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

**FORM 8-K**

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

April 25, 2006  
Date of Report

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**AVERY DENNISON CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction  
of incorporation)

**1 -7685**

(Commission  
File Number)

**95-1492269**

(IRS Employer  
Identification No.)

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

(Address of principal executive offices)

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**91103**

(Zip Code)

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

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## Section 2 — Financial Information

### Item 2.02 Results of Operations and Financial Condition.

Avery Dennison Corporation's news release dated April 25, 2006, regarding its preliminary, unaudited financial results for the first quarter of 2006, is attached hereto as Exhibit 99.1. This information is being furnished (not filed) under this Form 8-K. Additionally, the Company will discuss its preliminary financial results during a webcast and teleconference call today at 2:00 p.m. (EDT). To access the webcast and teleconference call, please go to the Company's Web site at <http://www.investors.averydennison.com>.

Avery Dennison Corporation's presentation dated April 25, 2006, regarding its preliminary financial review and analysis for the first quarter of 2006, is attached hereto as Exhibit 99.2. This information is being furnished (not filed) under this Form 8-K. Additionally, this information is available on the Company's Web site at <http://www.investors.averydennison.com>.

## Section 9 — Financial Statements and Exhibits

### Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

**99.1** On April 25, 2006, Avery Dennison Corporation issued a news release announcing its preliminary, unaudited financial results for the first quarter ending April 1, 2006, along with earnings guidance for the 2006 fiscal year.

**99.2** On April 25, 2006, Avery Dennison Corporation provided a presentation regarding its preliminary financial review and analysis for the first quarter of 2006.

#### SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Certain statements contained in this report on Form 8-K and Exhibit 99.1 and Exhibit 99.2 are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain risks and uncertainties. Actual results and trends may differ materially from historical or expected results depending on a variety of factors, including but not limited to fluctuations in cost and availability of raw materials; ability of the Company to achieve and sustain targeted cost reductions; foreign exchange rates; worldwide and local economic conditions; selling prices; impact of legal proceedings, including the U.S. Department of Justice ("DOJ") criminal investigation, as well as the European Commission ("EC"), Canadian Department of Justice, and Australian Competition and Consumer Commission investigations, into industry competitive practices and any related proceedings or lawsuits pertaining to these investigations or to the subject matter thereof (including purported class actions seeking treble damages for alleged unlawful competitive practices, and purported class actions related to alleged disclosure violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation, as well as a likely fine by the EC in respect of certain employee misconduct in Europe); impact of potential violations of the U.S. Foreign Corrupt Practices Act based on issues in China; impact of epidemiological events on the economy and the Company's customers and suppliers; successful integration of acquired companies, financial condition and inventory strategies of customers; development, introduction and acceptance of new products; fluctuations in demand affecting sales to customers; and other matters referred to in the Company's SEC filings.

The Company believes that the most significant risk factors that could affect its ability to achieve its stated financial expectations in the near-term include (1) potential adverse developments in legal proceedings and/or investigations regarding competitive activities, including possible fines, penalties, judgments or settlements; (2) the impact of economic conditions on underlying demand for the Company's products; (3) the impact of competitors' actions, including expansion in key markets, product offerings and pricing; (4) the degree to which higher raw material costs can be passed on to

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customers through selling price increases (and previously implemented selling price increases can be sustained), without a significant loss of volume; and (5) ability of the Company to achieve and sustain targeted cost reductions.

For a more detailed discussion of these and other factors, see Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition in the Company's Form 10-K, filed on March 15, 2006. The forward-looking statements included in this Form 8-K are made only as of the date of this Form 8-K, and the Company undertakes no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

The financial information presented in the news release, included as an Exhibit to this Current Report, represents preliminary, unaudited financial results.

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**SIGNATURES**

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

**AVERY DENNISON CORPORATION**

Date: April 25, 2006

By: /s/ Daniel R. O'Bryant

Name: Daniel R. O'Bryant

Title: Executive Vice President, Finance and Chief  
Financial Officer

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## EXHIBIT LIST

<u>Exhibit No.</u>	<u>Description</u>
99.1	News release dated April 25, 2006.
99.2	Presentation dated April 25, 2006

**AVERY DENNISON REPORTS FIRST QUARTER 2006  
RESULTS**

**Highlights from Continuing Operations**

- Net sales of \$1.34 billion, approximately even with first-quarter 2005
  - Ø Organic sales growth of 3%, a two point improvement over the preceding two quarters
- Net income of \$68.9 million and earnings per share of \$0.69, up 19%
  - Ø Earnings per share before restructuring and other charges of \$0.75, up 21%
- Company on track to achieve previously announced annualized savings of \$80 to \$90 million from restructuring efforts by year-end
- Price increases implemented to offset rising raw material and energy-related costs

PASADENA, Calif. — April 25, 2006 — Avery Dennison Corporation (NYSE:AVY) today reported first quarter diluted earnings per share of \$0.69, compared with \$0.57 per share for the first quarter of 2005. The increase in earnings reflected improvements in the Company's gross profit margin and operating expense ratio, as well as the benefit from an anticipated reduction in its tax rate relative to the same quarter last year.

