# 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 24, 2007**
**Date of Report**

# AVERY DENNISON CORPORATION

(Exact name of registrant as specified in its charter)

| **Delaware** | **1 -7685** | **95-1492269** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| **150 North Orange Grove Boulevard Pasadena, California** | **91103** |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

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

(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):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o 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 24, 2007, regarding its preliminary, unaudited financial results for the first quarter of 2007, 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 24, 2007, regarding its preliminary financial review and analysis for the first quarter of 2007, 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 24, 2007, Avery Dennison Corporation issued a news release announcing its preliminary, unaudited financial results for the first quarter ending March 31, 2007, along with earnings guidance for the 2007 fiscal year.

99.2 On April 24, 2007, Avery Dennison Corporation provided a presentation regarding its preliminary financial review and analysis for the first quarter ending March 31, 2007, along with earnings guidance for the 2007 fiscal year.

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. Such forward-looking statements and financial or other business targets 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 currency exchange rates; worldwide and local economic conditions; impact of competitive products and pricing; selling prices; impact of legal proceedings, including the Canadian Department of Justice and the 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 or of the concluded investigations by the U.S. Department of Justice ("DOJ") and the European Commission (including purported class actions seeking treble damages for alleged unlawful competitive practices, and a purported class action related to alleged disclosure and fiduciary duty violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation), as well as the 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 acquisitions; financial condition and inventory strategies of customers; timely development and market acceptance of new products; fluctuations in demand affecting sales to customers; and other matters referred to in the Company's SEC filings.

Forward looking statements pertaining to Avery Dennison's pending acquisition and integration of Paxar include statements relating to expected synergies, cost savings, timing, and execution of integration plans. Risks, uncertainties and assumptions pertaining to the transaction include the possibility that the market for and development of certain products and services may not proceed as expected; that the Paxar acquisition does not close or that the companies may be required to modify aspects of the transaction to achieve regulatory approval; that prior to the closing of the proposed acquisition, the businesses of the companies suffer due to uncertainty or diversion of management attention; that the parties are unable to successfully execute their integration strategies, or achieve planned synergies and cost reductions, in the time and at the cost anticipated or at all; acquisition of unknown liabilities; effects of increased leverage; and other matters that are referred to in the parties' 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) the impact of economic conditions on underlying demand for the Company's products; (2) the impact of competitors' actions, including expansion in key markets, product offerings and pricing; (3) the degree to which higher raw material and energy-related 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; (4) potential adverse developments in legal proceedings and/or investigations, including possible fines, penalties, judgments or settlements; and (5) the ability of the Company to achieve and sustain targeted cost reductions.

For a more detailed discussion of these and other factors, see Part I, Item 1A. "Risk Factors" and Part II, Item 7. "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Company's Form 10-K, filed on February 28, 2007. 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 24, 2007

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

| Exhibit No. | Description |
|---|---|
| 99.1 | News release dated April 24, 2007. |
| 99.2 | Presentation dated April 24, 2007. |

**Exhibit 99.1**

# AVERY DENNISON REPORTS FIRST QUARTER 2007 RESULTS

**Highlights**

- Net sales of $1.39 billion, up 3.9% from first-quarter 2006
- Earnings per share of $0.80, including restructuring charges of $0.02
- Reached agreement to acquire Paxar, Inc., a global leader in providing identification solutions to the retail and apparel industry, for $1.3 billion

PASADENA, Calif. — April 24, 2007 — Avery Dennison Corporation (NYSE:AVY) today reported first quarter net income of $79.2 million or $0.80 per share, up from $68.7 million or $0.69 per share for the first quarter of 2006. Charges associated with restructuring and asset impairment totaled $0.02 per share for the first quarter of 2007, compared to $0.06 per share for the first quarter of 2006. (*See Attachment A-3: "Preliminary Reconciliation of GAAP to Non-GAAP Measures".)*

Net sales from continuing operations for the first quarter of 2007 were $1.39 billion, up approximately 3.9 percent from $1.34 billion for the same quarter last year. Organic sales growth, which excludes the impact of acquisitions, divestitures and foreign currency translation, was 1.3 percent. Sales growth was reduced by one percentage point due to an increase in fourth quarter 2006 orders related to a January 2007 price increase by office products, which shifted volume into the prior year.

