

AVERY DENNISON CORPORATION
AND SUBSIDIARIES

INDEX TO FORM 10-Q

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

	April 2, 1994	January 1, 1994
ASSETS		

Current assets:		
Cash and cash equivalents	\$ 1.1	\$ 5.8
Trade accounts receivable	377.1	356.7
Inventories	202.4	184.1
Prepaid expenses	17.6	13.5
Other current assets	56.9	54.5
	-----	-----
Total current assets	655.1	614.6
Property, plant and equipment, at cost	1,422.7	1,412.7
Accumulated depreciation	(668.0)	(654.2)
	-----	-----
	754.7	758.5
Intangibles resulting from business acquisitions, net	128.4	129.2
Other assets	135.8	136.7
	-----	-----
	\$1,674.0	\$1,639.0
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Current liabilities:		
Short-term debt and current portion of long-term debt	\$ 99.0	\$ 86.5
Accounts payable	145.0	140.8
Accrued liabilities	232.9	245.7
	-----	-----
Total current liabilities	476.9	473.0
Long-term debt	320.8	311.0
Deferred taxes and other long-term liabilities	144.8	135.9
Shareholders' equity:		
Common stock - \$1 par value:		
Authorized - 200,000,000 shares; Issued - 62,063,312 shares at April 2, 1994 and January 1, 1994	62.1	62.1
Capital in excess of par value	195.1	194.4
Retained earnings	710.5	698.9
Cumulative foreign currency translation adjustment	(11.1)	(10.1)
Cost of unallocated ESOP shares	(52.7)	(53.2)
Minimum pension liability	(8.9)	(8.9)
Treasury stock at cost, 5,825,879 shares at April 2, 1994 and 5,869,683 shares at January 1, 1994	(163.5)	(164.1)
	-----	-----
Total shareholders' equity	731.5	719.1
	-----	-----
	\$1,674.0	\$1,639.0
	=====	=====

See Notes to Consolidated Financial Statements

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

	Quarter Ended	
	April 2, 1994	April 3, 1993
Net sales	\$667.7	\$666.5
Cost of products sold	455.2	456.5
Gross profit	212.5	210.0
Marketing, general and administrative expense	161.0	164.4
Operating profit	51.5	45.6
Interest expense	11.5	9.8
Income before taxes on income	40.0	35.8
Taxes on income	14.8	13.6
Income before cumulative effect of changes in accounting principles	25.2	22.2
Cumulative effect of changes in accounting principles	--	1.1
Net income	\$ 25.2	\$ 23.3
Weighted average number of common shares outstanding	56.2	58.8
Per common share amounts:		
Income before cumulative effect of changes in accounting principles	\$.45	\$.38
Cumulative effect of changes in accounting principles	--	.02
Net income	\$.45	\$.40
Dividends	\$.24	\$.22

See Notes to Consolidated Financial Statements

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

	Quarter Ended	
	April 2, 1994	April 3, 1993
Operating Activities:		
Net income	\$ 25.2	\$ 23.3
Depreciation	21.0	20.1
Amortization	3.1	2.5
Non-current deferred taxes	5.6	3.5
Cumulative effect of changes in accounting principles	--	(1.1)
Net change in assets and liabilities net of the effect of foreign currency translation and divested operations	(54.6)	(14.0)
Net cash provided by operating activities	.3	34.3
Investing Activities:		
Purchase of property, plant and equipment	(19.2)	(15.5)
Proceeds from sale of assets and business divestitures	2.9	--
Other	3.5	3.3
Net cash used in investing activities	(12.8)	(12.2)
Financing Activities:		
Net change in debt	23.2	(.2)
Dividends paid	(13.5)	(12.9)
Purchase of treasury stock	(1.9)	(4.2)
Net cash provided by (used in) financing activities	7.8	(17.3)
Effect of foreign currency translation on cash balances	--	(.4)
(Decrease) increase in cash and cash equivalents	(4.7)	4.4
Cash and cash equivalents, beginning of period	5.8	3.9
Cash and cash equivalents, end of period	\$ 1.1	\$ 8.3

See Notes to Consolidated Financial Statements

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

1. General

The accompanying unaudited consolidated financial statements include normal recurring adjustments necessary for a fair presentation of the Company's interim results. The condensed financial statements and notes in this Form 10-Q are presented as permitted by Regulation S-X, and as such, they do not contain certain information included in the Company's 1993 annual financial statements and notes.

The first quarters of 1994 and 1993 consisted of thirteen-week periods ending April 2, 1994 and April 3, 1993, respectively. The interim results of operations are not necessarily indicative of future financial results.

2. Foreign Currency Translation

Transactions in foreign currencies and translation of financial statements of subsidiaries operating in hyperinflationary economies during the first quarters ended 1994 and 1993 resulted in losses of \$1.4 million and \$1 million, respectively.

3. Inventories

Inventories consisted of (in millions):

	April 2, 1994	January 1, 1994
	-----	-----
Raw materials	\$ 78.6	\$ 75.7
Work in progress	48.2	43.2
Finished goods	111.9	101.9
LIFO adjustment	(36.3)	(36.7)
	-----	-----
	\$202.4	\$184.1
	=====	=====

During the first quarters of 1994 and 1993, certain inventories were reduced resulting in the liquidation of LIFO inventory carried at costs which were lower than current costs. The effect was to reduce the cost of products sold by approximately \$1.0 million in the first quarters of 1994 and 1993.

4. Intangibles Resulting From Business Acquisitions

Accumulated amortization of intangible assets at April 2, 1994 and January 1, 1994 was \$31.4 and \$30.4 million, respectively.

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

5. Research and Development

Research and development expense for the first quarters of 1994 and 1993 was \$11.5 million and \$11.6 million, respectively.