In both years, first quarter results included restructuring and asset impairment charges and a net loss from discontinued operations; 2005 results also included a gain on sale of assets and transition costs related to a plant closure. The net effect of these items totaled approximately \$0.06 per share in 2006 and \$0.05 per share in the prior year. Excluding these items, first quarter earnings per share from continuing operations increased by 21 percent over the same quarter last year. (See Attachment A-3: "Preliminary Reconciliation of GAAP to Non-GAAP Measures".)

"We delivered outstanding profit improvement this quarter, and are on track to achieve the savings we targeted from our cost reduction actions," said Dean A. Scarborough, president and chief executive officer of Avery Dennison. "Our employees are doing a tremendous job improving the profitability of our businesses, while maintaining their focus on innovation and top-line growth.

"Underlying unit volume growth improved sequentially," added Scarborough. "We anticipate further improvement in unit volume growth through the balance of the year. In particular, with pricing actions largely behind us, we expect our service and product advantages to once again drive share gain domestically for our roll materials business.

"We remain focused on our key strategic growth platforms," said Scarborough. "We expect that emerging markets will continue to provide solid growth, and our expansion efforts in radio frequency identification (RFID), roll label materials for the beverage market, the Retail Information Services business, and numerous other Horizon growth initiatives will deliver on their potential."

**First Quarter Financial Highlights From Continuing Operations**

(For a more detailed presentation of the Company's results for the quarter, see *First Quarter 2006 Financial Review and Analysis*, posted at the Company's Web site at [www.investors.averydennison.com](http://www.investors.averydennison.com).)

- Net sales were approximately even with the prior year at \$1.34 billion. Organic sales growth, which excludes the impact of acquisitions, divestitures, and foreign currency translation, was approximately 3 percent.
- Core unit volume grew approximately 2 percent compared with the prior year, representing the second consecutive quarter of improvement in underlying growth. Changes in pricing and product mix contributed approximately one point to top line growth.
- Excluding restructuring and asset impairment charges, a gain on sale of assets and transition costs in 2005 related to a plant closure, operating margin improved by 100 basis points. (See Attachment A-3: "Preliminary Reconciliation of GAAP to Non-GAAP Measures".)
- The recognition of stock option expense added approximately \$7 million of pre-tax cost compared with the prior year, which reduced operating margin by 50 basis points and reduced after-tax earnings by \$0.04 per share. As previously announced, the Company expects pre-tax stock option expense for the full year of approximately \$19 million, or \$0.12 per share after-tax.
- The effective tax rate declined by 390 basis points to 22.0 percent, in line with the Company's expectations.

### **Segment Highlights**

(See Attachment A-4: "Preliminary Supplementary Information, Reconciliation of GAAP to Non-GAAP Supplementary Information" for adjusted operating margins included below.)

- Pressure-sensitive Materials reported sales of \$787 million, approximately even with the prior year. Organic sales growth for the segment was 3 percent. Operating margin before restructuring and asset impairment costs, as well as a gain on sale of assets in the prior year, declined 10 basis points to 8.9 percent.
- Office and Consumer Products sales declined 7 percent to \$240 million. Organic sales decline for the segment was 3 percent, including a 2 percent reduction in sales from exiting certain private label business. Operating margin before restructuring charges and 2005 transition costs associated with a plant closure increased 270 basis points to 15.3 percent.
- Retail Information Services sales grew 5 percent to \$165 million. Organic sales growth for the segment was 6 percent. Operating margin before restructuring and asset impairment charges increased 310 basis points to 6.8 percent.

### **Outlook for the Year**

Reflecting first quarter results, Avery Dennison adjusted its full year earnings guidance to a range of \$3.55 to \$3.80 per share before charges associated with ongoing restructuring efforts. The Company previously expected earnings to be in the range of \$3.45 to \$3.80 per share before restructuring charges.

Avery Dennison is a global leader in pressure-sensitive labeling materials, office products and retail tag, ticketing and branding systems. Based in Pasadena, Calif., Avery Dennison is a FORTUNE 500 company with 2005 sales of \$5.5 billion. Avery Dennison employs more than 22,000 individuals in 48 countries worldwide who apply the Company's technologies to develop, manufacture and market a wide range of products for both consumer and industrial markets. Products offered by Avery Dennison include Avery-brand office products and graphics imaging media, Fasson-brand self-adhesive materials, peel-and-stick postage stamps, reflective highway safety products, labels for a wide variety of automotive, industrial and durable goods applications, brand identification and supply chain management products for the retail and apparel industries, and specialty tapes and polymers.