During the quarter, the Company realized approximately $10 million in additional savings from 2006 restructuring actions and the Company expects to realize over $40 million of incremental savings from these actions during the year. First quarter earnings included approximately $5 million in transition costs largely related to new productivity actions in 2007. Savings from these actions are expected to be realized in the second half of 2007.

"We met our profit improvement target for the first quarter," said Dean A. Scarborough, president and chief executive officer of Avery Dennison. "We achieved strong sales increases in Europe, as well as emerging markets, where we continue to achieve double-digit growth. These results more than offset soft business conditions in North America."

"We are pleased that the U.S. government's pre-merger anti-trust review of our pending acquisition of Paxar was concluded positively on April 20," Scarborough added. "We are still waiting for clearance from regulatory agencies outside the U.S., which we believe will happen by the end of the second quarter, as well as for approval of the transaction by Paxar's shareholders. Paxar is planning to hold its shareholder meeting early this summer.

"Combining Paxar with Retail Information Services will enable us to compete more effectively in a rapidly evolving and highly fragmented global marketplace. The merger of the two companies will allow us to realize significant cost synergies, as well as grow faster by investing more in product innovation and providing even better service to our customers," Scarborough said.

**First Quarter Financial Highlights From Continuing Operations**
(For a more detailed presentation of the Company's results for the quarter, see *First Quarter 2007 Financial Review and Analysis*, posted at the Company's Web site at www.investors.averydennison.com.)

- Core unit volume grew an estimated 3 percent, when adjusted for a forward buy related to a January price increase in office products and the loss of certain low margin business. The effect of pricing and product mix changes was essentially neutral.
- Operating margin (GAAP basis) was 7.1 percent, compared to 6.6 percent for the same period last year. Excluding interest expense, restructuring and asset impairment charges, operating margin improved by 10 basis points to 8.4 percent. (*See Attachment A-3: "Preliminary Reconciliation of GAAP to Non-GAAP Measures".)*
- The effective tax rate was approximately 20 percent, in line with the Company's expectations.

***Segment Highlights***
*(See Attachment A-5: "Preliminary Supplementary Information, Reconciliation of GAAP to Non-GAAP Supplementary Information" for adjusted operating margins included below.)*

- Pressure-sensitive Materials reported sales of $860 million, up 9.2 percent from $787 million. Organic sales growth for the segment was approximately 5 percent. The growth rate accelerated internationally, compared to the fourth quarter. Following a weak start to the first quarter, the sales trend in the U.S. roll materials business improved in March. Segment operating margin (GAAP basis) was 9.5 percent, compared to 8.4 percent for the same period last year. Before restructuring and asset impairment charges, operating margin increased 80 basis points to 9.7 percent.
- Office and Consumer Products sales declined 10.6 percent to $214 million. Organic sales decline for the segment was approximately 9 percent, including an estimated 5 percent reduction in sales due to the forward buy in the fourth quarter of 2006, related to a January price increase. Segment operating margin (GAAP basis) was 12.4 percent, compared to 14.9 percent for the same period last year. Operating margin before restructuring charges declined 270 basis points to 12.6 percent. This included costs of $4 million, or 70 percent of the margin decline, largely related to new productivity improvement actions in 2007.
- Retail Information Services sales grew 1.6 percent to $156 million. Organic sales decline for the segment was approximately 1 percent, reflecting a reduction in sales for woven label and fastener product lines. Segment operating margin (GAAP basis) was 4.6 percent, compared to 4.9 percent for the first quarter of 2006. Operating margin before restructuring and asset impairment charges declined 180 basis points to 4.6 percent.

***Outlook for the Year***

Reflecting first quarter earnings, Avery Dennison announced that it expects reported (GAAP) earnings for 2007 to be in the range of $3.95 to $4.25 per share, including an estimated $0.05 to $0.10 per share in restructuring and asset impairment charges related to ongoing productivity improvement efforts. Plans for these efforts have not been finalized; actual charges may exceed this range as planning continues. Excluding these items, the Company expects full year earnings per share for 2007 to be in the range of $4.05 to $4.30 per share. *(See Attachment A-4: "Preliminary Reconciliation of GAAP to Non-GAAP Measures".)*

The Company's earnings expectations reflect an assumption of reported revenue growth from continuing operations in the range of 2 to 5 percent, including an estimated 2 to 3 percent benefit from currency translation. These expectations exclude the impact of the pending Paxar acquisition.

