (Section 7.07(a))

1.	Consolidated Debt:	\$	
2.	Consolidated EBITDA	\$	
a.	Consolidated Net Income:	\$	
b.	Consolidated Interest:	\$	
c.	Provision for income taxes:	\$	
d.	Depreciation and amortization expense:	\$	
e.	Total (Lines A.2.a + b + c + d):	\$	
4.	Leverage Ratio (Line 1 ÷ Line 2.e.):		_____ to 1

Maximum permitted Leverage Ratio: 3.50 to 1.

B. RATIO OF CONSOLIDATED EARNINGS BEFORE INTEREST AND TAXES TO CONSOLIDATED INTEREST (Section 7.07(b))

1.	Consolidated Earnings Before Interest and Taxes:	\$	
2.	Consolidated Interest:	\$	
3.	Ratio of Consolidated Earnings Before Interest and Taxes to Consolidated Interest (Line B1 ÷ Line B2):		_____ to 1

Required minimum: Ratio to be 3.50 to 1 or more.

2. The following constitutes a further explanation of the manner in which the foregoing data relate to the attached financial statements to the extent not readily apparent:

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3. I have reviewed the activities of Borrower and its Subsidiaries during the fiscal period covered by the attached financial statements to the extent necessary to permit me to deliver this Certificate.

4. Except with respect to the Defaults and Events of Default specified and explained as to their nature and status below, Borrower and its Subsidiaries have performed and observed each covenant and condition of the Loan Documents applicable to them during the fiscal period covered by the attached financial statements, and there exists no Default or Event of Default:

IN WITNESS WHEREOF, I have signed this Compliance Certificate on behalf of Avery Dennison Corporation on this _____ day of _____, 20__.

By _____

Name _____

Title _____

ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (this “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [Insert name of Assignor] (the “Assignor”) and [Insert name of Assignee] (the “Assignee”). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below, the interest in and to all of the Assignor’s rights and obligations under the Credit Agreement and any other documents or instruments delivered pursuant thereto that represents the amount and percentage interest identified below of all of the Assignor’s outstanding rights and obligations under the facility identified below (including, without limitation, to the extent permitted to be assigned under applicable law, all claims (including, without limitation, contract claims, tort claims, malpractice claims and all other claims at law or in equity, including claims under any law governing the purchase and sale of securities or governing indentures pursuant to which securities are issued), suits, causes of action and any other right of the Assignor against any other Person) (the “Assigned Interest”). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

- 1. Assignor: _____
- 2. Assignee: _____ [and is an Affiliate/Approved Fund of [identify Bank]¹]
- 3. Borrower: _____
- 4. Administrative Agent: _____, as the administrative agent under the Credit Agreement
- 5. Credit Agreement: Revolving Credit Agreement, dated as of July 16, 2004 (as from time to time amended, extended, restated, modified or supplemented), among Borrower, the Banks named therein, Bank of America, N.A., as Syndication Agent, and Citicorp USA, Inc., as Administrative Agent

¹ Select as applicable.

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6. Assigned Interest:

<u>Aggregate Amount of Commitment/Loans for all Banks*</u>	<u>Amount of Commitment/Loans Assigned*</u>	<u>Percentage Assigned of Commitment/Loans²</u>
\$ _____	\$ _____	_____ %

[7. Trade Date: _____³

Effective Date: _____, 20__ [TO BE INSERTED BY AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF THE RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR
[NAME OF ASSIGNOR]

By: _____

Title:

ASSIGNEE
[NAME OF ASSIGNEE]

By: _____

Title :

[Consented to:]⁴

EVERY DENNISON CORPORATION

By: _____

Title: _____

* Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

² Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Banks thereunder.

³ To be completed if the Assignor and the Assignee intend that the minimum assignment amount is to be determined as of the Trade Date.

⁴ To be added only when the consent of Borrower is required by the terms of the Credit Agreement.

Credit Agreement
Dated as of July 16, 2004
among Avery Dennison Corporation,
the Banks named therein, Bank of America, N.A., as Syndication Agent, and Citicorp USA, Inc.,
as Administrative Agent

STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2 Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Bank under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Bank thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Bank thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Bank, and (v) if it is a Foreign Bank, attached hereto is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, the Assignor or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Bank.