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## Forward-Looking Statements

*Certain information presented in this news release may constitute “forward-looking” statements. These statements are subject to certain risks and uncertainties. Actual results and trends may differ materially from historical or expected results depending on a variety of factors, including but not limited to fluctuations in cost and availability of raw materials; ability of the Company to achieve and sustain targeted cost reductions; foreign exchange rates; worldwide and local economic conditions; selling prices; impact of legal proceedings, including the U.S. Department of Justice (“DOJ”) criminal investigation, as well as the European Commission (“EC”), Canadian Department of Justice, and Australian Competition and Consumer Commission investigations, into industry competitive practices and any related proceedings or lawsuits pertaining to these investigations or to the subject matter thereof (including purported class actions seeking treble damages for alleged unlawful competitive practices, and purported class actions related to alleged disclosure violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation, as well as a likely fine by the EC in respect of certain employee misconduct in Europe); impact of potential violations of the U.S. Foreign Corrupt Practices Act based on issues in China; impact of epidemiological events on the economy and the Company’s customers and suppliers; successful integration of acquired companies, financial condition and inventory strategies of customers; development, introduction and acceptance of new products; fluctuations in demand affecting sales to customers; and other matters referred to in the Company’s SEC filings.*

*The Company believes that the most significant risk factors that could affect its ability to achieve its stated financial expectations in the near-term include (1) potential adverse developments in legal proceedings and/or investigations regarding competitive activities, including possible fines, penalties, judgments or settlements; (2) the impact of economic conditions on underlying demand for the Company’s products; (3) the impact of competitors’ actions, including expansion in key markets, product offerings and pricing; (4) the degree to which higher raw material costs can be passed on to customers through selling price increases (and previously implemented selling price increases can be sustained), without a significant loss of volume; and (5) the ability of the Company to achieve and sustain targeted cost reductions.*

*The financial information presented in this news release represents preliminary, unaudited financial results.*

**For more information and to listen to a live broadcast or an audio replay of the 1st Quarter conference call with analysts, visit the Avery Dennison Web site at [www.investors.averydennison.com](http://www.investors.averydennison.com)**

**AVERY DENNISON**  
**PRELIMINARY CONSOLIDATED STATEMENT OF INCOME**  
(In millions, except per share amounts)

	(UNAUDITED)	
	Three Months Ended	
	Apr. 01, 2006	Apr. 02, 2005
Net sales	\$ 1,337.2	\$ 1,342.8
Cost of products sold	982.0	990.9
Gross profit	355.2	351.9
Marketing, general & administrative expense	244.8	254.4
Interest expense	14.5	14.5
Other expense, net (1)	7.6	3.3
Income from continuing operations before taxes	88.3	79.7
Taxes on income	19.4	20.6
Income from continuing operations	68.9	59.1
Loss from discontinued operations, net of taxes	(0.2)	(1.4)
<b>Net Income</b>	<b>\$ 68.7</b>	<b>\$ 57.7</b>
<b>Per share amounts:</b>		
Income (Loss) per common share, assuming dilution		
Continuing operations	\$ 0.69	\$ 0.58
Discontinued operations	—	(0.01)
Net Income	\$ 0.69	\$ 0.57
Average common shares outstanding, assuming dilution	100.1	100.7
Common shares outstanding at period end	99.8	100.2

Certain prior year amounts have been reclassified to conform with the 2006 financial statement presentation.

(1) Other expense for the first quarter of 2006 includes \$7.2 of restructuring costs and asset impairment charges and \$.4 for legal accrual related to a patent lawsuit.

Other expense, net, for the first quarter of 2005 includes \$6.7 of restructuring costs and asset impairment charges, partially offset by gain on sale of assets of (\$3.4).

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**Reconciliation of Non-GAAP Financial Measures in Accordance with SEC Regulation G**

Avery Dennison reports financial results in accordance with U.S. GAAP, and herein provides some non-GAAP measures. These non-GAAP measures are not in accordance with, nor are they a substitute for, GAAP measures. These non-GAAP measures are intended to supplement the Company's presentation of its financial results that are prepared in accordance with GAAP.

Avery Dennison uses the non-GAAP measures presented to evaluate and manage the Company's operations internally. Avery Dennison is also providing this information to assist investors in performing additional financial analysis that is consistent with financial models developed by research analysts who follow the Company.

The reconciliation set forth below is provided in accordance with Regulations G and S-K and reconciles the non-GAAP financial measures with the most directly comparable GAAP financial measures.

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**AVERY DENNISON**  
**PRELIMINARY RECONCILIATION OF GAAP TO NON-GAAP MEASURES**  
(In millions, except per share amounts)