(For a more detailed presentation of the Company's assumptions underlying its 2007 earnings expectations, see *First Quarter 2007 Financial Review and Analysis*, posted at the Company's Web site at www.investors.averydennison.com.)

*Note: Throughout this release, all calculations of amounts on a per share basis reflect fully diluted shares outstanding.*

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 2006 sales of $5.6 billion. Avery Dennison employs more than 22,000 individuals in 49 countries 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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**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 <u>www.investors.averydennison.com</u>**

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

| | (UNAUDITED) Three Months Ended Mar. 31, 2007 | Apr. 01, 2006 |
|---|---|---|
| Net sales | $ 1,389.9 | $ 1,337.2 |
| Cost of products sold | 1,025.5 | 982.0 |
| Gross profit | 364.4 | 355.2 |
| Marketing, general & administrative expense | 248.3 | 244.8 |
| Interest expense | 15.1 | 14.5 |
| Other expense **(1)** | 2.1 | 7.6 |
| Income from continuing operations before taxes | 98.9 | 88.3 |
| Taxes on income | 19.7 | 19.4 |
| Income from continuing operations | 79.2 | 68.9 |
| Loss from discontinued operations, net of taxes | — | (0.2) |
| **Net income** | $ 79.2 | $ 68.7 |
| **Per share amounts:** | | |
| Net income per common share, assuming dilution | | |
| Continuing operations | $ 0.80 | $ 0.69 |
| Discontinued operations | — | — |
| Net income per common share, assuming dilution | $ 0.80 | $ 0.69 |
| Average common shares outstanding, assuming dilution | 98.8 | 100.1 |
| Common shares outstanding at period end | 97.9 | 99.8 |

**(1)** Other expense for the first quarter of 2007 includes $2.1 of restructuring costs.

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.

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**Reconciliation of Non-GAAP Financial Measures in Accordance with SEC Regulations G and S-K**

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

The Company's non-GAAP financial measures exclude the impact of certain events, activities or strategic decisions. The accounting effects of these events, activities or decisions, which are included in the GAAP measures, may make it difficult to assess the underlying performance of the Company in a single period. By excluding certain accounting effects, both positive and negative (e.g. gains on sales of assets, restructuring charges, asset impairments, etc.), from certain of the Company's GAAP measures, the Company believes that it is providing meaningful supplemental information to facilitate an understanding of the Company's "core" or "underlying" operating results. These non-GAAP measures are used internally to evaluate trends in the Company's underlying business, as well as to facilitate comparison to the results of competitors for a single period.

Limitations associated with the use of the Company's non-GAAP measures include (1) the exclusion of items that recur from time to time (e.g. restructuring, asset impairment charges, discontinued operations, etc.) from calculations of the Company's earnings and operating margin; (2) the exclusion of interest expense from the calculation of the Company's operating margin; and (3) the exclusion of any mandatory debt service requirements, as well as the exclusion of other uses of the cash generated by operating activities that do not directly or immediately support the underlying business (such as discretionary debt reductions, dividends, share repurchase, acquisitions, etc.) for calculation of free cash flow. While some of the items the Company excludes from GAAP measures recur, these items tend to be disparate in amount and timing. Based upon feedback from investors and financial analysts, the Company believes that supplemental non-GAAP measures provide information that is useful to the assessment of the Company's performance and operating trends.