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1.3. Assignee's Address for Notices, etc. Attached hereto as Schedule 1 is all contact information, address, account and other administrative information relating to the Assignee.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned interest (including payments of principal, interest, fees and other amounts) to the Assignee whether such amounts have accrued prior to or on or after the Effective Date. The Assignor and the Assignee shall make all appropriate adjustments in payments by the Administrative Agent for periods prior to the Effective Date or with respect to the making of this assignment directly between themselves.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of California.

ADMINISTRATIVE DETAILS

(Assignee to list names of credit contacts, addresses, phone and facsimile numbers, electronic mail addresses and account and payment information)

D-5
Assignment and Assumption

EMPLOYMENT AGREEMENT

Philip M. Neal

EMPLOYMENT AGREEMENT

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EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT is entered into by and between Avery Dennison Corporation, a Delaware corporation (the "Company") and Philip M. Neal (the "Executive"), effective as of May 1, 2000.

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to enter into a new Employment Agreement with Executive to assure that the Company will have the continued dedication of the Executive. This Agreement contains the entire agreement between the parties with respect to the matters specified herein and supersedes all prior oral and written employment agreements, understandings and commitments between the Company and Executive except that the Option to Purchase Agreement between the Company and Executive dated February 22, 1993, relating to a painting located in Executive's office, shall remain in effect.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Certain Definitions

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

(b) The "Employment Period" shall mean the period commencing on the Effective Date and ending on the third anniversary of the Effective Date; provided, however, that commencing on the first day of the month next following the Effective Date and on the first day of each month thereafter (the most recent of such dates is hereinafter referred to as the "Renewal Date"), the Employment Period shall be automatically extended so as to terminate on the third anniversary of such Renewal Date (but not later than the date when the Executive attains age 65), unless the Company or Executive shall give notice to the other that the Employment Period shall not be further extended prior to any such Renewal Date.

2. Change of Control

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

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

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

(c) Consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (a “Business Combination”), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

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

3. Employment Period

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

4. Terms of Employment

(a) Position and Duties

(i) Executive is currently employed as Chairman and Chief Executive Officer of the Company. During the Employment Period, (A) the Executive's position (including titles), authority, duties and responsibilities shall be at least commensurate with the most significant of those held, exercised and assigned to the Executive as of the Effective Date, and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office or location less than 50 miles from such location.

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

(b) Compensation

(i) Base Salary

During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary") which shall be paid at a monthly rate at least equal to twelve times the highest monthly base salary paid or payable, including any base salary which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed no more than 12 months after the last salary increase awarded to the Executive prior to the Effective Date and thereafter at least annually. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase, and the term "Annual Base Salary" as utilized in this Agreement shall refer to Annual Base Salary as so increased; provided, however, that Executive's Annual Base Salary may be reduced prior to a Change of Control as part of any general, across the board salary reduction which applies in a comparable manner to other officers or senior executives of the Company, but not by more than ten percent (10%) (unless Executive agrees to accept a larger reduction) during any calendar year. As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus

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

(iii) Incentive, Savings and Retirement Plans

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

(iv) Welfare Benefit Plans

During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated companies. In no event shall such plans, practices, policies and programs provide the Executive after a Change of Control with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other peer executives of the Company and its affiliated companies.

(v) Expenses

During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, such reimbursement shall be made in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vi) Fringe Benefits

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

(vii) Office and Support Staff

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

(viii) Vacation

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

5. Termination of Employment

(a) Death or Disability

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

(b) Cause

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

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

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

For purposes of this provision, no act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a notice that the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) Good Reason

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

(i) without the express written consent of the Executive, the assignment to the Executive of any duties or any other action by the Company which results in a material diminution in the Executive's position (including titles), authority, duties or responsibilities from those contemplated by Section 4(a)(i) of this Agreement, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

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

(iii) the Company's requiring the Executive to be based at any office or location more than 50 miles from the location where the Executive was employed immediately preceding the Effective Date;

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

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

(d) Notice of Termination

Any termination during the Employment Period by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 12(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination

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

6. Obligations of the Company upon Termination

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

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

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

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

(B) the amount equal to the product of (1) three (or the number of years, including partial years, until the end of the Employment Period, if less) and (2) the Executive's highest combined Annual Base Salary and Annual Bonus during any of the last three full fiscal years prior to the Date of Termination; and