	(UNAUDITED)	
	Three Months Ended	
	Apr. 01, 2006	Apr. 02, 2005
<b>Reconciliation of GAAP to Non-GAAP Operating Margin:</b>		
Net sales	\$ 1,337.2	\$ 1,342.8
Income from continuing operations before taxes	\$ 88.3	\$ 79.7
<b>GAAP Operating Margin</b>	<b>6.6%</b>	<b>5.9%</b>
Income from continuing operations before taxes	\$ 88.3	\$ 79.7
Non-GAAP adjustments:		
Restructuring and transition costs (1)	5.4	4.8
Asset impairment charges	1.8	2.7
Other (2)	0.4	(3.4)
Interest expense	14.5	14.5
Adjusted non-GAAP operating income before taxes and interest expense	\$ 110.4	\$ 98.3
<b>Adjusted Non-GAAP Operating Margin</b>	<b>8.3%</b>	<b>7.3%</b>
<b>Reconciliation of GAAP to Non-GAAP Net Income:</b>		
As reported net income	\$ 68.7	\$ 57.7
Non-GAAP adjustments, net of taxes:		
Restructuring and transition costs	4.2	3.6
Asset impairment charges	1.4	2.0
Other	0.3	(2.5)
Loss from discontinued operations	0.2	1.4
<b>Adjusted Non-GAAP Net Income</b>	<b>\$ 74.8</b>	<b>\$ 62.2</b>
<b>Reconciliation of GAAP to Non-GAAP Earnings Per Share:</b>		
As reported income (loss) per common share, assuming dilution	\$ 0.69	\$ 0.57
Non-GAAP adjustments per share, net of taxes:		
Restructuring and transition costs	0.04	0.04
Asset impairment charges	0.02	0.02
Other	—	(0.02)
Loss from discontinued operations	—	0.01
<b>Adjusted Non-GAAP income per common share, assuming dilution</b>	<b>\$ 0.75</b>	<b>\$ 0.62</b>
Average common shares outstanding, assuming dilution	100.1	100.7

Certain prior year amounts have been reclassified to conform with the 2006 financial statement presentation.

- (1) 2006 includes restructuring costs of \$5.4.  
2005 includes restructuring and transition costs of \$4 and \$.8, respectively, related to a plant closure.
- (2) 2006 includes legal accrual related to a patent lawsuit of \$.4.  
2005 includes gain on sale of assets of (\$3.4).

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**AVERY DENNISON**  
**PRELIMINARY SUPPLEMENTARY INFORMATION**  
(In millions)

	(UNAUDITED)					
	NET SALES		First Quarter Ended		OPERATING MARGINS	
	2006	2005	2006 (1)	2005 (2)	2006	2005
Pressure-sensitive Materials	\$ 787.2	\$ 785.4	\$ 65.9	\$ 71.3	8.4%	9.1%
Office and Consumer Products	239.9	258.7	35.8	27.7	14.9%	10.7%
Retail Information Services	165.3	157.4	9.0	5.8	5.4%	3.7%
Other specialty converting businesses	144.8	141.3	4.8	3.7	3.3%	2.6%
Corporate Expense	N/A	N/A	(12.7)	(14.3)	N/A	N/A
Interest Expense	N/A	N/A	(14.5)	(14.5)	N/A	N/A
<b>TOTAL FROM CONTINUING OPERATIONS</b>	<b>\$1,337.2</b>	<b>\$1,342.8</b>	<b>\$ 88.3</b>	<b>\$ 79.7</b>	<b>6.6%</b>	<b>5.9%</b>

- (1) Operating income for the first quarter of 2006 includes \$7.2 of restructuring costs and asset impairment charges and \$4 for legal accrual related to a patent lawsuit, of which the Pressure-sensitive Materials segment recorded \$4, the Office and Consumer Products segment recorded \$8, the Retail Information Services segment recorded \$2.3, and Corporate recorded \$5.
- (2) Operating income for the first quarter of 2005 includes \$7.5 of restructuring and transition costs and asset impairment charges, partially offset by gain on sale of assets of (\$3.4), of which the Pressure-sensitive Materials segment recorded (\$7) and the Office and Consumer Products segment recorded \$4.8.

Certain prior year amounts have been reclassified to conform with the 2006 financial statement presentation.

**RECONCILIATION OF GAAP TO NON-GAAP SUPPLEMENTARY INFORMATION**

	First Quarter Ended			
	OPERATING INCOME		OPERATING MARGINS	
	2006	2005	2006	2005
<b>Pressure-sensitive Materials</b>				
<b>Operating income, as reported</b>	<b>\$ 65.9</b>	<b>\$ 71.3</b>	<b>8.4%</b>	<b>9.1%</b>
Non-GAAP adjustments:				
Legal accrual related to a patent lawsuit	0.4	—	0.1%	—
Restructuring costs	2.6	—	0.3%	—
Asset impairment charges	1.0	2.7	0.1%	0.3%
Gain on sale of assets	—	(3.4)	—	(0.4%)
<b>Adjusted non-GAAP operating income</b>	<b>\$ 69.9</b>	<b>\$ 70.6</b>	<b>8.9%</b>	<b>9.0%</b>
<b>Office and Consumer Products</b>				
<b>Operating income, as reported</b>	<b>\$ 35.8</b>	<b>\$ 27.7</b>	<b>14.9%</b>	<b>10.7%</b>
Non-GAAP adjustments:				
Restructuring and transition costs (1)	0.8	4.8	0.4%	1.9%
<b>Adjusted non-GAAP operating income</b>	<b>\$ 36.6</b>	<b>\$ 32.5</b>	<b>15.3%</b>	<b>12.6%</b>
<b>Retail Information Services</b>				
<b>Operating income, as reported</b>	<b>\$ 9.0</b>	<b>\$ 5.8</b>	<b>5.4%</b>	<b>3.7%</b>
Non-GAAP adjustments:				
Restructuring costs	2.0	—	1.2%	—
Asset impairment charges	0.3	—	0.2%	—
<b>Adjusted non-GAAP operating income</b>	<b>\$ 11.3</b>	<b>\$ 5.8</b>	<b>6.8%</b>	<b>3.7%</b>

- (1) For 2006, amount includes restructuring costs of \$8.