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 | |
|---|---|---|
| | Mar. 31, 2007 | Apr. 01, 2006 |
| **Reconciliation of GAAP to Non-GAAP Operating Margin:** | | |
| Net sales | $ 1,389.9 | $ 1,337.2 |
| Income from continuing operations before taxes | $ 98.9 | $ 88.3 |
| **GAAP Operating Margin** | 7.1% | 6.6% |
| Income from continuing operations before taxes | $ 98.9 | $ 88.3 |
| Non-GAAP adjustments: | | |
| Restructuring costs | 2.1 | 5.4 |
| Asset impairment charges | — | 1.8 |
| Other (1) | — | 0.4 |
| Interest expense | 15.1 | 14.5 |
| Adjusted non-GAAP operating income before taxes and interest expense | $ 116.1 | $ 110.4 |
| **Adjusted Non-GAAP Operating Margin** | 8.4% | 8.3% |
| **Reconciliation of GAAP to Non-GAAP Net Income:** | | |
| As reported net income | $ 79.2 | $ 68.7 |
| Non-GAAP adjustments, net of taxes: | | |
| Restructuring costs | 1.7 | 4.2 |
| Asset impairment charges | — | 1.4 |
| Other | — | 0.3 |
| Loss from discontinued operations | — | 0.2 |
| **Adjusted Non-GAAP Net Income** | $ 80.9 | $ 74.8 |
| **Reconciliation of GAAP to Non-GAAP Earnings Per Share:** | | |
| As reported income per common share, assuming dilution | $ 0.80 | $ 0.69 |
| Non-GAAP adjustments per share, net of taxes: | | |
| Restructuring costs | 0.02 | 0.04 |
| Asset impairment charges | — | 0.02 |
| Other | — | — |
| Loss from discontinued operations | — | — |
| **Adjusted Non-GAAP income per common share, assuming dilution** | $ 0.82 | $ 0.75 |
| Average common shares outstanding, assuming dilution | 98.8 | 100.1 |

**(1)** 2006 QTD includes legal accrual related to a patent lawsuit of $.4.

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**AVERY DENNISON**
**PRELIMINARY RECONCILIATION OF GAAP TO NON-GAAP MEASURES**
**(Full Year 2007 Estimates)**

| | Updated Guidance | Previous Guidance |
|---|---|---|
| **Reconciliation of GAAP to Non-GAAP Earnings Per Share Guidance:** | | |
| Reported (GAAP) Earnings Per Share | $3.95 — $4.25 | $3.90 — $4.30 |
| Add Back: | | |
| Estimated Restructuring and Asset Impairment Charges | $0.05 — $0.10 | $0.05 — $0.10 |
| Adjusted (non-GAAP) Earnings Per Share | $4.05 to $4.30 | $4.00 to $4.35 |

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

| | (UNAUDITED) First Quarter Ended | | | | | |
|---|---|---|---|---|---|---|
| | NET SALES | | OPERATING INCOME | | OPERATING MARGINS | |
| | 2007 | 2006 | 2007(1) | 2006(2) | 2007 | 2006 |
| Pressure-sensitive Materials | $ 860.0 | $ 787.2 | $ 81.9 | $ 65.9 | 9.5% | 8.4% |
| Office and Consumer Products | 214.4 | 239.9 | 26.5 | 35.8 | 12.4% | 14.9% |
| Retail Information Services | 156.3 | 153.8 | 7.2 | 7.6 | 4.6% | 4.9% |
| Other specialty converting businesses | 159.2 | 156.3 | 10.9 | 6.2 | 6.8% | 4.0% |
| Corporate Expense | N/A | N/A | (12.5) | (12.7) | N/A | N/A |
| Interest Expense | N/A | N/A | (15.1) | (14.5) | N/A | N/A |
| TOTAL FROM CONTINUING OPERATIONS | $ 1,389.9 | $ 1,337.2 | $ 98.9 | $ 88.3 | 7.1% | 6.6% |

**(1)** Operating income for the first quarter of 2007 includes restructuring costs of $2.1, of which the Pressure-sensitive Materials segment recorded $1.5 and the Office and Consumer Products segment recorded $.6.

**(2)** 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 the total $7.6, 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.

Certain prior year amounts have been reclassified to conform with the 2007 financial statement presentation.