6. Changes in Accounting Principles

During the first quarter of 1993, the Company adopted three accounting standards issued by the Financial Accounting Standards Board which had a one-time cumulative effect on net income of (in millions):

	Income (Expense)
Accounting for income taxes (SFAS No. 109)	\$ 16.3
Accounting for postretirement benefits, net of tax (SFAS No. 106)	(14.2)
Accounting for postemployment benefits, net of tax (SFAS No. 112)	(1.0)

Increase in net income	\$ 1.1

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

Financial Condition

During the first quarter of 1994, total debt increased \$22.3 million to \$419.8 million from year end 1993. Total debt to total capital was 36.5 percent as of the end of the first quarter of 1994 and 35.6 percent at year end 1993.

During the first quarter of 1994, the Company registered with the Securities and Exchange Commission \$100 million in principal amount of medium-term notes. As of May 11, 1994, no notes had been issued.

Average working capital, excluding short-term debt, as a percentage of sales decreased to 11.5% from 13.4% a year ago. The decrease was primarily attributable to improvements in inventory turnover. Inventory turns for the first quarter of 1994 was 9.0 times as compared to 8.1 times in the corresponding period of the prior year.

Shareholders' equity increased to \$731.5 million from \$719.1 million at year end 1993.

Net cash flows provided by operating activities totalled \$300,000 for the first quarter of 1994 and \$34.3 million for the first quarter of 1993. The decrease in cash provided by operating activities was primarily due to changes in inventory, accrued liabilities and tax accounts. In addition to cash flows from operations, the Company has more than adequate financing arrangements to conduct its operations.

Results of Operations

First quarter sales were flat compared to the first quarter of 1993. Excluding the impact of changes in foreign currency rates, sales increased 3.0 percent.

The gross profit margin for the quarter was 31.8 percent, as compared to 31.5 percent for the first quarter of 1993. The increased gross profit margin was due primarily to productivity improvements throughout the Company and an improved product mix.

Marketing, general and administrative expense, as a percent of sales, was 24.1 percent as compared to 24.7 percent for the first quarter of 1993. Marketing, general and administrative expenses decreased primarily due to cost reduction efforts throughout the Company.

Income before taxes as a percent of sales increased to 6.0 percent for the quarter as compared to 5.4 percent for the first quarter of 1993 due to improved gross profit margins and lower marketing, general and administrative expenses. Interest expense as a percent of sales was 1.7 percent for the first quarter of 1994 compared to 1.5 percent for the first quarter of 1993. The increase in interest expense was due primarily to higher interest rates in Brazil. Net income was \$25.2 million, or \$.45 per share, for the quarter as compared to \$23.3 million, or \$.40 per share, for the first quarter of 1993. Excluding the effect of accounting changes, net income for the first quarter of 1993 was \$22.2 million, or \$.38 per share.

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

The pressure-sensitive adhesives and materials sector reported improved profitability on a modest increase in sales for the first quarter of 1994 compared to the same period last year. The U.S. operations reported improved sales and operating results. The U.S. specialty tape and chemical businesses reported strong sales and profitability growth, while other domestic operations were impacted by adverse weather conditions. The foreign operations reported significant profitability improvements on a slight decline in sales for the quarter. Effective cost reduction programs continued to positively impact the profitability of the foreign operations, while the effects of foreign currency translation resulted in lower reported sales.

The office products sector reported an increase in profitability on decreased sales from the first quarter of 1993. In the United States, sales and profitability increased primarily due to an improved product mix, successful new product introductions, cost reduction programs, and lower overall promotional costs. These increases, however, were partially offset by poor weather conditions and inventory reductions by certain customers. Sales and profitability were down significantly at the European office products businesses primarily due to the weak French economy and the cost of on-going restructuring programs.

The converted products sector (formerly product identification and control systems) showed significant profitability improvements on decreased sales. The elimination of unprofitable product lines decreased combined sales for the Soabar businesses, while lower operating expenses resulted in significant profitability improvements. The international converting businesses reported a decline in sales due to the negative effects of foreign currency translation, while profitability remained flat. Overall, the North American label businesses reported flat sales and decreased profitability for the quarter.

PART II. OTHER INFORMATION
AVERY DENNISON CORPORATION
AND SUBSIDIARIES

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- a. Exhibits: 12 - Computation of Ratio of Earnings to Fixed Charges.
- b. Reports on Form 8-K: Registrant filed a Current Report on Form 8-K on March 29, 1994, with respect to its execution on the same date of certain agreements in connection with Medium-Term Notes to be issued by the Registrant (Registration No. 33-52737).

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/ R. Gregory Jenkins

R. Gregory Jenkins
Senior Vice President, Finance, and
Chief Financial Officer
(Principal Financial Officer)

/s/ Thomas E. Miller

Thomas E. Miller
Vice President and Controller
(Chief Accounting Officer)

May 12, 1994

AVERY DENNISON CORPORATION
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (Dollars in Millions)

	First Quarter Ended	
	----- 1994	----- 1993
	-----	-----
Earnings:		
Income before income taxes	\$40.0	\$35.8
Add: Fixed charges*	16.1	14.2
Amortization of capitalized interest	.3	.2
Less: Capitalized interest	(.7)	(.4)
	-----	-----
	\$55.7	\$49.8
	=====	=====
 *Fixed charges:		
Interest expense	\$11.5	\$ 9.8
Capitalized interest	.7	.4
Amortization of debt issuance	.1	.1
Interest portion of leases	3.8	3.9
	-----	-----
	\$16.1	\$14.2
	=====	=====
 Ratio of Earnings to Fixed Charges	3.5	3.5
	=====	=====

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