For 2005, amount includes restructuring and transition costs of \$4 and \$8, respectively, related to a plant closure.

**AVERY DENNISON**  
**PRELIMINARY CONDENSED CONSOLIDATED BALANCE SHEET**  
(In millions)

	(UNAUDITED)	
	Apr. 01, 2006	Apr. 02, 2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 39.1	\$ 53.0
Trade accounts receivable, net	836.7	830.8
Inventories, net	460.5	472.9
Other current assets	169.8	145.7
Total current assets	1,506.1	1,502.4
Property, plant and equipment, net	1,280.9	1,339.8
Goodwill	676.6	693.1
Intangibles resulting from business acquisitions, net	96.8	110.9
Other assets	582.1	650.0
	<u>\$ 4,142.5</u>	<u>\$ 4,296.2</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 376.4	\$ 231.9
Accounts payable	606.2	599.6
Other current liabilities	454.1	471.5
Total current liabilities	1,436.7	1,303.0
Long-term debt	720.8	994.7
Other long-term liabilities	420.5	461.0
Shareholders' equity:		
Common stock	124.1	124.1
Capital in excess of par value	772.7	788.8
Retained earnings	1,971.2	1,903.4
Accumulated other comprehensive loss	(80.6)	(36.4)
Cost of unallocated ESOP shares	(7.7)	(9.7)
Employee stock benefit trusts	(577.0)	(635.1)
Treasury stock at cost	(638.2)	(597.6)
Total shareholders' equity	1,564.5	1,537.5
	<u>\$ 4,142.5</u>	<u>\$ 4,296.2</u>

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**AVERY DENNISON**  
**PRELIMINARY CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(In millions)

	(UNAUDITED)	
	Three Months Ended	
	Apr. 01, 2006	Apr. 02, 2005
<b>Operating Activities:</b>		
Net income	\$ 68.7	\$ 57.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	39.0	38.2
Amortization	10.7	11.6
Deferred taxes	0.1	(0.6)
Asset impairment and net (gain) loss on sale of assets	1.2	0.3
Other non-cash items, net	3.6	(4.5)
	<u>123.3</u>	<u>102.7</u>
Changes in assets and liabilities	(101.6)	(105.4)
Net cash provided by (used in) operating activities	<u>21.7</u>	<u>(2.7)</u>
<b>Investing Activities:</b>		
Purchase of property, plant and equipment	(51.5)	(43.9)
Purchase of software and other deferred charges	(8.8)	(4.9)
Proceeds from sale of assets	5.2	5.2
Other	(1.0)	5.8
Net cash used in investing activities	<u>(56.1)</u>	<u>(37.8)</u>
<b>Financing Activities:</b>		
Net increase in borrowings (maturities of 90 days or less)	8.5	103.6
Additional borrowings (maturities longer than 90 days)	—	0.3
Payments of debt (maturities longer than 90 days)	(1.1)	(60.2)
Dividends paid	(42.8)	(41.9)
Proceeds from exercise of stock options, net	5.8	2.7
Other	4.0	4.0
Net cash (used in) provided by financing activities	<u>(25.6)</u>	<u>8.5</u>
Effect of foreign currency translation on cash balances	0.6	0.2
Decrease in cash and cash equivalents	<u>(59.4)</u>	<u>(31.8)</u>
Cash and cash equivalents, beginning of period	98.5	84.8
Cash and cash equivalents, end of period	<u>\$ 39.1</u>	<u>\$ 53.0</u>

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# **First Quarter 2006 Financial Review and Analysis**

**(Unaudited)**

**April 25, 2006**





## Forward-Looking Statements

Certain information presented in this document may constitute "forward-looking" statements. These statements are subject to certain risks and uncertainties. Actual results and trends may differ materially from historical or expected results depending on a variety of factors, including but not limited to fluctuations in cost and availability of raw materials; ability of the Company to achieve and sustain targeted cost reductions; foreign exchange rates; worldwide and local economic conditions; selling prices; impact of legal proceedings, including the U.S. Department of Justice ("DOJ") criminal investigation, as well as the European Commission ("EC"), Canadian Department of Justice, and Australian Competition and Consumer Commission investigations, into industry competitive practices and any related proceedings or lawsuits pertaining to these investigations or to the subject matter thereof (including purported class actions seeking treble damages for alleged unlawful competitive practices, and purported class actions related to alleged disclosure violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation, as well as a likely fine by the EC in respect of certain employee misconduct in Europe); impact of potential violations of the U.S. Foreign Corrupt Practices Act based on issues in China; impact of epidemiological events on the economy and the Company's customers and suppliers; successful integration of acquired companies, financial condition and inventory strategies of customers; development, introduction and acceptance of new products; fluctuations in demand affecting sales to customers; and other matters referred to in the Company's SEC filings.