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

| | First Quarter Ended | | | |
|---|---|---|---|---|
| | OPERATING INCOME | | OPERATING MARGINS | |
| | 2007 | 2006 | 2007 | 2006 |
| **Pressure-sensitive Materials** | | | | |
| **Operating income, as reported** | **$ 81.9** | **$ 65.9** | **9.5%** | **8.4%** |
| Non-GAAP adjustments: | | | | |
| Restructuring costs | 1.5 | 2.6 | 0.2% | 0.3% |
| Asset impairment charges | — | 1.0 | — | 0.1% |
| Legal accrual related to patent lawsuit | — | 0.4 | — | 0.1% |
| **Adjusted non-GAAP operating income** | **$ 83.4** | **$ 69.9** | **9.7%** | **8.9%** |
| **Office and Consumer Products** | | | | |
| **Operating income, as reported** | **$ 26.5** | **$ 35.8** | **12.4%** | **14.9%** |
| Non-GAAP adjustments: | | | | |
| Restructuring costs | 0.6 | 0.8 | 0.2% | 0.4% |
| **Adjusted non-GAAP operating income** | **$ 27.1** | **$ 36.6** | **12.6%** | **15.3%** |
| **Retail Information Services** | | | | |
| **Operating income, as reported** | **$ 7.2** | **$ 7.6** | **4.6%** | **4.9%** |
| Non-GAAP adjustments: | | | | |
| Restructuring costs | — | 2.0 | — | 1.3% |
| Asset impairment charges | — | 0.3 | — | 0.2% |
| **Adjusted non-GAAP operating income** | **$ 7.2** | **$ 9.9** | **4.6%** | **6.4%** |

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

| | (UNAUDITED) Mar. 31, 2007 | Apr. 01, 2006 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 57.9 | $ 39.1 |
| Trade accounts receivable, net | 912.0 | 836.7 |
| Inventories, net | 494.6 | 460.5 |
| Other current assets | 212.4 | 169.8 |
| Total current assets | 1,676.9 | 1,506.1 |
| Property, plant and equipment, net | 1,311.6 | 1,280.9 |
| Goodwill | 718.8 | 676.6 |
| Intangibles resulting from business acquisitions, net | 93.4 | 96.8 |
| Other assets | 529.1 | 582.1 |
| | $4,329.8 | $4,142.5 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Short-term and current portion of long-term debt | $ 620.1 | $ 376.4 |
| Accounts payable | 598.1 | 606.2 |
| Other current liabilities | 453.2 | 454.1 |
| Total current liabilities | 1,671.4 | 1,436.7 |
| Long-term debt | 501.6 | 720.8 |
| Other long-term liabilities | 436.5 | 420.5 |
| Shareholders' equity: | | |
| Common stock | 124.1 | 124.1 |
| Capital in excess of par value | 857.1 | 772.7 |
| Retained earnings | 2,179.3 | 1,971.2 |
| Accumulated other comprehensive loss | (29.0) | (80.6) |
| Cost of unallocated ESOP shares | (5.7) | (7.7) |
| Employee stock benefit trusts | (551.6) | (577.0) |
| Treasury stock at cost | (853.9) | (638.2) |
| Total shareholders' equity | 1,720.3 | 1,564.5 |
| | $4,329.8 | $4,142.5 |

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

| | (UNAUDITED) Three Months Ended | |
|---|---|---|
| | Mar. 31, 2007 | Apr. 01, 2006 |
| **Operating Activities:** | | |
| Net income | $ 79.2 | $ 68.7 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 38.5 | 39.0 |
| Amortization | 10.0 | 10.7 |
| Deferred taxes | (0.1) | 0.1 |
| Net loss on sale of assets and asset impairments | 2.3 | 1.2 |
| Stock-based compensation | 5.1 | 8.5 |
| Other non-cash items, net | (2.5) | (4.9) |
| | 132.5 | 123.3 |
| Changes in assets and liabilities | (120.6) | (101.6) |
| Net cash provided by operating activities | 11.9 | 21.7 |
| **Investing Activities:** | | |
| Purchase of property, plant and equipment | (56.4) | (51.5) |
| Purchase of software and other deferred charges | (15.0) | (8.8) |
| Proceeds from sale of assets | 1.7 | 0.9 |
| Proceeds from sale of businesses and investments | — | 4.3 |
| Other | — | (1.0) |
| Net cash used in investing activities | (69.7) | (56.1) |
| **Financing Activities:** | | |
| Net increase in borrowings (maturities of 90 days or less) | 139.1 | 8.5 |
| Payments of debt (maturities longer than 90 days) | (0.1) | (1.1) |
| Dividends paid | (42.7) | (42.8) |
| Purchase of treasury stock | (58.4) | — |
| Proceeds from exercise of stock options, net | 15.5 | 5.8 |
| Other | 3.9 | 4.0 |
| Net cash provided by (used in) financing activities | 57.3 | (25.6) |
| Effect of foreign currency translation on cash balances | (0.1) | 0.6 |
| Decrease in cash and cash equivalents | (0.6) | (59.4) |
| Cash and cash equivalents, beginning of period | 58.5 | 98.5 |
| Cash and cash equivalents, end of period | $ 57.9 | $ 39.1 |