(C) an amount equal to the difference between (a) the aggregate benefit under the Company's qualified defined benefit retirement plans (collectively, the "Retirement Plan") and any excess or supplemental defined benefit retirement plans (including the Benefit Restoration Plan) in which the Executive participates (collectively, the "SRP") which the Executive would have accrued (whether or not vested) if the Executive's employment had continued for three years after the Date of Termination, but not after the date on which the Executive attains age 65, and (b) the actual vested benefit, if any, of the Executive under the Retirement Plan and the SRP, determined as of the Date of Termination (with the foregoing amounts to be computed on an actuarial present value basis, based on the assumption that the Executive's compensation in each of the three years following such termination would have been that required by Section 4(b)(i) and Section 4(b)(ii), and using the actuarial assumptions in effect for purposes of computing benefit entitlements under the Retirement Plan and the SRP at

the Date of Termination or, following a Change of Control, using actuarial assumptions no less favorable to the Executive than the most favorable assumptions which were in effect for such purposes at any time from the day before the Change of Control through the Date of Termination;

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

(iii) if the Date of Termination occurs after a Change of Control, the Company shall, at its sole expense as incurred (but in no event to exceed \$50,000), provide the Executive with outplacement services the scope and provider of which shall be selected by the Executive in the Executive's sole discretion;

(iv) the Executive shall be entitled to purchase at depreciated book value the automobile (if any) which the Company was providing for the use of such Executive, and to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, practice or policy or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits");

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

(vi) the Executive shall have the option to have assigned to him at no cost and with no apportionment of prepaid premiums (to the extent possible under the terms of the applicable policies) any assignable insurance policy owned by the Company which relates specifically to the Executive; provided that the Company shall have no obligation to pay off any loans against said insurance policy, and the Executive shall reimburse the Company for the cash value of such insurance policy (if any);

(vii) the Executive shall be entitled to receive payments of deferred cash incentive awards under the amended and restated Key Executive Long-Term Incentive Plan (“LTIP”) or any successor plan for performance cycles which commence while the Executive is employed with the Company equivalent to the payments which he would have received if he had remained employed with the Company for three years after the Date of Termination (but not later than age 65), or such other payments (if greater) as may be provided under the LTIP upon a Change of Control or otherwise; and

(viii) all stock options granted to Executive under the Company’s stock option plans shall become immediately vested on the Date of Termination.

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

(b) Death

If the Executive’s employment is terminated by reason of the Executive’s death during the Employment Period, this Agreement shall terminate without further obligations to the Executive’s legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive’s estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, after a Change of Control the term “Other Benefits” as utilized in this Section 6(b) shall include, without limitation, and the Executive’s estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, as were in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive’s estate and/or the Executive’s beneficiaries, as in effect on the date of the Executive’s death with respect to other peer executives of the Company and its affiliated companies and their beneficiaries.

(c) Disability

If the Executive’s employment is terminated by reason of the Executive’s Disability during the Employment Period in accordance with Section 5(a), this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, after a Change of Control the term “Other Benefits” as utilized in

this Section 6(c) shall include, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Company and its affiliated companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as were in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Company and its affiliated companies and their families.

(d) Cause; Other than for Good Reason

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

7. Non-exclusivity of Rights

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

8. Full Settlement; Offsets

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

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

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

9. Certain Additional Payments by the Company.

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

(b) Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the certified public accounting firm which serves as the Company's auditor immediately prior to the Change of Control (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company or the Executive. In the event that such Accounting Firm declines to act, the Company shall appoint another nationally recognized accounting firm (which is acceptable to the Executive) to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

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

- (i) give the Company any information reasonably requested by the Company relating to such claim,
- (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
- (iii) cooperate with the Company in good faith in order effectively to contest such claim, and
- (iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

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

10. Confidential Information

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

11. Successors

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

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

12. Miscellaneous

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this

Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

[to the last address
provided by the
Executive]

If to the Company:

Avery Dennison Corporation
150 North Orange Grove Boulevard
Pasadena, California 91103
Attention: General Counsel