The Company believes that the most significant risk factors that could affect its ability to achieve its stated financial expectations in the near-term include (1) potential adverse developments in legal proceedings and/or investigations regarding competitive activities, including possible fines, penalties, judgments or settlements; (2) the impact of economic conditions on underlying demand for the Company's products; (3) the impact of competitors' actions, including expansion in key markets, product offerings and pricing; (4) the degree to which higher raw material costs can be passed on to customers through selling price increases (and previously implemented selling price increases can be sustained), without a significant loss of volume; and (5) the ability of the Company to achieve and sustain targeted cost reductions.

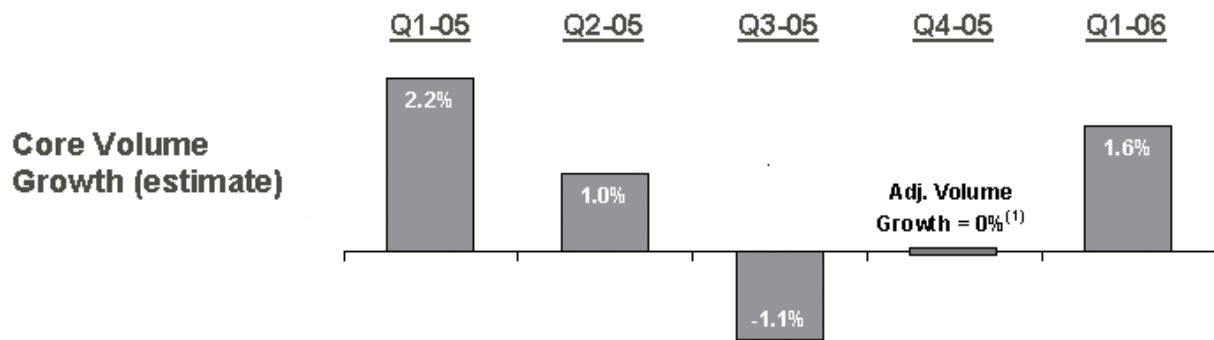
The financial information presented in this document represents preliminary, unaudited financial results.

**Use of Non-GAAP Financial Measures**

This presentation contains certain non-GAAP measures as defined by SEC rules. As required by these rules, we have provided a reconciliation of non-GAAP measures to the most directly comparable GAAP measures, which have been included with the financial statements accompanying the earnings news release for the quarter. The information in this document has been furnished (not filed) under Form 8-K with the SEC and is posted at the Investors section of our Web site. (See *Attachments A-3 and A-4 to the news release financial statements.*)

- While currency translation drove a modest decline in reported sales, the combination of higher volume, as well as improvements in gross profit margin, operating expense ratio, and the tax rate, delivered a 19% increase in GAAP E.P.S. (continuing operations), or 21% increase before restructuring charges and other items
- Unit volume before product line divestitures and exited private label business grew roughly 2 points faster than Q4 (adjusted for prior year comparison issues in the preceding quarter)
- The year-on-year volume decline for the North American roll materials business showed sequential improvement, notwithstanding our implementation of another round of price increases during the quarter to offset ongoing raw material and energy-related inflation
- The difference between Q1 results and the Company's medium-term organic sales growth target of 4% - 6% is entirely explained by the price-related share loss in North America
  - As we reach the anniversary of this share loss and decision to exit certain private label business, we expect to be in line with our target for top-line growth
  - Further, with pricing actions largely behind us, we expect our service and product advantages to once again drive share gain domestically for our roll materials business
  - In light of these considerations, we anticipate 2 to 3 points of improvement in underlying unit volume over the next few quarters
- Compared to a year ago, selling prices were up approx. \$12 mil., vs. material cost and energy-related increases of approx. \$25 mil.
- On track with implementation of previously announced restructuring actions; expect these actions to yield annualized savings of \$80 to \$90 mil. when completed

## Sales Trend (continuing operations)



Acquisitions, Net of Divestitures	0.4%	0.6%	0.3%	0.0%	(0.3)%
Price/Mix	+ 2%	+ 2%	+ 2%	+ 1%	+ 1%
Currency	2.9%	3.2%	0.8%	(0.6)%	(2.7)%
Reported Growth	8.0%	7.1%	2.0%	(4.5)%	(0.4)%
Adj. Organic Growth <sup>(2)</sup>	5.3%	3.5%	0.9%	0.7%	3.0%

<sup>(1)</sup> Actual unit volumes down 4.6% vs. prior year, due to extra week of sales, pre-buy activities, and timing of holidays; graph demonstrates trend adjusted for these year-on-year comparison issues.

<sup>(2)</sup> Sales growth excluding impact of foreign currency translation, acquisition and divestitures, and year-on-year comparison issues (e.g., extra week of sales, pre-buy activities, decision to exit certain private label business).