####

Exhibit 99.2

# First Quarter 2007
# Financial Review and Analysis

(Unaudited)

April 24, 2007

AVERY DENNISON

## Forward-Looking Statements

Certain information presented in this document may constitute "forward-looking" statements. These statements and financial or other business targets 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 currency exchange rates; worldwide and local economic conditions; impact of competitive products and pricing; selling prices; impact of legal proceedings, including the Canadian Department of Justice and the 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 or of the concluded investigations by the U.S. Department of Justice ("DOJ") and the European Commission (including purported class actions seeking treble damages for alleged unlawful competitive practices, and a purported class action related to alleged disclosure and fiduciary duty violations pertaining to alleged unlawful competitive practices, which were filed after the announcement of the DOJ investigation), as well as the 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 acquisitions; financial condition and inventory strategies of customers; timely development and market acceptance of new products; fluctuations in demand affecting sales to customers; and other matters referred to in the Company's SEC filings.

Forward looking statements pertaining to Avery Dennison's pending acquisition and integration of Paxar include statements relating to expected synergies, cost savings, timing, and execution of integration plans. Risks, uncertainties and assumptions pertaining to the transaction include the possibility that the market for and development of certain products and services may not proceed as expected; that the Paxar acquisition does not close or that the companies may be required to modify aspects of the transaction to achieve regulatory approval; that prior to the closing of the proposed acquisition, the businesses of the companies suffer due to uncertainty or diversion of management attention; that the parties are unable to successfully execute their integration strategies, or achieve planned synergies and cost reductions, in the time and at the cost anticipated or at all; acquisition of unknown liabilities; effects of increased leverage; and other matters that are referred to in the parties' 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) the impact of economic conditions on underlying demand for the Company's products; (2) the impact of competitors' actions, including expansion in key markets, product offerings and pricing; (3) the degree to which higher raw material and energy-related 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; (4) potential adverse developments in legal proceedings and/or investigations regarding competitive activities, including possible fines, penalties, judgments or settlements; 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. The most directly comparable GAAP measures have been included in the earnings news release for the quarter. Reconciliations of non-GAAP measures to the most directly comparable GAAP measures are included with the financial statements accompanying the earnings news release for the quarter. ***(See Attachments A-2 through A-5 to Exhibit 99.1, news release dated April 24, 2007.)***

The Company's non-GAAP financial measures exclude the impact of certain events, activities or strategic decisions. The accounting effects of these events, activities or decisions, which are included in the GAAP measures, may make it difficult to assess the underlying performance of the Company in a single period. By excluding certain accounting effects, both positive and negative (e.g., gains on sales of assets, restructuring charges, asset impairments, etc.), from certain of the Company's GAAP measures, the Company believes that it is providing meaningful supplemental information to facilitate an understanding of the Company's "core" or "underlying" operating results. These non-GAAP measures are used internally to evaluate trends in the Company's underlying business, as well as to facilitate comparison to the results of competitors for a single period. ***(See Attachment A-2 of Exhibit 99.1 for discussion of limitations associated with the use of these non-GAAP measures.)***

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 the Company's Web site.