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

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

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

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

13. Arbitration; Attorneys Fees

(a) The parties agree that any disputes, controversies or claims which arise out of or are related to this Agreement, Executive's employment or the termination of his employment, including, but not limited to, any claim relating to the purported validity, interpretation, enforceability or breach of this Agreement, and/or any other claim or controversy arising out of the relationship between the Executive and Company (or the nature of the relationship) or the continuation or termination of that relationship, including, but not limited to, claims that a termination was for Cause or for Good Reason, claims for breach of covenant, breach of an implied covenant of good faith and fair dealing, wrongful termination, breach of contract, or intentional infliction of emotional distress, defamation, breach of right of privacy, interference with advantageous or contractual relations, fraud, conspiracy or other tort or property claims of any kind, which are not settled by agreement between the parties, shall be settled by arbitration in accordance with the then-current Rules of Practice and Procedure for Employment Arbitration ("Rules") of the Judicial Arbitration and Mediation Services, Inc. ("JAMS").

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

(b) In consideration of the parties' agreement to submit to arbitration all disputes with regard to this Agreement and/or with regard to any alleged contract, or any other claim arising out of their conduct, the relationship existing hereunder or the continuation or termination of that relationship, and in further consideration of the anticipated expedition and the minimizing of expense of this arbitration remedy, the arbitration provisions of this Agreement shall provide the exclusive remedy, and each party expressly waives any right he or it may have to seek redress in any other forum. The arbitrator, and not any federal, state, or local court or agency, shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement, including but not limited to any claim that all or any part of this Agreement is void or voidable. The arbitration shall be final and binding upon the parties.

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

(c) Any claim which either party has against the other party that could be submitted for resolution pursuant to this Section must be presented in writing by the claiming party to the other party within one year of the date the claiming party knew or should have known of the facts giving rise to the claim, except that claims arising out of or related to the termination of the Executive's employment must be presented by him within one year of the Date of Termination. Unless the party against whom any claim is asserted waives the time limits set forth above, any claim not brought within the time periods specified shall be waived and forever barred, even if there is a federal or state statute of limitations which would have given more time to pursue the claim.

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

(e) Any decision and award or order of the arbitrator shall be final and binding upon the parties hereto and judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(f) Each of the above terms and conditions shall have separate validity, and the invalidity of any part thereof shall not affect the remaining parts.

(g) Any decision and award or order of the arbitrator shall be final and binding between the parties as to all claims which were or could have been raised in connection with the dispute to the full extent permitted by law. In all other cases the parties agree that the decision of the arbitrator shall be a condition precedent to the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by the employee in connection with the dispute, and that the decision and opinion of the arbitrator may be presented in any other forum on the merits of the dispute.

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

EVERY DENNISON CORPORATION

EXECUTIVE

By: /s/ ROBERT G. VAN SCHOONENBERG

/s/ PHILIP M. NEAL

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

Philip M. Neal

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT is entered into by and between Avery Dennison Corporation, a Delaware corporation (the "Company") and _____ (the "Executive"), effective as of _____.

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

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

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Certain Definitions

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

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

If the Executive's employment with the Company is terminated prior to the date on which a Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change of Control or (ii) otherwise arose in connection with or anticipation of a Change of Control, then for all purposes of this Agreement the "Employment Period" for such Executive shall be three years from the date of such termination of employment (but not later than the date when the Executive attains age 65).

2. Change of Control

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

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

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

(c) Consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (a “Business Combination”), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the

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

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

3. Employment Period

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

4. Terms of Employment

(a) Position and Duties

(i) During the Employment Period, the Executive’s position (including titles), authority, duties and responsibilities shall be at least commensurate with the most significant of those held, exercised and assigned to the Executive at any time during the 120-day period immediately preceding or on the Effective Date.

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

(b) Compensation

(i) Base Salary

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

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

(ii) Annual Bonus

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

(iii) Incentive, Savings and Retirement Plans

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

(iv) Welfare Benefit Plans

During the Employment Period, the Executive and/or the Executive’s family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated

companies. In no event shall such plans, practices, policies and programs provide the Executive after a Change of Control with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other peer executives of the Company and its affiliated companies.