## Margin Analysis (continuing operations)

	<u>Q1-06</u>	<u>Q1-05</u>	<u>Q4-05</u>
Gross Profit Margin (Total Company)	26.6%	26.2%	27.8%
<u>Operating Margin*</u> :			
Pressure-Sensitive Materials	8.9%	9.0%	8.6%
Office and Consumer Products	15.3%	12.6%	22.4%
Retail Information Services	6.8%	3.7%	8.0%
Other Specialty Converting	3.3%	2.6%	1.7%
Total Company	8.3%	7.3%	9.4%
<i>Impact of RFID on reported margin:</i>			
Total Company Excluding RFID	8.9%	7.8%	10.1%

\* Earnings before interest and taxes, excluding restructuring and asset impairment charges and other items detailed in Attachments A-3 and A-4 of financial tables.



## Key Factors Impacting Margin

- Gross profit margin increased 40 basis points compared with prior year to 26.6%
  - Improvement from productivity gains, as well as inventory write-offs in prior period (over 200 b.p. combined), were offset by:
    - » Material cost and energy-related inflation in excess of associated selling price increases (est. 120 b.p. impact)
    - » Margin compression effect associated with selling price pass-through of raw material inflation
  - Sequential decline (120 b.p.) reflects unfavorable segment mix (80 b.p.), higher energy costs (20 b.p.), and reduced fixed cost leverage
- Marketing, general and administrative (MG&A) expense ratio improved 60 basis points compared with prior year to 18.3%
  - Absolute MG&A spending decreased by \$10 mil. vs. prior year
    - » Currency translation accounts for half of decline
    - » Balance reflects productivity improvements and tight spending controls which more than offset \$13 mil.+ of higher cost related to stock options and other employee-related expenses, as well as increased IT spending
  - Sequentially, MG&A expense ratio was unchanged



## Stock Option Expense

	Q1-06			Estimated FY 2006	
	Pre-Tax Expense (\$ mil.)	<i>Margin Impact</i>	E.P.S.	Pre-Tax Expense (\$ mil.)	E.P.S.
Corporate	3.0	<i>n/a</i>		7.6	
Pressure-Sensitive Materials	1.6	<i>~ 20 b.p.</i>		4.9	
Office & Consumer Products	0.6	<i>~ 25 b.p.</i>		2.5	
Retail Information Services	0.7	<i>~ 40 b.p.</i>		2.0	
Other Specialty Converting	0.9	<i>~ 60 b.p.</i>		2.0	
<b>Total</b>	<b>6.8</b>	<b><i>~ 50 b.p.</i></b>	<b>\$0.04</b>	<b>19.0</b>	<b>\$0.12</b>

## Raw Material Update

- Paper-based commodities represent largest category of raw materials, representing approx. 45-50% of total spend
- Large share of raw material purchases tied to oil based commodities:
  - Plastic films and resins – polypropylene, polyethylene, polyester, and vinyls, among others – represent approx. 25% of total spend
  - Chemicals represent approx. 15% of total spend
- Anticipate raw material inflation of approximately 2% in 2006 (\$50 to \$60 million), slightly higher than previous forecast
  - Assumes moderation of current inflation impacting oil-based commodities
- Recently implemented and anticipated price increases are expected to cover higher costs



## Restructuring Summary (Continuing Operations)

TOTAL      Pressure Sensitive Materials      Office & Consumer Products      Retail Information Services      Other Specialty Converting      Corporate/ Other

(\$ in millions, except as noted)

<b>Headcount reductions (approx. # of FTEs)</b>	<b>800</b>	<b>335</b>	<b>145</b>	<b>190</b>	<b>45</b>	<b>85</b>
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<b>Est. Annualized Savings from Actions Taken</b>	<b>70 - 78</b>	<b>19 - 22</b>	<b>5 - 6</b>	<b>7 - 10</b>	<b>3 - 5</b>	<b>~ 35</b>
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2006 estimated transition costs	15 - 20	9 - 12	5 - 6	1 - 2		
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Estimated 2006 Realized Savings	50 - 60					
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Estimated 2006 Savings, Net Of Transition Costs	35 - 40					
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<b>Total Annualized Savings When Complete</b>	<b>80 - 90</b>					
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### Q4-05/Q1-06 Restructuring Charges\*

Severance	31.8	17.7	2.4	7.6	1.2	2.9
Asset impairment	15.0	3.2	3.7	1.8	1.2	5.1
Other	0.7	0.3		0.4		
Total, Restructuring Charges	47.5	21.2	6.1	9.8	2.4	8.0
Q4-05/Q1-06 Divestiture-Related Charges	15.2		12.3		2.9	
Total	62.7	21.2	18.4	9.8	5.3	8.0

\* Anticipate an additional \$5 to \$10 mil. in charges to be incurred during 2006 to achieve targeted savings, subject to upward revision as plans are finalized.  
Approx. 70% of total costs represent cash charges.