## Overview

- Net sales increased 3.9% over prior year
  - Adjusted unit volume growth was approx. 3% (adjusted for product line divestitures, impact of Q4-06 forward buy related to January price increase in office products binder category, and exited low-margin business)
  - Underlying unit volume growth improved sequentially for the Pressure Sensitive Materials (PSM) segment, offset by slowdown in Office & Consumer Products and Retail Information Services
    - » The sequential improvement for PSM was driven by acceleration in international markets
    - » Following a weak start to the quarter, the unit volume trend in the roll materials business in the U.S. improved in March
  - Effect of changes in price and mix was essentially neutral

# Overview (continued)

- Operating margin before restructuring and asset impairment charges increased by 10 basis points
  - Benefits from 2006 restructuring and other productivity improvements were partially offset by negative segment mix, transition costs associated with new productivity improvement actions, and higher costs related to IT investments
- Reported E.P.S. of $0.80 includes $0.02 of restructuring charges for new productivity actions initiated in Q4-06
  - Annualized savings associated with these actions are expected to total approximately $11 to $13 million of savings for 2008
  - Transition costs incurred in the first half of the year will be offset by savings in the second half

## Management Analysis of Underlying Sales Trends
(continuing operations)

| | Q1-06 | Q2- 06 | Q3-06 | Q4-06 | Q1-07 |
|---|---|---|---|---|---|
| Core volume growth (est.) | 1.5% | 1.0% | 3.0% | 1.0% | 1.5% |
| *Comparability adjustments[1]* | *0.5%* | *1.5%* | *(0.5)%* | *(0.5)%* | *1.5%* |
| *"Underlying" volume growth* | *2.0%* | *2.5%* | *2.5%* | *0.5%* | *3.0%* |
| Other factors impacting reported sales growth: | | | | | |
| Acquisitions, Net of Divestitures | (0.3)% | (1.4)% | (1.1)% | (1.1)% | (0.8)% |
| Price/Mix | + 1% | + 1% | + 1% | + 1% | ~ flat |
| Currency | (2.7)% | (0.3)% | 1.8% | 2.6% | 3.5% |
| Reported Sales Growth | (0.4)% | (0.1)% | 4.6% | 3.5% | 3.9% |
| *Adj. Organic Sales Growth[2]* | *3.0%* | *3.4%* | *3.4%* | *1.4%* | *2.5%* |

[1] Adjustments for comparability:

Q1-06 to Q4-06 – Decision to exit certain low margin private label business; shift in timing of back-to-school orders from Q2 to Q3 (return to normal order pattern); prior year short-term benefit of competitor plant strike in Europe (Q2 only); and forward buy in Q4 related to January price increase

Q1-07 – Decision to exit certain low margin business; price-related forward buy in Q4-06 that pulled sales out of Q1-07.

[2] Reported Sales Growth less the impacts of foreign currency translation, acquisition and divestitures, and comparability adjustments (calculation may not tie due to rounding).

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## Margin Analysis
(continuing operations)

| | Q1-07 | Q1-06 | Q4-06 |
|---|---|---|---|
| Gross Profit Margin (Total Company) | 26.2% | 26.6% | 27.6% |
| Operating Margin (non-GAAP*): | | | |
| Pressure-Sensitive Materials | 9.7% | 8.9% | 9.4% |
| Office and Consumer Products | 12.6% | 15.3% | 18.0% |
| Retail Information Services | 4.6% | 6.4% | 7.6% |
| Other Specialty Converting | 6.8% | 4.0% | 1.5% |
| Total Company | 8.4% | 8.3% | 9.0% |
| *Impact of RFID on reported margin:* | *(0.4)%* | *(0.6)%* | *(0.5)%* |
| Total Company Excluding RFID | 8.8% | 8.9% | 9.5% |

* Earnings before interest and taxes, restructuring and asset impairment charges, and other items detailed in Attachments A-3 and A-5 of Exhibit 99.1.

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# Key Factors Impacting Margin

- Gross profit margin declined 35 basis points compared with prior year to 26.2%
  - Benefits from 2006 restructuring and other productivity improvements were more than offset by unfavorable segment mix and transition costs associated with new productivity improvement actions
- Marketing, general and administrative (MG&A) expense ratio improved 45 basis points to 17.9%
  - Absolute MG&A spending increased by approx. $4 mil. vs. prior year, due to currency translation ($7 mil.), partially offset by net restructuring savings
  - Sequentially, MG&A spending declined due to lower marketing spend (related to Q4 promotion in office products) and reduced stock option expense, as well as seasonal factors