(v) Expenses

During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, such reimbursement shall be made in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vi) Fringe Benefits

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

(vii) Office and Support Staff

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

(viii) Vacation

During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company and its affiliated companies in effect for the Executive from time to time. After a Change of Control, the Executive shall be entitled to vacation in accordance with the most favorable plans, policies, programs and

practices of the Company and its affiliated companies as in effect for the Executive at any time during the 120-day period immediately preceding the Change or Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

5. **Termination of Employment**

(a) **Death or Disability**

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

(b) **Cause**

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

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

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

For purposes of this provision, no act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a notice that the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) Good Reason

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

without the express written consent of the Executive, the assignment to the Executive of any duties or any other action by the Company which results in a material diminution in the Executive's position (including titles), authority, duties or responsibilities from those contemplated by Section 4(a)(i) of this Agreement, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

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

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

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

(d) Notice of Termination

Any termination during the Employment Period by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 12(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination

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

6. Obligations of the Company upon Termination

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

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

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

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

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

C. an amount equal to the difference between (a) the aggregate benefit under the Company's qualified defined benefit retirement plans (collectively, the "Retirement Plan") and any excess or supplemental defined benefit retirement plans (including the Benefit Restoration Plan) in which the Executive participates (collectively, the "SRP") which the Executive would have accrued (whether or not vested) if the Executive's employment had continued for one year (or three years if the Date of Termination occurs after a Change of

Control or the Executive's Employment Period is extended to three years under the last paragraph of Section 1(b)) after the Date of Termination, but not after the date on which the Executive attains age 65, and (b) the actual vested benefit, if any, of the Executive under the Retirement Plan and the SRP, determined as of the Date of Termination (with the foregoing amounts to be computed on an actuarial present value basis, based on the assumption that the Executive's compensation in the year (or, if applicable, each of the three years) following such termination would have been that required by Section 4(b)(i) and Section 4(b)(ii), and using the actuarial assumptions in effect for purposes of computing benefit entitlements under the Retirement Plan and the SRP at the Date of Termination or, following a Change of Control, using actuarial assumptions no less favorable to the Executive than the most favorable assumptions which were in effect for such purposes at any time from the day before the Change of Control through the Date of Termination;

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

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

(iv) the Executive shall be entitled to purchase at depreciated book value the automobile (if any) which the Company was providing for the use of such Executive, and to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, practice or policy or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"); and

(v) the Executive shall be treated, for purposes of the Company's Executive Deferred Compensation Plan, Executive Variable Deferred Compensation Plan, Executive Deferred Retirement Plan, Executive Variable Deferred Retirement Plan, and any successor or

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

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

(b) Death

If the Executive’s employment is terminated by reason of the Executive’s death during the Employment Period, this Agreement shall terminate without further obligations to the Executive’s legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive’s estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, after a Change of Control the term “Other Benefits” as utilized in this Section 6(b) shall include, without limitation, and the Executive’s estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, as were in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive’s estate and/or the Executive’s beneficiaries, as in effect on the date of the Executive’s death with respect to other peer executives of the Company and its affiliated companies and their beneficiaries.

(c) Disability

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

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

(d) Cause; Other than for Good Reason

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

7. Non-exclusivity of Rights

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

8. Full Settlement; Offsets

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

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

Not less frequently than annually (by December 31 of each year), the Executive shall account to the Company with respect to all benefits and earned income earned by the Executive which are required hereunder to be offset against payments or benefits received by the Executive from

the Company. If the Company has paid amounts in excess of those to which the Executive is entitled (after giving effect to the offsets provided above), the Executive shall reimburse the Company for such excess by December 31 of such year. The requirements imposed under this paragraph shall terminate on December 31 of the calendar year in which the Employment Period ends or, after a Change of Control, December 31 of the calendar year which includes the third anniversary of the Date of Termination.

9. Certain Additional Payments by the Company

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

(b) Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the certified public accounting firm which serves as the Company's auditor immediately prior to the Change of Control (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company or the Executive. In the event that such Accounting Firm declines to act, the Company shall appoint another nationally recognized accounting firm (which is acceptable to the Executive) to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than fifteen days

after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

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

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

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

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

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall defend, indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), a determination is made that the

Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. Confidential Information

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

11. Successors

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

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

12. Miscellaneous

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

[to the last address provided
by the Executive]

If to the Company:

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

Attention: General Counsel

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

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

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

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

13. Arbitration; Attorneys Fees

(a) The parties agree that any disputes, controversies or claims which arise out of or are related to this Agreement, Executive's employment or the termination of his employment, including, but not limited to, any claim relating to the purported validity, interpretation, enforceability or breach of this Agreement, and/or any other claim or controversy arising out of the relationship between the Executive and Company (or the nature of the relationship) or the continuation or termination of that relationship, including, but not limited to, claims that a termination was for Cause or for Good Reason, claims for breach of covenant, breach of an implied covenant of good faith and fair dealing, wrongful termination, breach of contract, or intentional infliction of emotional distress, defamation, breach of right of privacy, interference with advantageous or contractual relations, fraud, conspiracy or other tort or property claims of any kind, which are not settled by agreement between the parties, shall be settled by arbitration in accordance with the then-current Rules of Practice and Procedure for Employment Arbitration ("Rules") of the Judicial Arbitration and Mediation Services, Inc. ("JAMS").

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

(b) In consideration of the parties' agreement to submit to arbitration all disputes with regard to this Agreement and/or with regard to any alleged contract, or any other claim arising out of their conduct, the relationship existing hereunder or the continuation or termination of that relationship, and in further consideration of the anticipated expedition and the minimizing of expense of this arbitration remedy, the arbitration provisions of this Agreement shall provide the exclusive remedy, and each party expressly waives any right he or it may have to seek redress in any other forum. The arbitrator, and not any federal, state, or local court or agency, shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement, including but not limited to any claim that all or any part of this Agreement is void or voidable. The arbitration shall be final and binding upon the parties.

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

(c) Any claim which either party has against the other party that could be submitted for resolution pursuant to this Section must be presented in writing by the claiming party to the other party within one year of the date the claiming party knew or should have known of the facts giving rise to the claim, except that claims arising out of or related to the termination of the Executive's employment must be presented by him within one year of the Date of Termination. Unless the party against whom any claim is asserted waives the time limits set forth above, any claim not brought within the time periods specified shall be waived and forever barred, even if there is a federal or state statute of limitations which would have given more time to pursue the claim.

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

(e) Any decision and award or order of the arbitrator shall be final and binding upon the parties hereto and judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(f) Each of the above terms and conditions shall have separate validity, and the invalidity of any part thereof shall not affect the remaining parts.

(g) Any decision and award or order of the arbitrator shall be final and binding between the parties as to all claims which were or could have been raised in connection with the dispute to the full extent permitted by law. In all other cases the parties agree that the decision of the arbitrator shall be a condition precedent to the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by the employee in connection with the dispute, and that the decision and opinion of the arbitrator may be presented in any other forum on the merits of the dispute.

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

AVERY DENNISON CORPORATION

EXECUTIVE

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

	Three Months Ended		Six Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Earnings:				
Income from continuing operations before taxes	\$ 88.7	\$ 95.4	\$ 161.2	\$ 191.8
Add: Fixed charges from continuing operations*	20.7	21.4	42.3	42.9
Amortization of capitalized interest	.6	.5	1.2	1.1
Less: Capitalized interest	(.6)	(1.5)	(1.3)	(2.7)
	<u>\$ 109.4</u>	<u>\$ 115.8</u>	<u>\$ 203.4</u>	<u>\$ 233.1</u>
*Fixed charges from continuing operations:				
Interest expense	\$ 13.8	\$ 14.5	\$ 28.5	\$ 29.4
Capitalized interest	.6	1.5	1.3	2.7
Amortization of debt issuance costs	.3	.1	.5	.3
Interest portion of leases	6.0	5.3	12.0	10.5
	<u>\$ 20.7</u>	<u>\$ 21.4</u>	<u>\$ 42.3</u>	<u>\$ 42.9</u>
Ratio of Earnings to Fixed Charges	<u>5.3</u>	<u>5.4</u>	<u>4.8</u>	<u>5.4</u>

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

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

I, Philip M. Neal, certify that:

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

/s/ PHILIP M. NEAL

Philip M. Neal
Chairman and
Chief Executive Officer

August 4, 2004

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

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

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

/s/ DANIEL R. O'BRYANT

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

August 4, 2004

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

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

- (i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended June 26, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 4, 2004

By: /s/ PHILIP M. NEAL

Name: Philip M. Neal

Title: Chairman and Chief Executive Officer

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

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

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

- (i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended June 26, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 4, 2004

By: /s/ DANIEL R. O'BRYANT
Name: Daniel R. O'Bryant
Title: Senior Vice President, Finance and Chief Financial
Officer

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