## Q1-2006 Segment Overview

### **PRESSURE-SENSITIVE MATERIALS**

- **Reported sales of \$787 mil., approximately even with prior year**
  - Unit volume growth and positive contribution from price and mix were offset by a negative impact from currency translation, primarily the Euro
  - Organic sales growth of approx. 3% (vs. adj. 1% in Q4-05)
- **Change in sales for roll materials business by region, *adjusted for the effect of currency translation*:**
  - Low single-digit decline in North America, where benefit of price increases was more than offset by a decline in volume. Volume decline was primarily driven by the variable information segment within the region, as the higher margin films segment continued to deliver solid growth
  - Mid single-digit growth in Europe
  - Double-digit growth in Asia
  - Mid single-digit decline in Latin America
- **Graphics & Reflective business grew at high single digit rate before currency**
- **Excluding restructuring and asset impairment charges, as well as gain on sale of assets in the prior year, operating margin declined 10 basis points to 8.9%**
  - Benefits from restructuring and other productivity efforts were more than offset by higher raw material and energy-related costs in excess of associated selling price increases, transition costs related to restructuring actions, and the introduction of stock option expense



## Q1-2006 Segment Overview (continued)

### **OFFICE AND CONSUMER PRODUCTS**

- **Reported sales of \$240 mil., down approx. 7% compared with prior year**
  - Sales decline due in roughly equal measure to the negative impact from currency translation, the divestiture of filing product lines in Europe, and the decision to exit certain private label business in the U.S.
  - Adjusted organic sales decline of approx. 1%
- **Excluding restructuring charges and 2005 transition costs associated with a plant closure, operating margin increased by 270 basis points to 15.3%.**
  - Improvement reflected productivity improvement efforts implemented over the past year, as well as an increase in reserves related to a new product launch that negatively impacted the prior year
  - Operating margin in Q1-06 quarter was negatively impacted by the introduction of stock option expense and transition costs associated with European product line divestitures

## Q1-2006 Segment Overview (continued)

### **RETAIL INFORMATION SERVICES**

- **Reported sales of \$165 mil., up 5% compared with prior year**
  - Increase primarily due to core unit volume growth
  - Modest benefit from small acquisition last year was more than offset by currency translation
  - Organic sales growth of approx. 6%
- **Excluding restructuring and asset impairment charges, operating margin increased by 310 basis points to 6.8%**
  - Improvement reflects productivity initiatives, including movement of manufacturing from higher cost Hong Kong facility into lower cost operations in mainland China, as well as benefits from restructuring and spending controls; 2006 results were negatively impacted by stock option expense

### **OTHER SPECIALTY CONVERTING**

- **Reported sales of \$145 mil., up approx. 3% compared with prior year**
  - Organic sales growth of approx. 5%
- **Operating margin increased by 70 basis points to 3.3%, reflecting restructuring savings and other productivity improvement efforts which more than offset higher energy-related costs and stock option expense**



## First Quarter Balance Sheet and Cash Flow

Millions, except as noted	2006	2005
Cash flow from operations <sup>(1)</sup>	\$ 21.7	\$ (2.7)
Payment for capital expenditures	\$ 51.5	\$ 43.9
Payment for software	\$ 8.8	\$ 4.9
Free Cash Flow <sup>(2)</sup>	\$(38.6)	\$(51.5)
Dividends	\$ 42.8	\$ 41.9
Total debt to total capital	41.2%	44.4%

<sup>(1)</sup> Impact of extra week in Q4-04 shifted an estimated \$70 mil. of cash out of 2005 into 2004; Q1-06 cash flow from operations was negatively impacted by a \$25 mil. contribution to U.S. pension plan

<sup>(2)</sup> Cash flow from operations less payment for capital expenditures and software



## 2006 Earnings Guidance: Key Considerations

- **Factors contributing to earnings growth:**
  - Improvement in underlying growth rate... projecting reported revenue growth (continuing operations) of 2-3%
    - » Volume up 2-3%, net of 2 points loss from product line divestitures and other offsets
    - » Price/mix expected to add 1%
    - » Currency translation at current rates will reduce growth by 1%
  - Estimated \$35 to \$40 mil. in pre-tax restructuring savings, net of transition costs
  - Reduction in pre-tax loss from development of RFID business of \$2 - \$7 mil.
- **Offsetting factors:**
  - After-tax stock option expense of \$0.12 per share
  - Incremental after-tax pension expense (related to discount rate) of \$0.04 per share
  - Reinvestment of portion of restructuring savings (e.g., incremental marketing spend of \$10 to \$15 mil. to support growth of Printable Media products)
  - Higher effective tax rate

## 2006 Earnings Guidance

- Key Assumptions:
  - Reported revenue up 2% to 3%, including -1% impact from currency
  - Raw material inflation of approximately 2% in 2006 (\$50 to \$60 million)
  - Operating margin (incl. RFID and stock option expense) of 9% to 10%
  - Interest expense of \$55 to \$60 million
  - Tax rate in the range of 20% to 23%
- Earnings per share before restructuring charges: \$3.55 to \$3.80 (updated April 25, 2006)
  - Current estimate for full year restructuring charges: \$0.09 to \$0.13 per share (subject to upward revision as planning continues)