## Q1-2007 Segment Overview

**PRESSURE-SENSITIVE MATERIALS**

- Reported sales of $860 mil., up 9.2% compared with prior year
  - Organic sales growth of approx. 5%
- Change in sales for roll materials business by region, *adjusted for the effect of currency:*
  - Mid single-digit growth in Europe (largest region for this business)
  - North America down low single digits (volume decline comparable to 2H-06, driven by weak start to quarter… trend improved in March)
  - Double-digit growth in Asia and Latin America
- Graphics & Reflective business increased at mid single-digit rate before currency (strong international growth offset decline in the US)
- Excluding restructuring and asset impairment charges, operating margin increased by 80 basis points to 9.7% due to benefit of restructuring and other productivity initiatives

# Q1-2007 Segment Overview (continued)

**OFFICE AND CONSUMER PRODUCTS**

- Reported sales of $214 mil., down 10.6% compared with prior year
  - Divestiture of filing product lines in Europe represented 3.4 points of sales decline
  - Impact of Q4 forward buy in anticipation of January price increase for binders reduced sales by estimated 5 points in the quarter
  - Currency contributed approx. 2 points of growth
  - Organic sales decline of approx. 4% adjusted for year-on-year comparability issues, due in part to customer inventory de-stocking
- Excluding restructuring charges, operating margin declined 270 basis points to 12.6%
  - Benefit of productivity initiatives was more than offset by reduced fixed cost leverage (primarily related to Q4 pre-buy) and transition costs associated with 2007 restructuring actions

# Q1-2007 Segment Overview (continued)

**RETAIL INFORMATION SERVICES**

- **Reported sales of $156 mil., up 1.6% compared with prior year**
  - Organic sales decline of approx. 1%, driven by lower sales in woven label and fastener product lines
- **Excluding restructuring and asset impairment charges, operating margin declined 180 basis points to 4.6%**
  - Benefits of restructuring were more than offset by modest price reductions and material cost inflation, as well as higher spending associated with investments in information technology and employee-related costs in Asia

**OTHER SPECIALTY CONVERTING**

- **Reported sales of $159 mil., up 1.8% compared with prior year**
  - Adjusting for exited low margin business, prior year divestiture, and currency, sales increased on an organic basis by approx. 3%
- **Operating margin increased by 280 basis points to 6.8%**
  - Margin improvement driven by benefit of productivity initiatives and reduction in loss from RFID

# First Quarter Cash Flow and Debt-To-Total Capital

| Millions, except as noted | 2007 | 2006 |
|---|---|---|
| Cash flow from operations | \$ 11.9 | \$ 21.7 |
| Payment for capital expenditures | \$ 56.4 | \$ 51.5 |
| Payment for software and other deferred charges | \$ 15.0 | \$ 8.8 |
| Free Cash Flow[1] | \$(59.5) | \$(38.6) |
| Dividends | \$ 42.7 | \$ 42.8 |
| Share Repurchase | \$ 58.4 | -- |
| Total debt to total capital | 39.5% | 41.2% |

[1] Cash flow from operations less payment for capital expenditures, software and other deferred charges

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## 2007 Earnings Guidance: Key Considerations

- Key Assumptions:
  - Excludes impact of pending Paxar acquisition
  - Reported revenue guidance unchanged at 2% to 5%, with higher expected benefit from currency offset by modest decline from price/mix
  - Other assumptions for the year unchanged from January outlook:
    - » Moderate inflation in raw material costs largely offset with benefit from global sourcing strategies, material cost-outs, and selective price increases
    - » Operating margin of 9.5% to 10.5%
    - » Interest expense of $50 to $60 mil.
    - » Tax rate in the range of 20% to 22%
- Top-line growth will be key determinant of outcome within guidance range; low end of range assumes no pick-up in growth relative to 2006 pace

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# 2007 Earnings and Free Cash Flow Guidance

| | 2007 Guidance (updated 4/24/07) |
|---|---|
| Reported (GAAP) Earnings Per Share | $3.95 - $4.25 |
| Add Back:<br>Estimated Restructuring and Asset Impairment Charges* | $0.05 - $0.10 |
| Adjusted (non-GAAP) Earnings Per Share | $4.05 to $4.30 |
| Capital Expenditures & Investments in Software | $210 to $225 mil. |
| Free Cash Flow *(before acquisitions and share repurchase)* | $350 to $400 mil. |

* Subject to upward revision as plans are finalized